



MALDON DISTRICT COUNCIL

INTERNAL AUDIT REPORT

COMMERCIALISATION
OCTOBER 2022

LEVEL OF ASSURANCE	
Design	Operational Effectiveness
Substantial	Moderate

IDEAS | PEOPLE | TRUST



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DISTRIBUTION

Name	Job Title
Richard Holmes	Director of Service Delivery and Head of Paid Service
Paul Dodson	Director of Strategy, Performance and Governance and Returning Office
Chris Leslie	Director of Resources
Steven Butcher	Commercial Manager

REPORT STATUS LIST

Auditors:	Helena Warnett, Senior Auditor
Dates work performed:	22 March - 07 April 2022
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EXECUTIVE SUMMARY

LEVEL OF ASSURANCE: (SEE APPENDIX I FOR DEFINITIONS)

Design	Substantial	There is a sound system of internal control designed to achieve system objectives.
Effectiveness	Moderate	Evidence of non-compliance with some controls, that may put some of the system objectives at risk.

SUMMARY OF RECOMMENDATIONS: (SEE APPENDIX I)

High	0
Medium	1
Low	3

TOTAL NUMBER OF RECOMMENDATIONS: 4

CRR/BAF REFERENCE:

BACKGROUND:

The Local Government Association has stated that as funding shrinks, exploring new ways to maximise income is essential. In order to protect valuable frontline services and ensure positive outcomes for local communities, Councils are increasingly thinking through a more commercial approach to their activities. Councils are using their assets wisely, trading services with others across the public and private sectors and selling commodities to generate income. As part of its work with the restructure, Ignite Consulting provided a list of potential projects the Council could explore in order to generate income. Using this, the Council developed a Commercial Strategy in 2019 which was subsequently approved. However, due to Covid, many aspects of the Strategy were unable to be undertaken and have been reviewed and updated. Whilst the level of progress has not been as expected, the Council does have live projects underway including a number with a focus on land acquisition.

GOOD PRACTICE:

The following areas of good practice were identified:

- The Commercial Strategy effectively sets out the scope for the commercialisation of assets, which includes a section on how the Council categorise and prioritise their commercial assets and their approach to commercial opportunities for the period 2022-2027
- The Commercial Strategy sets out the governance arrangements for the commercialisation of assets which includes the commercial projects governance structure
- The governance structure covers the high-level programme pipeline which confirms the Council has a process whereby new project proposals are evaluated at high level before resources are assigned to specific projects
- We sampled five commercial projects and found in all five instances a Project On A Page (POAP) documented had been created for the project

- In all five instances we were able to see the commercial projects had been appropriately researched and scrutinised and had been authorised prior to investing time and resources into the project
- Monthly Corporate Project Working Group and Highlight Reports are compiled which provide updates on commercial project options and include an outline of the project's key achievements, planned project activity going forward, key performance indicators which include milestone progress along with the scope, quality, budget, resource, risks and issues and benefits for each commercial project.

KEY FINDINGS:

- The Council's Project Management Process was not followed in all instances, as noted from our sample testing, with some instances noted of a business case not being prepared separately to the project initiation document, benchmarking not performed and risks not fully considered (Finding 1 - Medium)
- Although it is defined how the Corporate Leadership Team (CLT) and Extended Leadership Team (ELT) board act for project governance, and the role of CPWG and S&R committee with commercial projects, it could be better defined how these interact for the purposes of commercial project governance (Finding 2 - Low)
- Planned project activities in the monthly Corporate Projects Working Group and the monthly Project Highlight Reports are not allocated to a responsible officer. (Finding 3 - Low)
- The process in place to ensure that assets are regularly reviewed to ensure that they are efficiently utilised are not documented in an Asset Management Strategy (Finding 4 - Low)

CONCLUSION:

We noted good practices in relation to the research and scrutiny of commercial projects and found that from sample testing of five commercial projects, in all five cases the commercial projects had been appropriately researched, scrutinised and authorised prior to investing time and resources into the project. However, we found that the project governance boards could be better defined in terms of how they interact with each other, the monthly Corporate Projects Working Group and the monthly Project Highlight Reports are not allocated to a responsible officer. Following sample testing of five commercial projects we found that were five instances across three of the commercial projects which had not followed the project management process and there is not a formal process in place to ensure assets are regularly reviewed to ensure they are efficiently utilised.

This has led us to conclude a substantial assurance over the design and moderate assurance over the operational effectiveness of controls.

DETAILED FINDINGS

RISK: COMMERCIAL ACTIVITIES WERE NOT SUFFICIENTLY SCRUTINISED PRIOR TO THEIR ESTABLISHMENT

Ref	Significance	Finding
1	Medium	<p><u>Project Management Process</u></p> <p>The Council's Commercial Project Governance and Programme Structure sets out the mandatory project documentation which is a requirement of the Project Management Process.</p> <p>The mandatory project documentation listed is:</p> <ul style="list-style-type: none"> • Project on a Page (POAP) - This document contains a high-level project scope/risks and cost estimates • New: Corporate Projects Working Group Committee Report - This document contains further detail than the POAP - It sets out the first stage of the project costs and sets the foundations for the Project Initiation Document (PID) • Strategy and Resources Committee Report - Includes recommendations from the Corporate Projects Working Group Committee Report • Project Initiation Document (PID) - This document includes the project scope, key risks and issues, project milestones, forecast budgets and project stakeholders • Project Business Case - Refinement of the PID - This documents budget details and the delivery plan • RAID Log - This document sets out the project risks, actions, issues and dependencies log • Project Highlight Report - This document is a monthly progress report which provides an update on the project's progress • Project Closure Report - This document reports on the project's delivery, lessons learnt and post-projects benefits schedule <p>We selected five active projects from the commercial project pipeline spreadsheet to review in order to assess whether the Project Management Process had been followed.</p> <p>We found:</p> <p><u>Land Acquisition Project: Business Case</u></p> <ul style="list-style-type: none"> • The Project Initiation Document and outline Business Case has been completed together within a detailed document <p><u>Land Acquisition Project PID</u></p> <ul style="list-style-type: none"> • The Project Initiation Document (PID) refers to the sensitivity and confidentiality of the acquisition, however, the PID does not specify how communications will be

managed. Whilst the PID does make reference to an Officer from the Council's Communications Team being involved in project communications, their specific involvement in the project is not referenced.

Land Acquisition Project Benchmarking

We confirmed that the Council have not carried out a benchmarking exercise or undertaken discussions with other Local Authorities in order to gather best practice on this type of estates project. We were unable to obtain evidence from the Council of information to be had from other local authorities on land acquisition from which learning could be used to assess best practice and better inform the delivery of the Council's own Land Acquisition Project.

Houseboats Project: Project Risk Management

We carried out a full assessment of the Business Case for the Houseboats project.

- The Business Case for the Houseboat project sets out a range of different levels of mooring fees, but it assumes there will always be full occupancy which appears to be an over optimistic assumption
- Specific risks do not appear to have been considered, such as:
 - The risk that a sudden fall in demand for berths which would lower the income has not been considered
 - The risk that the pile driving uncovers geological problems has not been considered
 - The risks to construction have not been considered
 - The risks of a contractor going into liquidation have not been considered
 - The risks of issues occurring with materials supply have not been considered

If a business case has not been prepared, benchmarking performed and a comprehensive lists of risks considered, there is a risk that the objectives of the project will not be clearly defined, value for money will not be achieved and risks properly mitigated.

RECOMMENDATION:

- A) The Council should ensure that the Project Management Processes are adhered to when undertaking commercial projects with approvals for project commencement only given on receipt of sufficient documentation in line with the process
- B) A checklist could be utilised to ensure all appropriate documentation has been developed at the relevant stages of the project initiation process.
- C) Ensure future projects retain separate Business Case and Project Initiation Documents

MANAGEMENT RESPONSE:

- A) I think the sample of projects reflects the PMO at its early stages without clarity & consistency in approach to projects. Over the last 2 years improvements have been made & feel that project documents & templates are now consistent. The PID for the land acquisition was incredibly detailed & completed to a business case level. Acknowledge that benchmarking could've been undertaken & we are doing so as the project progresses seeking specialist knowledge where required & identifying what other local authorities are doing to realise benefits with this type of project
- B) A project checklist has been implemented by the PMO & is available on SharePoint - this was introduced after the audit documents were collated.
- C) Given the diverse range of projects the council undertakes some projects will not require full business cases (e.g. if very low value) however larger scale project will continue to adopt the PMO templates that have been developed over recent months. In addition to this by adopting the checklist (above) will ensure that all larger projects have a consistent approach in the documentation that they use.

Responsible Officer: Steven Butcher Commercial Manager

Implementation Date: February 2023

RISK: THERE ARE INSUFFICIENT LEVELS OF CONTROLS IN PLACE TO BE ABLE TO APPROPRIATELY MONITOR AND REPORT ON COMMERCIAL ACTIVITIES RESULTING IN A LACK OF OVERSIGHT REGARDING PERFORMANCE AND PROFITABILITY

Ref	Significance	Finding
2	Low	<p><u>Governance Structure</u></p> <p>A Governance Structure should clearly define the policies, processes, standards, procedures and guidelines that determine how projects are led, run and controlled. It is the framework within which a project progresses and should also include named individuals/roles and responsibilities for all aspects of the project. It explains to all stakeholders how the project is to be overseen.</p> <p>From our review of the Commercial Project Governance and Programme Structure in place for the Council's Commercialisation Projects the following was noted:</p> <ul style="list-style-type: none"> • The process for senior sign-off of projects is not set out in the Commercial Project Governance and Programme Structure • The Commercial Project Governance and Programme Structure does not set out how the various groups interact with each other and adequately detail what their specific roles are in decision making for the Extended Leadership Team (ELT), Corporate Leadership Team (CLT) Project Board, the Corporate Projects Working Group and the Strategy and Resources Committee. <p>Should an issue arise during the course of the project it is important that the chain of escalation is clear which is why the requirement for clear accountabilities within the project structure is important.</p>

RECOMMENDATION:

The Commercial Project Governance and Programme Structure should be updated to include details of how the Extended Leadership Team (ELT), Corporate Leadership Team (CLT) Project Board, the Corporate Projects Working Group and the Strategy and Resources Committee interact with each other and adequately detail the groups specific roles in decision making.

MANAGEMENT RESPONSE:

The structure can be updated to incorporate the detail as per the recommendation.

Currently the process isn't clearly defined for which projects go where & can be subjective from CLT and the corporate projects working group.

At this time there is no desire to change existing working practices, but all projects will be subjected to CLT project board. If approved at this stage the governance route (depending on values, timescales, etc.) will then be defined. There may be some cross reference between specific committee and or working groups terms of reference to confirm the best governance route but this is difficult to define ahead of meeting(s)

The process for senior sign-off of projects to allocate resources is also completed at the Corporate Leadership Team.

Responsible Officer: Steven Butcher Commercial Manager

Implementation Date: February 2023

RISK: THERE ARE INSUFFICIENT LEVELS OF CONTROLS IN PLACE TO BE ABLE TO APPROPRIATELY MONITOR AND REPORT ON COMMERCIAL ACTIVITIES RESULTING IN A LACK OF OVERSIGHT REGARDING PERFORMANCE AND PROFITABILITY

Ref	Significance	Finding
3	Low	<p><u>Reporting</u></p> <p>The Corporate Projects Working Group meets on a monthly basis and review the following areas:</p> <ul style="list-style-type: none"> • The minutes and actions from the previous meetings • Updates on commercial project options • The commercial project status reports and updates on active commercial projects <p>The Corporate Projects Working Group is attended by the following officers:</p> <ul style="list-style-type: none"> • A selection of members chosen at Council at the start of the term • CLT • Commercial Manager • Project Manager • Other officers on an ad hoc basis depending on need e.g. Legal or Planning. <p>The Project Highlight Reports are reported at the Corporate Projects Working Group on a monthly basis and report on the following areas:</p> <ul style="list-style-type: none"> • Provide a status summary and activity on active commercial projects • Outline the active projects key achievements • Outline the planned project activity for the next period • Key Performance Indicators which include milestone progress, scope and quality, budget, resource, risks and issues and benefits • A RAG rating against each milestone • Planned project end dates • Total approved budgets • Actual spend to date • Revenue expected against latest project forecast. <p>We reviewed the latest Corporate Projects Working Group and Highlight reports and identified that the planned project activities are not allocated to a responsible officer.</p> <p>If the information provided to the Corporate Projects Working Group and the highlight reports is insufficient it could lead to approvals and actions taken by the Corporate Projects Working Group not being the best possible option.</p>

RECOMMENDATION:

- A) Update the reports for the Corporate Projects Working Group and the Highlight

reports to ensure that actions are allocated to a responsible officer.

MANAGEMENT RESPONSE:

Noted, whoever given the size of the organisation in most instances the project manager will be responsible to ensure actions have been completed in a timely manner

Responsible Officer: Steven Butcher Commercial Manager

Implementation Date: February 2023

RISK: THERE ARE NO PROCESSES IN PLACE TO APPROPRIATELY ASSESS EXISTING ASSETS FOR POTENTIAL DEVELOPMENT IN LINE WITH COMMERCIAL EXPECTATIONS, WITH A LACK OF APPROVAL MECHANISMS

Ref	Significance	Finding
4	Low	<p><u>Asset Management Strategy</u></p> <p>An Asset Management Strategy should define how the Council intends to manage its current future-planned property requirements and establish clear objectives for its land and buildings. The Asset Management Strategy should include a schedule of annual reviews to ensure that the contents of the strategy adequately reflect the priorities of the Council.</p> <p>Through discussions with Officers, we established that the key driver for the Council's projects is to review assets on a one-by-one basis based on historical information and Officer experience to ascertain what might be suitable for a development opportunity. Part of the Council's current process for assessing assets is to use opportunistic sites without the benefit of an Asset Management Strategy. All ideas for assessing and utilising current assets are reviewed and validated before a high-level project proposal is presented to the Corporate Leadership Team Steering Board for consideration and allocation of resources.</p> <p>Whilst we acknowledge that the Council has a process in place for reviewing assets and that ideas for the use of assets are reviewed and validated before a project proposal is established, without a formal Asset Management Strategy in place there is a risk to the maintenance of existing processes if key personnel were to leave and the process has not been formally documented.</p> <p>A finding was raised in the Management of Property audit report dated January 2022 which stated that there was no Asset Management Strategy in place. It was agreed in Management responses that the Council would start a working group within January/February 2022 to identify an MDC Assets Strategy regarding the use of its property and that they would identify any risks or changes and ensure these are documented and if needed key decisions are made at appropriate Director level.</p>

RECOMMENDATION:

In addition to Finding 3 in the 2021/2022 Management of Property Audit Report (noted in italics below) the Council should ensure the review and approval processes for current assets being used for potential commercial uses are documented in the Asset Strategy.

- A) *The Council should establish an Asset Strategy to enable them to succinctly define the benefits of their assets and introduce processes that allow them to identify potential users/uses of such assets, expectations from keeping them, costs of maintaining etc.*
- B) *As part of A) above, the Council should review the assets it holds to identify unused or underutilised resources with a view to redeploying or disposing. Regular (potentially annual) meetings should be undertaken specifically to review the assets and ensure these are being efficiently utilised in line with the strategy. These meetings should be minuted and hold an action plan.*

MANAGEMENT RESPONSE:

Agree with the recommendation - however resource needs to be identified to deliver the strategy.

Responsible Officers: Farley Norman, Steven Butcher & Frank Britt

Implementation Date: February 2023

STAFF INTERVIEWED

BDO LLP APPRECIATES THE TIME PROVIDED BY ALL THE INDIVIDUALS INVOLVED IN THIS REVIEW AND WOULD LIKE TO THANK THEM FOR THEIR ASSISTANCE AND COOPERATION.

Name	Job Title
Katy Moore	Project Manager
Steven Butcher	Commercial Manager
Cheryl Hughes	Programmes, Performance and Governance Manager,

APPENDIX I - DEFINITIONS

LEVEL OF ASSURANCE	DESIGN OF INTERNAL CONTROL FRAMEWORK		OPERATIONAL EFFECTIVENESS OF CONTROLS	
	FINDINGS FROM REVIEW	DESIGN OPINION	FINDINGS FROM REVIEW	EFFECTIVENESS OPINION
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.

RECOMMENDATION SIGNIFICANCE

High	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
Medium	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
Low	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

APPENDIX II - TERMS OF REFERENCE

PURPOSE OF REVIEW:

To review the Council's governance arrangements to enable it to deliver its commercial strategy and project pipeline.

KEY RISKS:

- The updated Commercial Strategy has not taken into account the original data from Ignite and reviewed this to ensure feasible commercial activities have been identified
- There are insufficient levels of controls in place to be able to appropriately monitor and report on commercial activities resulting in a lack of oversight regarding performance and profitability
- Commercial activities were not sufficiently scrutinised prior to their establishment
- There are no processes in place to appropriately assess existing assets for potential development in line with commercial expectations, with a lack of approval mechanisms established.

SCOPE OF REVIEW:

The following areas will be covered as part of this review:

- Review of the data from Ignite and actions taken to verify the suitability of it and how this has been led by the Commercial Strategy. We will then review the schedule of future works and assess the feasibility of them through discussions with Officers
- Review a sample of current commercial activities to ensure there was sufficient research undertaken and scrutiny provided prior to their approval
- Review of the governance structure in place to provide oversight of the commercial activities and the quality of progress monitoring reports as well as the challenge exercised on these
- Review of the controls in place regarding asset development and if sufficient processes have been established to ensure a fair and equitable review of resources and potential opportunities

However, Internal Audit will bring to the attention of management any points relating to other areas that come to their attention during the course of the audit. We assume for the purposes of estimating the number of days of audit work that there is one control environment, and that we will be providing assurance over controls in this environment. If this is not the case, our estimate of audit days may not be accurate.

APPROACH:

Our approach will be to conduct interviews to establish the controls in operation for each of our areas of audit work. We will then seek documentary evidence that these controls are designed as described. We will evaluate these controls to identify whether they adequately address the risks. We will seek to gain evidence of the satisfactory operation of the controls to verify the effectiveness of the control through use of a range of tools and techniques.

BAF/CRR REFERENCE:

R9: Failure to have a co-ordinated approach to supporting inward investment and maximising business rates growth

FOR MORE INFORMATION:

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The matters raised in this report are only those which came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. The report has been prepared solely for the management of the organisation and should not be quoted in whole or in part without our prior written consent. BDO LLP neither owes nor accepts any duty to any third party whether in contract or in tort and shall not be liable, in respect of any loss, damage or expense which is caused by their reliance on this report.

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