

REPORT TO AUDIT COMMITTEE – 21 MARCH 2018

EXTERNAL AUDIT – OUTSTANDING RECOMMENDATIONS

1 Recommendation

1.1 The Committee is recommended to discuss and comment on this paper.

2 Background / Discussion

2.1 This report advises the committee of progress made by the council in implementing recommendations agreed as part of the 2016/17 audit. The recommendations have been collated within appendix 1 and will continue to be reported until all the actions have been addressed.

2.2 The Head of Finance and Monitoring Officer within Business Services have been consulted in the preparation of this report and their comments are incorporated within the report and are satisfied that the report complies with the Scheme of Governance and relevant legislation.

3 Scheme of Governance

3.1 The Committee is able to consider/comment on this item in terms of Section G.1.5 of the List of Committee Powers in Part 2A of the Scheme of Governance as the report relates to the Council's relationship with its external auditors.

4 Equalities, Staffing and Financial Implications

4.1 An equality impact assessment is not required because this report informs the Committee of the planned scrutiny activity to be carried out by audit and inspection bodies and does not have a differential impact on any of the protected groups.

4.2 There are no staffing and financial implications as a direct result of this report other than those implicit in the tightening of internal controls as a result of implementing the recommendations.

4.3 The external process identifies risks and reports risks in the areas subject to review.

Ritchie Johnson
Director of Business Services

Aberdeenshire Council

Outstanding External Audit Recommendations



Introduction

In accordance with Audit Scotland's Code of Audit Practice, we prepare an Annual Audit Report which sets out the conclusions on the work carried out in respect of the audit of the financial statements and our wider scope dimensions, and makes recommendations for improvement where there are still risks. Recommendations are intended to be focused on public interest. An Interim Report is also prepared during the audit which brings together our conclusions on the council's key financial systems and internal control.

Financial year 2016/17 was the first year of our five year audit appointment. We made 10 recommendations through our interim and annual reports. Two target dates fall on 31 March 2018 while the remainder fell on various dates during 2017. This report provides an update on progress against each of these recommendations. Where work is ongoing revised target dates have been provided and further progress updates will be submitted to subsequent meetings of the committee. The summary position at March 2018 is as follows:

Compete and action closed	Action still to be progressed	Initial plan changed and alternative action being taken	Work is ongoing	Total number of recommendations
5	1	1	3	10

Anne MacDonald, Senior Audit Manager, Audit Scotland
March 2018

Progress against outstanding recommendations

Action Point	Source Report	Recommendation	Management Action agreed/ Responsible officer	Agreed Target date	Action taken	Outcome
1	Interim	<p>Payroll - Exception Reports</p> <p>A number of reports are taken from the payroll system to be checked as part of the month end payment process - for example exception reports highlighting possible errors. Whilst there is a checklist to confirm reports have been reviewed, it is not signed off as evidence of the checking officer's review.</p> <p>Risk: Incorrect/irregular payments are made without being identified.</p> <p>Recommendation: The checklist review should be evidenced to confirm that any issues identified have been addressed.</p>	<p>Agreed. The appropriate checklists will be signed off to confirm the accuracy of the information contained in the reports.</p> <p>Lead officer: Head of HROD</p>	31 July 2017	We have confirmed that the checklist is now signed by a payroll officer to evidence review.	Action complete

Action Point	Source Report	Recommendation	Management Action agreed/ Responsible officer	Agreed Target date	Action taken	Outcome
2	Interim	<p>Accounts Payable - Monthly Reconciliation The monthly reconciliation between the Accounts Payable system and the General Ledger is not signed off by a second officer to confirm review.</p> <p>Risk: Issues identified during the reconciliation process are not appropriately followed up leading to explained errors in accounting records.</p> <p>Recommendation: The review of a second officer should be evidenced to confirm issues identified have been appropriately followed up.</p>	<p>Agreed. The reconciliation will be reviewed on a monthly basis by another team leader or the Principal Payments Officer. Lead officer: Principal Payments Officer</p>	31 July 2017	Discussions held with Principal Payments Officer to confirm expectations. As part of our annual review of key systems of internal controls, we have confirmed that the reconciliation is now countersigned as evidence of review by an appropriate second officer.	Action complete

Action Point	Source Report	Recommendation	Management Action agreed/ Responsible officer	Agreed Target date	Action taken	Outcome
3	Interim and Final	<p>Accounts Payable - invoice authorisation While there are strong controls in operation e.g. use of iProcurement, budget monitoring, new supplier checks and review of payments greater than £50k, there are a number of invoices which require manual authorisation. In these cases, it is unclear what controls are in place.</p> <p>Risk: Irregular expenditure is processed and paid without challenge.</p> <p>Recommendation: There is scope to review and clarify the extent and level of checks expected to be carried out on certified accounts prior to payment.</p>	<p>The iProcurement system is not the only system used to raise purchase orders, orders may also be processed through service specific systems. Staff within the service process invoices relating to these orders and are aware of the authorised signatories within their own Services. Service Directors are required to provide the Head of Finance with an annual Certificate of Assurance stating that there are adequate internal financial controls, which will include the processing of these invoices.</p> <p>Finance is reviewing payment processes across the authority and will consider approval checks as part of this review.</p> <p>Finance is in the process of procuring a replacement Financial Management System for introduction in 2019/20. The interface of the service specific systems to allow for all ordering through the Financial Management System thus allowing for electronic authorisation will be explored as part of the procurement process.</p> <p>Lead Officer: Corporate Finance Manager</p>	Ongoing	<p>Plans to procure a replacement financial management system have been postponed. Options to improve payment processes are being considered e.g. the extension of the use of electronic authorised signatures.</p> <p>While there have been no major system changes in respect of the financial year 2017/18, manual lists of authorised signatures have been updated on an adhoc basis e.g. notification of leavers.</p>	<p>Ongoing Clarity required on the action to be taken to minimise this risk.</p>

Action Point	Source Report	Recommendation	Management Action agreed/ Responsible officer	Agreed Target date	Action taken	Outcome
4	Interim	<p>Accounts Receivable - debts passed to Sherriff Officer</p> <p>There is no set frequency for a reconciliation to confirm the level of debt passed to the Sherriff Officer for collection is the same as the amount held on the council's debtors ledger. The last such reconciliation was carried out in June 2016, prior to the appointment of a new Sherriff Officer.</p> <p>Risk: the debt recovery process may be delayed, reducing the likelihood of full recovery.</p> <p>Recommendation: A reconciliation to confirm the level of outstanding debt between the council and the Sherriff Officer should be carried out on a regular frequency</p>	<p>Annual reconciliations were carried out in the past but for several reasons including a change to a new sheriff officer provider, this did not happen at 31 March 2017.</p> <p>The last full reconciliation was carried out in June 2016 as noted but we continue to do sample cases for reconciliation purposes. On a weekly basis, we also receive an exceptions report and, on receipt of the weekly payment files from the sheriff officer, outstanding balances on payment files are compared with the system and a report of differences is produced which are investigated.</p> <p>A reconciliation at 31 March 2017 will be prepared and thereafter, annual reconciliations will be carried out.</p> <p>Lead officer: Revenues Manager</p>	31 December 2017	No reconciliation was carried out in respect of 2016/17.	<p>Plans are in place to carry out a reconciliation as at 31 March 2018.</p> <p>To be completed by 30 June 2018</p>

Action Point	Source Report	Recommendation	Management Action agreed/ Responsible officer	Agreed Target date	Action taken	Outcome
5	Interim	<p>Counter fraud strategy As the council's Strategy for the Prevention and Detection of Fraud, Bribery and Corruption was last updated in 2012, there is scope for a refresh by taking CIPFA good practice into consideration. There is also scope to further raise awareness of the strategy through improved visibility on the intranet, reminders at team meetings and by bringing the strategy within the remit of the audit committee.</p> <p>Risk: Lack of awareness of the counter fraud environment may increase the council's exposure to fraud and corruption.</p> <p>Recommendation: The strategy should be refreshed to reflect good practice. Once updated, the strategy should be re-issued, widely promoted and included within the remit of the audit committee.</p>	<p>The counter fraud strategy will be reviewed by the Pro Integrity Panel which is chaired by the Director of Business Services. Lead Officer: Director of Business Services</p>	31 March 2018	No update from service as at 08/03/2018.	

Action Point	Source Report	Recommendation	Management Action agreed/ Responsible officer	Agreed Target date	Action taken	Outcome
6	Interim	<p>Risk Registers Risk Registers at both Corporate and Directorate levels were last formally updated and signed off in September 2015.</p> <p>Risk: Key risks have not been identified and therefore appropriate action is not being taken in a timely manner which could increase the council's reputational risk.</p> <p>Recommendation: Risk Registers should be updated and formally signed off at least on an annual basis, to ensure there is a clear plan to address and monitor key risks.</p>	<p>As part of the process of updating the risk register structure to reflect the revised council structure, risk registers previously held in spreadsheet form are in transition to Covalent as this is felt to be a better process for clarifying ownership of risks and managing risks.</p> <p>Although there has been no formal reporting, spreadsheets have continued to be updated.</p> <p>Lead officer: Risk Manager</p>	<p>31 December 2017</p>	<p>Corporate and Directorate risk registers were updated in August 2017. Operational risk registers, which are maintained at Head of Service level, were also updated throughout 2017. A Risk Management Review is considered by the Strategic Leadership Team on a quarterly basis.</p>	<p>Action complete</p>
7	Interim	<p>Audit Committee Officers are not always appropriately briefed to respond to the audit committee.</p> <p>Risk: challenge by the committee is not effective if matters are regularly deferred to a subsequent meeting.</p> <p>Recommendation: processes should be in place to ensure there is clear communication and feedback to services on expectations.</p>	<p>All services are committed to ensuring effective input to Audit Committee meetings. Specifically, as the agenda for each committee meeting is formed, services will identify an appropriate representative to attend.</p> <p>Lead officer: Director of Business Services</p>	<p>With immediate effect</p>	<p>Improved engagement with services on the matters likely to be of interest as committee agendas are developed which has enabled the appropriate officers to attend meetings and be better prepared to update the committee.</p>	<p>Action complete</p>

Action Point	Source Report	Recommendation	Management Action agreed/ Responsible officer	Agreed Target date	Action taken	Outcome
8	Final	<p>Property valuations are not supported by sufficient physical inspections Risk: valuation calculations may not reflect the true condition of properties and the valuation process does not meet the requirement of RICS. Recommendation: A programme of inspections is scheduled to cover all beacon properties and a reasonable sample of other properties over a 5 year period.</p>	<p>An Action Plan will be prepared to address the recommended action. Lead officer: Head of Property and Facilities Management</p>	<p>31 October 2017</p>	<p>Following discussion with officers, the process for revaluation of assets has been updated. All assets are to be categorised in one of five groupings, which will be subject to valuation on a rolling five year period. A plan has been put in place to physically inspect over 50 properties, including beacons, each year. Additional inspections will be carried out for any new build properties coming into operational use in the year and for any significant impairment events.</p>	<p>Action complete with regard to the preparation of a programme of inspections. The detail will require to be included in the head of finance's annual instruction to the head of property and we will review actual activity each year as part of our audit of the council's annual accounts.</p>
9	Final	<p>The Local Code of Corporate Governance is out of date. Risk: the council is not operating in line with best practice and in the absence of robust self-assessment against the code, there is scope for standards to fall. Recommendation: Update the Local Code to reflect revised guidance and undertake an annual self-assessment exercise to demonstrate compliance as part of the assurance process for the Annual Governance Statement.</p>	<p>Agreed. The Code of Corporate Governance will be reviewed in early 2018 to take into account the CIPFA "Delivering Good Governance in Local Government: Framework (2016)" and the Council's priorities following the approval of the Council Plan 2017-2022. Annual self-assessments will continue to be undertaken through "How Good is Our Council?" Lead officer: Director of Business Services</p>	<p>31 March 2018</p>	<p>No update from service as at 08/03/2018.</p>	

Action Point	Source Report	Recommendation	Management Action agreed/ Responsible officer	Agreed Target date	Action taken	Outcome
10	Final	<p>Budget monitoring reports do not separately identify virements made in-year in response to unplanned situations from virements planned as part of the budget process. Also, assumptions supporting budgets are not always updated to reflect actual spending. While the focus is rightly on achieving financial balance, it is difficult to follow the effect of specific action taken.</p> <p>Risk: if budgets do not fully reflect actual spending experience and the level of uncommitted reserves is low, budget monitoring will not be effective and plans to meet funding gaps may not be achievable.</p> <p>Recommendation: Review and improve the content of budget monitoring reports.</p> <p>For significant areas, assumptions should be revised to reflect the experiences of actual spending.</p>	<p>Budgets will only vary during the year as a result of approved virements.</p> <p>Variations between actual spending and the budget are expressed through reports and notes to Committee. The clarity of these notes will be reviewed to ensure up to date information is conveyed.</p> <p>Lead officer: Head of Finance</p>	31 December 2017	<p>The Revenue Budget Monitoring report to 31 December 2017 (to be considered by the Council in March 2018) clearly distinguishes between planned and unplanned use of reserves.</p> <p>Plans are in place for 2018/19 budget monitoring reports to compare actual spend v budget and to provide a clearer audit trail with regard to virements.</p> <p>As part of the 2018/19 budget setting process, we understand that assumptions have been revised to reflect the experiences of actual spending.</p>	Ongoing work during 2018/19.