

Maldon District Council

INTERNAL AUDIT PROGRESS REPORT

June 2017



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INTRODUCTION

Internal Audit

This report is intended to inform the Audit Committee of progress made against the 2016/17 internal audit plan which was approved by this Committee in March 2016. 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 section 2 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.

Work outside of the Internal Audit Plan

No additional work has taken place.

Overview of 2016/17 work to date

See page 4 for details of the audits completed since the previous Audit Committee.

PROGRESS SINCE MARCH 2017 AUDIT COMMITTEE

Area	No. of days	Group Manager Responsible	Assurance - System Design	Assurance - Operating Effectiveness	No. of High priority recommendations	No. of Medium priority recommendations	No. of Low priority recommendations	Ref to Executive Summary
Channel Shift and Customer Strategy	16	Sue Green	Moderate	Moderate		7		Appendix II
Financial Systems	12	Carrie Cox	Substantial	Moderate		3		Appendix III
Investments and Investment Income	7	Carrie Cox	Moderate	Moderate		3		Appendix IV
Inventory and Stock	5	Ben Brown	Moderate	Moderate		3	2	Appendix V

PROGRESS AGAINST 2016/17 PLAN

Area	2015/16 days	Date work to be undertaken	Progress Update	Assurance - System Design	Assurance - Operating Effectiveness
Helping Communities to be Safe, Active and Healthy					
Flooding	8	Q3	Final	Moderate	Moderate
	8				
Protecting and Shaping the District					
Cyber Crime	12	Q2	Final	Moderate	Moderate
Data Protection	14	Q4	Final	Moderate	Moderate
Information Management (including PCI compliance review)	12	Q4	Final	Limited	Limited
	38				

PROGRESS AGAINST 2016/17 PLAN

Area	2015/16 days	Date work to be undertaken	Progress Update	Assurance - System Design	Assurance - Operating Effectiveness
Creating Opportunities for Economic Growth and Prosperity					
Channel Shift and Customer Strategy	16	Q3	Draft report issued 10 May	Moderate	Moderate
Income Generation	24	Q1	Final	N/A	N/A
	40				

PROGRESS AGAINST 2016/17 PLAN

Area	2015/16 days	Date work to be undertaken	Progress Update	Assurance - System Design	Assurance - Operating Effectiveness
Delivering Good Quality, Cost Effective and Valued Services					
Financial Systems (including Main Accounting and Payroll)	12	Q4	Final	Substantial	Moderate
Council Tax and NNDR high level review	7	Q3	Final	Substantial	Moderate
Housing and Council Tax Benefits high level review	6	Q3	Final	Substantial	Substantial
Income and Debtors high level review	8	Q4	Final	Moderate	Moderate
Payments and Creditors high level review	8	Q4	Final	Moderate	Moderate
Investments and Investment Income and Cash and Bank high level review	7	Q4	Final	Moderate	Moderate
Planning Services	15	Q3	Final	Moderate	Moderate
Workforce Management	12	Q4	Work complete, report being drafted		
Inventory and Stock	5	Q4	Draft report issued 2 May	Moderate	Moderate
80					

PROGRESS AGAINST 2016/17 PLAN

Area	2015/16 days	Date work to be undertaken	Progress Update	Assurance - System Design	Assurance - Operating Effectiveness
Cross Cutting Corporate Review					
Committee Structure	20	Q2	Final	N/A	N/A
	20				
Planning, Reporting, Follow-up and Contingency					
Planning / liaison / management	20	Ongoing			
Recommendation follow up	10	Reported in December 2016 Reported in February 2017			
Advisory Role	9	Ongoing			
Contingency	5				
Total	44				

APPENDIX I - DEFINITIONS

LEVEL OF ASSURANCE	DESIGN of internal control framework		OPERATIONAL EFFECTIVENESS of internal 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 - CHANNEL SHIFT AND CUSTOMER STRATEGY

APPENDIX 1

MALDON DISTRICT COUNCIL CORPORATE GOAL AND OUTCOME			SUMMARY OF RECOMMENDATIONS (SEE APPENDIX II FOR DEFINITIONS)	
Delivering good quality, cost effective and valued services Outcome: Effective and convenient access to public services			High	0
LEVEL OF ASSURANCE (SEE APPENDIX II FOR DEFINITIONS)			Medium	7
Design	Moderate	Generally a sound system of internal control designed to achieve system objectives with some exceptions	Low	0
Effectiveness	Moderate	Evidence of non compliance with some controls, that may put some of the system objectives at risk	Total number of recommendations: 7	

OVERVIEW: CHANNEL SHIFT AND CUSTOMER STRATEGY

The Corporate Plan states the Council's commitment to offering services which are accessible and affordable to all. The Council has also identified a risk of failure to target services and influence partners effectively to meet the needs of the District and the Council recognises that the future of service provision is moving towards a more diversified collection of organisations working together to deliver shared outcomes. The Customer Strategy was developed to address the needs of both customers and the Council. The Council has also enhanced links with partner organisations and introduced a community hub to improve the customer experience.

Through this audit we sought to support the Council to develop a shared vision for customer access which considers access preferences, stakeholder consultation, channel plans and channel shift savings.

From our review, we noted the following areas of good practice:

- The Council has two strategies that contribute to channel shift: the Customer Strategy and the ICT Strategy
- The Council is achieving channel shift in some areas, for example through increases in benefit payments made by BACS and in Council Tax payments received by direct debit. Customers are also using a new automated telephone payments system to make payments. Council reception facilities have been improved and include public access to wi-fi, self service facilities and access to other complementary organisations through the community hub.

Continued:

APPENDIX II - CHANNEL SHIFT AND CUSTOMER STRATEGY

OVERVIEW: CHANNEL SHIFT AND CUSTOMER STRATEGY

However, we also noted the following areas for improvement:

- Opportunity for identifying measureable targets and outcomes and reporting progress against those targets and outcomes (Finding 1 - Medium)
- A need to identify a methodology for measuring channel usage, to determine targets for online end to end transactions and satisfaction at first point of contact, to undertake customer journey mapping and review of outcomes of Business Process Reviews (Finding 2 - Medium)
- A need for recognition of the dependency on the workforce to adapt and apply change management protocols (Finding 3 - Medium)
- A need to identify stakeholders critical to the delivery of channel shift to support management in implementing channel shift and to articulate the data sharing vision and prepare an action plan reflecting that vision (Finding 4 - Medium)
- To determine channel shift priorities to enable an action plan to be prepared, resources allocated and progress measured (Finding 5 - Medium)
- A need to identify a realistic baseline of actual current costs, so that potential savings can be properly assessed (Finding 6 - Medium)
- Targetting channel shift activity at areas of service provision resulting in the greatest volume of customer contact for which the contact is more transactional and less complex (Finding 7 - Medium).




Conclusion

We have issued 7 Medium priority findings and have concluded an opinion of moderate for both the design and effectiveness of the Customer Strategy and the Council's progress towards channel shift. This reflects that there are areas of good practice and that the Council is actively working to develop arrangements, but there are areas for improvement including relating to determining priorities and targets, measuring channel usage, achievement of outcomes and staff and stakeholder change management.

APPENDIX III - FINANCIAL SYSTEMS

MALDON DISTRICT COUNCIL STRATEGIC OBJECTIVE THIS RELATES TO		
Delivering good quality, cost effective and valued services		

LEVEL OF ASSURANCE (SEE APPENDIX II FOR DEFINITIONS)		
Design	Substantial	Sound system of internal controls designed to achieve system objectives
Effectiveness	Moderate	Evidence of non compliance in some controls, that may put some system objectives at risk

SUMMARY OF RECOMMENDATIONS (SEE APPENDIX II FOR DEFINITIONS)	
High	 0
Medium	 3
Low	 0
Total number of recommendations: 3	

OVERVIEW: Financial Systems

Background:

The Finance team responsibilities include Payroll, Treasury Management, Income & Debtors, Payments & Creditors and Asset Management. The team provides leadership on good financial practice to the services across the Council and has an overseeing role to ensure procedures are correctly followed. The team undertakes reconciliations between financial systems, the ledger and bank statements. Local Authorities are facing financial strain and reduced grant funding, therefore proper and effective financial system controls are critical to support effective financial planning and management. Our review considered the design and effectiveness of the processes and controls in place around the Council's main accounting, fixed assets and payroll systems.

From our review, we noted the following areas of good practice:

- Financial Regulations define key responsibilities for maintenance and oversight of financial data
- Fixed assets are subject to annual inspection and officers working across the District also report any potential issues to the Facilities and Assets Manager
- Accurate amendments were made to the Payroll promptly following receipt of information about changes in officer status and pay slips contained mandatory information

However, we also noted the following areas of improvement:

- There are no procedure notes for the reconciliation process, records of reconciliations did not document reasons for any differences or the officer completing the reconciliation and there was no evidence of periodic review of reconciliations (Finding 1 - Medium)
- There were no policies clarifying the approach to acquisition, transfer and maintenance of fixed assets and the efficiency effectiveness and use of assets was not subject to formal review (Finding 2 - Medium)
- No confirmation was available of the results of checks made on Payroll data by HR (Finding 3 - Medium)

Conclusion

We have issued 3 Medium priority findings, and have concluded an opinion of substantial for the design, and moderate for the effectiveness of financial systems, reflecting that there are areas of good practice, but with some areas for improvement relating to fixed assets, reconciliations and payroll.

APPENDIX IV - INVESTMENT AND INVESTMENT INCOME

MALDON DISTRICT COUNCIL CORPORATE GOAL		SUMMARY OF RECOMMENDATIONS (SEE APPENDIX II FOR DEFINITIONS)	
To be an organisation that delivers good quality , cost effective and valued services in a transparent way		High	<div><div></div></div> 0
LEVEL OF ASSURANCE (SEE APPENDIX II FOR DEFINITIONS)		Medium	<div><div></div></div> 3
Design	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	Low	<div><div></div></div> 0
Effectiveness	Evidence of non compliance with some controls, that may put some of the system objectives at risk.	Total number of recommendations: 3	

OVERVIEW

Background

The purpose of our review was to provide assurance that appropriate arrangements are in place and operating effectively in relation to Investments, Investment Income, Cash and Bank.

Good Practice

- The Council’s Treasury Management Performance Indicators for Liquidity and Security were regularly reviewed and met
- Treasury Management policies, procedures and protocols are in line with the CIPFA Code of Conduct
- Treasury Management advisors, Arling Close, are consulted with and their advice is taken into consideration.

Key Findings

- Reconciliations are not being reviewed and verified on a regular basis
- The Responsible Officer recorded as the person to report suspicions of fraud to is no longer working at the Council
- Formal protocols are not in place with regards to the roll over of investments.

Conclusion

Overall we have raised three recommendations relating to the Council’s management of Investments, Investment Income, Cash and Bank. We found that there is some room to improve the Council’s controls and that some improvements could also be made to the operational effectiveness of the controls in place, leading to a final assessment of moderate assurance over the control design and moderate assurance over the control effectiveness.

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APPENDIX V - INVENTORY AND STOCK

APPENDIX 1

MALDON DISTRICT COUNCIL CORPORATE GOAL		SUMMARY OF RECOMMENDATIONS (SEE APPENDIX II FOR DEFINITIONS)	
To be an organisation that delivers good quality , cost effective and valued services in a transparent way		High	
LEVEL OF ASSURANCE (SEE APPENDIX II FOR DEFINITIONS)		Medium	3
Design	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	Low	2
Effectiveness	Evidence of non compliance with some controls, that may put some of the system objectives at risk.	Total number of recommendations: 5	

OVERVIEW

Background

The purpose of this review was to assess inventory and stock procedures, particularly within the Tourist Information Centre

Good Practice

- Perishable stock was regularly reviewed to ensure items sold were not out of date.
- Awareness of the need to assess and ensure profitability was recognised with KPI's included in the 2017/18 Business Plan
- Stock was held securely at both sites

Key Findings

- There is currently no stock management system in place, although one is planned for 2017/18
- Not all inventory held within the Tourist Information Centres were recorded on the IT Asset List
- The minimum required value for inventory to be held on an asset list (£1000) appears high compared to other Councils.

Conclusion

Overall we have raised five recommendations relating to the Council's management of stock and inventory, focusing on the Tourist Information Centres and the Splash Park. We found that there is room to improve the Council's controls and that improvements could also be made to the operational effectiveness of the controls in place, leading to a final assessment of moderate assurance over the control design and moderate assurance over the control effectiveness.

The proposal contained in this document is made by BDO LLP ("BDO") and is in all respects subject to the negotiation, agreement and signing of a specific contract. It contains information that is commercially sensitive to BDO, which is being disclosed to you in confidence and is not to be disclosed to any third party without the written consent of BDO. Client names and statistics quoted in this proposal include clients of BDO and BDO International.

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