

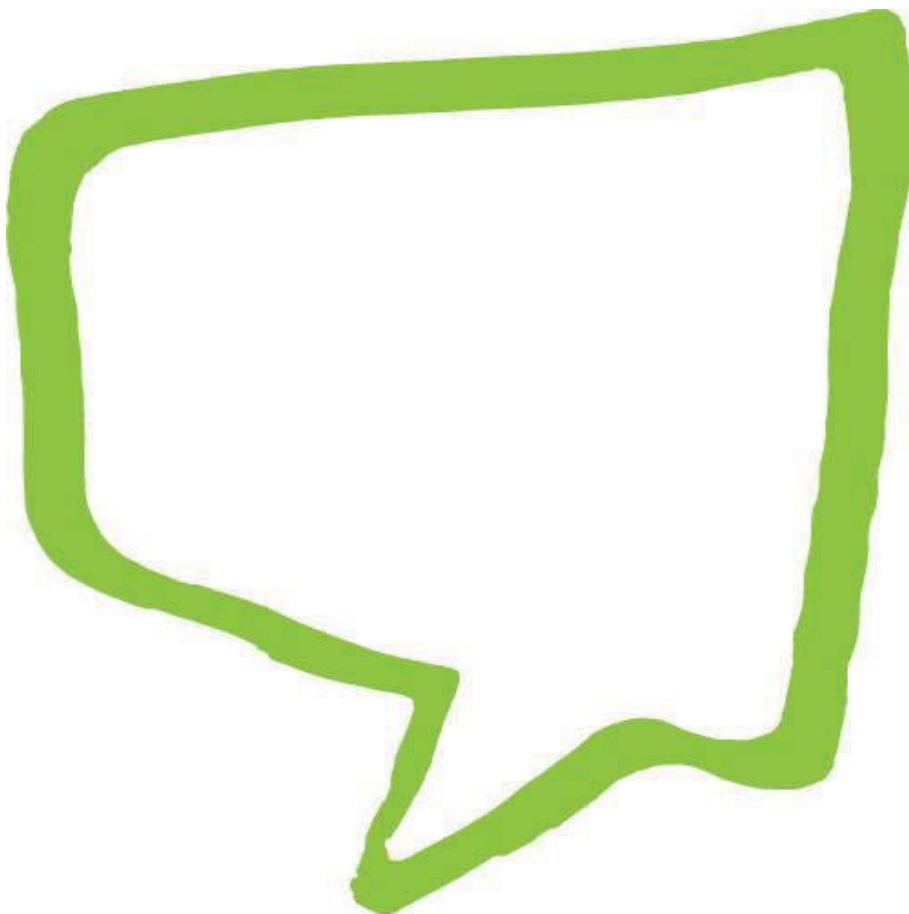
Interim

Systems Audit

Milton Keynes Council

Audit 2008/09

January 2010



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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.

Introduction

- 1 The Council is required to publish a statement of accounts (SOA) annually.
- 2 The Audit Commission Act 1998 and the Code of Audit Practice require the appointed auditor to form an independent view of the statutory accounts and to give an audit opinion as to whether the financial statements:
 - present fairly the financial position of the Council and its income and expenditure for the year; and
 - have been properly prepared in accordance with appropriate legislation and applicable accounting standards.
- 3 This audit memorandum summarises our audit approach and the findings from our interim review of the material systems at Milton Keynes Council.

Audit approach

- 4 Our audit opinion is based on assurance gained from our reviews of the following areas.
 - Internal control.
 - Internal audit.
 - Financial systems and related information systems.
 - Procedures for producing the financial statements and supporting evidence.
 - Additional substantive testing on the financial statements themselves.
- 5 Our overall approach is determined following an initial assessment of risk.
 - Identifying opinion audit risks at the authority level.
 - Identifying opinion audit risks at the information system level.
- 6 For the former we draw together information from previous audits; changes in legislation, proper practices etc, and consider whether there is any risk for our opinion. This information feeds into the process for determining how we gain enough assurance for the opinion, through testing of individual systems or specific items in the financial statements.
- 7 At the detailed system level we identify material information systems (not just financial systems but also underlying information systems) that feed material account items. The material systems identified are listed in Appendix 1 to this report.
- 8 In order to develop our testing strategy and determine the appropriate level of testing needed to give our opinion on the year-end financial statements, we carry out a review of all systems which are identified as material to the financial statements and assess the level of assurance that we can get from the proper operation of those systems. Our work involved:
 - documentation of all material systems;
 - walkthrough testing for all material systems to assess whether the system and controls are operating as described;
 - development of our testing strategy; and
 - testing on a cyclical basis of the key controls over which reliance is sought, as determined by the testing strategy.
- 9 The material systems where the testing strategy includes reliance on proper operation of controls are detailed in Appendix 1.
- 10 There are other material information systems where we have determined that the most efficient way to get the required assurance for the financial statements is to carry out substantive testing. We would not carry out testing of controls on these systems.

- 11 We liaise with Internal Audit in planning and performing our audit work. A full review of Internal Audit's compliance with local government internal audit standards is carried out every three years. This review was completed in 2006/2007 and we concluded that overall arrangements comply with local government internal audit standards. Where appropriate we place reliance on the work Internal Audit have done, subject to reviewing the adequacy of such work first. The results of this testing will be built into the risk assessment and audit approach to the opinion audit and will influence the amount of work required to support that opinion.

Main conclusions

- 12 Although our interim audit is substantially complete there are a few issues that we still need to follow up as part of the final accounts audit. Any matters arising will be included in our report on the final accounts audit.
- 13 Our review and assessment of the Council's material systems found that generally the controls operate effectively and give us assurance for opinion purposes where required as part of our testing strategy.
- 14 We have made some recommendations where controls can be strengthened and these are detailed in the attached action plan at Appendix 2.
- 15 We issued our draft report on the 2007/08 opinion audit on 5 February 2009 but this report was never finalised. The findings and recommendations that are not repeated in 2008/09 but which are still relevant are included in this report in Appendix 3.

Appendix 1 – Material information systems

System		Testing strategy includes reliance on proper operation of controls
General Ledger	SAP	Yes
Capital and Asset Register	SAP	No
Accounts Receivable	SAP	Yes
Accounts Payable	SAP	Yes
Payroll	SAP	Yes
Bank Reconciliation	SAP	Yes
VAT	SAP	Yes
NDR	SX3	Yes
Council Tax	SX3	Yes
Benefits	SX3	Yes
Housing Rents	SX3	Yes
Housing Repairs	SX3	Yes
Cash Receipting	Radius	Yes
Treasury Management		No
Car Parking		Yes
Pooled Budgets		Yes
School Finance Systems	Various	Yes
Planning Gains		No
Adult Social Care	Carefirst/Controc	Yes

Appendix 2 – Action plan 2008/09

File ref	Finding	Recommendation	Priority	Response	Target date	Responsible officer
Cash receipting						
EX.1	Departments/Portfolios do not process cheques for banking on a timely basis. Our walkthrough test of one cheque listing return number 6082120262 dated 23 January 2009 showed that cheque dates went back as far as 28 November 2009 and had not been banked by the 29 January 2009.	All cheques received should immediately be forwarded to the cash office for banking.	Medium	Agreed. This should already be the practice and a reminder will be issued	31 October 2009	Tim Hannam, Corporate Director of Finance and Risk Management
Car Parking						
EX.15	A reconciliation of anticipated income based on NCP records against the General Ledger is performed on a monthly basis by the Assistant Accountant for Transactional Finance. This reconciliation is not reviewed, and therefore errors/unreconciled items may not be actioned.	Implement a review process for these reconciliations. This has already been raised and agreed by Internal Audit, although no implementation date was set.	Medium	Agreed. The reconciliation is now reviewed on a regular basis	31 March 2009	Michael Hodgson, Head of Operational Finance

File ref	Finding	Recommendation	Priority	Response	Target date	Responsible officer
EX.20	NCP collect the money from the machine and provide Milton Keynes Council with a series of reports, showing summaries of the money collected from each machine and the money banked. Milton Keynes Council is entirely reliant on the figures provided by NCP and therefore have no way of assuring themselves that all of the money collected is reported to them by NCP. Each machine produces a machine print - 'audit trail' - when it is emptied which shows the total. MKC have the right to view this audit trail as part of their contractual agreement, however currently no review of these audit trails takes place.	Consider implementing control procedures to reconcile the audit trail print to income received. This matter has also been raised by Internal Audit.	High	This will be considered as part of a review of the controls of car parking income	31 March 2010	Jackie Simpson, Parking Operations Manager
VAT						
EX.16	A monthly reconciliation is performed by the VAT manager; reconciling the VAT refund claim to the VAT Control Account on the General Ledger. The reconciliation is particularly important given the complexity of the claim and the VAT claim is signed off, partly on the strength of this reconciliation. This reconciliation is not signed off by the preparer and is not reviewed.	The reconciliation should be signed by the preparer and reviewed, to ensure that responsibility is taken for follow-up of reconciling items.	High.	The reconciliation is reviewed as part of the sign off procedure for the monthly claim. If there are any issues where the approver is not satisfied the claim will not be signed off	Ongoing	Gary Waghorn, Deputy Head of finance

Appendix 2 – Action **ITEM 012/09**
AUDIT COMMITTEE
4 FEBRUARY 2010

File ref	Finding	Recommendation	Priority	Response	Target date	Responsible officer
Cheque issues						
EX.22	<p>The Cheque Log used by the Print Room is generally a good record of cheques printed. It also is used to record spoilt cheques.</p> <p>Our testing of the process by which spoilt cheques are recorded and then taken out of circulation, identified a spoilt cheque on the log that had not been signed for. The explanation was that the officer from finance had just forgotten to sign the book.</p> <p>A cheques issue returns note was later produced but this only showed a range of cheques issued and how many had been spoilt without identifying specific cheque numbers.</p>	<p>Add a column to the Cheque Log to show the position of the person collecting any spoilt cheques and to record a signature.</p>	Low	Agreed	Ongoing	Steven Jewell, Assistant Director, IT
School Pay						
EX.27	<p>The Senior Accountant checks individual school data against the SAP upload file but there is no documented evidence retained.</p>	<p>To make this an effective control these checks should be fully evidenced.</p>	High	<p>From 1 April 2009 the evidence is being retained.</p>	2009/10	Sara Cross, Accountant (Schools)
School Finance Systems						
EX.29	<p>There is no authorised signatory list maintained by the authority for schools.</p>	<p>An approved signatory list showing who is authorised to sign school bank reconciliations and VAT claims should be maintained for all schools. School bank reconciliations and the VAT claims should be checked to ensure that they have been authorised by an appropriate officer.</p>	High	<p>A signatories list will be produced</p>	31 December 2009	Rupert Sligh, Accounts Assistant

File ref	Finding	Recommendation	Priority	Response	Target date	Responsible officer
Children's Social Care						
EX.23	There was a significant delay (three months) in the provision of information to enable us to document the system and carry out walk through testing.	It is important that the Authority gives us the correct contact details for all systems and that our requests for information are dealt with promptly in order that both auditor and council staff time are utilised efficiently and our work can be completed on a timely basis.	High	This will have arisen due to the high levels of turnover of staff within the section. With the appointment of permanent staff this situation should not be repeated.	31 August 2009	Alistair Gibbons, Assistant Director, CYP

Appendix 3 – Action Plan 2007/08

File ref	Finding	Recommendation	Priority	Response	Target date	Responsible Officer
Council Tax						
EX.1 E.4.f	Of 45 Valuation Office Directions we reviewed, 19 had no evidence to demonstrate that, on completion of processing, reconciliations had been carried out between the number and band of properties on the VO Direction and the corresponding figures on I-World.	Carry out and evidence the reconciliation between the VO listing and I-World following the completion of processing of each Direction to ensure discrepancies are promptly identified and resolved.	Medium	Agreed.	31 March 2009	Kay Pettit Revenues and Benefits Client Officer
NDR						
EX.25	There was no evidence to show that the accuracy of input of the 2007/08 multipliers onto I-World was subject to independent checking. This issue was raised in previous years, but has not been addressed.	The independent review of the accuracy of input of the NDR multipliers onto I-World should be clearly evidenced.	High	Agreed.	31 March 2009	Kay Pettit Revenues and Benefits Client Officer

File ref	Finding	Recommendation	Priority	Response	Target date	Responsible Officer
General Ledger - Journals						
EX.4 E.8.e	<p>The majority of journals are uploaded by the Transaction Team.</p> <p>A spreadsheet (Upload Control Sheet) is maintained to record time, date and who sent the original email request and an email reply is sent to confirm that the journal has been posted.</p> <p>Journal references are in sequence, but not all have narrative details. This is because departments can still post journals themselves or the journal reference was simply not used. This applies to two out of five cases tested.</p>	Follow up all journals with no information recorded on the Upload Control Sheet, including those posted within the department (matching journals). Update the control spreadsheet to show the status of all journal references.	High	Agreed	31 March 2009	Michael Hodgson, Head of Operational Finance
External Placements - Children						
EX.66 E.10.a	When reviewing hard copy files for children placements we found that the key documents such as Statement of Need, Resource Panel approval and the agreement with the provider were not transferred to the current file. Each child may have several files which were archived making it difficult to retrieve source documentation.	Ensure all key documents are retained on the current file.	High	Agreed	Ongoing	Alistair Gibbons, Assistant Director, CYP
EX.67 E.10.a	It was brought to our attention that some client files containing sensitive data have gone missing.	The authority should strengthen controls over access to files. A file signing out system should be maintained and reviewed regularly to ensure files are returned.	High	Agreed	Ongoing	Alistair Gibbons, Assistant Director, CYP

Appendix 3 – Action Plan **ITEM 012/08**
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File ref	Finding	Recommendation	Priority	Response	Target date	Responsible Officer
Adult Social Care						
EX.68 E.11.a E.11.b	<p>Copies of the client Care Plans are not always readily available.</p> <p>Care Plans were only provided for 12 of the 20 cases tested.</p> <p>Four care plans were not provided at all.</p> <p>One care plan was not on Anite (electronic filing system).</p> <p>A further three care plans were not on file but other documents within the filing system indicated that the clients had been moved to care homes.</p> <p>Two care plans viewed for domiciliary care did not state the care package clearly ie how many minutes provided to the client each day.</p>	<p>Care plans for all clients should be maintained on the individual client file either on Anite or a hard copy.</p> <p>Each care plan should state clearly the care package provided.</p>	High	Agreed	Ongoing	Lyn Scott, Assistant Director, Adult Social Care
Housing Repairs						
EX.49 C.15.a	<p>The list provided to support the 0.5 per cent audit checks carried out by the authority on housing repairs jobs showed that the checks had not been fully concluded in 51/186 cases. There were also a number of jobs showing as complete on SX3 but still open.</p>	<p>When carrying out the 0.5 per cent audit check of jobs officers should follow up all queries and conclude if the charges are correct on each job checked. If there are a number of testing failures the Authority should consider extending the sample, discuss the issues with the contractor and identify improvements to be made.</p>	High	Agreed	31 December 2008	Derek Beaumont, Partnering Manager

File ref	Finding	Recommendation	Priority	Response	Target date	Responsible Officer
School Pay						
EX.24 C.26.a	The SAP automatic confirmation that the data has (or has not) been uploaded successfully is not retained.	Reports to be retained.	High	We, will in future, retain the automatic confirmation of upload generated by SAP.	2008/09	David Symons Divisional Accountant, Schools
Car Parking						
EX.27 C.18.d	There is no evidence that the Council has arrangements in place 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. This issue was also raised in 2005/06 and 2006/07.	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	This will be considered as part of a review of the controls of car parking income	31 March 2010	Jackie Simpson, Parking Operations Manager
VAT						
EX.28 C.17.a	The VAT officer reviews the capital program as it is amended during the year and considers the effect on the VAT partial exemption calculation but there is no evidence to support this.	Introduce a system to monitor the effect of the capital program on the partial exemption calculation and retain evidence to show that this has taken place.	High	Agreed	31 March 2009	Gary Waghorn Deputy Head of finance

Appendix 3 – Action Plan 012/08
AUDIT COMMITTEE
4 FEBRUARY 2010

File ref	Finding	Recommendation	Priority	Response	Target date	Responsible Officer
Bank Reconciliation						
EX.32	Monthly Bank Reconciliations are not signed as checked by a reviewer. Electronic copies of the bank reconciliations are sent to the Finance and Business Manager (CE) but there is no evidence that he has checked them and in turn that the council has taken responsibility for them.	Ensure that monthly bank reconciliations are checked and signed by a reviewer.	Medium	Agreed	31 March 2009	Michael Hodgson, Head of Operational Finance
PPP contract monitoring						
EX.39 C.16.e	Our review of the monitoring arrangements for the PPP with Mouchel which focused on four specific SLAs, shows that three out of the four client officers do not verify the KPI figures provided by Mouchel. These KPI figures show whether Mouchel are meeting their targets and are therefore entitled to full payment. Further discussion revealed that all Client Officers do undertake some sort of monitoring and are aware of any potential issues/risks within their remits. Spot checks on KPIs undertaken by the partnership delivery team did not find any problems with the KPIs and ceased at the beginning of 2008/09. It is felt by the Council that they did not add any value and that Internal/External audit do check the PIs and would pick up any issues.	Although it has been decided that there is no value to be gained from carrying out spot checks on PI data, the Council has to put on place arrangements to satisfy themselves that KPI data produced by Mouchel is complete and accurate.	High	Agreed	2009/10	Steve Readyhough Partnership Finance Manager

File ref	Finding	Recommendation	Priority	Response	Target date	Responsible Officer
IT Risk Assessment						
EX.40 B.7.c	There was no evidence that network vulnerability testing is carried out to verify that controls over access to IT systems are satisfactory.	Undertake technical network vulnerability testing on a regular basis.	Medium	Agreed	31 March 2009	Steven Jewell Assistant Director, IT
EX.41 B.7.c	Whilst a Disaster Recovery Plan is in place, it is acknowledged by management as being out of date and disaster recovery testing against the plan is not carried out. Management has indicated that updated Disaster Recovery arrangements are being developed at present. In the interim there is the potential that recovery of operations in the event of an incident may be delayed/impaired in some way.	Implement and test a Disaster Recovery Plan as soon as possible, and review/update it on a regular basis (suggest annually).	High	Agreed, we will be reviewing risks around the IT service during 2009/10	31 March 2009	Steven Jewell Assistant Director, IT
Budgetary Control						
EX.42	Our review of 2007/08 Revenue and Capital budgets identified an apparent excess of budgeted Internal Trading income over expenditure of around £700k. There could be an inbuilt shortfall within the 2007/08 budget of up to this amount.	Put in place procedures as part of the budget setting process to ensure that values of Internal Trading Income and Expenditure are matched.	High	Agreed	31 March 2009	Gary Waghorn Deputy Head of Finance
EX.43	Testing of a sample of four virements processed in 2007/08 identified that two were not authorised within the mandates defined in Financial Regulations Strategic. The Virement Authorisation form in use does not clearly identify authorisation levels required.	Revise the Virement Authorisation Form to show clearly the authorisation levels required by Financial Regulations Strategic, and strengthen procedures to ensure that only correctly authorised virements are processed.	High	Agreed	31 March 2009	Gary Waghorn Deputy Head of Finance

Appendix 3 – Action Plan 2007/08
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File ref	Finding	Recommendation	Priority	Response	Target date	Responsible Officer
EX.44	<p>Heads of Service (HoS) are required to sign a document to confirm acceptance of budgets under their control but there are no procedures in place to confirm that this acceptance has taken place. Our testing of a sample of three confirmations for 2007/08 identified one budget (Waste and Energy Management) where no documentation could be provided to show that the HoS had accepted the budget.</p>	<p>Strategic Finance should put in place procedures to satisfy itself that all Heads of Service have signed to confirm acceptance of their budgets</p>	Medium	Agreed	31 March 2009	Gary Waghorn Deputy Head of Finance
EX.45	<p>Review of documentation associated with the Council's development and reporting of Efficiency Savings in 2007/08 identified:</p> <ul style="list-style-type: none"> • some projected efficiency savings were found to never to have been achievable (eg. those on trading accounts); • efficiencies reported as having been achieved which should not be classified as such (eg. long-term sick absence, one-off savings); • year-end outturn reported to members at M11 of 2007/08 included achievement of £1.7m of efficiency savings which commentary stated "it is highly unlikely will be achieved in the current year"; and • reporting of performance against target was not calendarised to allow effective monitoring of progress during the year. 	<p>Develop robust procedures in respect of the development, monitoring, and reporting of Efficiency/Savings plans, to address these issues.</p>	High	Agreed	31 March 2009	Gary Waghorn Deputy Head of Finance

File ref	Finding	Recommendation	Priority	Response	Target date	Responsible Officer
EX.46 EX.47	Revenue budgets are not profiled over the financial year, as a result of which: <ul style="list-style-type: none"> there is no reporting of performance to date v calendarised budget; and cashflow cannot be accurately predicted/monitored. 	Revenue Budgets should be profiled over the financial year. Consider enhancing budget reporting to include year to date performance against profiled budget.	High	This will be reviewed as part of the updating of SAP during 2009/10	31 March 2010	Gary Waghorn Deputy Head of Finance
EX.48	Review of Revenue Budget Monitoring reports to Audit Committee/Cabinet identified that: <ul style="list-style-type: none"> whilst risk factors potentially affecting the year-end outcome are clearly identified as High/Medium/Low it is not possible to assess what the potential impact on the General Fund balance position is, as no financial values are given; and monthly reporting to Cabinet/Audit Committee includes traffic light reporting at Directorate Level indicating their potential impact on the projected outcome, but this is not provided at Service Area level. 	Consider enhancing Revenue Budget Monitoring reports to include the financial impact of the risks identified. Develop the traffic light reporting used at Directorate level at service level.	High	Agreed. This will be reviewed as part of the review of budget monitoring reports during 2009/10	31 March 2010	Gary Waghorn Deputy Head of Finance

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