Audit Summary Report

January 2007

audit commission

Interim Audit Memorandum

Milton Keynes Council

Audit 2005/2006

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- any third party.

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For further information on the work of the Commission please contact:
Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ
Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421
www.audit-commission.gov.uk

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Introduction

1 The Audit Commission's Code of Audit Practice requires that we give an opinion on the Council's financial statements including:

- whether they present fairly the financial position of the Council and its expenditure and income for the year; and
- whether they have been properly prepared in accordance with relevant legislation and applicable accounting standards.

Audit approach

2 Our overall approach has been revised for 2005/06. The key drivers for this were:

- New Code of Audit Practice (as approved by Parliament); and
- New International Standards on Auditing.

3 Consequently, in relation to the auditor's opinion on the Council's financial statements, we are required to:

- identify and assess the risks of material mis-statement in the financial statements; and
- determine how to gain enough assurance for the audit opinion (mainly by testing or relying on IA testing).

4 Therefore, our overall audit approach is basically in two parts:

- identifying opinion audit risks at the authority level; and
- identifying opinion audit risks at the information system level.

5 For the former we draw together information from previous audits; changes in legislation, proper practices etc, and consider whether there is any risk from this in relation to the opinion. This information feeds into the process for determining how we gain enough assurance for the opinion usually through testing in relation to individual systems or specific items in the financial statements.

6 At the detailed system level we identify material information systems (not just financial systems but also underlying information systems) feeding material account items. The material systems identified are listed in Appendix 1 to this report. For each of these systems we document the system or changes to it, evaluate the controls, identify key controls and significant risks.

7 In order to determine the appropriate level of testing needed to give our audit opinion on the year-end financial statements we assess the level of assurance that we can get from the proper operation of those systems.

8 We liaised with Internal Audit in planning our audit work. Where appropriate we have placed reliance on the work they have done, subject to reviewing the adequacy of such work first. Where points have already been raised by Internal Audit, they have not been repeated unless they refer to a fundamental issue, or we have also raised the issue at earlier audits.

9 This audit memorandum summarises the findings from our interim review of the material systems at Milton Keynes Council.

Main conclusions

10 Our review and assessment of the Council's material systems found that generally the controls operate effectively and give us assurance for opinion purposes. There were no significant weaknesses in systems of accounting and financial control which required reporting in the annual governance report to Members which was considered by the Audit Committee and Cabinet on 26 September 2006 and full Council on 28 September 2006.

11 We have identified a number of other weaknesses which need to be addressed. These are detailed in the action plan attached at Appendix 2.

Appendix 1 – Material Information Systems

System	
General Ledger	SAP
Budgetary Control	SAP
Capital	SAP
Accounts Receivable	SAP
Accounts Payable	SAP
Payroll	SAP
Bank Reconciliation	SAP
VAT	SAP
NDR	SX3
Council Tax	SX3
Benefits	SX3
Housing Rents	SX3
Housing Repairs	SX3
Cash Receipting	Radius
PPP - Partnership delivery	
Treasury Management	
Car Parking	
Pooled Budgets	
School Finance Systems	Various

Appendix 2 – Action plan

File ref	Finding	Recommendation	Priority	Response	Target date	Responsible Officer
General Ledger						
R1 AC ref EX.15 G.2.7, G.2.PS	The chief executive's department does not have their journals or their control sheet signed as authorised.	All journals should be properly authorised.	High	Agreed and actioned.	2006/07	Anna Rulton, Transactional Accounts Manager
Budgetary Control						
R2 AC ref EX.20 G.30.PS	Finance does not have in place an adequate system to ensure that all budget holders sign to accept responsibility for their budgets. Budget Sign-off Schedules are held at Directorate level and there is no evidence that Finance receive any assurance that all budgets have been signed for. Testing of a sample of four budgets identified that only two had been signed for, of which one was not signed until half way through the financial year.	MKC Finance should put in place a mechanism to satisfy themselves that all budgets have been signed for by the nominated budget holder, and that this was done on a prompt basis.	High	Evidence will be requested and checked for the 2007/08 budget sign off.	2006/07	Gary Waghorn, Deputy Head of Finance HBS/ Gavin Chambers, Revenue Finance Manager

File ref	Finding	Recommendation	Priority	Response	Target date	Responsible Officer
Budgetary Control Continued						
R3 AC ref EX.14 G.30.PS	Seven out of ten virements tested had not been authorised within the limits defined in Financial Regulations - Strategic. Additionally, in two of the ten cases the Directorate Finance Team had not evidenced the form to confirm that they had checked that the authorisation was within mandate. As a result there is no evidence to show proper control over changes to budgets.	Ensure that all virements are authorised within mandates defined in Financial Regulations, as Strategic.	Medium	Agreed	2006/07	Michael Hodgson, Head of Finance HBS
Accounts Receivable						
R4 AC ref EX.19 G.7.PS	When a sales order is keyed into SAP by a service officer, there is no subsequent check on the data entry by a second officer to ensure that the information has been keyed in accurately. This is a control weakness that could lead to inaccurate invoices and increased levels of credit notes to correct those errors.	Introduce a system of secondary checks on the accurate data input of sales orders.	High	Whilst it is acknowledged that this is a risk, it has now been reviewed and considered in both cost and risk terms and on balance it is not considered appropriate to introduce this control. Additional checks will be introduced to minimise the risk (detailed note provided).	N/A	Gavin Chambers, Revenue Finance Manager/Frank Reedy, Financial Systems Manager

File ref	Finding	Recommendation	Priority	Response	Target date	Responsible Officer
NNDR						
R5 AC ref EX.3 G.SI.8, G.11.PS	Procedures are not in place to regularly reconcile the number of Hereditaments/Rateable Values on SX3 with comparable figures on processed Schedule of Alterations to the Rating List. As a result, it cannot be confirmed that all notified amendments have been fully and accurately processed on SX3 and that resultant liability changes have been correctly billed or amended.	Put in place procedures to regularly reconcile the number of Hereditaments/Rateable Values on SX3 with comparable figures on processed Schedule of Alterations to the Rating List.	High	Agreed. We get regular updates to the Rating List (schedules) from the Valuation Officer, and after each of these schedules the total rateable value on the Northgate System is now balanced to the VO records.	2006/07	Kay Pettit, Revenues and Benefits Client Officer
Council Tax						
R6 AC ref EX.6 G.12.PS	Awards of Single Occupancy Discount where the applicant is in receipt of Council Tax Benefit are not subject to annual review of continued eligibility. As a result changes in eligibility may not be identified promptly.	Annually confirm continued eligibility for Single Occupancy Discount in all cases.	High	Whilst the CTAX discount review process has excluded people on benefits, the Housing Benefit Section undertakes 'interventions' on high risk cases, as determined by the DWP, with it being most likely that single people would fall into high risk categories. The benefit section undertake some 8,000 interventions each year (3,200 of which are by visit, the balance by post or HBMS matching). Furthermore, the two sides of the system (SX3) 'talk' to each other, with a 'flag' produced when a benefit application shows two people on the form, but CTAX have a SPD on. Also a 'matching' report is run on a weekly basis, identifying cases where there are 2+ people on benefits but only one in CTAX.	N/A	Kay Pettit, Revenues and Benefits Client Officer

File ref	Finding	Recommendation	Priority	Response	Target date	Responsible Officer
Benefits						
R7 AC ref EX.4 G.16.PS	Regular reconciliations were not carried out between figures on the Benefits System (SX3) for Rent Allowance postings and corresponding figures on the General Ledger. We identified by discussion that only four such reconciliations were carried out in 2005/06, the earliest one in December 2005. Additionally, no reconciliations were carried out in respect of Rent Rebates.	Carry out and document monthly reconciliations between the Benefits System and the General Ledger in respect of Rent Allowances/Rent Rebates.	High	Rent allowances and rent rebates are reconciled as often as possible, but at least every three months (reconciliations provided).	2006/07	Margaret Walton, HBS Finance Officer
Housing Rents						
R8 AC ref EX.18 G.14.PS, G.SI.7	It is understood that when the new rents are input on the rents system each year a random sample of rents are checked by IT for correctness but no evidence is retained to support this sample check.	Evidence should be retained of those properties sampled and the results of testing be recorded as an audit trail.	High	All details of testing for next years rent increase will be saved electronically (emails, excel spreadsheets and project plans) and stored on the 'L' drive.	2007/08	J Hayles, Rent accounts Manager
Cash Receipting						
R9 AC ref EX.12 G.8.6, G.8.PS	Icon allows 210 seconds for a response for card payments that run through Streamline before timing out. Once the system has timed out the card is put through again and the payee ends up paying twice. Daily reconciliations are run between Icon and Streamline to correct duplicate payments and issue refunds.	This system fault requires correcting to save the authority excess time and reduce costs.	High	Icon upgrade implemented in 2006/07 so this is no longer an issue.	2006/07	Frank Reedy, Financial Systems Manager

File ref	Finding	Recommendation	Priority	Response	Target date	Responsible Officer
Car Parking						
R10 AC ref EX.13 G.23.PS	There is no evidence that the Council has in place arrangements to ensure that the Pay and Display income reported by the contractor (currently NCP) is accurate and complete. In particular, there was no evidence that the Council had carried out spot checks to confirm the accuracy of reported takings from the emptying of machines to the audit trails produced.	Put in place procedures to verify the accuracy of reported parking income (eg spot checks to audit trails) and monitor and investigate changes in income levels.	High	Internal Audit undertakes sample checks of the income reported by the contractor to source documentation. Testing to date has not found any discrepancies between actual and reported income, however the last routine report was issued in Febuary 2005. There was a handover from Vinci to NCP last year and resources were allocated to this changeover in place of a routine audit. Internal Audit has also recommended that the Parking Section undertake sample checks. There is a monitoring officer appointed by HBS and this should be part of his function to check machine audit trails. Will raise with HBS SMD Jacqui Clydesdale.	2006/07	Lynda Baker, Audit Manager / Trevor Dove, Traffic and Transport Manager
R11 AC ref EX.21 G.23.PS	The accuracy of the reported Pay and Display income in respect of the period of 2005/06 when the contract was operated by VINCI could not be verified due to the absence of any testing of accuracy by the council and no audit trails being available.	Put in place procedures to verify the accuracy of reported parking income (eg spot checks to audit trails) and monitor and investigate changes in income levels. Ensure that full audit trails are available on request.	High	There is a monitoring officer appointed by HBS and this should be part of his function to check machine audit trails. Will raise with HBS SMD Jacqui Clydesdale.	2006/07	Trevor Dove, Traffic and Transport Manager

File ref	Finding	Recommendation	Priority	Response	Target date	Responsible Officer
R12 AC ref EX.22 G.23.PS	No evidence was seen to show that the Council was effectively monitoring Pay and Display income against budget or investigating significant variances. Income in the early part of 2005/06 was below expectations, but staff could not understand why this had occurred and there was no evidence of further investigation.	Put in place arrangements to monitor Pay and Display income against budget and expectation and investigate variances.	High	Income is compared against profile on a monthly basis. Monthly outturn is reported to the Chief Highways and Transport Engineer and quarterly to the responsible cabinet member. Parking income is unpredictable (high risk) and very much down to customer use - in 2005/06 there was a downturn in income which was reported to the cabinet member well in advance and an action plan was developed.	2006/07	Trevor Dove, Traffic and Transport Manager