

REPORT TO AUDIT COMMITTEE – 29 MARCH 2017

EXTERNAL AUDITOR'S AUDIT REPORT 2015/16 – PROGRESS ON ACTION PLAN

1. Recommendations

1.1 The Committee is recommended to:

1. Note the progress made towards addressing the issues raised in the External Auditor's Audit Report 2015/16.

2 Discussion

- 2.1 At the meeting of Scrutiny and Audit Committee on 22 September 2016, the Committee considered the External Auditor's Audit Report 2015/16, agreed the Council's responses to the action plan of issues to be addressed by the Council, and also agreed that a report on the progress towards achieving the actions be presented to Scrutiny and Audit Committee (now the Audit Committee) on 29 March 2017.
- 2.2 Subsequently, at its meeting on 29 September 2016, Aberdeenshire Council considered the report and agreed that an update be presented to Policy & Resources Committee on 19 January 2017. This was done.
- 2.3 Each of the issues to be addressed is set out in the Appendix to this report. For each observation, there is a description of the issue raised, the planned action, the officer responsible for implementing the action, the target date for completing the action and a note on the progress taken to address the action. Each recommendation was prioritised by the external auditor using the following scale:

	(Red)	High Priority
	(Amber)	Medium Priority
	(Green)	Low priority
- 2.4 All of the actions were classed as medium priority. The Appendix also uses the "traffic light" system to identify the status of the action on each recommendation where green means that the action is progressing well and targets have been met or are nearly completed, amber means that the action is progressing and has been partially completed or is not yet due to be completed and red means that the action has not started or has stalled.
- 2.5 Of the eleven recommendations to be completed, nine of the actions have been completed, one is progressing and is not yet due for completion, and one (observation 2.1 on the Fixed Asset Register) has passed the initial deadline for completion. It is anticipated that the reconciliation of the Fixed

Asset Register will be completed prior to the unaudited accounts being prepared.

- 2.6 The Monitoring within Business Services has been consulted in the preparation of this report and had no comments to make and is satisfied that the report complies with the Scheme of Governance and relevant legislation. The District Valuer has also been consulted and agrees with the content of this report.

3. Scheme of Governance

- 3.1 The Committee is able to consider [and take a decision on] this item in terms of Section G.1.1.b of the List of Committee Powers in Part 2A of the Scheme of Governance as it relates to the external audit of the Council's Annual Accounts.

4. Equality, Financial and Staffing Implications

- 4.1 An Equalities Impact Assessment is not required for this report as the report discusses the progress of implementing external audit recommendations and there will be no differential impact, as a result of this report, on people with protected characteristics.
- 4.2 There are no financial or staffing implications arising as a result of this report.

Alan Wood
Head of Finance

Report prepared by Ross Brennan, Chief Accountant
10 March 2017

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**APPENDIX
EXTERNAL AUDIT REPORT 2014/15 – ACTION PLAN**

Area 1: Property, Plant and Equipment

Observation 1.1: Valuer Training		Priority – (Amber)	
<p>Recommendation: The Valuer should be provided with more training to ensure that he fully understands what is required when undertaking valuations for financial reporting purposes and this should specifically focus on IFRS valuation methodology taking into account CIPFA valuation guidance.</p>			
Planned Management Action			
Planned Management Action	Responsible Officer	Target Date	Progress to Date
<p>The valuer has had significant training, in particular with regard to IFRS valuation methodology taking into account CIPFA valuation guidance. Such training is usually provided on an annual basis and the valuer attends these courses. It is a fact that such attendance is required to ensure compliance with current guidance. In addition, in order to ensure compliance, the proposed approach to each year's valuation exercise is assessed by the District Valuer who is aware of current guidance and practice. It is accepted that continual retraining is required and this will continue to be implemented.</p>	<p>Estates Manager</p>	<p>When training is available</p>	<p>The Valuer attended CIPFA Asset Valuation Course on 25 October 2016. The Valuer is reviewing CIPFA Guidance (2016 Code, Supporting Guide and Valuation Handbook). He has agreed with Moray Council to carry out peer reviews of each other's valuations (in addition to the District Valuer review).</p>
			Green

Observation 1.2: Senior (Estates) Management		Priority – (Amber)			
<p>Recommendation: There needs to be significantly more input from senior (estates) management in the valuation process, including detailed and critical reviews of draft outputs, valuation methodology and reviewing and approving the valuation of each asset.</p>					
Planned Management Action		Responsible Officer	Target Date	Progress to Date	Status
<p>There was significant input from senior (Estates) management to the valuation process and we are not aware of any enquiries having been made to determine this. There are many potential approaches to valuation (although the approach adopted should comply with guidance). The approach adopted was approved by senior (Estates) management and the District Valuer. Nevertheless, further focus will be applied to future valuations to consider whether the approach being recommended is relevant to the exercise being undertaken.</p>		Estates Manager	2016/17 valuation exercise	The valuation process has been completed for the bulk of the valuations for 2016/17 and has been reviewed by senior Estates management and the District Valuer.	Green

Observation 1.3: District Valuer		Priority – (Amber)	
Recommendation: The scope of the District Valuer's input needs to be examined and possibly extended to include the review of the actual valuations.			
Planned Management Action		Responsible Officer	Target Date
We will review whether to extend the District Valuer's input to include a review of actual valuations.		Estates Manager	31 December 2016
		The main focus for this year's valuation exercise is the general housing stock. The methodology for these valuations is under review, but is likely to follow previous methodology for the current exercise. As this is a beacon method the main concern is the methodology and its application, rather than individual valuations. Nevertheless, the District Valuer has reviewed the detailed application of the methodology.	
		Green	

Planned Management Action		Responsible Officer	Target Date	Progress to Date	Status
<p>Observation 1.4: Schemes of Valuation</p> <p>Recommendation: We continue to recommend that the Valuer seeks further input from senior management (Estates) and their external consultants (District Valuer) prior to devising schemes of valuation and that these are critically reviewed prior to adoption. Our overall recommendation on these schemes is to simplify the approach in each case and for the Valuer to ensure that they are valuing individual assets rather than developing a scheme which may not be suitable for all the relevant assets.</p>		<p>Priority – (Amber)</p> 			
<p>The valuer did seek input from senior (Estates) management and the District Valuer prior to devising the schemes of valuation. It was the view of senior (Estates) management that the proposed schemes were suitable. The District Valuer was asked to review the schemes in detail and approved them as suitable. As mentioned above, valuation approach can be a matter of opinion. We respect the opinion put forward that the schemes of valuation should be simplified and will assess any future schemes against this opinion. We agree that adopting a scheme of valuation should never be allowed to cloud the issue that it is individual assets that are being valued.</p>	<p>Estates Manager</p>	<p>31 December 2016</p>	<p>The District Valuer was asked to review the schemed being adopted and the detailed application.</p>	<p>Green</p>	

Area 2: Fixed Asset Register

Observation 2.1: Reconciliation of Fixed Asset Register		Priority – (Amber)
<p>Recommendation: A full reconciliation of the Fixed Asset Register was not available at the time the draft accounts were prepared. We recommend that regular reconciliations are performed throughout the year, with any anomalies followed up, to ensure that the year-end register fully reconciles prior to the draft accounts being prepared.</p>		
Planned Management Action	Responsible Officer	Target Date
Agreed. Regular reconciliations will commence in October 2016.	Corporate Finance Manager	31 October 2016
		<p>Every asset class within the asset register has been fully reviewed. Adjustments have been identified and will be processed to ensure that the Asset Register reconciles fully prior to the unaudited accounts being prepared.</p>
		Red

Area 3: Council Tax Bad Debt Provision

Observation 3.1: Review of Council Tax Bad Debt Provision		Priority – (Amber)		
<p>Recommendation: We have noted that the Council has taken on board our prior year recommendations and performed a review of the provision part way through the year, however we continue to recommend that this is done on a more regular basis.</p>				
Planned Management Action	Responsible Officer	Target Date	Progress to Date	Status
We will build in a more regular review of this provision, and assess the value of this over this financial year.	Corporate Finance Manager	31 March 2017	A review has been undertaken, and there is a proposed change to the methodology which will be discussed with current external auditors Audit Scotland, prior to finalisation of draft accounts.	Amber

Area 4: Charitable Trusts

Observation 4.1: Training		Priority – (Amber)			
<p>Recommendation: Those responsible for managing the charities and preparing the accounts should have appropriate training to ensure that they are fully aware of all the requirements of the SORP.</p>					
Planned Management Action		Responsible Officer	Target Date	Progress to Date	Status
<p>It is agreed that we need a better understanding of the requirements of the charities SORP, and further training will be undertaken over this financial year.</p>		Corporate Finance Manager	28 February 2017	Complete. Awareness of changes to the SORP will continue throughout the next financial year, and where appropriate training will be sought.	Green

Observation 4.2 – Coding Structure		Priority – (Amber)	
<p>Recommendation: Now that the amalgamation of charities into ACT2 has been completed, we would recommend that the Council revisit its ledger coding structure to try and simplify the level of detail for the charities. At the year-end, a clear audit trail is required from the ledger transactions to the draft financial statements.</p>			
Planned Management Action			
Responsible Officer	Target Date	Progress to Date	Status
A review of the audit working papers for charitable trusts will be undertaken. This will help with the need for a clearer audit trail. This stage will be completed by 28 February 2017. The review of the coding structure is likely to take longer to complete as we need to build up familiarity with the current structure first.	31 January 2018	Complete. Audit working papers, which will provide a clearer audit trail, will be available. The coding structure has been reviewed and is considered to meet the reporting requirements for ACT2.	Green

Area 5 – Highways Network Asset

<p>Observation 5.1: Risk</p> <p>Recommendation: The Council should consider the identified risk areas as noted on page 22 (of the external auditor’s report) and action required over the next six months to ensure that appropriate plans are in place to bring Highway Network Assets on Balance Sheet at the appropriate valuation.</p>	<p>Priority – (Amber)</p> 						
Planned Management Action				Responsible Officer	Target Date	Progress to Date	Status
<p>The action plan will be updated, taking account of the risks areas noted, to ensure that the Highways Network Asset is reflected on the balance sheet at the appropriate value.</p>	<p>Corporate Finance Manager</p>	<p>31 December 2016</p>	<p>The CIPFA/LASAAC Code Implementation Board has released a statement to the effect that it has decided not to proceed with the introduction of the Highways Network Asset Code. This decision supersedes the audit recommendation, and hence no further work is required in the area.</p>	<p>Green</p>			

Area 6 – National Fraud Initiative

Observation 6.1: Follow Up Arrangements		Priority – (Amber)	
<p>Recommendation: The Council must review its arrangements for following up NFI data matches as a priority to ensure that any potential frauds or errors are identified and followed up timeously. The self appraisal checklist from the Audit Scotland 2014 report should be used to assist with planning and monitoring progress.</p>			
Planned Management Action	Responsible Officer	Target Date	Progress to Date
An action plan has been prepared to allow data matches from the 2016 NFI exercise to be carried out.	Service Manager (Support and Advice)	31 January 2017	<p>The Action Plan has been prepared and the initial data uploads have been achieved and acknowledged. Work has commenced in relation to investigating the matches. Because of the volumes involved in some areas a revised target date for completion has not yet been set. However, it is expected to take until 31 December 2017 to complete this exercise.</p>
			Green

Area 7 – Financial Management

Observation 7.1: Budgeting and Monitoring		Priority – (Amber)	
<p>Recommendation: A number of the variances noted are similar to those reported in previous years, which questions whether the previous year results were fully considered as part of the current year budget setting process. There is scope for the Council to consider whether the budget process and forecasting is adequately robust, taking into account historical trends.</p>			
Planned Management Action			
Responsible Officer	Target Date	Progress to Date	Status
A thorough review of the monitoring and forecasting process was undertaken with all accountants in February 2016. This resulted in more accurate forecasting, and it is considered that the forecasting process is robust. The current budget process is in the process of being reviewed, with revisions to the processes planned for 2017-22 budget.	30 June 2017	Current year forecasting is discussed and challenged regularly at SLT and now specifically linked to the following year's budget process. The MTFS framework has linked the two processes whereby current year pressures are considered as part of the budget process.	Green

