



**INTERNAL AUDIT
PROGRESS REPORT**

Maldon District Council

November 2022

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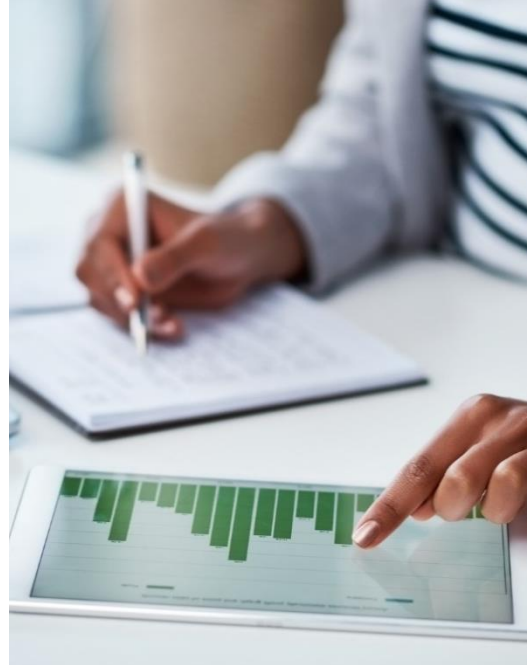
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SUMMARY OF WORK

INTERNAL AUDIT

This report is intended to inform the Performance, Governance & Audit Committee of progress made against the 2021/22 and 2022/23 internal audit plans. It summarises the work we have done, together with our assessment of the systems reviewed and the recommendations we have raised. Our work complies with Public Sector Internal Audit Standards. As part of our audit approach, we have agreed terms of reference for each piece of work with the risk owner, identifying the headline and sub-risks, which have been covered as part of the assignment. This approach is designed to enable us to give assurance on the risk management and internal control processes in place to mitigate the risks identified.



INTERNAL AUDIT METHODOLOGY

Our methodology is based on four assurance levels in respect of our overall conclusion as to the design and operational effectiveness of controls within the system reviewed. The assurance levels are set out in Appendix 1 of this report and are based on us giving either "substantial", "moderate", "limited" or "no". The four assurance levels are designed to ensure that the opinion given does not gravitate to a "satisfactory" or middle band grading. Under any system we are required to make a judgement when making our overall assessment.

2021/2022 INTERNAL AUDIT PLAN

One audit has been completed from the 2021/22 audit plan. We are pleased to present the following report to this Performance, Governance & Audit Committee:

- Commercialisation

2022/2023 INTERNAL AUDIT PLAN

One further audit has been completed from the 2022/23 audit plan since the previous Performance, Governance and Audit Committee and we are pleased to present the following report:

- Flood Management

AMENDMENTS TO THE PLAN

- Due to the recent appointment of the Climate Action Lead Officer, we have agreed with officers that there would be more benefit in completing the Climate Change and Sustainability review, originally planned to be completed this year, in 2023/24 when there has been sufficient time to embed change. As a result, we propose bringing forward the Cyber Security audit from the 2023/24 plan which will provide further assurance on the work completed following the attempted fraud and the work completed with Chelmsford City Council.

REVIEW OF 2021/22

AUDIT	AUDIT COMMITTEE	PLANNING	FIELD WORK	REPORTING	DESIGN	EFFECTIVENESS
Covid Recovery Plan	November 2021	✓	✓	✓	●	●
Partnerships	November 2021	✓	✓	✓	●	●
Management of Property	February 2022	✓	✓	✓	●	●
Policy Review	February 2022	✓	✓	✓	●	●
Main Financial Systems	February 2022	✓	✓	✓	●	●
IT Strategy & Transformation	February 2022	✓	✓	✓	●	●
Strategic Performance-Community	February 2022	✓	✓	✓	●	●
Customer Relationship Management	June 2022	✓	✓	✓	●	●
Workforce Management	June 2022	✓	✓	✓	●	●
Commercialisation	November 2022	✓	✓	✓	●	●
Contract Management (brought in to replace Communications)	March 2022	✓	✓	✓		



REVIEW OF 2022/23

AUDIT	AUDIT COMMITTEE	PLANNING	FIELD WORK	REPORTING	DESIGN	EFFECTIVENESS
Risk Maturity Assessment	July 2022	✓	✓	✓		N/A - Advisory
Corporate Governance	July 2022	✓	✓	✓	●	●
Payment Controls Review (added to 22/23 plan)	September 2022	✓	✓	✓		N/A - Advisory
Flood Management	November 2022	✓	✓	✓	●	●
Safeguarding	March 2022	✓	✓	✓		
Main Financial Systems	March 2022	✓	✓			
Budgets and Performance Management	March 2022	✓				
Strategic Performance (Place)	March 2022	✓				
Climate Change and Sustainability (moved to 23/24)						
Local Development Plan	June 2023					
Workforce Management	June 2023					
Community Safety	June 2023					
Cyber Security (brought forward from 23/24)	June 2023					



SECTOR UPDATE

Our quarterly Local Government briefing summarises recent publication and emerging issues relevant to Local Authorities that may be of interest to your organisation. It is intended to provide a snapshot of current issues for senior managers, directors and members.

Construction challenges ‘exacerbating’ challenge of building rural affordable homes

The government is unlikely to hit its target for delivering affordable homes in rural areas, because wider market issues have had “a disproportionate impact” there, a senior civil servant has warned MPs.

Ministers pledged that 10% of all homes built through the government’s £5.2bn Affordable Homes Programme, which runs from 2021 to 2026, would be in rural areas.

However, Peter Denton, chief executive of Homes England, which runs the programme on behalf of the Department for Levelling Up, Housing and Communities, said the programme will realistically deliver far less - perhaps as little as half the target. He told the Public Accounts Committee: “The issues that we are seeing in the wider housing market have a disproportionate impact in rural areas, including sourcing contractors, tender prices, site accessibility and restrictive planning and site preparation. “Then you also have a higher proportion of small medium enterprises that are engaged in rural house building, and they need more stable revenue funding [than large businesses] to be confident going forward.”

Denton added that through its strategic partners, a group of housing bodies largely comprising housing associations, there are existing plans to develop 6,250 homes out of an initial target of around 13,000.

Speaking at the same session, Emran Mian, director general for regeneration at DLUHC, said inflation is a significant risk to the delivery of the programme. He said that while housing associations and councils have contingency plans for overrunning costs, the scale of price rises facing the sector could put developments at risk. “If inflation remains high for much longer, then clearly the risks to our programme and to delivering at the levels that we’re currently forecast or greater,” Mian said. “We may in future hearings need to face that; we absolutely recognise that. There will then be a question about how we maximise delivery within what is likely to remain a fixed fiscal envelope.”

Earlier this month, a National Audit Office report said the government has failed to provide strong incentives for housing providers to build affordable homes in areas of high housing need or in the least affordable areas. The programme also failed to deliver a high proportion of affordable homes in areas that DLUHC assesses to have high general housing need. The NAO recommended that the government detail how it will transparently report programme progress yearly, develop contingency plans to respond to rising construction costs and review how targets are monitored.

<https://www.publicfinance.co.uk/news/2022/09/construction-challenges-exacerbating-challenge-building-rural-affordable-homes>

Cost-of-living crisis putting ‘majority of levelling up missions at risk’

Soaring inflation is likely to put two-thirds of the government’s missions outlined in the Levelling Up White Paper at risk of failure, academics have warned.

February’s white paper outlined 12 missions to reduce inequalities, including improving pay and productivity, transport links, health outcomes and education levels across the UK by 2030. However, a report by the Centre for Inequality and Levelling Up at the University of West London, said the cost-of-living crisis is likely to widen regional inequalities and reduce funding to improve outcomes, with eight of the 12 missions at risk of failure.



It said there is evidence that economic contractions and recessions negatively affect employment, investment, educational attainment, health outcomes and crime levels. “This report has illustrated that the missions, which are at the heart of levelling up, are extremely vulnerable to the cost-of-living crisis,” the report said. “Unless rapid action is taken to stop poverty increasing and the onset of recession alongside maintaining public sector investment levels then the majority of the missions are not likely to achieve their targets by 2030.

“Leadership on levelling up is needed now or the risk is that the cost-of-living crisis will further entrench regional inequality, making any future attempts to address it even more challenging.”

The report, which analysed more than 100 items of evidence, said targets linked to productivity, R&D, education, health inequalities, wellbeing, pride of place, housing and crime are at the greatest risk of being missed. The missions on adult skills and internet connectivity are medium risk, and those focused on devolution and transport will be easier to achieve, the experts said. They recommended the government make addressing poverty a central approach to the missions and produce an anti-poverty strategy to target deprivation. The centre also urged ministers to define and protect the level of funding each mission will receive and from what funding streams they come from.

“If not protected and attached closer to the missions, these funding streams may fail to make the contribution to levelling up that the white paper claims they will,” the report said.

A UK government spokesperson said: “The Levelling Up and Regeneration Bill underpins our ambition to spread opportunity and address inequality across the UK. This is backed by our £4.8bn Levelling Up Fund, which is delivering vital infrastructure to fuel regeneration and growth in areas which have been overlooked and undervalued for far too long.

“In recognition of the role they play, we have also made an additional £3.7bn available to councils this year to ensure they are able to deliver on local priorities and key public services.”

<https://www.publicfinance.co.uk/news/2022/10/cost-living-crisis-putting-majority-levelling-missions-risk>

The public sector needs to help meet the rising cost of construction

Rising materials prices and numerous supply chain challenges mean public sector bodies may have to pick up the slack - or risk delays to infrastructure projects.

Despite high demand, cost inflation is affecting the construction industry - and it will get worse over the next year, following Russia’s invasion of Ukraine. It means the public sector will have to devote more resources to getting projects finished, and supply chain margins will be hit. The key to successful public sector project delivery will be sharing cost and risk, as well as the ability to collaborate effectively rather than signing up to fixed contracts.

Building materials inflation has been an issue since the initial Covid-19 lockdown in spring 2020. After this, activity recovered quickly and, in sectors such as infrastructure, activity levels are more than 20% higher than pre-pandemic. However, global manufacturing and supply chains could not adjust as quickly, hence the availability issues and double-digit price inflation we saw last autumn. As it happens, materials prices started to fall from a high point towards the end of last year, but inflation started to accelerate again when the war in Ukraine began. In March 2022, prices for construction materials in the UK were 24.5% higher than they had been a year earlier, according to figures from the Department for Business, Energy & Industrial Strategy. Prices will rise further as energy and commodity cost spikes feed through.

Russia and Ukraine only accounted for 1.2% of UK building materials imports in 2021, according to BEIS, but it varies considerably by material. The largest impact is likely to be on products where a significant proportion of imports come from Russia or Ukraine and where they are also energy-intensive to make. This points to the strongest price inflation in imported steel. There will, however, also be rising price inflation in domestic energy-intensive products, such as cement, concrete and bricks, where energy costs account for between 25% and 33% of the total price and will have to be passed on.

While the focus is on materials prices, the rise in general inflation will lead to demands for high wage increases in some construction occupations - such as skilled trades and specialist engineers, where there are skill shortages - to ensure real wages do not fall.

The key to successful public sector project delivery will be sharing cost and risk, as well as the ability to collaborate effectively rather than signing up to fixed contracts

In the near term, these issues will increase the pressure on specialist contractors on fixed-price contracts. Already, they are dealing with reverse-charge VAT, rising costs for personal indemnity insurance and the end of the red diesel rebate. Even though construction activity is higher than pre-pandemic, construction insolvencies have risen 15%. In the medium term, contractors will be seeking fluctuation clauses and risk-sharing arrangements.

The largest cost rises are likely to be seen by hospitals, infrastructure and cladding remediation specialists, which use energy-intensive products. However, all public sector bodies will be affected and may, in the short term, try to enforce fixed-price contracts. But this would merely lead to more insolvencies.

Ultimately, the public sector will have to devote more finance to getting larger projects over the line, but the supply chain will also have to take a hit. In the medium term, the Treasury’s unwillingness to go beyond what was outlined

in the Spending Review is likely to mean that we see the capital expenditure value expected, but not the volume. And financial constraints may mean some projects towards the end of the Spending Review period are pushed back.

<https://www.publicfinance.co.uk/opinion/2022/08/public-sector-needs-help-meet-rising-cost-construction>

Resist calls not to raise benefits, anti-poverty group tells PM

Benefits must increase to keep up with rocketing inflation, experts on poverty have urged the government.

Concerns have been raised by the Joseph Rowntree Foundation after reports that ministers are considering a freeze on benefits, which by convention should increase in line with inflation. Speculation among think-tanks reached the media that the chancellor is considering the option of not increasing benefits as one of the measures aimed at reducing public spending. Other options are said to include the foreign aid budget but policy experts are warning the government has limited options from where it can find savings that do not include a heavy political price.

The Institute for Employment Studies said leaving benefits at their current levels would save £4bn - a number not big enough to justify the battle with MPs to get a budget through Parliament.

Police chiefs have already warned that the cost of living crisis is likely to increase crime - and cutting benefits would only add to offending rates, turning the saving into a cost on council tax precepts.

The Joseph Rountree Foundation went further, warning it would create poverty that was morally wrong. Iain Porter, senior policy adviser at the charity, said: "This will mean yet another devastating blow to the finances of people on the lowest incomes and will cause fear for millions who have spent the past months struggling to feed their families, cook hot food and heat their homes.

"Many people across the UK will agree it is morally indefensible that the prime minister would choose to give tax cuts to the richest funded on the backs of the poorest in our society. Those who will lose out if the government continues down this track include people with low earnings, families with children, carers and people who are sick or disabled."

The source of the claim is a Liberal Democrat party conference motion put forward by Truss in 1995 when she was a member of the party's youth wing.

Chris Philp, the chief secretary to the Treasury, said no decision had been made.





A No 10 spokesperson said: "The prime minister's views are not the same as they were 27 years ago."

Porter urged the prime minister to reassure the public as well as financial markets: "Liz Truss must act now to reassure people on the lowest incomes in our society that she understands what they are going through and confirm they will not receive a real-terms cut to the support they receive at a time when they are already facing a desperate struggle to get by."

<https://www.publicfinance.co.uk/news/2022/09/resist-calls-not-raise-benefits-anti-poverty-group-tells-pm>

APPENDIX I - DEFINITIONS

OPINION SIGNIFICANCE DEFINITION

LEVEL OF ASSURANCE	DESIGN OPINION	FINDINGS FROM REVIEW	EFFECTIVENESS OPINION	FINDINGS FROM REVIEW
Substantial 	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
Moderate 	In the main, there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally, a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non-compliance with some controls that may put some of the system objectives at risk.
Limited 	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
No 	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non-compliance and/or compliance with inadequate controls.



FOR MORE INFORMATION:

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