

Annual Audit Letter

Milton Keynes Council

Audit 2008/09

December 2009



Contents

Key messages	3
Financial statements and annual governance statement	5
Value for money and use of resources	7
Closing remarks	10

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 non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

Key messages

This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

Audit opinion and financial statements

- 1 I issued an unqualified audit opinion on your 2008/09 financial statements on 27 November 2009. During the audit, management agreed to a number of amendments to the accounts, some of which were material. The audit opinion was delayed to resolve an issue relating to the value of land. In the draft accounts, no adjustment was made to the value of land to reflect the deterioration in market conditions. You reviewed the need to reduce (impair) the value of land included in the accounts and decreased its value by £20.47m.

Value for money

- 2 Also on 27 November, I issued my conclusion on your arrangements in place up to 31 March 2009 to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. We identified weaknesses in your arrangements:
 - to plan your finances effectively to deliver strategic priorities and secure sound financial health;
 - for reliable financial reporting that meets the needs of internal users, stakeholders and local people;
 - for the promotion and demonstration of the principles and values of good governance; and
 - to manage your risks.
- 3 I issued a qualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources, except in these areas.

Audit fees

- 4 The table below sets out the actual and proposed fee for 2008/09. We need an additional fee due to increased input to the audit of:
- fixed asset/capital accounting (particularly in relation to the land impairment referred to in paragraph 1 above);
 - the cash flow statement, which required material amendment; and
 - the 'Whole of Government Accounts' which required significant amendment prior to submission to CLG.
- 5 This additional fee is £11,480.

Table 1 Audit fees

	Actual (£)	Proposed (£)	Variance (£)
Financial statements (including WGA) and annual governance statement	268,930	257,450	11,480
Use of resources	172,500	172,500	0
Total audit fees	441,430	429,950	11,480
Inspection	24,650	24,650	0
Total	466,080	454,600	11,480

Independence

- 6 We can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

Audit opinion and financial statements

- 7 I issued an unqualified audit opinion on the 2008/09 accounts on 27 November 2009.
- 8 A number of significant issues were raised in the Annual Governance Report presented to the Audit Committee on 29 September 2009 all of which were resolved prior to issuing the audit opinion. The audit opinion was delayed to resolve an issue relating to the value of land. In the draft accounts, no adjustment was made to the value of land to reflect the deterioration in market conditions. You reviewed the value of land and considered the need to reduce (impair) the value included in the accounts. This led to a decrease in the value of land by £20.47m.
- 9 During the audit, management agreed to a number of amendments to the accounts, some of which were material. We identified further misstatements (other than those of a trivial nature) which management have not amended. You explained why these were not amended in your letter of representation.
- 10 We did not identify material weaknesses in internal control that might result in material errors in the financial statements. We have identified a number of recommended actions following our review of the key financial systems and have provided a report to management to which they have responded.
- 11 We do, however, draw your attention specifically to the need to improve arrangements for capital and fixed asset accounting.
- 12 We considered the qualitative aspects of your financial reporting. We noted that:
 - although there has been improvement on previous years, further improvement is required to ensure your capital accounting complies with relevant accounting standards. This will become even more critical with the introduction of International Financial Reporting Standards in 2010/11; and
 - a number of significant amendments were required to the cash flow statement.

Preparation for the implementation of International Financial Reporting Standards (IFRS)

- 13** Councils will be required to implement the full requirements of IFRS from 2010/11. As part of this process, authorities will need to restate their 2009/10 comparative figures in the financial statements and therefore need to have drawn up plans to ensure these additional requirements are met.
- 14** We have assessed you as 'red' or at risk against these requirements. Although you have identified the main additional requirements of IFRS, processes to address these are still at an early stage. The main issues for you are:
- availability of the necessary information for property, plant and equipment;
 - correct identification and classification of leases under the wider definition of leases and associated arrangements under IFRS;
 - potential requirement to disclose group accounts in accordance with IFRS; and
 - correct disclosure of staff benefits (accrued leave).
- 15** We will work with you to support the successful transition to full reporting under IFRS. The Council has agreed to be a case study site for an Audit Commission national study on implementation of IFRS in local government.

Economic downturn and pressure on the public sector

- 16** The economic downturn and banking crisis is having a very significant impact on public finances and the bodies that manage them. The impact on treasury management strategies has been immediate, but there are wider and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes, including pressures on income streams. There are further challenges for policy priorities where patterns of demand for services are changing.
- 17** This impacted on the audit and, as part of our responsibility, we have reflected on the wider environment, specific issues and risks and the Council's response. This is covered in both our work on the financial statements and use of resources looking at for example the loss in value of fixed assets and the way you have changed the focus of financial planning.

Investments in Icelandic banks

- 18** Although you had no investments in failed Icelandic banks, you have reviewed and updated your treasury management arrangements to ensure that they meet your needs in the current financial climate. We identified that whilst there is close treasury management monitoring by officers, members did not receive treasury management updates on the range of risks being run during the year receiving only the outturn report. Members did not receive treasury management training. We note, however, that this has been rectified by the Corporate Director of Finance and Risk Management with the introduction of in year reporting, beginning in the Period 7 Revenue and Capital monitor which was presented at Council on 22 December 2009.

Value for money and use of resources

We considered how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

We also assessed whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

Use of resources judgements

- 19 In forming our scored use of resources judgements, we have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 20 We have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 21 The Council's use of resources theme scores as at 31 March 2009 are shown in Table 2 below. The key findings and conclusions for the three themes, and the underlying KLOE, have been detailed in a separate report.

Table 2 Use of resources theme scores

The Authority is assessed at level 2 overall

Use of resources theme	Scored judgement	
	Theme	KLOE
Managing finances	1	
1.1: planning for financial health		1
1.2: understanding costs and achieving efficiencies		2
1.3: financial reporting		1
Governing the business	2	
2.1 commissioning and procurement of quality supplies and services		2
2.2: use of information		2
2.3: good governance		1
2.4: risk management and internal control		1
Managing resources	2	
3.1: use of natural resources		2

Use of resources theme	Scored judgement	
	Theme	KLOE
3.2: strategic asset management		2
Overall score	2	

- 22 Overall, we assessed that your arrangements for the use of resources performed adequately in 2008/09 - level 2. However, there were a number of areas with significant weaknesses, which did not meet minimum standards. The assessment therefore has important implications for the Council as a whole; for its corporate and political leadership and across all directorates. We reported our findings during 2009, as we developed our fieldwork and analyses. They have been presented in a single document, with recommendations and an action plan. We acknowledge that you have put improvement measures and actions in place to address the issues you face, consolidated through the improvement board and improvement plan.
- 23 Your 2008/09 financial management arrangements contained a number of serious weaknesses falling below acceptable standards for local public services. Financial leadership was not effective across all directorates. Councillors and managers need to work together to improve:
- financial planning;
 - understanding costs and achieving efficiencies;
 - using performance management to promote delivery of value for money;
 - financial reporting; and
 - accounts preparation.
- 24 We assessed the way the Council governed its business in 2008/09 as adequate overall, although with some weak areas:
- commissioning and procurement were adequate, although with serious weaknesses in children's commissioning;
 - the production and use of relevant and reliable data and information were adequate;
 - the Council failed to meet acceptable minimum standards in two vital areas: good governance and risk management; and
 - partnership governance needed to be strengthened to aid the Council's overall improvement programme.
- 25 We assessed the Council's management of its resources in 2008/09 as meeting minimum standards, based on a review of two specific areas:
- making effective use of natural resources; and
 - asset management.

Value for money and use of resources

- 26 Our findings are set out in more detail in the separate report. We note that work is underway to address the issues raised above, principally through the Council's Improvement Plan.

Value for money conclusion

- 27 We assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the value for money conclusion at each type of audited body.
- 28 I issued a qualified conclusion stating that you had adequate arrangements to secure economy, efficiency and effectiveness in your use of resources, except for:
- planning your finances effectively to deliver strategic priorities and secure sound financial health;
 - reliable financial reporting that meets the needs of internal users, stakeholders and local people;
 - the promotion and demonstration of the principles and values of good governance; and
 - managing your risks.

Closing remarks

- 29 I have discussed and agreed this letter with the Chief Executive and the Director of Finance. I will present this letter to the Audit Committee and will provide copies to all members.
- 30 Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Table 3

Report	Date issued
Interim systems memorandum	December 2009
Final accounts memorandum	This will be issued as final following receipt of officer responses to the recommendations made.
Use of resources	December 2009

-
- 31 You have taken a positive and constructive approach to our audit. We wish to thank you and your staff for their support and co-operation during the audit.

Mick West
District Auditor
December 2009

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, audio, or in a language other than English, please call 0844 798 7070.

© Audit Commission 2009

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk
