

Annual Governance Report

September 2006



# Annual governance report

**North Wiltshire District Council**

**Audit 2005/06**

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 to the Authority**

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**

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## Purpose of this report

- 1 We are required by the Audit Commission's statutory Code of Audit Practice for Local Government bodies (the Code) to issue a report to those charged with governance summarising the conclusions from our audit work. For the purposes of this report, the Authority's Final Accounts and Audit Committee is considered to fulfil the role of those charged with governance and references to the Audit Committee should be read as such.
- 2 We are also required by professional auditing standards to report to the Audit Committee certain matters before we give our opinion on the financial statements. The section of this report covering the financial statements fulfils this requirement.
- 3 This is our annual governance report covering the audit of the Authority for the year ended 31 March 2006 and is presented by the District Auditor.
- 4 The principle purposes of the report are:
  - to reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and the Audit Committee;
  - to share information to assist both the auditor and those charged with governance to fulfil their respective responsibilities; and
  - to provide the Audit Committee with recommendations for improvement arising from the audit process.
- 5 The Audit Commission has circulated to all audited bodies a Statement of Responsibilities of Auditors and Audited Bodies that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement.

## Scope of the report

- 6 In undertaking our audit, we comply with the statutory requirements of the Audit Commission Act 1998 and the Code. Auditors' responsibilities are to review and report on, to the extent required by the relevant legislation and the requirements of the Code:
  - the Authority's financial statements; and
  - whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 7 Our risk assessment and planned response to the key audit risks was summarised in our audit and inspection plan. A summary of our responsibilities and audit approach is included in Appendix 1. The annual governance report summarises the significant findings, conclusions and recommendations arising from our audit work. The results of our inspection work, and our separate grant claims' certification programme, will be reported in the Relationship Manager Letter later in the year.

- 8** We have issued separate reports during the year having completed specific aspects of our programme, which are listed in Appendix 2. Appendix 3 provides information about the fee charged for our audit and Appendix 4 sets out the requirements in respect of independence and objectivity.

## Key messages

### Financial statements

- 9 Our work on the financial statements is now complete. A significant number of errors and uncertainties have been identified this year. This combined with difficulties in obtaining explanations from finance staff to our questions has resulted in a very difficult opinion audit this year. Despite this, we anticipate being able to issue an unqualified opinion on the 26 September 2006 following the presentation of this report to the Final Accounts and Audit Committee (a draft opinion is attached at Appendix 5).

### Use of resources

- 10 Our work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources is now complete. We anticipate being able to issue an unqualified conclusion on the arrangements in place for securing economy, efficiency and effectiveness in the use of your resources on the 26 September 2006 following the presentation of this report to the Final Accounts and Audit Committee (a draft conclusion is attached at Appendix 5).

### Data Quality

- 11 The Authority's management arrangements for data quality have been assessed as adequate (scoring for this year is either adequate or inadequate) with some elements of good practice in place, but room for improvement.

## Financial statements

- 12 We are required to give an opinion on whether the financial statements present fairly the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended.

### Status of the audit

- 13 Our final accounts audit concluded that the Authority has adequate arrangements in place for the production of the financial statements, but that significant scope exists to improve arrangements for next year.

### Pre-statements work

- 14 For 2005/2006 our approach to issuing an opinion on your financial statements changed to reflect the new International Standards on Auditing. These new standards required us to gain and document an understanding of the systems producing material figures in the accounts and the way that transactions in these systems are initiated, recorded, processed and reported.
- 15 Our review of these systems and work undertaken by your Internal Audit function indicated a number of control weaknesses in individual systems. In particular, specific concerns were raised about the completeness and accuracy of control account reconciliations undertaken during the year. These reconciliations provide assurance that information in individual systems such as housing benefits are completely and accurately reflected in your main accounting system which in turn forms the basis for your financial statements. Concerns in this and other areas resulted in additional testing at the post-statements stage.

#### **Recommendations**

*R1 Reconciliations should be carried out between the financial ledger and all feeder systems on a regular basis during the year. Any differences should be investigated and adjustments made or explanations given. All reconciliations should be reviewed by a senior member of the finance team.*

### Post-statements work

- 16 Prior to the final accounts audit we agreed the core working papers required to support the financial statements with the finance staff. We found that the papers this year had not been completed to an acceptable standard and scope now exists to improve them for next year. In particular, this year's working papers:
- were not complete at the start of our audit in accordance with our agreed timetable;
  - the electronic working papers were not set out in the format agreed previously in our audit pack;

- did not cover all areas requested resulting in additional questions being raised with finance staff;
  - did not provide a comprehensive analytical review with explanations of variances between original budget against outturn, and
  - did not include cross-referencing for all technical checklists supplied.
- 17 Our work this year indicated an overall deterioration in the completeness and accuracy of the financial statements. A significant number of errors and uncertainties have been identified this year. This combined with difficulties in obtaining explanations from finance staff to our questions has resulted in a very difficult opinion audit this year.
- 18 We recognise that a number of staffing issues within the finance department did not facilitate a smooth financial statements audit this year. Specifically, the absence of the finance team leader due to sickness and the departure of the chief accountant four weeks into our audit resulted in us seeking explanations for entries in the financial statements from officers who had not been fully involved in their production.
- 19 Individually none of the errors or uncertainties identified were material. However, cumulatively, the errors were considered to be material to the accounts. As a result we have requested that finance staff ammend the accounts to correct the most significant errors. Of the remaining non-material errors some have now been corrected in the revised accounts leaving the remainder to be corrected next year. A number of recommendations have been made below that outline specific action that can be taken for improve arrangements further for next year.
- 20 Our work on the financial statements is now complete and we intend to issue an unqualified audit opinion after the Final Accounts and Audit Committee on the 26 September 2006 following the signing of the letter of representation.

### ***Recommendations***

#### ***Opinion recommendations***

- R2 All working papers are presented in the same format as the Audit Commission Audit Pack and that all working papers are fully referenced. Checklists should also be fully referenced to the working paper files.*
- R3 Analytical Reviews should be provided for all statements in the accounts. For the Consolidated Revenue Account this should include variances between financial years and also with the original budget. Analytical reviews should be provided in the BVACOP format.*
- R4 The authority should ensure that it reviews the changes to the CIPFA Statement of Recommended Practice each year in time to produce the Statement of Accounts.*



## Matters to be reported to the Audit Committee

21 We have the following matters to draw to the Audit Committee's attention.

### Expected modifications to the auditor's report

22 On the basis of our audit work, we currently propose to issue an unqualified audit report. A draft audit opinion is attached at Appendix 5.

### Uncorrected misstatements

23 Our audit identified the following misstatements in the financial statements that management has decided not to adjust. Excluding those misstatements that are 'clearly trivial' (as defined in professional auditing standards), these are set out in Table 1 below.

**Table 1      Uncorrected misstatements**

Misstatements that management have decided not to adjust

<b>Issues</b>	<b>Value of misstatement £</b>	<b>Impact on surplus/ (deficit) £</b>
There is an unreconciled difference between the SX3 System and the Financial ledger in respect of CT arrears.	220,000	220,000
The Creditor in respect of Housing Benefit/ Council Tax Benefit due to be repaid to the DWP is overstated.	213,000	(213,000)
There is an unreconciled difference between the SX3 system and the ledger in respect of Housing Benefit paid.	67,000	not quantified at present
The entries made on the accounts in respect of the PFI schemes are incorrect.	13,000	(13,000)
The % charge used to calculate the notional charges on Assets was incorrect.	7,000	(7,000)
There were various other differences noted on reconciliations with debtors, council tax, NNDR and long term debtors which individually are not significant to the accounts.	-	-

**Recommendations**

*R5 Ensure that the uncorrected misstatements outlined in table 1 are corrected in 2006-7.*

**Adjusted misstatements**

- 24 To assist you in fulfilling your governance responsibilities, we are required to consider reporting adjusted misstatements to you where these are material. We therefore draw your attention to the list of material and significant misstatements that management has adjusted in Table 2 below. A complete listing of all amendments has been provided to officers.

**Table 2 Adjusted misstatements in the financial statements**

Details of material and/or significant adjustments made to the financial statements

<b>Issue</b>	<b>Value of misstatement £</b>	<b>Impact on surplus/(deficit)</b>
The Government Grants Deferred account had not been matched to the depreciation of assets which had been funded by government grants since 2003/04.	489,000	neutral
The figures in the Collection fund for the NNDR pooling were not correct.	429,000	neutral
There was a difference between the balance shown on the ledger for the PFI sinking fund and the bank statement.	13,000	13,000
The CRA required adjustment to take account of an amendment made to the 2004/05 NNDR grant claim.	5,000	(5,000)
The authority failed to disclose the payments due on the Pooling of Housing Capital Receipts.	7,000	neutral
Amendments were made to various notes to the accounts, including related party transactions, Non operational assets and pension fund disclosures to comply with accounting requirements. These did not have an impact on the financial statements.	-	-

**Recommendations**

*R6 Improve year end and qualitative processes for producing the financial statements to ensure the accounts presented for approval are free from significant errors and supported by a robust set of working papers.*

**Qualitative aspects of accounting practices and financial reporting**

- 25 Our audit includes consideration of the qualitative aspects of the financial reporting process, including matters that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. We wish to report the following matter to you.
- The Authority's housing benefit claim for 2005/2006 was due to be submitted to the Department of Works and Pensions (DWP) and us as your external auditors by the end of May 2006. Due to problems within the Authority this claim was not completed until August 2006. The submitted claim initially indicated that the DWP owed the Authority £1.1m. This claim was signed by the acting S151 officer to confirm its correct compilation. Since this submission the claim has changed 3 times, culminating in a revision to claim that now indicates that the Authority owes the DWP £0.047m. The nature and number of fundamental changes raise concerns about the arrangements and checks in place for compiling this claim.

**Recommendations**

*R7 Review arrangements for the compilation of the housing benefit claim to ensure it is undertaken in a timely and accurate manner.*

**Material weaknesses in internal control identified during the audit**

- 26 Our audit did not identify any weaknesses in systems of accounting and financial control which we should report to you.
- 27 We have not provided a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made, but have addressed only those matters which have come to our attention as a result of the audit procedures we have performed.

**Matters specifically required by other auditing standards**

- 28 Other auditing standards require us to communicate with you in specific circumstances including:
- where we suspect or detect fraud;

- where there is an inconsistency between the financial statements and other information in documents containing the financial statements; and
- non-compliance with legislative or regulatory requirements and related authorities.

We have no issues that we wish to report to you in this area.

### Any other matters of governance interest

- 29 Finally, we are required to report any other matters that we believe to be of governance interest. We report these matters in Table 3 below.

**Table 3 Other matters of governance interest**

There are a number of other matters that we would like to bring to the attention of those charged with governance

Area	Auditor responsibility	Impact
Statement on internal control (SIC)	The auditor reviews the SIC for compliance with the requirements of proper practice as specified by CIPFA and consistency with other information from the audit of the financial statements.	Your 2005/2006 SIC is comprehensive. We have no issues that we wish to bring to your attention.
Whole of Government Accounts' consolidation pack	The auditor is responsible for issuing a report on the consistency of the Authority's consolidation pack with the statutory financial statements.	This work is scheduled to be completed in early October 2006.

### Letter of representation

- 30 We obtain written representations from members and management as an acknowledgement of its responsibility for the fair presentation of the financial statements and as audit evidence on matters material to the financial statements. The text of the required letter of representation is included at Appendix 6.

## Use of resources

### Value for money conclusion

**31** The Code requires us to reach a conclusion on whether we are satisfied that the Authority has proper arrangements in place for securing economic, efficient and effective use of its resources (the value for money conclusion). In meeting this responsibility, we review evidence that is relevant to the Authority's corporate performance management and financial management arrangements. Our work in reaching the value for money conclusion is integrated with our work on the use of resources assessment. The use of resources assessment is a qualitative assessment of the effectiveness of the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources. The five areas we make assessments on are; financial statements, financial management, financial standing, internal control and value for money.

**32** We have completed our work in relation to the use of resources and the only matter we wish to draw to the attention of the Audit Committee is the effectiveness of the Authority's performance management arrangements. Specifically we have concluded as part of our value for money conclusion that the Authority has:

- Arrangements in place for setting, reviewing and implementing its objectives, and
- Arrangements in place for monitoring and reviewing performance.

However, as outlined in our performance management report issued in September 2006 concerns exist over the effectiveness of these arrangements in practice. Despite having these arrangements in place, the Authority is not consistently driving improvement in services and ensuring that delivery stays on track.

**33** As stated under the key messages, we propose to give an unqualified opinion. This means we are satisfied that the Authority has proper arrangements in place to secure economy, efficiency and effectiveness. Although we have reached this conclusion, scope exists to further strengthen arrangements in a number of areas including performance management, data quality and internal audit. Our assessment of arrangements in the later two areas is outlined in more detail in the remaining part of this report with performance management being reported on separately.

## Data Quality

### Management arrangements

- 34 The Authority's management arrangements for data quality have been assessed as adequate (scoring for this year is either adequate or inadequate) with some elements of good practice in place, but room for improvement. This equates to a pass in terms of the VFM conclusion criteria for data quality referred to in paragraphs 31 to 33 above.

### Roles and Responsibilities

- 35 Responsibility for data quality is spread across the organisation but is not explicitly defined. Ultimately it rests with the Corporate Management Board (CMB) of strategic managers and the chief executive who jointly have overall responsibility for performance management. This is generally understood and accepted by CMB members but is not explicitly stated in writing or reflected in job descriptions. A senior councillor has overall responsibility for democracy and governance (which includes performance management) although his role in data quality is not specified.
- 36 At an operational level, responsibility for the collation and submission of information rests with responsible officers within individual services. The corporate performance management officer oversees and monitors the quality and accuracy of submitted data, although this is not set out in his job description.
- 37 Responsibility for collection of every PI and LPI is allocated to a specific officer (usually service heads – known as team leaders) on the performance management system and these have to be signed off and verified by the relevant strategic manager. However, this is not the case for all performance information (for example, collected for departmental use or returns to government) and this imposes a risk to the Authority.
- 38 There is a statement of corporate commitment to data quality in the BVPP and an information management and data security policy is in place, supported by an officer working group. In future this group will monitor compliance with the data quality strategy once this is in place.

### **Recommendations**

- R8 Explicitly define data quality responsibilities and amend job descriptions of all those accountable for data quality, including those responsible for collection, entering data and reporting performance information of all kinds as well as PIs and LPIs.*
- R9 Clarify the role and responsibilities of the lead councillor for data quality.*
- R10 Ensure the terms of reference of IMDS Group are changed to embrace data quality and any necessary training / development needs met to allow this group to exercise its responsibilities.*
- R11 Incorporate data quality requirements, including standards and targets into appraisal system for all relevant staff.*

### **Policies and Procedures**

- 39 There are risks to the Authority in this area. There is no specific guidance or protocol for data quality management.
- 40 Despite the stated commitment to data quality in the BVPP, there are no specific objectives or delivery plan for data quality or its management. There is no data quality strategy, although work is under way to produce this. Limited written guidance is available. Guidance notes are available on the intranet on completion of PI returns but these are not up to date.
- 41 The Authority secures the required standards of PI data quality through the guidance given, checking and verification work carried out within services and through checks by the performance management section but this is not embodied within corporate policy or procedures.

### **Recommendations**

- R12 Establish corporate data quality policy, with key outcomes reflected in the corporate plan*
- R13 Link corporate objectives for data quality management to business area plans and set objectives for individual services*
- R14 Communicate commitment to data quality to staff at all levels*

### **Systems and Processes**

- 42 Electronic systems are in place to collect record and report PI data. This has been developed 'in house' and although largely effective, it is not easy to use, requiring on-going support for staff responsible for inputting data. There are no systems in place to verify the quality of non PI data, which is the responsibility of individual service areas.

- 43 Arrangements are in place to check data quality for its accuracy but this can be variable, depending on the aptitude and experience of staff involved in inputting data. Support and feedback to service areas and targeted training is given as necessary. Checking processes are in place to verify quality and where errors are made, appropriate mechanisms are in place to ensure that corrective action is taken and learning is cascaded to prevent recurrence.
- 44 Performance information systems are reasonably secure. Access and data security controls are in place, supported by procedure notes for business critical performance information. Systems undergo regular testing and a data recovery plan is being developed. Arrangements for data security and sharing are covered by an information and data security policy but protocols are still to be developed and consistently applied.
- 45 The Authority has yet to identify the extent of usage and secure the quality of shared data to a comparable standard of that produced internally.

#### **Recommendations**

*R15 Establish the necessary systems and processes to ensure that the quality of all data is 'right first time', including targeted support to staff and managers, user guides and help desk arrangements. And ensure that these arrangements are integrated into wider business planning and management processes*

*R16 Provide adequate support to staff involved in data quality, including training, user guides and help desk arrangements*

*R17 Identify all instances of internal and external data sharing and ensure compliance with agreed protocols and quality standards (link to data quality policy)*

#### **Staffing and Skills**

- 46 Staff responsibilities for data quality are generally understood, although these are not formally communicated or embodied within job descriptions. Through mentoring and support, the Authority has a good understanding of the level of skills (and skills gaps) but has not carried out formal assessments. The absence of a data quality policy and targets makes it difficult for the Authority to ensure consistency although this is in part addressed through individual mentoring and support.
- 47 Informal training and support is available for staff with responsibility for data quality to ensure that they have the necessary knowledge and skills. The Authority has addressed skills gaps in particular service areas although this has yet to be systematically developed on a corporate basis.

#### **Recommendations**

*R18 Identify skills gaps and ensure appropriate training given to all staff with responsibility for data quality.*



## Data Use

- 48 A number of mechanisms are in place to report a wide range of performance information to senior managers and councillors and good communication and feedback arrangements are in place to ensure that staff are kept informed of risks, achievements and the need for any corrective action.
- 49 However there is scope to rationalise and simplify performance reporting arrangements. Not all related performance information is reported together so the Authority may be missing important cross linkages and interdependencies. Arrangements are overly complicated which weakens their effectiveness and impose risks of the Authority losing focus on key issues, or failing to recognise interdependencies or take timely corrective action.
- 50 There is mixed evidence on whether the Authority is using data effectively to manage and improve services. The majority of PIs have improved over the past 3 years but an increasing number of targets have not been met and the proportion of indicators that are not improving has more than doubled from 20 per cent in 2003/04 to 44 per cent in 2005/06
- 51 Effective controls are in place to ensure the reliability of PI data. Processes are in place to validate PI data at both service level and corporately. However, these controls do not apply to all performance information which is not subject to the same degree of rigour.

### **Recommendations**

*R19 Simplify reporting and monitoring arrangements to ensure that all relevant and interrelated data is reported jointly to the appropriate level within the organisation and that actions needed to address cross cutting issues are readily identified and acted upon (for example to include better alignment of reporting on costs, satisfaction levels and performance information to provide stronger focus on value for money and service improvement)*

## Internal Audit

- 52** Internal Audit (IA) is an integral part of an Authority's corporate governance arrangements. Each year our review of IA is designed to serve several purposes:
- to provide members with an independent opinion as to the adequacy of their system of IA;
  - to inform our assessment of aspects of the Authority's corporate governance arrangements and opinion work;
  - to identify IA work that we can seek to rely on rather than duplicate; and
  - to provide evidence that it is reasonable for us to rely on individual pieces of IA work (i.e. to satisfy ourselves that IA work is carried out to a proper standard).
- 53** Our IA review 'Changing Focus in pursuit of Excellence' issued in April 2005 raised a number of concerns about the effectiveness of the previous IA provision within the Authority. In response to these concerns, the Authority decided to terminate the contract with the then IA provider and seek to appoint an in house IA team reporting to the section 151 officer. Delays in this appointment resulted in a number of interim providers undertaking IA work prior to the new internal Audit Manager taking up his post in January 2006. As a result, the 2005/2006 IA coverage was restricted to a review of the key financial systems and was completed by a number of different providers.
- 54** IA is subject to review by ourselves on an annual basis with a full review undertaken every three years or when significant changes to the provision take place. In light of the recent changes we decided to undertake a detailed review this year. We did, however, agree to defer this detailed review until the new Audit Manager had had time to develop his own IA arrangements.
- 55** Our review assessed compliance against the IA code<sup>1</sup> published in late 2003. This code introduced updated guidance on what constitutes proper practice for IA sections. The following paragraphs set out our assessment against the code and is based on the new arrangements in place as at August 2006.
- 56** Our overall conclusion is that the Authority and specifically the new Audit Manager have made significant progress in establishing comprehensive IA arrangements capable of providing management and members with an independent assessment of the adequacy and effectiveness of the internal controls operating within the Authority. We are confident that these new arrangements and the recent appointment of the second member of the audit team will enable IA to become fully effective.
- 57** Specific areas of good practice arising from our detailed review include:
- Establishing a Final Accounts and Audit Committee (FA+AC) to monitor amongst other things IA coverage;

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<sup>1</sup> CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2003 (CIPFA code)

- Drafting and circulating of an IA terms of reference and an IA strategy both of which clearly set out the objectives and working practices of the new IA function;
- Developing a risk based IA plan for 2005/2006 to 2007/2008 that takes account of not only financial risk but the wider business risks facing the Authority;
- Having a full complement of qualified and experienced IA staff in place capable of delivering a full year's IA plan;
- Establishing good relationships with external audit and summarising areas for reliance in a joint working agreement;
- Developing comprehensive working paper templates that ensure a consistent approach to documentation across all audit tasks, and
- Establishing a basket of performance indicators and targets to monitor IA delivery.

**58** However, whilst very good progress has been made over the last 6 months, continued effort will be required to ensure that the 2006/2007 audit plan is fully delivered. Importantly effort will be required to ensure that working practices, coverage and reporting fully adheres to the newly established arrangements and good practice guidance.

**59** Specific areas requiring further attention include:

- Raising the status of the Audit Manager. In our view the Audit Manager does not have sufficient status within the current Authority structure to fully facilitate effective discussion and implementation of audit work. Specifically, he is not a member of the team leaders group and as a result is at risk of not being fully aware of all developments within the Authority that may impact on his role;
- The need for the FA+AC to approve IA's terms of reference. Members of this committee then need to consider what information they require from the new Audit Manger to enable them to discharge their responsibilities;
- Ensuring IA work is drawn together annually to arrive at an overall view of the system of internal control operating within the Authority. This will then need to be communicated to the new FA+AC within an annual report and used to inform the production of the annual system of internal control disclosure;
- Ensuring the annual IA report details not only progress against the audit plan but also includes information on compliance with standards, highlights internal control issues and qualifications arising from individual audits;
- Ensuring training and development for IA staff is informed by periodic appraisals and that budgets are allocated to enable external training to be provided. A training record then needs to be maintained for audit staff;
- Ensuring IA are consulted when draft contracts/SLAs are being drawn up with 3rd parties to ensure adequate access rights are provided for within such agreements (eg payroll provision by Wiltshire County Council);

- Ensuring relationships between the HB investigations unit for preventing and investigating fraud and IA are clearly defined in new HB anti benefit fraud policy currently being drafted;
  - Recognising there has been a whole raft of staffing issues due to sickness and departures, there now needs to be a more formalised supervisory arrangement established for monitoring the work of the audit manager. This should include the establishment of objectives and targets;
  - Refining the basket of local performance indicators established by the new Audit Manager to manage IA performance to include a cost indicator, and
  - Ensuring that future audit plans provide additional information, including:
    - Who is likely to complete the work,
    - The approximate timing of the work (which quarter).
- 60** In addition future plans could be revised to separately identify time allocated to non-audit activity including training, appraisals, meetings, external audit review, committee preparation and policy and procedures development.
- 61** The Audit Commission is committed to strategic regulation and reducing the burden of external audit and inspection on councils. In this spirit, our approach throughout has been to offer the Authority opportunities to maximise our reliance on IA work. To formalise this arrangement, there is now a joint working agreement with IA for 2006/2007.

**Recommendations**

*R20 Raise the status of the Audit Manager to ensure he has sufficient status within the Authority structure to fully facilitate effective discussion and implementation of audit work.*

*R21 The FA+AC should approve IA's new strategy and terms of reference. Members of this committee then need to consider what information they require from the Audit Manager to enable them to discharge their responsibilities.*

*R22 Ensure IA work is drawn together annually to arrive at an overall view of the system of internal control operating within the Council.*

*R23 Ensure an annual IA report is produced that details not only progress against the audit plan but also information on compliance with standards, controls and qualifications.*

*R24 Ensure training and development for IA staff is informed by periodical appraisals and that budgets are allocated to enable external training to be provided. A training record then needs to be maintained for audit staff.*

*R25 Ensure IA are consulted when draft contracts/SLAs are being drawn up with 3rd parties to ensure adequate access rights are provided for within such agreements.*

*R26 Ensure relationships between the HB investigations unit for preventing and investigating fraud and IA are clearly defined in new HB anti benefit fraud policy currently being drafted.*

*R27 Ensure formal supervisory arrangements are established for monitoring the work of the audit manager. This should include the establishment of objectives and targets.*

*R28 Refine the basket of local performance indicators established by the new Audit Manager to manage IA performance to include a cost indicator.*

*R29 Ensuring that future audit plans provide additional information on non-audit activities such as training, appraisals, liaison etc.*

## Use of auditors' statutory powers

- 62 Auditors are required to consider the exercise of certain statutory powers during the course of the audit, as summarised in Table 2 below.

**Table 4 Use of statutory powers**

<b>Issue</b>	<b>Auditor responsibility</b>	<b>Impact</b>
Section 8 reports	Section 8 of the Act requires that auditors should consider whether, in the public interest, they should report on any matter that comes to their attention in the course of the audit so that it may be considered by the body concerned or brought to the attention of the public.	There have been no section 8 reports in respect of the financial year 2005/2006.
Section 11 recommendations	To consider whether a written recommendation should be made to the audited body requiring it to be considered and responded to publicly.	There have been no section 11 recommendations.
Best value	To consider whether to recommend that the Audit Commission should carry out a best value inspection of the Authority under section 10 of the Local Government Act 1999 and/or that the Secretary of State should give a direction under section 15 of that Act.	Our work in respect of the Authority's 2005/2006 Best Value Performance Plan (BVPP) was reported in the 2005 annual audit and inspection letter. No recommendations were made to the Audit Commission or the Secretary of State.

## Closing remarks

- 63** This report has been discussed and agreed with management. A copy of the memorandum will be presented at the Final Accounts and Audit Committee on 26 September 2006.
- 64** The report makes a number of recommendations. An action plan is included at Appendix 7, which includes responses from management and indicative target dates for the implementation of recommendations.
- 65** The Authority has taken a positive and constructive approach to our audit and I would like to take this opportunity to express my appreciation for the Authority's assistance and co-operation.

**Brian Bethell**  
**District Auditor**

26 September 2006

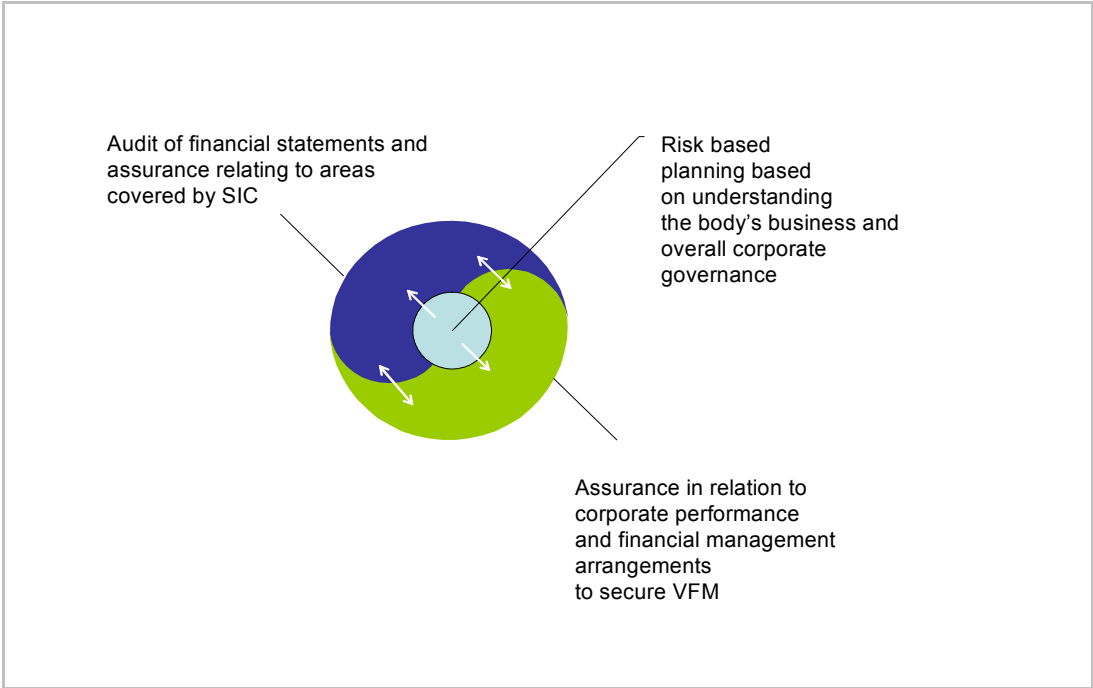
# Appendix 1 – Audit responsibilities and approach

## Audit objectives

Our objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on the significant risks that are relevant to our audit responsibilities.

**Figure 1 Code of Audit Practice**

Code of practice responsibilities





## **Approach to the audit of the financial statements**

In our approach to auditing the financial statements, we adopt a concept of materiality. Material errors are those which might be misleading to a reader of the financial statements. We seek, in planning and conducting our audit of the accounts, to provide reasonable assurance that your financial statements are free of material misstatement. In planning our work we considered the arrangements of the Authority which had most impact on our opinion. These included:

- the standard of the overall control environment and internal controls;
- reliance on internal audit;
- the likelihood of material misstatement occurring from of material information systems; or a material error failing to be detected by internal controls;
- any changes in financial reporting requirements; and
- the effectiveness of procedures for producing the financial statements and supporting material.

The results of the above feed into our risk assessment which determines the level and type of testing undertaken on each element of the financial statements.

## **Approach to audit of arrangements to secure value for money**

The scope of these arrangements is defined in paragraph 20 of the Code as comprising:

- corporate performance management; and
- financial management arrangements.

Our conclusion is informed and limited by reference to relevant criteria covering specific aspects of audited bodies' arrangements, specified by the Code.

In planning audit work in relation to the arrangements for securing economy, efficiency and effectiveness in the use of resources, considered and assessed relevant significant business risk. Significance is defined by the Code as 'a matter of professional judgment and includes both quantitative and qualitative aspects of the risk'.

The potential sources of assurance when reaching the value for money conclusion include:

- the Authority's whole system of internal control as reported in its statement on internal control;
- results from statutory inspections or the work of other regulators, for example, corporate assessments, service assessments (whether by the Commission or other regulators), etc.;
- work specified by the Audit Commission, for example, the use of resources assessments, and data quality work;
- links to the financial statements' audit, including review of internal audit, the SIC and budgetary control arrangements; and
- other work necessary to discharge our responsibilities.

## Appendix 2 – Audit reports issued

**Table 5**

<b>Planned output</b>	<b>Planned date of issue</b>	<b>Actual date of issue</b>	<b>Addressee</b>
Audit and inspection plan 2005/2006	March 2005	28 April 2005	Management team
Use of Resources 2005/2006	March 2005	9 March 2006	Management team
BVPP and BVPI reports (statutory and audit report)	October 2005	31 October 2005	Management team
Annual Audit Letter 2005	March 2006	3 April 2006	Executive
Service and Financial planning workshop	July 2006	20 July 2006	Management team + attendees
Direction of Travel	March 2006	2 March 2006	Management team
VFM conclusion	September 2006	26 September 2006	Final Accounts + Audit Committee
Annual Governance report	September 2006	26 September 2006	Final Accounts + Audit Committee
Opinion on financial statements	September 2006	26 September 2006	Final Accounts + Audit Committee
Performance Management report	September 2006	26 September 2006	Final Accounts + Audit Committee

## Appendix 3 – Fee information

**Table 6**

<b>Fee estimate</b>	<b>Plan 2005/06</b>	<b>Actual 2005/06</b>
Accounts*	53,665	60,455
Use of resources	34,739	34,739
Total audit fees	88,404	95,194

\* Additional fee charged to reflect the additional work required in 2005/2006 to document the information systems and follow-up outstanding issues at the post statements stage.

## **Appendix 4 – The Audit Commission’s requirements in respect of independence and objectivity**

We are required by the standard to communicate following matters to the Audit Committee:

- the principal threats, if any to objectivity and independence identified by the auditor, including consideration of all relationships between the Authority, directors and the auditor;
- any safeguards adopted and the reasons why they are considered to be effective;
- any independent partner review;
- the overall assessment of threats and safeguards; and
- information about the general policies and processes for maintaining objectivity and independence.

We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under auditing and ethical standards.

## **Appendix 5 – Independent auditor’s report to North Wiltshire District Council**

### **Opinion on the financial statements**

I have audited the financial statements of North Wiltshire District Council for the year ended 31 March 2006 under the Audit Commission Act 1998. The financial statements comprise the Consolidated Revenue Account, Collection Fund, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement and the related notes. The pension fund accounts comprise the Fund Account, the Net Assets Statement, and the related notes. The financial statements and pension fund accounts have been prepared under the accounting policies set out within them.

This report is made solely to North Wiltshire District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

### **Respective responsibilities of the Chief Finance Officer and auditors**

The Chief Finance Officer’s responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005 are set out in the Statement of Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements presents fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005.

I review whether the statement on internal control reflects compliance with CIPFA’s guidance 'The Statement of Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003' published on 2 April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

I read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

### **Basis of audit opinion**

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In my opinion 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 2005, the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended; and

Brian Bethell, District Auditor

Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol,  
BS34 8SR

Signature .....

Date: 26 September 2006.

## **Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **Authority’s Responsibilities**

The authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the authority is required to prepare and publish a best value performance plan summarising the authority’s assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

### **Auditor’s Responsibilities**

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

I am required by section 7 of the Local Government Act 1999 to carry out an audit of the authority’s best value performance plan and issue a report:

- certifying that I have done so;
- stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

### **Conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice and I am satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in July 2005, in all significant respects, North Wiltshire District Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006.



## **Best Value Performance Plan**

I issued my statutory report on the audit of the authority’s best value performance plan for the financial year 2005/06 on 31 October 2005. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

## **Auditors’ responsibilities**

Auditors have a duty under the Audit Commission Act 1998 to consider whether, in the public interest, to report on any matter that comes to their attention in the course of the audit in order for it to be considered by the body concerned or brought to the attention of the public.

## **Certificate**

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Brian Bethell, District Auditor

Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol,  
BS34 8SR

Signature .....

Date: 26 September 2006.

## Appendix 6 – Letter of representation

Brian Bethell  
District Auditor  
Audit Commission  
Westward House  
Lime Kiln Close  
Bristol  
BS34 8SU

### North Wiltshire District Council

Dear Mr Bethell

### Financial Statements for the year ended 31 March 2006

We confirm to our best knowledge and belief, and having made appropriate enquiries of other senior officers of North Wiltshire District Council, the following representations given to you in connection with your audit of the financial statements for the year ended 31 March 2006:-

#### Specific

We are of the opinion that NWLL Ltd does not fulfil the tests that require it to be treated as a group entity in the accounts.

We will not seek to break the contract with Jarvis plc unless it has developed an alternative arrangement after undertaking an options appraisal.

#### General

We have prepared the financial statements in accordance with all applicable accounting standards. We confirm that the statements present fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ending 31st March 2006 and are free of material misstatements, including omissions.

We have made available to you all:

- accounting and financial records and related data
- minutes of committee and management meetings and related information.

All the material transactions undertaken by North Wiltshire District Council have been properly reflected and recorded in the accounting records.

There have been no:

- significant irregularities, including fraud, other than those already disclosed to the auditor

- irregularities involving management of employees who have significant roles in the system of internal accounting control
- irregularities involving other employees that could have a material effect on the financial statements
- communications from regulatory agencies concerning non-compliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements.

We have no plans or intentions that may materially affect the valuation or classification of assets and liabilities.

North Wiltshire District Council has satisfactory title to all assets and there are no liens or encumbrances on the Council's assets. No assets have been pledged as collateral.

We have complied with all aspects of contractual agreements that would require adjustment to, or disclosure in, the financial statements.

There are no significant contingent liabilities, post balance sheet events or capital commitments other than those disclosed in the financial statements.

There is no significant pending or threatened litigation, other than those already disclosed in the financial statements.

Guidance has been issued by North Wiltshire District Council to make senior officers and key managers aware of the requirement to declare all interests relevant to the Council, including interests of families, partners and entities controlled by them.

We confirm that registers of interest are complete and up to date in respect of senior officers and key managers.

The identity of, and balances and transactions with, related parties have been properly recorded and when appropriate, adequately disclosed in the financial statements.

There have been no known instances of non-compliance with laws or regulations likely to have a significant effect on the finances or operations of the Council.

Yours sincerely

Mr D Ashton  
Acting Section 151 Officer

Chair of the Final Accounts  
and Audit Committee

## Appendix 7 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
R1	<i>Reconciliations should be carried out between the financial ledger and all feeder systems on a regular basis during the year. Any differences should be investigated and adjustments made or explanations given. All reconciliations should be reviewed by a senior member of the finance team.</i>	3				
R2	<i>All working papers are presented in the same format as the Audit Commission Audit Pack and that all working papers are fully referenced. Checklists should also be fully referenced to the working paper files.</i>	2				
R3	<i>Analytical Reviews should be provided for all statements in the accounts. For the Consolidated Revenue Account this should include variances between financial years and also with the original budget. Analytical reviews should be provided in the BVACOP format.</i>	3				

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
R4	<i>The authority should ensure that it reviews the changes to the CIPFA Statement of Recommended Practice each year in time to produce the Statement of Accounts.</i>	3				
R5	<i>Ensure that the uncorrected misstatements outlined in table 1 are corrected in 2006-7.</i>	3				
R6	<i>Improve year end and qualitative processes for producing the financial statements to ensure the accounts presented for approval are free from significant errors and supported by a robust set of working papers.</i>	3				
R7	<i>Review arrangements for the compilation of the housing benefit claim to ensure it is undertaken in a timely and accurate manner.</i>	3				
R8	<i>Explicitly define data quality responsibilities and amend job descriptions of all those accountable for data quality, including those responsible for collection, entering data and reporting performance information of all kinds as well as PIs and LPis.</i>	2				

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
R9	<i>Clarify the role and responsibilities of the lead councillor for data quality.</i>	2				
R10	<i>Ensure the terms of reference of IMDS Group are changed to embrace data quality and any necessary training / development needs met to allow this group to exercise its responsibilities.</i>	2				
R11	<i>Incorporate data quality requirements, including standards and targets into appraisal system for all relevant staff.</i>	2				
R12	<i>Establish corporate data quality policy, with key outcomes reflected in the corporate plan.</i>	3				
R13	<i>Link corporate objectives for data quality management to business area plans and set objectives for individual services</i>	2				
R14	<i>Communicate commitment to data quality to staff at all levels</i>	2				
R15	<i>Establish the necessary systems and processes to ensure that the quality of all data is 'right first time', including targeted support to staff and managers, user guides and help desk arrangements. And ensure that these</i>	2				

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	<i>arrangements are integrated into wider business planning and management processes</i>					
R16	<i>Provide adequate support to staff involved in data quality, including training, user guides and help desk arrangements</i>	2				
R17	<i>Identify all instances of internal and external data sharing and ensure compliance with agreed protocols and quality standards (link to data quality policy)</i>	1				
R18	<i>Identify skills gaps and ensure appropriate training given to all staff with responsibility for data quality.</i>	2				
R19	<i>Simplify reporting and monitoring arrangements to ensure that all relevant and interrelated data is reported jointly to the appropriate level within the organisation and that actions needed to address cross cutting issues are readily identified and acted upon (for example to include better alignment of reporting on costs, satisfaction levels and performance information to provide</i>	3				

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	<i>stronger focus on value for money and service improvement)</i>					
R20	<i>Raise the status of the Audit Manager to ensure he has sufficient status within the Authority structure to fully facilitate effective discussion and implementation of audit work.</i>	3	Chief Executive and CMB	Yes	Senior managers will continue to work with the Audit Manager to raise the profile of Internal Audit across the organisation. The position of the Audit Manager will be reviewed in light of any changes to the organisation's structure.	Ong oing
R21	<i>The FA+AC should approve IA's terms of reference. Members of this committee then need to consider what information they require from the Audit Manager to enable them to discharge their responsibilities.</i>	3	Audit Manager	Yes	The Terms of Reference has been approved by CMB and will be presented to the September meeting of the Final Accounts and Audit committee. The Audit Manager has been in contact with the Chairman to discuss information requirements and will progress the issue.	Sept 06
R22	<i>Ensure IA work is drawn together annually to arrive at an overall view of the system of internal control operating within the Council.</i>	3	Audit Manager	Yes	The report by the Audit Manager to the April 2007 Final Accounts and Audit committee will provide an overall view of the system of internal control, which will then be fed into the Council's Statement on Internal Control	Apr 07



Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
R23	<i>Ensure an annual IA report is produced that details not only progress against the audit plan but also information on compliance with standards, controls and qualifications.</i>	3	Audit Manager	Yes	A report on the position as at the end of the year will be presented to the April 2007 Final Accounts and Audit Committee, which will contain the information set out in the Code.	Apr 07
R24	<i>Ensure training and development for IA staff is informed by periodical appraisals and that budgets are allocated to enable external training to be provided. A training record then needs to be maintained for audit staff.</i>	2	Finance Team Leader and Audit Manager	Yes	1-2-1s and appraisals will identify training needs which will then be addressed through available funds. Training records are already maintained for individual auditor's CPD requirements.	Ongoing
R25	<i>Ensure IA are consulted when draft contracts/SLAs are being drawn up with 3rd parties to ensure adequate access rights are provided for within such agreements.</i>	3	Strategic Managers and Team Leaders	Yes	Any major contracts or SLAs, as well as new policies and procedures, will be circulated to Internal Audit for their comments.	Ongoing
R26	<i>Ensure relationships between the HB investigations unit for preventing and investigating fraud and IA are clearly defined in new HB anti benefit fraud policy currently being drafted.</i>	1	Interim Benefits Team Leader and Audit Manager	Yes	The Investigation Team are responsible for the prevention, detection and investigation of benefit fraud only. All other instances of fraud will be referred to Internal Audit. In the event of internal benefit fraud Internal Audit will be responsible for leading investigations but will	Ongoing

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
					seek advice and assistance from the Investigations Team Leader where appropriate.	
R27	<i>Ensure formal supervisory arrangements are established for monitoring the work of the audit manager. This should include the establishment of objectives and targets.</i>	2	Strategic Manager – Corporate Services and Finance Team Leader	Yes	Line management, including responsibility for appraisals and 1-2-1s, has passed to the Corporate Services Strategic Manager during the absence of the Finance Team Leader.	Ong oing
R28	<i>Refine the basket of local performance indicators established by the new Audit Manager to manage IA performance to include a cost indicator.</i>	2	Audit Manager	Yes	A cost per productive day indicator will be produced and reported at year-end alongside other indicators.	Apr 07
R29	<i>Ensuring that future audit plans provide additional information on non-audit activities such as training, appraisals, liaison etc.</i>	1	Audit Manager	Yes	The information is currently built into the number of available days when producing the audit plan. In future training and other non-productive time will be shown on the face of the audit plan.	Sep 06