

# MALDON DISTRICT COUNCIL

## INTERNAL AUDIT REPORT - FINAL

MAIN FINANCIAL SYSTEMS 2024/25  
JUNE 2025

Design Opinion



Moderate

Design Effectiveness



Moderate

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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, Partner and Head of Internal Audit Andrew Billingham, Internal Audit Manager Noa Xiong, Internal Auditor Elif Kavak, Internal Auditor
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# EXECUTIVE SUMMARY

Design Opinion	 Moderate	Design Effectiveness	 Moderate
Recommendations	 0	 2	 0

## SCOPE

### BACKGROUND

- ▶ Maldon District Council (the “Council”) is required to have sound controls in place within its financial systems, in order to prevent and detect error and fraud. The Finance Team (within the Resources directorate) is responsible for the financial management controls and processes.
- ▶ The Finance Team also provides leadership on good financial practice to the services across the Council and has an oversight role to ensure procedures are correctly followed.
- ▶ Cyclical Internal Audit reviews are carried out on the main financial systems but cover general ledger controls such as control account reconciliations, journals and IT access controls as standard. Last year, the review focused on Budgetary Control and this year Internal Audit agreed to cover key treasury management processes and activities.
- ▶ Good treasury management is a key element of the effective management of working capital, ensuring that the organisation has cash available to meet its obligations while ensuring any surplus cash is managed within the Council’s appetite for risk and return.
- ▶ Legislation requires local authorities to have regard to statutory proper practices in relation to treasury management, including CIPFA’s Treasury Management in the Public Services Code of Practice and CIPFA’s Prudential Code, which provides guidance on recommended treasury management practices
- ▶ The Council has a Treasury Management Strategy in place which is refreshed each year and outlines its approach towards borrowing and investing, setting limits for each in line with statutory guidance.
- ▶ The Council’s treasury advisors, MUFG, support the Treasury Management Strategy and identify counterparties that the Council should hold investments based on the risk factor. The Council’s Investment Strategy identifies the investment priorities as security first, then portfolio liquidity and then yield. Limits for the value of investments that can be held with each counterparty at any given time are outlined in the strategy.

### PURPOSE

- ▶ The purpose of the audit was to review the Council’s general ledger controls, including:
  - An annual review of control account reconciliations and journals; and
  - Key IT access controls

We also conducted a cyclical audit to provide assurance over the key treasury management controls.

**AREAS REVIEWED**

We reviewed the following in our audit:

General Ledger

- ▶ Whether user access permission to the finance system is updated as required and user access logs are periodically reviewed.
- ▶ A sample of monthly balance sheet control accounts to determine whether they have been appropriately reconciled, with segregation of duties being maintained between the preparer and reviewer, and that unreconciled items are resolved on a timely basis.
- ▶ A sample of journals raised to assess whether there is sufficient documentation to support the transaction and that it has been appropriately authorised independently of the preparer.

Treasury Management:

- ▶ The Treasury Management Strategy and assessed whether it has been approved by Council, complies with statutory requirements and sufficiently outlines the approach and limits for investments and borrowing for the Council.
- ▶ A sample of borrowing and cash transfers, to determine whether they are adequately assessed in terms of risk and affordability in line with the Council's Treasury Management Strategy and are appropriately approved.
- ▶ Whether cash flow projections are periodically produced and independently reviewed, taking account of borrowing and investment decisions.
- ▶ Whether the sensitivity of forecasts to changes in key assumptions has been analysed and considered.
- ▶ Whether the reporting of cash flow forecasts keeps officers and Members of the Council adequately informed of the Council's short and long-term liquidity position.

**AREAS OF STRENGTH**Treasury Management Strategy

- ▶ We reviewed the Council's Treasury Management Strategy 2025/26 which was approved by the Strategy and Resources Committee in January 2025 and by the Council in February 2025. Per the Strategy, as of 31 December 2024, the Council held no borrowing and £24m of investments. The Strategy lists out the annual investment forecast to 2027/28 as well as the borrowing strategy. Investments are forecasted to fall to £12.4m by the end of 2028/29, following the use of general reserves, capital receipts and capital grants allocated to fund the capital programme. The Strategy is supported by the Treasury Management Practices (TMPs), demonstrating compliance with CIPFA requirements. Therefore, we confirmed that the Strategy was appropriately approved, complies with statutory requirements and sufficiently outlines the approach and limits for investments/borrowing for the Council.

Journal Processing

- ▶ We reviewed 10 journals raised in 2024/25, and confirmed that there is sufficient documentation to support the transaction and that it has been appropriately authorised independently of the preparer.

Cash Flow Forecasting

- ▶ We reviewed the Cash Flow Forecast (CFF) as of March 2025 and found that it outlines the daily cash inflows and outflows for the year. Cash inflows include housing benefits subsidy, council tax, business rates, grants, investment income and VAT refunds. Cash outflows include payments for payroll, PAYE, pensions, investments, business rates retention, grants and creditors. Our assessment of the CFF found that the cash inflow/outflows were updated daily. When balances exceed the limits set by the bank (£3m) and by management (£5m), the forecast prompts the Finance Team to invest surplus funds. Conversely, when funds are projected to be low, the forecast highlights the need for the Council to consider divesting to maintain sufficient liquidity.
- ▶ We conducted a walkthrough to review a case where the Council's funds exceeded limits set by management and the bank on 3 March 2025. The Finance Specialist provided details of available funds and proposed investments of £5m to Federated Hermes and £2m to Goldman Sachs. Appropriate approval was received by the Senior Technical Accountant via MS Teams and email. A Payment Checklist was completed and reviewed by the Senior Technical Accountant to confirm bank details and compliance with the investment limits set out on the Treasury Management Strategy. Evidence of the investment was verified via the ICD portal and CHAPS statements. An Investment Certificate was also generated detailing the creditor, cost centre and investment amount to maintain an audit trail.
- ▶ Furthermore, we conducted a walk-through of two instances where the funds were below the limits set by management and the bank (25 March 2025 and 21 March 2025). We confirmed via screenshots from the Bank Balances MS Teams chat that the Resources Caseworker provided details of the bank balances which were reviewed by the Finance Specialist and the CFF spreadsheet was updated accordingly.
- ▶ Therefore, we confirmed that adequate arrangements are in place to monitor cash flow projections, which is independently reviewed when funds are above or below limits set by management/bank, to ensure investment decisions are made in line with the Council's Treasury Management Strategy.

#### Sensitivity Analysis

- ▶ The Council has an external advisor, MUFG, to provide guidance on investment decisions. On a monthly basis, the Council submits an Investment Input Sheet to MUFG, who then provide analysis based on the Council's investment portfolio. We reviewed the Investment Input Sheets for February and March 2025 and confirmed that the investments were in line with the limits set out in the Treasury Management Strategy. We confirmed that MUFG have produced Investment Analysis reports for February and March 2025, which are tailored to the Council's investment portfolio covering funding ratings, historic risk of default and expected credit loss.
- ▶ A portfolio composition is also mapped by MUFG's suggested lending criteria detailing the type of investment and duration. The reports also outline the investment risk based on the credit ratings of the investments and notes whether there have been rating changes. Additionally, the reports provide insights into the current UK economy and future projections, which inform the Council's monitoring processes. Therefore, we confirmed that the Council receives adequate guidance from its

external advisor, MUFG, to make informed decisions on investments which consider the sensitivity of the market and forecasts.

#### Management Reporting

- ▶ The Council demonstrates compliance with the requirements of the CIPFA Treasury Management Code 2021 through the development of defined TMPs. We reviewed the Council's TMPs document which was presented at the Council meeting in February 2025. We confirmed that these practices cover key areas such as risk management, decision-making, legal compliance and governance. The section 151 officer oversees treasury activities supported by regular reporting, updated cash flow forecasting and use of approved instruments and counterparties.
- ▶ The Interim Chief Finance Officer presented a half-yearly Treasury Management Update report to the Strategy and Resources Committee in November 2024. We reviewed the report and confirmed that it covers the Council's investment performance and treasury activity for the first half of 2024/25 in accordance with the CIPFA's Treasury Management Code. The report included; invested funds, counterparty breaches, interest rate forecast, estimated capital expenditure and Council's average portfolio credit score (AA). During this period, the Council maintained an average investment of £25.6m.

### AREAS OF CONCERN

- ▶ **Insufficient documentation of user access reviews** - we reviewed the user access to the finance system for 10 members, however we did not receive adequate evidence to support the review of their roles prior to access being granted for one. Furthermore, we did not find formal documentation of the quarterly access log reviews over access permissions to confirm its completion. **(Finding 1 - Medium)**
- ▶ **Inadequate documentation of reconciliation reviews** - we reviewed reconciliations for General Bank - Income (February and March 2025) and Bank Payments (January and February 2025) and identified that details of the preparer and the reviewer was not documented, therefore we were unable to verify whether segregation of duties was maintained. We also found that the reconciliation pack for General Bank - Income did not include embedded supporting documentation, however these were provided for the audit upon request. **(Finding 2 - Medium)**

### CONCLUSION

- ▶ Overall, we concluded Moderate assurance over the design and operational effectiveness of the Trust's main financial systems.

#### Control Design

- ▶ The Trust has a generally sound system of controls designed to achieve its system of objectives, however we found an exception which related to the following:
  - The reconciliation template for the General Bank - Income and Bank Payments does not have designated sections to include details of the preparer and the reviewer to ensure these are captured. Furthermore, the reconciliation packs do not embed the supporting documentation to support the review process.

We have raised a medium priority recommendation to address this exception.

#### Control Effectiveness

- ▶ The control effectiveness is Moderate because there is evidence of non-compliance with some key financial controls.
- ▶ For our review of IT controls over the access to the finance system, we were not provided with evidence to support the review of their roles prior to access being granted. Additionally, we did not find formal documentation of the quarterly access log reviews to confirm its completion.

We have raised one medium priority recommendation to address these areas of concern and to improve the effectiveness of the controls.



## DETAILED FINDINGS

1 Insufficient documentation of user access reviews	
TOR Risk:	There are ineffective IT controls over access to the finance system, resulting in unauthorised changes being made to the general ledger.
Significance	 Medium



### FINDING

We were advised by management that employees are required to have a username and password to access the finance system, Sage. To obtain access employees must submit a request through IT, which is then reviewed and approved by the Finance team before access is granted. Reviews of the access log are conducted quarterly by the Finance team. At the time of the review there were 40 officers with enabled access.

We reviewed the user access to the finance system for 10 members of staff and confirmed that access was appropriate and commensurate with job roles.

We reviewed the User Logs to the General Ledger System and we were advised that permissions in the finance system are updated as required and user access periodically reviewed quarterly. We confirmed that the log details the system Name, User ID, User Name, role assigned, Admin Access and availability.

However, for one staff member, who was part of our sample testing, and had access to the system, we were not provided with evidence to support the review of their roles prior to access being granted. Furthermore, we did not find formal documentation of the quarterly access log reviews to confirm its completion.

Lack of documented evidence confirming the review of user roles prior to granting access and absence of formal records evidencing quarterly access log review, may increase the risk of unauthorised access to Sage. This may result in unauthorised transactions or data manipulation, potentially compromising the integrity of financial data.



### RECOMMENDATION

1a. The Council should ensure that documented evidence of role-based access reviews is retained for all staff granted access to the finance system. This should include confirmation that access levels are appropriate and that the review is completed and recorded prior to access being granted.

1b. Evidence of the quarterly access log reviews should be retained and reported to the Deputy S151 to confirm its completion to achieve a clear audit trail.




### MANAGEMENT RESPONSE

Although there is a check in place to review suitability of role/user to access the main financial system, there needs to be a formally documented process. This will be set up going forward and sits under the Senior Financial Specialist who has an overall responsibility of the financial system. Additionally, there will be a formalised quarterly access log review going forward, with appropriate sign off by the Deputy S151 on a quarterly basis i.e. at the end of each three months.



Responsible Officer:	Interim Deputy S151 Officer
Implementation Date:	September 2025

## 2 Inadequate documentation of reconciliation reviews

<b>TOR Risk:</b>	Reconciliations between the general ledger and feeder systems (including the Bank, Cash Receipting System, Council Tax, Business Rates and Local Council Tax Support) are not adequately performed or independently reviewed resulting in errors not being identified and rectified timely.	
<b>Significance</b>		Medium



### FINDING

The Finance team complete a monthly review of the general ledger and feeder systems and a weekly review for council tax and business rates. The Finance Team maintains a control account spreadsheet which documents the performer and reviewer of the reconciliations, the date completed and details of variances.

We reviewed the reconciliations for General Bank - Income (February and March 2025) and Bank Payments (January and February 2025) to determine whether they have been appropriately reconciled, with segregation of duties being maintained between the individual preparing the reconciliation and the individual reviewing and approving the reconciliation, and that unreconciled items are resolved.

- Across the reconciliations reviewed, we were unable to confirm segregation of duties was maintained between the performer and reviewer. This is because the control account spreadsheet was not updated for the reconciliations completed from January to March 2025, for both the General Bank - Income and Bank Payments reconciliations.  
Furthermore, as the reconciliations are not dated in the file, we were unable to confirm if they were completed in a timely manner.
- We also identified that the reconciliation packs do not embed the supporting documentation. However, we did confirm details of the reconciliations matched supporting documentation, for General Bank - Income reconciliation which was provided upon request.

Our review of the entire control account reconciliation monitoring document showed in February 2025 that the following reconciliations had also not been evidenced as up to date:

- Payroll
- PAYE
- Pensions
- VAT
- Budget Reconciliations
- Grants

Lack of documented evidence confirming segregation of duties between the preparer and reviewer of reconciliations, combined with absence of completion dates and embedding supporting documentation, may lead to fraudulent or incorrect transactions going undetected.



### RECOMMENDATION

2a. The Council should ensure the reconciliation document includes details of the preparer, review and date in the reconciliation file for all completed reconciliations. This will ensure that segregation of duties and date of the exercise are consistently documented.

2b. The Council should ensure that backing documentation is embedded within the reconciliation files on separate tabs, to ensure ease of access and support the review process of balances.



#### MANAGEMENT RESPONSE

Going forward, the team will adopt the electronic signature functionality in Excel documents. This will clearly outline the role of the approver along with date. Each reconciliation will clearly show the name of the preparer along with their role and date.

<b>Responsible Officer:</b>	Interim Deputy S151 Officer
<b>Implementation Date:</b>	September 2025

## 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:

#### General Ledger:

- ▶ There are ineffective IT controls over access to the finance system, resulting in unauthorised changes being made to the general ledger.
- ▶ Reconciliations between the general ledger and feeder systems (including the Bank, Cash Receipting System, Council Tax, Business Rates and Local Council Tax Support) are not adequately performed or independently reviewed resulting in errors not being identified and rectified in a timely manner.
- ▶ Journals are not subject to sufficient approval and scrutiny by delegated personnel and are not accurately processed to the general ledger, increasing opportunities for fraud and/or error.

#### Treasury Management

- ▶ The Treasury Management Strategy does not identify the Council's approach towards investing and borrowing, is not compliant with statutory legislation, has not been approved in accordance with the scheme of delegations and is not supported by operational policies and procedures.
- ▶ The affordability of loans are not sufficiently assessed, putting the Council at risk of not meeting its prudential indicators and not being able to repay its debt when due.
- ▶ The Council does not have adequate cash forecasting processes, resulting in it not having appropriate levels of cash available when it requires it.
- ▶ Cash Flow forecasting does not include adequate sensitivity analysis for changes in key assumptions.
- ▶ There is insufficient management and Committee level oversight of the Council's liquidity position or Treasury Management performance/compliance.



### SCOPE & APPROACH

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

#### General Ledger:

- ▶ Confirm whether user access permission to the finance system is updated as required and user access logs periodically reviewed. (Risk 1)
- ▶ For a sample of monthly balance sheet control accounts from April 2024 to date, confirm whether they have been appropriately reconciled, with segregation of duties being maintained between the individual preparing the reconciliation and the individual reviewing and approving the reconciliation, and that unreconciled items are resolved on a timely basis. (Risk 2)
- ▶ For a sample of journals raised from April 2023 to date, check that there is sufficient documentation to support the transaction and that it has been appropriately authorised independently of the preparer. (Risk 3)

#### Treasury Management:

- ▶ We will review the Treasury Management Strategy and assess whether it has been approved by Cabinet and relevant Committees, complies with statutory

requirements and sufficiently outlines the approach and limits for investments and borrowing for the Council. (Risk 4)

- ▶ For a sample of borrowing and cash transfers, confirm that they are adequately assessed in terms of risks and affordability in line with the Council's Treasury Management Strategy and are appropriately approved. (Risk 5)
- ▶ Confirm that cash flow projections are periodically produced and independently reviewed, taking account of borrowing and investment decisions. (Risk 6)
- ▶ Determine whether the sensitivity of forecasts to changes in key assumptions has been analysed and considered. (Risk 7)
- ▶ Assess whether the reporting of cash flow forecasts keeps officers and members of the Council adequately informed of the Council's short term and long term liquidity position. (Risk 8)

**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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