

# MALDON DISTRICT COUNCIL

## INTERNAL AUDIT REPORT - FINAL

CIPFA FINANCIAL MANAGEMENT CODE 2023/24  
JUNE 2024

Design Opinion



Moderate

Design Effectiveness



Substantial

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## DISTRIBUTION

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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.

## REPORT STATUS

<b>Auditors:</b>	Aaron Winter, Director and Head of Internal Audit Andrew Billingham, Internal Audit Manager Noa Xiong, Auditor
<b>Dates work performed:</b>	06 March 2024 - 26 April 2024
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<b>Management response received:</b>	31 May 2024
<b>Final report issued:</b>	3 June 2024

# EXECUTIVE SUMMARY

Design Opinion



Moderate

Design Effectiveness



Substantial

Recommendations

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## SCOPE

### BACKGROUND

- ▶ To support local government in the implementation and strengthening of financial management, CIPFA introduced the Financial Management Code in 2019.
- ▶ The Code sets out the principles by which local authorities should be guided in managing their finances and the specific standards they should, as a minimum, seek to achieve.
- ▶ The principles are:
  - Organisational leadership, demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
  - Accountability, financial management is based on medium-term financial planning, which drives the annual budget process supported by effective risk management, quality supporting data and whole-life costs.
  - Financial management is undertaken with transparency at its core, using consistent, meaningful and understandable data, reported with appropriate frequency and with evidence of periodic officer action and elected member decision making.
  - Adherence to professional standards is promoted by the leadership team and is evidenced.
  - Sources of assurance are recognised as an effective tool mainstreamed into financial management and include political scrutiny and the results of external audit, internal audit and inspection.
  - The long-term sustainability of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.
- ▶ Financial management standards address the aspects of an authority's operations and activities that must function effectively if financial management is to be undertaken robustly and financial sustainability is to be achieved. The areas covered by the standards are:
  - The responsibilities of the chief finance officer and leadership team.
  - Governance and financial management style.
  - Long to medium-term financial management.
  - The annual budget.
  - Stakeholder engagement and business plans.
  - Monitoring financial performance.
  - External financial reporting.

### PURPOSE

- ▶ The purpose of the review was to provide assurance that the Council has put in place appropriate arrangements to comply with the CIPFA Financial Management Code.

#### AREAS REVIEWED

The following areas were covered as part of this review:

1. The Council has inadequate governance arrangements that may result in poor financial management principles being applied, informing a lack of financial resilience.



#### AREAS OF STRENGTH

- ▶ We reviewed the Maldon District Council Commissioning and Procurement Strategy 2024-2027 and confirmed that the leadership team was able to demonstrate that the services provided by the authority offer value for money. Benchmarking was adopted at local service level to compare the relative mean of the services expense positions for Maldon CIPFA nearest neighbours and Maldon itself. The benchmarking was discussed, and examples were shown in the Financial Member Group meeting.
- ▶ The authority complied with the CIPFA Statement on the Role of the Chief Financial Officer (CFO) in Local Government. The CFO is a key member of the Council's Leadership Team and actively involved in major material business decisions through attending Committee and Council meetings and officers' meetings. The CFO signed off the Annual Statement of Accounts, demonstrating the accountability for preparing the Council's Statement of Accounts in accordance with proper practices as set out by CIPFA. The CFO is qualified and has 20 years local government finance experience, leading a Finance Team with qualified and experienced key officers and officers in the process of gaining professional qualifications.
- ▶ We reviewed the Council's Annual Governance Statement (AGS) 2022/23, where the leadership team has demonstrated the responsibility for governance and internal control. The Performance, Governance and Audit Committee meeting is held regularly to receive updates on internal audit progress, reporting on the follow up of internal audit recommendations, and to discuss and resolve issues identified by relevant internal audit reports. The Annual Governance Statement is issued to review the performance and provide a detailed action plan of improvements for the following year.
- ▶ In 2020/21, the Council developed the Process Improvement Framework to endeavour continuous improvement. In 22/23, the Process Improvement Framework was embedded into the organisation through training, template, and support development. In the 2022/23 AGS, activities that have taken place in the year within the Governance Framework are recorded under each of the seven key areas of the CIPFA/Solace Delivering Good Governance in Local Government: Framework (2016) for good corporate governance. This agrees with the CIPFA financial management code: The authority applies the CIPFA/Solace Delivering Good Governance in Local Government: Framework (2016).
- ▶ We reviewed the Council's Three-year Medium-Term Financial Strategy (MTFS) 2024/25 to 2026/27, issued in February 2024, which sets out the financial sustainability challenge facing the Council and ways to address the various components of this challenge. Budgetary controls are in place to monitor expenditure throughout the year to ensure that the Council is on track to meet its budget within the remits of any revised budget planning. The Council has recently undertaken a Local Government Peer Review/Challenge and the Council has agreed an action plan which sets

out its strategic developments to address the recommendations raised from this review.

- ▶ We reviewed the Section 151 Officer's statement on robustness of budgets and adequacy of reserves, it is in place and provides a financial resilience evaluation. Key fiscal risks and planning strategies are indicated to ensure sustainability.
- ▶ The Council has a Treasury Management Strategy Statement and Capital Strategy Report in place, where Prudential Indicators are set. The Council issues an Annual Provisional Outturn Report, where performance against the prudential indicators is reported and subsequent amendments approved. This complied with the CIPFA Prudential Code for Capital Finance.
- ▶ The Council's budget setting process follows the Local Government Finance Act 1992 and Local Government Act 2003. Section 151 Officer's statement on robustness of budgets and adequacy of reserves is included in the budget report. The Council complies with statutory obligations in respect of the budget-setting process.
- ▶ The leadership team has taken action to use report to identify and correct emerging risks to its budget strategy and financial sustainability in accordance with the CIPFA financial management code guideline. In addition to the MTFS, the Council issues quarterly Budgetary Control Reports, to the Strategy and Resources Committee. The Budgetary Control Report sets out the financial position of the key areas of the Council's activities for each quarter and provides original budget, revised budget and variance data on current service and non-employee expenditure areas. Detailed variance analysis is provided on non-employee expenditure and primary income, explaining the reasons for variances. The Council has an annual Provisional Outturn Report 2022/23 in place, issued on 22 June 2023 by the Interim Chief Finance Officer. The report provides Members of the Committee with the Provisional Outturn position for the year ended 31 March 2023 and inform Members of movements in relation to the Council's General Fund, Earmarked Reserves and Capital Commitments as of 31 March 2023. It gives detailed variations from budget, makes recommendations regarding the allocation of funds that need to be carried forward or allocated into reserves, and how the overall financial position is related. This is in line with the CIPFA financial management code, which the presentation of the final outturn figures and variations from budget enables the leadership team to make strategic financial decisions.



## AREAS OF CONCERN

- ▶ From our review of the Council's longer-term financial strategy, we found the Council has a three-year Medium-term Financial Strategy (MTFS) in place for 2024/25 to 2026/27. We have confirmed with the Interim Chief Financial Officer that the Council currently does not have a long-term financial strategy in place. (Finding 1 - Medium)
- ▶ We reviewed the Council's Budget Survey 2024, where the survey gathered residents' opinion on the aspects of corporate priorities, financial impact, financial reductions, funding priorities and income & budget suggestions. We found that there was a 55.97% decrease in Maldon residents' response from 134 in 2022 to only 75 in 2024. According to the survey, 300+ responses can be counted as a good representative sample for a self-selecting survey in Maldon. (Finding 2 - Low)
- ▶ We have reviewed the Council's Project Management Guidebook, where it provides guidance on assessing project viability and value for money.

We have found that the Project Management Guidebook was established by the Council on 9 January 2020, over 4 years ago. We were later informed that there is a Project Management Office (PMO) and Improvement Management (IM) Strategic Framework which provides the latest update for the previous Project Management Guidebook. The PMO and IM Strategic Framework is currently in the final stages of development and will be submitted to the Strategy and Resources committee for member approval in June. (Observation)




## CONCLUSION

- ▶ Our review found that overall, the Council has adequate governance arrangements with good financial management principles being applied and sound financial resilience, as underscored by the Council's reports and statements examined in this report. The Council has put in place appropriate arrangements to comply with the CIPFA Financial Management code. For instance, the Council sets out its Annual Governance Statement in the way that addresses each of the recommendations in the CIPFA/Solace Delivering Good Governance in Local Government: Framework (2016). Assessment was carried out against each of the principles within the framework. Statements and reports were in place and set out in the way as required by the CIPFA Financial Management code standards, such as the Section 151 Officer's statement. Overall, the Council materially complies with the CIPFA Financial Management Code.
- ▶ However, we have raised one medium and one low priority recommendations to address the risks of the Council not fully understanding its prospects for financial sustainability in the longer term and engaging where appropriate with key stakeholders in developing its long-term, medium-term financial plan and annual budget.
- ▶ We have therefore concluded a moderate assurance over the design of controls in place and substantial assurance over the operational effectiveness of the controls.



## DETAILED FINDINGS

### 1 Long-term financial sustainability prospects

TOR Risk:	The Council has inadequate governance arrangements that may result in poor financial management principles being applied, informing a lack of financial resilience.
Significance	 Medium



#### FINDING

The CIPFA Financial Management code sets out its standards in Section 3 Long- to medium-term financial management:

*G. The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.*

As a result, we sought to test that the Council understands its prospects for financial sustainability in the longer term and has reported this clearly to Members.

We requested supporting evidence on the Council's longer-term strategy. We have confirmed with the Interim Chief Financial Officer that the Council currently does not have a long-term strategy in place. The Council has a three-year Medium-term Financial Strategy (MTFS) in place for 2024/25 to 2026/27.

As the CIPFA financial management code suggests, the authority should understand its prospects for financial sustainability in the longer term. A long-term financial strategy enables the required changes to services to be delivered in a more planned, holistic manner, mitigating the need for reactive cuts to services. It allows the Council to better integrate its approach to people, business, asset, and financial planning processes and ensure these are fully aligned to clear priorities set out in the Council Plan.

There is a risk that the Council may not be able to underpin its longer-term sustainability and ensure that the financial implications of service delivery are carefully considered, affordable and reflected in future budgets.



#### RECOMMENDATION

1.1 The Council should consider developing a long-term financial strategy (10 years) to ensure that the Council's activities are aligned with the Council's long term development objectives.



#### MANAGEMENT RESPONSE

It is noted that it is best practice to develop a long-term financial strategy. This is something the Council will consider over the next year as part of a wider review of its key strategies, before a firm commitment is made to publish this.

Responsible Officer:	Naomi Lucas - Chief Finance Officer
Implementation Date:	31 May 2025

## 2 Engagement with stakeholders

TOR Risk:

The Council has inadequate governance arrangements that may result in poor financial management principles being applied, informing a lack of financial resilience.

Significance



Low



### FINDING

We sought to assess whether the authority has engaged where appropriate with key stakeholders in developing the long-term financial strategy, medium-term financial plan and annual budget.

We reviewed the Council's Budget Survey 2024, where the survey gathered residents' opinion on the aspects of corporate priorities, financial impact, financial reductions, funding priorities and income and budget suggestions. We noticed that there was a 55.97% decrease in Maldon residents' response from 134 responses in 2022 to 75 responses in 2024. As mentioned in the survey, 300+ responses can be counted as a good representative sample for a self-selecting survey in Maldon. In this case, only 25% of adequate amount of survey response was received.

If adequate response was not gathered for the Budget Survey, this will reduce the accuracy of stakeholders' opinions being reflected and represented in the Council's financial strategy and annual budget, and potentially result in the opinions of key stakeholders not being promptly identified and incorporated into financial strategies and annual budget plan in a timely manner.



### RECOMMENDATION

2.1 The Council should consider how it can promote the motivation of residents to respond to the Council's Budget Survey and increase the number of responses to better inform future decision making.



### MANAGEMENT RESPONSE

The Council will consider how to increase engagement with its Budget Survey. As advised the Council also runs an annual resident survey which received over 700 responses in 2023, so it may also consider whether the budget questions can be incorporated into this rather than running a separate exercise in future.

Responsible Officer:

Naomi Lucas - Chief Finance Officer

Implementation Date:

31 May 2025



## OBSERVATIONS

### Project Management Guidebook

According to the CIPFA financial management code, section 5 stakeholder engagement and business plans, we sought to verify that the authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.

We have reviewed the Council's Project Management Guidebook, where it provides guidance on assessing project viability and value for money. We have found that the Project Management Guidebook was established by the Council on 9 January 2020, over 4 years ago and not been updated since.

For a project appraisal process that is not up to date, value for money may not be realised, resulting in a loss to the Council.

However, we were later informed by the Council that there is a Project Management Office (PMO) and Improvement Management (IM) Strategic Framework which provides the latest update for the previous Project Management Guidebook. The PMO and IM Strategic Framework is currently in the final stages of development and will be submitted to the Strategy and Resources Committee for member approval in June 2024 and therefore, address this observation and is why we have not raised it as a formal recommendation within this report.



## 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
<b>Substantial</b>	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.
<b>Moderate</b>	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.
<b>Limited</b>	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.
<b>No</b>	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

<b>High</b>	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.
<b>Medium</b>	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.
<b>Low</b>	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



### KEY RISKS

Based upon the risk assessment undertaken during the development of the internal audit operational plan, through discussions with management, and our collective audit knowledge and understanding the potential key risks associated with the area under review are:

1. The Council has inadequate governance arrangements that may result in poor financial management principles being applied, informing a lack of financial resilience.



### SCOPE & APPROACH

We will confirm that the Council has arrangements in place, and can effectively demonstrate their compliance with the Code, in the following areas:

- ▶ The leadership team is able to demonstrate that the services provided by the authority provide value for money.
- ▶ The authority complies with the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.
- ▶ The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.
- ▶ The authority applies the CIPFA/Solace Delivering Good Governance in Local Government: Framework (2016).
- ▶ The financial management style of the authority supports financial sustainability.
- ▶ The authority has carried out a credible and transparent financial resilience assessment.
- ▶ The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.
- ▶ The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.
- ▶ The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.
- ▶ The authority complies with its statutory obligations in respect of the budget-setting process.
- ▶ The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves.
- ▶ The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.
- ▶ The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.
- ▶ The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.
- ▶ The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.
- ▶ The chief finance officer has personal responsibility for ensuring that the statutory accounts provided to the local authority comply with the Code of Practice on Local Authority Accounting in the United Kingdom.

- ▶ The presentation of the final outturn figures and variations from budget allow the leadership team to make strategic financial decisions.

As part of the audit and in line with good practice, we will comment on areas to improve that informs compliance or the arrangements to comply.

The scope of the review is limited to the areas documented under the scope and approach. All other areas are considered outside of the scope of this review. However, Internal Audit will bring to the attention of management any points relating to other areas that come to their attention during 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.

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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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