

16<sup>th</sup> September 2008

Dear Councillor,

I hereby give you Notice that a Meeting of the **CENTRAL RESOURCES COMMITTEE** will be held in the **COUNCIL CHAMBER, CIVIC CENTRE, CROOK** on **WEDNESDAY 24<sup>th</sup> SEPTEMBER 2008** at **6.00 P.M.**

### AGENDA

Page No.

1. Apologies for absence.
2. To consider the Minutes of the Special Meeting of the Committee held on 30<sup>th</sup> June 2008 and the Minutes of the Meeting held on 15<sup>th</sup> July 2008 as true records.
3. Declarations Of Interest.

Copies  
attached

Members are invited to declare any personal and/or prejudicial interests in matters appearing on the agenda and the nature of their interest.

Members should use either of the following declarations:

**Personal Interest – to be used where a Member will be remaining and participating in the debate and any vote:**

I have a personal interest in agenda item (...) regarding the report on (...) because I am (...)

**Personal and Prejudicial Interest – to be used where a Member will be withdrawing from the room for that item:**

I have a personal and prejudicial interest in agenda item (...) regarding the report on (...) because I am (...)

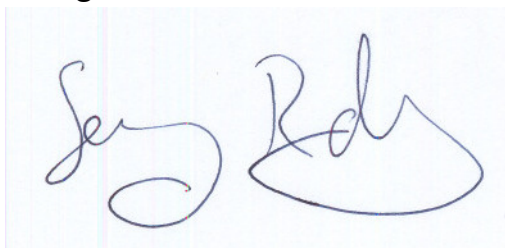
Officers are also invited to declare any interest in any matters appearing on the agenda.

**NOTE: Members are requested to complete the enclosed declarations form and, after declaring interests verbally, to hand the form in to the Committee Administrator.**

- |     |   |         |
|-----|---|---------|
| 4.  | To consider the Audit Commission's Audit and Inspection Plan for 2008/09.   | 1 - 2   |
| 5.  | To consider a request from Jackass Youth Theatre for a contribution from the Community Fund.  | 3       |
| 6.  | To consider Value For Money performance for 2007/08.  | 4 - 10  |
| 7.  | To consider progress made in implementing actions arising from the Revenues Best Value Review.  | 11 - 16 |
| 8.  | To consider a request to dispose of land.*  | 17 – 30 |
| 9.  | To consider former tenants arrears being written off.*  | 31 – 33 |
| 10. | To consider such other items of business which, by reason of special circumstances so specified, the Chairman of the meeting is of the opinion should be considered as a matter of urgency. |         |

\* It is likely that items 8 and 9 will be taken in the closed part of the meeting in accordance with paragraphs 1 and 3 of Part I of Schedule 12A of the Local Government Act 1972 as amended by the Local Government (Access to Information) (Variation) Order 2006.

Yours faithfully  
**Acting Chief Executive**



Members of this Committee: Councillors Mrs Burn, Ferguson\*, Grogan, Harrison, Hayton, Kay, Kingston, Mairs, Mowbray, Murphy, Perkins, Mrs Pinkney, J Shuttleworth, Stonehouse, Taylor, Mrs Todd\* and Zair.

\*Ex-officio, non-voting capacity

Chair: Councillor Mairs

Deputy Chair: Councillor Taylor

TO: All other Members of the Council for information  
Management Team



## DECLARATIONS OF INTEREST FORM

<b>NAME AND DATE OF COMMITTEE</b>	<b>AGENDA ITEM NUMBER</b>	<b>NATURE OF INTEREST AND REASONS</b>	<b>PRINT NAME</b>	<b>SIGNATURE</b>



## CENTRAL RESOURCES COMMITTEE

24 SEPTEMBER 2008

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### Report of the Acting Strategic Director for Resource Management **AUDIT AND INSPECTION PLAN 2008/09**

#### **purpose of the report**

1. To approve the Audit Commission's Audit and Inspection Plan for 2008/09.

#### **background**

2. Each year the Audit Commission (AC) agrees their Audit and Inspection plan with the Council. The draft plan sets out:
  - The level of fees payable to the AC for the work which they undertake on behalf of the Council.
  - The reports that they will produce on the financial statements prepared by the Council.
  - Inspection activity e.g. direction of travel and use of resources assessment.
  - Miscellaneous audit activity e.g. whole of government accounts.
3. The proposed Audit and Inspection Plan for 2008/09 is shown as per Annex A. The respective responsibilities in relation to audit work of the Council and the AC are shown in Annex B (Statement of responsibilities of auditors and of audited bodies).

#### **comments**

4. As a result of LGR, the Council will be subject to a greater degree of audit coverage in respect of its financial statements compared to previous years. This is based upon the past experience of the AC of the circumstances in other councils as they approached re-organisation. For example, there is a risk around the loss of staff leading to breakdown in internal control and good governance arrangements.

#### **financial implications**

5. The Council has sufficient resources within its 2008/09 revenue budget to cover the cost of the proposed audit fees.

**RECOMMENDED** that Members approve the external audit plan attached as per Annex A.

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**Officer responsible for the report**

Stuart Reid  
Acting Strategic Director for Resource  
Management  
Ext 258

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**Author of the report**

Stuart Reid  
Acting Strategic Director for Resource  
Management  
Ext 258

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WEAR  
VALLEY  
DISTRICT COUNCIL

## CENTRAL RESOURCES COMMITTEE

24 SEPTEMBER 2008

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Report of the Acting Strategic Director for Resource Management

### **APPLICATION FOR A CONTRIBUTION FROM THE COMMUNITY FUND FROM JACKASS YOUTH THEATRE**

#### **purpose of the report**

1. To allow Members to consider a request from Jackass Youth Theatre for a donation from the Community Fund.

#### **background**

2. Based in Crook, Jackass Youth Theatre is a performing arts group which regularly produces performances that are shown locally.
3. They have recently produced a performance celebrating the abolition of slavery and they hope to take the performance to the Epping Forest Big Youth Theatre Festival in London. This would be an exceptional opportunity for the Jackass Youth Theatre to showcase their work along with many other theatre groups from around the country.

#### **proposal**

4. 30 people would be going on the trip and the estimated total cost would be £4,000. However the Jackass Youth Theatre has already raised well over half of that amount, in total £2,600.
5. The group are therefore seeking a donation of £1,400 from the Community Fund in order that all members of the group can participate and benefit from the trip.

#### **financial implications**

6. There are sufficient monies in the Community Fund to meet the request.

**RECOMMENDED** that Members instructions are requested.

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**Officer responsible for the report**  
Stuart Reid  
Acting Strategic Director for Resource  
Management  
Ext 258

Author of the report  
Jocasta Lawton  
Senior Committee Administrator  
Ext 501

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## CENTRAL RESOURCES COMMITTEE

24 SEPTEMBER 2008

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### Report of the Acting Strategic Director for Resource Management **VALUE FOR MONEY 2007/08**

#### **purpose of the report**

1. To report to members Value for Money (VFM) performance for 2007/08.

#### **background**

2. The Council adopted a VFM strategy in summer 2006. VFM represents one of five themes that make up the Use of Resources Assessments. Our performance in this theme has been as follows:

2005 assessment – 1 out of 4 i.e. inadequate  
2006 assessment – 2 out of 4 i.e. adequate  
2007 assessment – 2 out of 4 i.e. adequate.

3. In its 2007 assessment, the Audit Commission acknowledged that the Council had robust plans for improving value for money. However, they judged that the Council only met minimum requirements in currently achieving value for money i.e. overall we were assessed as adequate.
4. The Audit Commission view VFM as being a combination of cost, service performance and customer satisfaction. VFM is achieved where the optimum balance is struck between these three factors. In other words, if cost is low and performance and customer satisfaction are high, VFM may be judged to be achieved. Conversely, where costs are high and performance and customer satisfaction levels are low, VFM is unlikely to be achieved.
5. It is important that all three measures are in place to enable an assessment of VFM to be carried out, and where these are not in place the Council will need to make efforts to generate suitable data.

#### **the local context**

6. When considering VFM data, it is important to consider the local context. Members will be aware that Wear Valley suffers from high levels of deprivation. Indeed, it is the 33rd most deprived out of 354 districts within England with 7 of our 21 wards in the most deprived 10%. Furthermore, the Council covers a large geographical area and has a below average population density per household. These two significant factors clearly impact upon costs.



7. Council data is compared to our family group of 15 other authorities which represents district councils which are similar in size, geography, socio – economic characteristics etc. This allows a more informed comparison as it reduces the impact upon the data of differences in the characteristics of each council e.g. higher expenditure on street cleansing due to the rural nature of an authority.
8. However, even within our family group we are not “typical” as an authority. Using official statistics we are the 2<sup>nd</sup> most deprived authority within our family group of 15 other authorities, only Easington having higher levels of deprivation. We are also the 2<sup>nd</sup> most rural within that same group. This relatively unique combination of high deprivation and population sparsity places considerable financial burden on the authority. This is supported by Audit Commission data which highlight a clear positive relationship between expenditure on some services such as leisure with factors such as deprivation and sparsity.
9. Local circumstances such as deprivation levels within the district are reflected in the level of Government grant received. WVDC receive approximately 20% more grant per head than the average for a district nationally.
10. As a result of receiving higher grant, the Council’s expenditure tends to be higher than the average of all districts. This additional funding is spent on key frontline services such as economic development, leisure, concessionary travel schemes and benefits administration. The Council’s overall spending levels are therefore driven by the level of grant that it receives.

#### **overall costs**

11. Overall costs can be assessed by either considering:
  - Cost per head of population
  - Levels of council tax.
12. In relation to levels of net spend (excluding specific grants), the Council has been successful in reducing its cost per head between 2006/07 and 2007/08. These figures have reduced from £192.93 to £191.81 despite inflation. In comparison, the average net expenditure per head for comparator authorities has increased by £5. This demonstrates the Council’s strong direction of travel in VFM.
13. The standard measure of council tax levels is the band D equivalent. Our band D Council tax was £46.69 higher than the average per district in 2007/08. However, when compared to our nearest neighbours that gap reduces to £39.40. These gaps were further reduced in 2008/09 due to our freeze in council tax levels to £41.38 and £35.60 respectively. This is a demonstration that the Council is improving value for money.

14. However, the majority of residents in Wear Valley do not pay at the band D level of council tax due to the high proportion of properties which are in the lower bands. A higher proportion of local services in the average district are also funded through parish/town councils than in Wear Valley. Consequently, a more appropriate comparison is council tax per head of population (including parish precepts). This shows the cost to a Wear Valley resident in 2007/08 of only £67.62 in council tax compared to a nearest neighbour average of £64.35.

### **high level vfm data for wear valley**

15. Annex C shows high level data for Council's services in terms of cost, latest customer satisfaction levels and performance as measured by Best Value Performance Indicators. Shaded boxes indicate that no data is available. In total these services where data for at least 2 of the elements of VFM are available, a judgement can be made whether VFM is being provided for that service. These services account for 61% of the Council's total expenditure. Due to time lags in data collection, the data provided by the Audit Commission refers to 2007/08 estimates.
16. The comparison is made between our quartile score (1 being high performing, low cost, high satisfaction to 4 being low performing, high cost etc.) and the average quartile score achieved amongst our family group. For example, our costs per head for street cleansing are above average compared to all districts (a score of 3). However, the typical cost of our family group is also above average compared to all districts nationally as represented by the same score of 3.
17. To provide an overall assessment, the individual quartile scores for WVDC and our family group are totalled. Where our total is less than the family group i.e. we tend to be lower cost, higher performing and have higher satisfaction for a particular service than is typical of a district in our family group, there is a powerful argument that we are providing value for money.
18. Amongst the services analysed in the Annex where at least 2 elements measuring VFM are available, WVDC are performing better or at least as well as our family group in services accounting for 70% of total spend. It is concluded that we are providing value for money for a significant proportion of council services as measured by the %age of the total budget.

### **high spending services**

19. There are two areas where the statistics appear to indicate that we are not providing value for money: parks and leisure. In relation to parks, our costs are above average even when compared to our family group. However, this is largely a function of the area maintained which is very high within Wear Valley in part due to the rural area of the district. When comparing our costs per hectare in our family group, WVDC costs are less than one third of the average. Nevertheless we are aware that public satisfaction is relatively low (although showing a slight increase) and consequently investment will be made at Jubilee Park, Willington this year to achieve green flag status.

20. Similarly leisure costs remain high. These will be reduced over time through the development of a shared leisure facility to replace the existing Woodhouse Close leisure centre. Satisfaction rates have increased at each facility during 2007/08 which indicates a positive direction of travel.
21. Similarly, expenditure on leisure includes the cost of Community Physical Activity Co-ordinators who have provided through the Positive Inclusion programme a range of activities to engage with young people who have been or are at risk from being excluded from school. Leisure expenditure also includes the innovative award winning Wellness on Wheels Bus (WoW) which has promoted participation in fitness activity. Consequently, leisure spend has been used to meet a wide range of objectives.

#### **other services**

22. The VFM data available in relation to other services is less comprehensive. This is commented on below.

**Economic Development** – WVDC budgeted to spend £11.49 per head in 2007/08 on this service. This is above the average spent by our family group. There are no best value performance indicators relating to economic development services, nor satisfaction data. However, the Council continues to be successful through a variety of schemes in improving skills, diversifying the economy, increasing business start ups and expanding the availability of new premises for employment. In total this has led to ongoing reductions in unemployment and is reflected within the upward performance trend of local indicators. The success of the economic development function has also been recognised through the best value review process by the award of 2 stars (good) with promising prospects for improvement. The expenditure is therefore a reflection of the deep seated economic problems affecting the district and the Council's response to those circumstances. The Council has also been successful in attracting external funding from organisations such as One North-East which has been used to improve the potential for increased employment within the district. It is therefore argued that this service does offer value for money.

**Recycling** – WVDC budgeted to spend £6.26 per head in 2007/08 on recycling. However, there are no comparative figures available from other authorities. Performance comparison can be made in relation to recycling figures. WVDC is within the bottom quartile for that measure, however it has increased from 16% for 2007/08 to 19.2% currently. A performance improvement team consisting of senior officers has been working through a series of actions to improve recycling rates and an expansion of the kerbside recycling scheme has been approved. However, it is conceded that currently the service does not offer value for money.

**Corporate and Democratic Core** – This covers the cost of being in business e.g. member and committee costs. It also includes the cost of policy development and support. WVDC has consciously invested within this area to increase corporate capacity to support continuous improvement. WVDC has relatively high costs in this area. However, each authority has certain costs irrespective of size e.g. employment of statutory officers, which increases costs per head for smaller districts such as Wear Valley. In terms of performance, the Council received a score of “excellent” under CPA. It is therefore argued that the service offers value for money.

**Unapportioned Overheads** – This reflects the cost of funding retirement benefits. Our costs are the lowest per head amongst our comparator group of 15 other authorities. It is likely that this is due to WVDC charging the bulk of those costs to services, whilst other authorities charge such costs centrally. However, this suggests that WVDC service costs in other areas are inflated compared to other authorities. Consequently, in this area WVDC could claim to be offering value for money.

**Public Transport** - The majority of these costs relate to the operation of the concessionary travel scheme. WVDC costs are relatively high in this area as it provided until April 2008 a more generous scheme than that required by law. This is a reflection of the rural nature of the district and the relatively low levels of car ownership compared to the national average. A large number of authorities also receive considerable income per head from car parking due to incoming visitor demand which skews the figures. There is no satisfaction data available and therefore it is inconclusive whether this service offers value for money.

#### **overall summary of vfm**

23. The Council remains a relatively high spending authority even compared to its nearest neighbours. However, the “cost” gap closed during 2007/08 evidencing that the Council has become more efficient. This continues a trend from previous years. Our expenditure is also a reflection of the increased resources received from Government in revenue support grant and ring fenced grant in recognition of the difficulties faced by the authority in terms of deprivation and population sparsity.
24. Where precise data is available in comparison with our nearest neighbours, the majority of the Council’s services as measured by proportion of its total spend could be argued to be providing value for money e.g. council tax collection, benefits, waste collection etc. Where there is an absence of quantitative data, e.g. economic development, inspection results suggest the service provides value for money. Most significantly, if the main measure of performance is used e.g. CPA for which the Council is graded as “Excellent” then a very strong case could be argued that the Council provides value for money.

25. There is clearly work to do in some areas e.g. leisure and parks. However, work is ongoing to both reduce the cost base in the longer term whilst increasing customer satisfaction in the short term.

**RECOMMENDED** that Members approve the report

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**Officer responsible for the report**

Stuart Reid  
Acting Strategic Director for Resource  
Management  
Ext 258

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**Authors of the report**

Stuart Reid/Michael Cooper  
Acting Strategic Director for Resource  
Management/Value for Money Officer  
Ext 258/878

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## CENTRAL RESOURCES COMMITTEE

24 SEPTEMBER 2008

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### Report of the Acting Strategic Director for Resource Management **REVENUES BEST VALUE REVIEW**

#### **purpose of the report**

1. To report to Members on progress in implementing actions arising from the Revenues Best Value Review.

#### **background**

2. Members approved on 15 July 2008 the findings of the best value review and the associated action plan. It was agreed at that committee that progress in implementing the action plan would be reported to Members on a regular basis.

#### **action plan**

3. Progress in implementing the action plan is shown in Annex D. Out of 24 actions due to be completed by the end of September, 2 remain outstanding. The reasons are as below:

#### **Action 2: Sundry Debt not included in Service Standards public documentation**

Draft complete. Will be on public display within the next three weeks.

#### **Action 16: Enhance Member Understanding of Recovery Process**

Member briefing scheduled for 30 September.

#### **changes implemented**

4. The changes implemented to date have had a positive impact. Monitoring of customer response times has highlighted no specific problems, with over 90% of correspondence being dealt with within 10 working days.
5. Customer queries are also now being dealt with more speedily by indicating more clearly on documentation a contact name. Assistance to those customers requiring debt advice has also been signposted more clearly on all documentation and additional information has been placed on our website. These actions support the provision of a service based around the needs of customers.

6. Data is now being collected to determine whether our policies and procedures have any adverse impact on any particular group. There is currently insufficient data to reach a conclusion on this issue although no major problems are anticipated.

**conclusion**

7. Steady progress has been made in implementing agreed actions. Future progress will continue to be reported to committee.

**RECOMMENDED** that Members approve progress in implementing the action plan shown in Annex D.

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**Officer responsible for the report**

Stuart Reid  
Acting Strategic Director for Resource  
Management  
Ext 258

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**Author of the report**

Stuart Reid  
Acting Strategic Director for Resource  
Management  
Ext 258

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Audit and Inspection Plan

June 2008



# **Audit and Inspection Plan**

**Wear Valley District Council**

**Audit 2008/09**



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.

### **Copies of this report**

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

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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](http://www.audit-commission.gov.uk)

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## Introduction

- 1 This plan sets out the audit and inspection work that we propose to undertake for the 2008/09 financial year. The plan is based on the Audit Commission's risk-based approach to audit planning and the requirements of moving towards Comprehensive Area Assessment (CAA). It reflects:
  - audit and inspection work specified by the Audit Commission for 2008/09;
  - current national risks relevant to your local circumstances; and
  - your local risks and challenges.
- 2 As a result of local government reorganisation (LGR) in County Durham, 2008/09 will be the final year of operation of Wear Valley District Council. Our proposed work detailed within this plan has been tailored to reflect this position.
- 3 During 2008/09, the role of Relationship Manager will be replaced by the post of Comprehensive Area Assessment Lead (CAAL). The CAAL will provide the focal point for the Commission's work in your local area, lead the Comprehensive Area Assessment (CAA) process, and ensure that the combined inspection programme across all inspectorates is tailored to the level and nature of risk for the area and its constituent public bodies. The Commission has become the statutory gatekeeper of all inspection activity involving local authorities.
- 4 As we have not yet completed our audit for 2007/08, the audit planning process for 2008/09, including the risk assessment, will continue as the year progresses, and the information and fees in this plan will be kept under review and updated as necessary.

## Responsibilities

- 5 We comply with the statutory requirements governing our audit and inspection work, in particular:
  - the Audit Commission Act 1998;
  - the Local Government Act 1999; and
  - the Code of Audit Practice.
- 6 The Code of Audit Practice (the Code) defines auditors' responsibilities in relation to:
  - the financial statements (including the annual governance statement); and
  - the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 7 The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies (from April 2008) sets out the respective responsibilities of the auditor and the Council. The Audit Commission has issued a copy of the Statement to every audited body.
- 8 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and our audit work is undertaken in the context of these responsibilities.

## Fees

- 9 The details of the structure of scale fees are set out in the Audit Commission's work programme and fee scales 2008/09. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 10 The total indicative fee for the audit and inspection work included in this audit and inspection plan for 2008/09 is for £143,200, which compares to the planned fee of £143,560 for 2007/08.
- 11 A summary of this is shown in the table below. The fee is determined by audit risks identified, mandated work and basic assumptions. A detailed breakdown of the audit and inspection fee is included in Appendix 2.

**Table 1      Audit and Inspection fee**

<b>Audit area</b>	<b>Planned fee 2008/09</b>	<b>Planned fee 2007/08</b>	<b>Page</b>
<b>Audit fee</b>	£133,937	£125,000	9
<b>Inspection fee</b>	£9,263	£18,560	13
<b>Total Audit &amp; Inspection fee</b>	£143,200	£143,560	
<b>Certification of claims and returns</b>	£14,000	£18,500	20

- 12 The Audit Commission scale fee for Wear Valley District Council, excluding inspection work, is £124,350. The fee proposed for audit and performance work in 2008/09 is therefore + 8 per cent compared to the scale fee and is within the normal level of variation specified by the Commission.
- 13 The Audit Commission has the power to determine the fee above or below the scale fee where it considers that substantially more or less work is required than envisaged by the scale fee. The Audit Commission may, therefore, adjust the scale fee to reflect the actual work that needs to be carried out to meet the auditor's statutory responsibilities, on the basis of the auditor's assessment of risk and complexity at a particular body.
- 14 It is a matter for the auditor to determine the work necessary to complete the audit and, subject to approval by the Audit Commission, to seek to agree an appropriate variation to the scale fee with the Council. The Audit Commission expects normally to vary the scale fee by no more than 30 per cent (upwards or downwards). This fee then becomes payable.

- 15 In setting the fee, we have assumed that:
- the level of risk in relation to the opinion and VFM conclusion will increase as the demise of the Council draws closer. This view is based on experiences of other local government reorganisations. Common problems have included increased risks of breakdown in internal controls, poor value for money and fraud and corruption;
  - internal audit undertakes appropriate work on all systems that they identify as high risk; and
  - good quality working papers and records will be provided to support the financial statements in accordance with our Working Together protocol.

Further details of the assumptions are outlined in Appendix 2.

- 16 In order to deliver our responsibilities to give a value for money conclusion, we will need to monitor how the transition to a new unitary authority impacts upon the Council's governance arrangements in 2008/09. In particular we will need to:
- review the council's actions taken to mitigate the risks arising from LGR;
  - monitor the delivery of the council's identified actions; and
  - consider any additional work which may need to be undertaken to deliver our responsibilities.
- 17 We have included a modest initial sum in the audit and inspection plan of each district council in County Durham to carry out additional work associated with LGR. This is an initial estimate of the additional fee required, but this will be revised during the year as the nature and extent of our audit work in this area becomes apparent. In this event we will follow the process outlined in paragraph 21 below, for agreeing changes in our fees.

### **Specific actions Wear Valley District Council could take to reduce its audit fees**

- 18 The Audit Commission requires its auditors to inform a council of specific actions it could take to reduce its audit fees. We have regular meetings with officers to ensure that any issues arising from the closure of the accounts and preparation of the final statements are addressed in a timely manner thereby keeping any possible fee increase to a minimum. We would expect to continue that approach for the coming year.
- 19 In addition we have agreed a protocol ('Working Together'), which illustrates how the Council can help us mitigate fees in 2008/09 and implementation of these joint working arrangements is assumed in the proposed fees.

## **Process for agreeing any changes in audit fees**

- 20 As set out in paragraph 4, we expect that the initial risk assessment may change as the year progress. Where this is the case, we will discuss this in the first instance with the Strategic Director for Resource Management. Supplements to the plan will be issued to record any revisions to the risk and the impact on the fee.



## Auditor's report on the financial statements

- 21 We are required to issue an audit report giving our:
- opinion on whether the financial statements present fairly the financial position of the Council as at 31 March 2009; and
  - conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### Financial statements

- 22 We have not undertaken a risk assessment for our audit of the financial statements as many of the specific risks may become apparent after we have completed our 2007/08 audit. A separate opinion plan for the audit of the financial statements will be issued in December 2008.
- 23 At this stage we are aware of the following risks that are likely to impact on my audit of the financial statements:
- potential changes to the experience and knowledge of staff available to produce the financial statements following transfer of responsibility to the new unitary authority; and
  - possible weaknesses in internal controls resulting from secondments and leavers as a result of LGR.
- 24 The adoption of International Financial Reporting Standards (IFRS) is not required by local government bodies in 2008/09. However, there may be a requirement to prepare whole of government accounts (WGA) consolidation packs on the basis of IFRS. Further guidance is awaited.

### VFM conclusion

- 25 In reaching our conclusion, we will review evidence that is relevant to the Council's performance management and financial management arrangements.
- 26 The key risks highlighted from the planning are summarised in the table below with details of planned work to mitigate the risks. Full details of the risk assessment are outlined in Appendix 3.

**Table 2 Key risks identified**

<b>Key risks identified</b>	<b>Planned work to address the risk</b>
Risks arising from the potential loss of staff leading to potential breakdown in internal control and good governance arrangements.	Review the actions taken by the council to mitigate the risks and report as necessary.
Service continuity will be at risk during the transition. Performance management and risk management must be especially robust during the change period.	Review and comment on risk and performance management arrangements.
Service performance and governance arrangements within the Council's ALMO may not yet have been fully embedded and effective. Given that this remains the service on which the Council spends most money, ensuring vfm from this area is important.	Liaise with colleagues from the Housing Inspectorate as appropriate, carry out additional work where required, evaluating the adequacy of the Council's procedures and controls to ensure that vfm provided from ALMO in area of housing management.

## Use of Resources

- 27 This audit plan covers the last year of the current regime for Use of Resources assessment. The work required to arrive at the Use of Resources assessment is fully aligned to that required to arrive the auditor's Value for Money conclusion.
- 28 Appendix 1 outlines the criteria and scoring.
- 29 The initial risk assessment for use of resources work is shown in Appendix 3. This will be updated through our continuous planning process as the year progresses.

## Mandated work

**30** As part of the audit, the mandated work programme comprises:

- data quality; and
- whole of government accounts.

Appendix 1 highlights the work to be undertaken.

## CPA and inspection

- 31 From April 2009, the Audit Commission, jointly with the other public service inspectorates, will be implementing Comprehensive Area Assessment (CAA). Therefore, 2008/09 is the last year in which corporate assessments and programme service inspections will be undertaken as part of the CPA framework.
- 32 The Audit Commission's CPA and inspection activity is underpinned by the principle of targeting our work where it will have the greatest effect, based upon assessments of risk and performance. Our inspection activity in 2008/09 will be governed by three factors: our role in driving continuous improvement through inspections; the requirement on us to carry out Direction of Travel assessments at all councils; and the added value that our independent assessment can bring to the new council.
- 33 Our inspection programme is designed to support the development of the new unitary council by assessing key areas of activity which are important in improving the quality of life in the county. On the basis of our previous work and of analysis of key issues, we have identified 'sustainable communities' as an important area for our inspection activity.

**Table 3 Summary of inspection activity**

Inspection activity	Reason/impact
CAAL role (incorporating previous Relationship Manager functions)	To act as the Commission's primary point of contact with the Council and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
Direction of Travel (DoT) assessment	<p>An annual assessment, carried out by the CAAL, of how well the Council is securing continuous improvement. The DoT assessment will be reported in the Annual Audit and Inspection Letter. The DoT assessment summary will be published on the Commission's website.</p> <p>In all the County Durham district councils, we will consider how best to carry out our DoT in 2008/09. We may combine work to assess individual councils with some assessment of Direction of Travel issues across the county. We will also discuss reporting arrangements for the Direction of Travel before the transition to the new unitary council. We will discuss these points with you nearer the time of the assessments, which are planned for September 2008 to February 2009.</p>

<b>Inspection activity</b>	<b>Reason/impact</b>
Sustainable communities inspection	A county-wide inspection of all eight existing councils together of 'sustainable communities'. We will work with you to scope this inspection, which could include strategic planning, strategic housing, environmental, transport and economic development issues.

## Advice and assistance

- 34 We have powers to provide 'advice and assistance' (A&A) to another public body where this is requested.
- 35 If you wish the Commission to provide additional services under these powers, please contact Janet Gauld, our regional lead on A&A ([j-gauld@audit-commission.gov.uk](mailto:j-gauld@audit-commission.gov.uk)) or Paul Heppell.

## The audit and inspection team

- 36 The key members of the audit and inspection team for the 2008/09 audit are shown in the table below.

**Table 4 Audit and inspection team**

Name	Contact details	Responsibilities
Marion Talbot CAAL	<a href="mailto:m-talbot@audit-commission.gov.uk">m-talbot@audit-commission.gov.uk</a> 0191 4602022	The primary point of contact with the Council and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
Cameron Waddell District Auditor	<a href="mailto:c-waddell@audit-commission.gov.uk">c-waddell@audit-commission.gov.uk</a> 0191 4602022	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive and audit committee.
Paul Heppell Audit Manager	<a href="mailto:p-heppell@audit-commission.gov.uk">p-heppell@audit-commission.gov.uk</a> 0797 1670189	Manages and co-ordinates the different elements of the audit work. Key point of contact for the Strategic Director for Resource Management.

## Quality of service

- 37 We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact the District Auditor in the first instance. Alternatively, you may wish to contact the Head of Operations for the North East, Yorkshire and Humberside, David Allsop.
- 38 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet '*Something to Complain About*', which is available from the Commission's website or on request.



## Planned outputs

- 39 Reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

**Table 5** Planned outputs

Planned output	Indicative date
Use of resources report	31 October 2009 *
Opinion Audit report	31 December 2008
Annual governance report	30 September 2009 *
Auditor's report giving an opinion on the financial statements	30 September 2009 *
Final accounts memorandum	31 October 2009 *
Sustainable Communities Inspection report	Inspection activity autumn 2008; report published late 2008
Annual Audit and Inspection Letter	TBC

\* reflects those reports due to be issued after LGR vesting day

## Appendix 1 – Elements of our work

### Financial statements

- 1 We will carry out our audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 2 We are required to issue an opinion on whether the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Council as at 31 March 2009 and its income and expenditure for the year.
- 3 We are also required to review whether the Annual Governance Statement has been presented in accordance with relevant requirements, and to report if it does not meet these requirements or if the Annual Governance Statement is misleading or inconsistent with our knowledge of the Council.

### Value for money conclusion

- 4 The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. The Code also requires the auditor to have regard to a standard set of relevant criteria, issued by the Audit Commission, in arriving at our conclusion.
- 5 In meeting this responsibility, we will review evidence that is relevant to the Council's corporate performance management and financial management arrangements. Where relevant work has been undertaken by other regulators, we will normally place reliance on their reported results to inform our work.
- 6 We will also follow up our work from previous years to assess progress in implementing agreed recommendations.

## Use of resources assessment

- 7 The Use of Resources themes and KLOEs are outlined below.
- 8 We will arrive at a score of 1 to 4, based on underlying key lines of enquiry, for each of the following themes.

Theme	Description
Financial reporting	<ul style="list-style-type: none"> <li>• Preparation of financial statements</li> <li>• External reporting</li> </ul>
Financial management	<ul style="list-style-type: none"> <li>• Medium-term financial strategy</li> <li>• Budget monitoring</li> <li>• Asset management</li> </ul>
Financial standing	<ul style="list-style-type: none"> <li>• managing spending within available resources</li> </ul>
Internal control	<ul style="list-style-type: none"> <li>• Risk management</li> <li>• System of internal control</li> <li>• Probity and propriety</li> </ul>
Value for money	<ul style="list-style-type: none"> <li>• Achieving value for money</li> <li>• Managing and improving value for money</li> </ul>

- 9 We will report details of the scores and judgements made to the Council. The scores will be accompanied, where appropriate, by recommendations of what the Council needs to do to improve.
- 10 The auditor's scores are reported to the Commission and are used as the basis for its overall use of resources judgement for the purposes of the CPA.

## Data quality

- 11 Our data quality work is based on a three-stage approach covering:
  - Stage 1 – management arrangements;
  - Stage 2 – analytical review; and
  - Stage 3 – risk-based data quality spot checks of a sample of performance indicators.
- 12 Work will be focused on the overall arrangements for data quality, particularly on the responsibility of the Council to manage the quality of its data including data from partners where relevant.

- 13 The Audit Commission has specified that two housing benefit service indicators will be subject to audit as part of the stage 3 spot checks. To avoid duplication and maximise efficiencies between different elements of the audit, this approach has been planned so that we can draw on this work in conducting the later certification of the Council's Housing Benefit & Council tax claim. As a result, our planned fee for auditing the Council's grant claims has reduced.
- 14 The increase in our fee estimate for data quality reflects both this additional work and our assessment of risk in an LGR environment. While the Council's data quality arrangements have been robust and effective in our previous assessments, LGR will both test these arrangements and increase the need for good data quality. This risk assessment may change depending on our assessment of your overall management arrangements at stage 1 and we will update our plan accordingly, including any impact on the fee.

## **Whole of government accounts**

- 15 We will be required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office. The 2008/09 WGA consolidated pack may need to be produced in accordance with the International Financial Reporting Standards (IFRS) and further guidance is awaited.

## **National Fraud Initiative**

- 16 From 2008/09 work relating to the National Fraud Initiative will be carried out directly by the Commission under its new data matching powers under the Serious Crime Act 2007. The Commission will be consulting audited bodies on the work programme and fee scales for the National Fraud Initiative later this year.

## **Certification of grant claims and returns**

- 17 We will continue to certify the Council's claims and returns on the following basis:
  - claims below £100,000 will not be subject to certification;
  - claims between £100,000 and £500,000 will be subject to a reduced, light-touch certification; and
  - claims over £500,000 will be subject to a certification approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment would lead to a reduced certification approach for these claims.

- 18** As highlighted above our planned fee for auditing the Council's grant claims has reduced. We will utilise information and assurances gained from our audit of two housing benefit performance indicators, carried out as part of our data quality assessment, in order to reduce the time required to audit the Council's Housing Benefit & Council tax claim.

## Appendix 2 – Basis for fee

- 1 The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. It also means making sure that our work is coordinated with the work of other regulators, and that our work helps you to improve.
- 2 The risk assessment process starts with the identification of the significant financial and operational risks applying at the Council with reference to:
  - our cumulative knowledge of the Council;
  - planning guidance issued by the Audit Commission;
  - the specific results of previous and ongoing audit work;
  - interviews with Council officers;
  - liaison with internal audit; and
  - the results of other review agencies' work where relevant.

## Assumptions

- 3 In setting the fee, we have assumed that:
  - the level of risk in relation to the audit of the financial statements is significantly higher than in previous years due to LGR;
  - you will inform us of significant developments impacting on our audit;
  - internal audit will continue to meet the appropriate professional standards;
  - good quality working papers and records will be provided to support the financial statements by 30 June 2009 (albeit this activity will occur after the LGR vesting date);
  - requested information will be provided within agreed timescales;
  - prompt responses will be provided to draft reports; and
  - additional work will not be required to address questions or objections raised by local government electors.
- 4 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the opinion audit plan.

- 5 Changes to the plan will be agreed with you. These may be required if:
  - new residual audit risks emerge;
  - additional work is required by the Audit Commission or other regulators; or
  - additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.
- 6 Below is a detailed breakdown of the audit and inspection fee for 2008/09.
- 7 The fee (plus VAT) will be charged in 12 equal instalments from April 2008 to March 2009.

**Table 6 Detailed audit and inspection fee**

<b>Audit area</b>	<b>Planned fee 2008/09</b>	<b>Planned/Actual fee 2007/08</b>	<b>Page</b>
<b>Audit</b>			
Financial statements *increase reflects additional time required in respect of LGR audit risks.	80,568	78,300	9
Use of Resources	35,016	34,775	9
Data Quality *increase reflects importance of good data quality in LGR environment and Audit Commission specification that two housing benefit service indicators will be subject to audit.	15,284	9,300	19
Whole of government accounts and NFI	3,069	2,625	20
<b>Total audit fee</b>	<b>133,937</b>	<b>125,000</b>	

Audit area	Planned fee 2008/09	Planned/Actual fee 2007/08	Page
<b>Inspection</b>			
Relationship management	2,986	2,950	13
Direction of Travel	2,986	2,950	13
Service inspections	3,263	12,660	14
<b>Total inspection fee</b>	<b>9,263</b>	<b>18,560</b>	
Total audit and inspection fee	143,200	143,560	
Certification of claims and returns *decrease reflects assurances that are expected to be drawn from data quality work in respect of housing benefit claim certification.	14,000	18,500	20



## Appendix 3 – Initial risk assessment – Use of resources and VFM conclusion

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor’s responsibilities
<p>LGR typically involves numerous use of resources risks including:</p> <ul style="list-style-type: none"> <li>• Increased staff turnover and key vacancies leading to a breakdown in internal control;</li> <li>• misappropriation of assets, especially ICT;</li> <li>• a rush to spend money resulting in poor value for money; and</li> <li>• transitional arrangements for governance and business continuity.</li> </ul>	<p>There is a transition agreement designed to effectively manage this high risk.</p> <p>The Council’s Internal Audit plan for 2008/09 reflects LGR as the primary risk and provides for audit coverage of the principle risk areas.</p>	<p>Yes</p>	<p>We will track LGR preparations, through meetings, review of minutes and enquiry into issues arising at other reorganised authorities.</p>	<p>All aspects of the VFM Conclusion to be given by 30 September 2009 and 2008 UOR assessment (especially themes 4.2, 4.3, 5.1 and 5.2)</p>

<b>Significant risks identified</b>	<b>Mitigating action by audited body</b>	<b>Residual audit risk</b>	<b>Action in response to residual audit risk</b>	<b>Link to auditor’s responsibilities</b>
<p>The adoption of International Financial Reporting Standards (IFRS) is not required by local government bodies in 2008/09. However, there may be a requirement to prepare whole of government accounts (WGA) consolidation packs on the basis of IFRS.</p>	<p>Finance staff are aware of the issue. The 2008/09 return for whole government accounts may require some restating to be IFRS compliant.</p>	<p>Yes</p>	<p>Understanding of the requirements and review of closedown arrangements for WGA.</p>	<p>Opinion on the Whole of Government submission pack</p>
<p>Service performance and governance arrangements within the Council’s ALMO may not yet have been fully embedded and effective.</p>	<p>Council has worked with the ALMO to assess and strengthen performance and governance arrangements.</p>	<p>Yes</p>	<p>Liaise with colleagues from the Housing Inspectorate as appropriate, carry out additional work where required, evaluating the adequacy of the Council’s procedures and controls to ensure that vfm provided from ALMO in area of housing management.</p>	<p>All aspects of the VFM Conclusion to be given by 30 September 2009 and 2008 UOR assessment</p>

## Appendix 4 – Independence and objectivity

- 1 We are not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you.
- 2 We comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised below.
- 3 Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 4 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 5 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:
  - discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
  - confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.
- 6 The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Audit Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.
- 7 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.
- 8 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.

- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being 'additional work' and charged for separately from the normal audit fee.
- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years.
- The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.
- The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

## Appendix 5 – Working together

- 1 We have recently agreed a separate 'Working together' protocol, which sets out arrangements for meetings, liaison and co-ordinated working in the run-up to LGR.

### Sustainability

- 2 The Audit Commission is committed to promoting sustainability in our working practices and we will actively consider opportunities to reduce our impact on the environment. This will include:
  - reducing paper flow by encouraging you to submit documentation and working papers electronically;
  - use of video and telephone conferencing for meetings as appropriate; and
  - reducing travel.

# **Statement of responsibilities of auditors and of audited bodies**

The Audit Commission is an independent body responsible for ensuring that public money is spent economically, efficiently and effectively, to achieve high-quality local services for the public. Our remit covers around 11,000 bodies in England, which between them spend more than £180 billion of public money each year. Our work covers local government, health, housing, community safety and fire and rescue services.

As an independent watchdog, we provide important information on the quality of public services. As a driving force for improvement in those services, we provide practical recommendations and spread best practice. As an independent auditor, we seek to ensure that public services are good value for money and that public money is properly spent.

For further information about the Audit Commission, visit our website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)



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## General introduction

- 1 The Audit Commission (the Commission) is responsible for appointing auditors and determining their terms of appointment, as well as for preparing a Code of Audit Practice, which prescribes the way in which auditors are to carry out their functions. The Commission has prepared a Code for the audits of local government bodies and a Code for the audit of local NHS bodies. From time to time, the Commission issues guidance to auditors under section 3(8) of the Audit Commission Act 1998 (the Act) and paragraph 7 of Schedule 1 to the Act. This statement sets out guidance on general responsibilities relevant to audits in both sectors and so supports each Code.
- 2 The purpose of this statement is to assist auditors and audited bodies by summarising where, in the context of the usual conduct of an audit, the different responsibilities of auditors and of the audited body begin and end, and what is to be expected of the audited body in certain areas. Throughout this statement, the term 'audited body' covers both the members of the body (for example, elected members in local authorities and directors of NHS bodies) and its management (the senior officers of the body).
- 3 The responsibilities of auditors are derived from statute (principally the Audit Commission Act 1998) and from the Code. Nothing in this statement is intended to limit or extend those responsibilities. In particular, audited bodies should note that, because auditors must not prejudice their independence of the audited body, the audit role does not include providing financial or legal advice or consultancy to the audited body.
- 4 Auditors may wish to refer to, and/or incorporate, this statement in audit planning documents, annual audit letters, reports and other audit outputs.

## Introduction to responsibilities

- 5 Those who are responsible for the conduct of public business and for spending public money are accountable for ensuring both that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
- 6 In discharging this accountability, public bodies and their management (both members and officers) are responsible for putting in place proper arrangements for the governance of their affairs and the stewardship of the resources at their disposal. They are also required to report on their arrangements in their annual published statements on internal control (NHS bodies) or annual governance statement (local government bodies).
- 7 It is the responsibility of the audited body to ensure that proper arrangements are in place, but certain individuals have specific responsibilities. NHS bodies have a unitary board, consisting of executive members and part-time non-executive members, chaired by a non-executive member. The chairman and non-executive members are responsible for monitoring the executive management of the body and are responsible to the Secretary of State for the discharge of these responsibilities. In addition, there is a requirement for an audit committee, which contributes independently to the board's overall process for ensuring that an effective internal control and risk management system is maintained. The chief executive is responsible to the board for the day-to-day management of the organisation and, as accountable officer, is also responsible to the Department of Health for the proper stewardship of public money and assets.
- 8 Local government bodies have three designated statutory officers, each of whom has a specific role in relation to accountability and control. These are:
  - the head of paid service, usually the chief executive, responsible to the full council for the corporate and overall strategic management of the authority;
  - the monitoring officer, who is responsible for reporting to the authority any actual or potential breaches of the law or any maladministration, and for ensuring that procedures for recording and reporting key decisions are operating effectively; and
  - an officer with responsibility for the proper administration of their financial affairs.

- 9 In carrying out their responsibilities, auditors may wish to obtain representations from management, both orally and in writing, on important matters.
- 10 The following paragraphs summarise the responsibilities of auditors and of audited bodies in relation to the responsibilities of auditors described in the Code.

## The audit of the financial statements

- 11 The financial statements, which comprise the published accounts of the audited body, are an essential means by which it accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources. It is the responsibility of the audited body to:
- put in place systems of internal control to ensure the regularity and lawfulness of transactions;
  - maintain proper accounting records; and
  - prepare financial statements that present fairly (or, for NHS bodies and local probation boards, give a true and fair view of) the financial position of the body and its expenditure and income and that are in accordance with applicable laws, regulations and accounting policies.
- 12 A local authority that is the administering authority for a local authority pension fund must prepare pension fund financial statements for each financial year that present fairly:
- the financial transactions of its pension fund during the year; and
  - the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.
- 13 The audited body is also responsible for preparing and publishing with its financial statements:
- for health bodies and probation boards, a statement on internal control prepared in accordance with specified guidance; and
  - for local government bodies, an annual governance statement, prepared in accordance with proper practice set out in the Chartered Institute of Public Finance and Accountancy / Society of Local Authority Chief Executives and Senior Managers publication *Delivering Good Governance in Local Government: A Framework*, and related guidance.

- 14** In preparing their financial statements, audited bodies are responsible for:
- preparing realistic plans that include clear targets and achievable timetables;
  - assigning responsibilities clearly to staff with the appropriate expertise and experience;
  - providing necessary resource to enable delivery of the plan;
  - maintaining adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements;
  - ensuring that senior management monitors, supervises and reviews work to meet agreed standards and deadlines; and
  - ensuring that a senior individual at top management level personally reviews and approves the financial statements before presentation to the auditor. At local government bodies, the responsible financial officer must sign, date and certify the financial statements before they are approved by the body.
- 15** If draft financial statements and working papers of appropriate quality are not available at the agreed start date of the audit, the auditor is unable to meet the planned audit timetable and the start date of the audit will be delayed. The audit fee is calculated on the basis that the draft financial statements, and detailed working papers, are provided to an agreed timetable and are of an acceptable standard. If information is not provided to this timetable, or is provided to an unacceptable standard, the auditor will charge additional fees for any extra work that is necessary.
- 16** Auditors audit the financial statements and give their opinion, including:
- whether they present fairly, or give a true and fair view of, the financial position of the audited body and its expenditure and income for the year in question;
  - whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards;
  - for certain bodies, on the regularity of their expenditure and income; and
  - for certain bodies, on whether the part of the remuneration report to be audited has been properly prepared.
- 17** In carrying out their audit of the financial statements, auditors will have regard to the concept of materiality.

- 18 Subject to the concept of materiality, auditors provide reasonable assurance that the financial statements:
- are free from material misstatement, whether caused by fraud or other irregularity or error;
  - comply with statutory and other applicable requirements; and
  - comply with all relevant requirements for accounting presentation and disclosure.
- 19 Auditors plan and perform their audit on the basis of their assessment of risk. Auditors will examine selected transactions and balances on a test basis and assess the significant estimates and judgements made by the audited body in preparing the statements.
- 20 Subject to the concept of materiality, auditors of specified NHS bodies and local probation boards also provide reasonable assurance on the regularity of expenditure and income. In giving such assurance, auditors do not perform detailed tests of transactions to the extent that would be necessary to disclose all unlawful transactions or events that may have occurred or might occur, and the audit process should not be relied upon to disclose such matters.
- 21 Auditors evaluate significant financial systems, and the associated internal financial controls, for the purpose of giving their opinion on the financial statements. Where auditors identify any weaknesses in such systems and controls, they will draw them to the attention of the audited body, but they cannot be expected to identify all weaknesses that may exist.
- 22 Auditors review whether the statement on internal control (NHS bodies) or annual governance statement (local government bodies) has been presented in accordance with relevant requirements and report if it does not meet these requirements or if it is misleading or inconsistent with other information of which the auditor is aware. In doing so auditors take into account the knowledge of the audited body gained through their work in relation to the audit of the financial statements and through their work in relation to the body's arrangements for securing economy, efficiency and effectiveness in the use of its resources. They will also have regard to the work of other regulators, to the extent that it is relevant to auditors' responsibilities. Auditors are not required to consider whether the statement on internal control (NHS bodies) or annual governance statement (local government bodies) covers all risks and controls, nor are auditors required to express a formal opinion on the effectiveness of the audited body's corporate governance procedures or risk and control procedures.

- 23** In carrying out their work on the financial statements, auditors will:
- plan to complete work and meet agreed deadlines;
  - maintain close liaison with the audited body; and
  - provide appropriate and adequate resources and assign responsibilities to staff with the relevant expertise and experience.
- 24** Where audited bodies do not meet agreed timetables and/or provide poor documentation such that additional audit work is necessary, or the audit is delayed, auditors will charge additional fees to cover the costs incurred.

## Electronic publication of the financial statements

- 25** Where the audited body wishes to publish its financial statements electronically, it is responsible for ensuring that the publication accurately presents the financial statements and the auditor's report on those financial statements. This responsibility also applies to the presentation of any financial information published in respect of prior periods. The auditor's report on the financial statements should not be reproduced or referred to electronically without the auditor's written consent.
- 26** The audited body may also wish to distribute electronic copies of the financial statements, and the auditor's report on those financial statements, to its stakeholders and must ensure that these are presented accurately. The auditor's report on the financial statements distributed electronically should not be reproduced or referred to electronically without the auditor's prior written agreement.
- 27** The examination of the controls over the electronic publication of audited financial statements is beyond the scope of the audit of the financial statements and the auditor cannot be held responsible for changes made to audited information after the initial publication of the financial statements and the auditor's report.

## Responsibilities in relation to arrangements for securing economy, efficiency and effectiveness in the use of resources

- 28 It is the responsibility of the audited body to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them. Such corporate performance management and financial management arrangements form a key part of the system of internal control and comprise the arrangements for:
- establishing strategic and operational objectives;
  - determining policy and making decisions;
  - ensuring that services meet the needs of users and taxpayers and for engaging with the wider community;
  - ensuring compliance with established policies, procedures, laws and regulations;
  - identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working;
  - ensuring compliance with the general duty of best value, where applicable;
  - managing its financial and other resources, including arrangements to safeguard the financial standing of the audited body;
  - monitoring and reviewing performance, including arrangements to ensure data quality; and
  - ensuring that the audited body's affairs are managed in accordance with proper standards of financial conduct, and for preventing and detecting fraud and corruption.
- 29 The audited body is responsible for reporting on these arrangements as part of its annual statement on internal control (NHS bodies) or annual governance statement (local government bodies).

- 30** Auditors have a responsibility to satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In meeting this responsibility auditors should review and, where appropriate, examine evidence that is relevant to the audited body's corporate performance management and financial management arrangements, as summarised above, and report on these arrangements.
- 31** Auditors report annually their conclusion on those arrangements, having regard to the criteria specified by the Audit Commission and will report if significant matters have come to their attention that prevent them from concluding that the audited body has put in place proper arrangements. However, auditors are not required to consider whether all aspects of the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively in practice.
- 32** In planning this work, auditors consider and assess the relevant significant business risks. These are the significant operational and financial risks to the achievement of the audited body's statutory functions and objectives, which apply to the audited body and are relevant to auditors' responsibilities under the Code, and the arrangements it has put in place to manage these risks. The auditor's assessment of what is significant is a matter of professional judgement and includes consideration of both the quantitative and qualitative aspects of the item or subject matter in question. Auditors discuss their assessment of risk with the audited body.
- 33** When assessing risk auditors consider:
- the relevance and significance of the potential business risks faced by all bodies of a particular type;
  - other risks that apply specifically to individual audited bodies;
  - the audited body's own assessment of the risks it faces; and
  - the arrangements put in place by the body to manage and address its risks.



- 34 In assessing risks auditors have regard to:
- evidence gained from previous audit work, including the response of the audited body to previous audit work;
  - the results of assessments of performance carried out by the Commission;
  - the work of other statutory inspectorates; and
  - relevant improvement needs, identified in discussion with the Commission or other statutory inspectorates.
- 35 Where auditors rely on the reports of statutory inspectorates as evidence relevant to the audited body's corporate performance management and financial management arrangements, the conclusions and judgements in such reports remain the responsibility of the relevant inspectorate or review agency.
- 36 In reviewing the audited body's arrangements for its use of resources, it is not part of auditors' functions to question the merits of the policies of the audited body, but auditors may examine the arrangements by which policy decisions are reached and consider the effects of the implementation of policy. It is the responsibility of the audited body to decide whether and how to implement any recommendations made by auditors and, in making any recommendations, auditors should avoid any perception that they have any role in the decision-making arrangements of the audited body.
- 37 While auditors may review audited bodies' arrangements for securing economy, efficiency and effectiveness in the use of resources, they cannot be relied on to have identified every weakness or every opportunity for improvement. Audited bodies should consider auditors' conclusions and recommendations in their broader operational or other relevant context.
- 38 Auditors are specifically required to review audited bodies' arrangements for 'monitoring and reviewing performance, including arrangements to ensure data quality'<sup>1</sup>.

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<sup>1</sup> *Code of Audit Practice 2005*, section 3: Auditors' responsibilities in relation to the use of resources.

- 39 The responsibility for applying data quality standards, collecting data that are fit for purpose and where appropriate conform to prescribed definitions, and reporting performance information that is reliable and accurate, rests with audited bodies.
- 40 Before performance information is reported externally or submitted to external auditors for review, it should be subject to scrutiny and approval by senior management and those charged with governance.
- 41 In order to fulfil their responsibilities under the Code, auditors will review an audited body's corporate arrangements to secure the quality of its data. This review will be informed by other relevant work, for example any detailed reviews of the data supporting specific performance information.
- 42 The findings of the review of corporate arrangements for data quality will contribute to the auditor's conclusion under the Code of Audit Practice on the audited body's arrangements to secure value for money, in relation to the specific criterion on data quality. Where weaknesses have been identified in an audited body's arrangements for data quality, the auditor will consider the overall impact on the conclusion under the Code of Audit Practice, and where appropriate make recommendations to support improvement.
- 43 Audit work in relation to the audited body's arrangements to ensure that its affairs are managed in accordance with proper standards of financial conduct, and to prevent and detect fraud and corruption, does not remove the possibility that breaches of proper standards of financial conduct, or fraud and corruption, have occurred and remained undetected. Nor is it auditors' responsibility to prevent or detect breaches of proper standards of financial conduct, or fraud and corruption, although they will be alert to the possibility and will act promptly if grounds for suspicion come to their notice.
- 44 The reviews arising from national studies developed by the Commission, or in support of the Healthcare Commission's national work programme, and the extent to which auditors are expected to apply them at relevant bodies, are prescribed by the Commission and are notified to audited bodies each year by the Commission in its annual work programme and by auditors in their audit planning documents. When carrying out national studies, auditors are required to follow the methodologies and, for certain studies, use comparative data provided by the Commission. Responsibility for the adequacy and appropriateness of these methodologies and the data rests with the Commission.

## Specific powers and duties of auditors

- 45 Auditors have specific powers and duties under the Audit Commission Act 1998 in relation to matters of legality and, in local government, electors' rights. Fees arising in connection with auditors' exercise of these powers and duties, including costs relating to the appointment of legal or other advisers to the auditors, are borne by the audited body.

## Reporting the results of audit work

- 46 Auditors provide:

- an audit planning document;
- oral and/or written reports or memoranda to officers and, where appropriate, members on the results of, or matters arising from, specific aspects of auditors' work;
- a report to those charged with governance, normally submitted to the audit committee, summarising the work of the auditor;
- an audit report, including the auditor's opinion on the financial statements and a conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources;
- a certificate that the audit of the accounts has been completed in accordance with statutory requirements; and
- an annual audit letter.

- 47 In addition, the following outputs, the need for which may arise at any point during the audit process, are issued where appropriate:

- a report dealing with any matter that the auditor considers needs to be raised in the public interest under section 8 of the Act;
- any recommendations under section 11(3) of the Act (local government bodies);
- any referral to the Secretary of State under section 19 of the Act (NHS bodies) where the auditor considers that a decision by a body or officer has led to, or would lead to, unlawful expenditure, or that some action by a body or officer has been, or would be, unlawful and likely to cause a loss or deficiency; and
- information to be reported to the Commission in a specified format to enable it to carry out any of its other functions, including assessments of performance at relevant

bodies, or to assist other bodies, such as the Healthcare Commission, the Commission for Social Care Inspection and the National Audit Office, in carrying out their functions.

- 48 When considering the action to be taken on audit reports, audited bodies should bear in mind the scope of the audit and responsibilities of auditors, as set out in the Code and as further explained in this statement. Matters raised by auditors will be drawn from those that come to their attention during the audit. The audit cannot be relied upon to detect all errors, weaknesses or opportunities for improvements in management arrangements that might exist. Audited bodies should assess auditors' conclusions and recommendations for their wider implications before deciding whether to accept or implement them.
- 49 Although annual audit letters and reports may be addressed to officers or members of the audited body, they are prepared for the sole use of the audited body. Auditors do not have responsibilities to officers or members in their individual capacities (other than in the exercise of auditors' specific powers and duties in relation to matters relating to electors' rights in local government) or to third parties that choose to place reliance upon the reports from auditors.

## Ad hoc requests for auditors' views

- 50 There may be occasions when audited bodies will seek the views of auditors on the legality, accounting treatment or value for money of a transaction before embarking upon it. In such cases, auditors will be as helpful as possible, but are precluded from giving a definite view in any case because auditors:
- must not prejudice their independence by being involved in the decision-making processes of the audited body;
  - are not financial or legal advisers to the audited body; and
  - may not act in any way that might fetter their ability to exercise the special powers conferred upon them by statute.

- 51 In response to such requests, auditors can offer only an indication as to whether anything in the information available to them at the time of forming a view could cause them to consider exercising the specific powers conferred upon them by statute. Any response from auditors should not be taken as suggesting that the proposed transaction or course of action will be exempt from challenge in future, whether by auditors or others entitled to raise objection to it. It is the responsibility of the audited body to decide whether to embark on any transaction.

## Access to information

- 52 Auditors have wide-ranging rights of access to documents and information in relation to the audit. Such rights apply not only to documents and information held by the audited body and its members and staff, including documents held in electronic form, but also to the audited body's partners and contractors, whether in the public, private or voluntary sectors.
- 53 There are restrictions on the disclosure of information obtained in the course of the audit, subject only to specific exemptions. The Freedom of Information Act 2000 does not apply to the Commission's appointed auditors, as they have not been designated as 'public authorities' for the purposes of that legislation. Audited bodies wishing to disclose information obtained from an auditor are required by law to seek the auditor's consent to that disclosure.

## Grant claims and returns – certification

- 54 The Commission agrees to make certification arrangements in accordance with the framework set out in the separate *Statement of Responsibilities of Grant-paying Bodies, Authorities, the Audit Commission and Appointed Auditors in Relation to Claims and Returns*. The responsibility for ensuring the completion, accuracy and completeness of grant claims and returns lies with the audited body. Grant-paying bodies may require independent examination as a condition of their acceptance of claims and returns and may ask the Commission to make arrangements for auditor certification of claims and returns. The Commission will have regard to what it is appropriate, practically and professionally, to expect the certification process and auditors to do before agreeing to make certification arrangements.

## Audit of charitable funds

- 55** This section is relevant to those charities to which the Audit Commission appoints auditors under s43A of the Charities Act 1993<sup>1</sup>.
- 56** Trustees of charitable funds subject to audit have a duty to prepare financial statements for each financial year which give a true and fair view of:
- the state of the charity's affairs at the end of the financial year; and
  - the incoming resources and the application of those resources by the charity for that period.
- 57** Trustees must ensure that the financial statements are prepared in accordance with the Statement of Recommended Practice – 'Accounting and Reporting by Charities'.
- 58** It is the duty of the auditor to report to the trustees whether the financial statements give a true and fair view and whether they have been prepared in accordance with the Charities Act 1993 and the Charity (Accounts and Reports) Regulations.
- 59** Auditors are also required to report immediately to the Charity Commissioners any matter which they have reasonable cause to believe is, or is likely to be, of material significance to the Commissioners' functions under s8 (general power to institute inquiries) or s18 (power to act for protection of charities) of the 1993 Act. Such matters may relate not only to the activities or affairs of the charity, but also to any institution or body corporate which is connected with the charity.
- 60** The audit fee is calculated on the basis that detailed working papers, and other specified information, are provided to an agreed timetable. Where audited bodies do not meet agreed timetables and/or provide poor documentation such that additional audit work is necessary, or the audit is delayed, auditors will charge additional fees to cover the costs incurred.

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<sup>1</sup> S43A of the Charities Act 1993 prescribes that all English NHS charities shall, at the election of the Audit Commission, be subject to an independent examination or audit. The Commission has decided that it will require an audit for all those charities above the threshold of £500,000, as defined in s43. Those below this threshold will be subject to an independent examination, unless the trustees elect for an audit. The auditor or examiner appointed must then follow the procedures required under s43(7)(b) of the Charities Act. Where an independent examination is carried out, the responsibilities of the examiner are more limited.







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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](http://www.audit-commission.gov.uk)

Stock code: GCM3439



<b>Revenues Best Value Review Action Plan</b>						
	<b>Issue</b>	<b>Action</b>	<b>Outcome Required</b>	<b>Responsible Officer</b>	<b>Target Date</b>	<b>Complete (Y/N)</b>
1	Expertise and knowledge amongst sections are not shared	Corporate debt recovery group be created	Implementation of customer service improvements	Julie Dowson	Apr-08	Y
2	Sundry Debt not included in Service Standards public documentation	Service Standards leaflet to be reviewed with a view to separating Benefits, due to partnership with Teesdale, and including sundry debt	Production of two customer service leaflets	Gillian Osgerby Julie Dowson	May-08	N
3	Need to improve knowledge of customer base	To target Direct Debit and Benefit take-up through customer profiling tool	Results of targeted take-up reported quarterly	Gillian Osgerby Muriel Finlay	Aug-08	Y
4	Telephone system does not record call waiting	Consider a call waiting facility when telephone system due for replacement	Reporting function of call waiting	Jennifer Craig Diane Brooksbank	Dec-08	N
5	Speed of response to correspondence from Benefit customers unsatisfactory	Sample of late responses analysed to identify bottlenecks	Report of findings and implementation of improvements	Gillian Osgerby	Apr-08	Y
6	Response time to customer correspondence not monitored	Set up a system to monitor response time to correspondence	Performance reported quarterly	John Elliott Tracey Robinson Muriel Finlay Julie Dowson	Apr-08	Y
7	No targets for response times to e-mail	Set up system to monitor response times and monitor performance	Performance reported quarterly	As Above	Apr-08	Y
8	No information on Sundry Debt on the web site	Information relating to payment options, contact details and advice relating to Sundry Debt be placed on web site	Web site updated	John Elliott	Mar-08	Y

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9	Electronic methods of customer access seldom used	Review customer service of on line and video conferencing facilities to make appropriate changes and publicise	Report on any issues identified that would hinder usage and details of publicity used	Gillian Osgerby Muriel Finlay Dave Bee	Jul-08	Y
10	Expand payment facilities for NNDR, Sundry Debt and Housing Benefit customers to deal with issues of rural isolation and non residence in the area	Investigate the possibility of Bar coding or issue of payment cards to relevant customer groups	Report on feasibility of Bar coding and payment cards	Julie Dowson Neil Davies	Jun-08	Y
11	Meeting the needs of minority groups within the community	Implement recommendations raised through equality and diversity impact assessments and improve systems for recording vulnerability	Report on improvements made. Improvements on impact assessments completed.	John Elliott Muriel Finlay Tracey Robinson Julie Dowson Lynn Hughes	Jul-08	Y
12	Ensuring special requirements of customers can be met	Conduct refresher training on use of minicom system	Evidence of training completed for all Customer service staff	Jennifer Craig Diane Brooksbank	May-08	Y
13	Availability of forms in polish is not advertised	Advertise the availability in Council Offices	Information available to customers in Council Offices	Dorothy Emmerson	Completed	Y
14	Working relationship between partners could be more effective	Formal bailiff liaison meetings with the Council be extended to include representatives from CAB	Liaison meetings to be regularly attended by CAB staff	Julie Dowson	Completed	Y
15	Liaison required with wider range of stakeholders	Schedule meetings with major landlords, e.g. Registered State Landlords (RSL's) to provide information on housing benefit overpayment	Formal meetings set up quarterly and VF training provided	Gillian Osgerby	Completed	Y

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16	Member understanding of recovery processes could be enhanced	Carry out briefing on the billing and collection of Council Tax	Members briefing	Muriel Finlay Julie Dowson	Jun-08	N
17	Staff feel insufficiently involved with the setting of priorities and targets	Compilation of annual service plan to include workshop session with staff	Workshop session for all revenues staff to set priorities for business plan	Stuart Reid Ann Baker	Feb-08	Y
18	Lack of data matching between Revenues and Benefits	To research with software supplier the matching of benefit records with single person discount indicators	Evidence of system improvements on enhancement list	Ann Baker	Apr-08	Y
19	Invoice and reminder documentation fails to signpost appropriate assistance	All documentation to provide contact details of advice agencies	Report on changes made	John Elliott Maureen Clayton Muriel Finlay Julie Dowson	Apr-08	Y
20	Council Tax and NNDR documentation does not detail consequences of non payment	Liability orders to include more detail about the legal process	Report on changes made	Julie Dowson	Apr-08	Y
21	NNDR payers unable to make advance payment pending notification of liability	Temporary accounts be provided pending Valuation Office assessment	Temporary accounts set up to enable customers to make payment		Completed	Y
22	Sundry Debt documentation does not include direct contact details	Sundry Debt documentation to include direct line contact details relevant to the debt	Report on changes made	Julie Oram	Jun-08	Y
23	There is inaccurate information held about the name of a debtor which inhibits legal action	Guidance on the use of legal entities to be provided to all staff	Evidence of training provided to relevant staff	John Elliott	Jun-08	Y

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	<b>Issue</b>	<b>Action</b>	<b>Outcome Required</b>	<b>Responsible Officer</b>	<b>Target Date</b>	<b>Complete (Y/N)</b>
24	Absence of records kept where instalment arrangements agreed for Sundry Debt	All instalment arrangements for Sundry Debt to be confirmed in writing	Report on changes in procedure	John Elliott	Apr-08	Y
25	Services continue to be accessed despite payment being outstanding	Information to be passed promptly between departments to prevent unauthorised access e.g. leisure centre membership	Report on changes made to process	John Elliott	Apr-08	Y