

# Annual Governance Report

Hatfield Town Council

Audit 2007/08

March 2009



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## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

### Purpose

- 1 This report summarises the findings from our 2007/08 audit, which are substantially complete. It identifies the key issues that you should consider before we issue our opinion, conclusion and certificate.
- 2 This report includes only matters of governance interest that have come to our attention in performing our audit. Our audit is not designed to identify all matters that might be relevant to you.

### Financial statements

- 3 Our work on the financial statements is substantially complete except in respect of the Annual Governance Statement, and disclosures around financial instruments, where we are concluding our work. I also need to complete my final review and we need to confirm that the audit amendments to the financial statements have been made correctly. Statutory requirements in respect of public inspection will be completed on 1 April 2009.
- 4 Subject to the clearance of these matters and any issues that may arise from them, we expect to issue an unqualified opinion by 2 April 2009.
- 5 Our audit identified a significant number of errors in the financial statements, in particular around compliance with the Local Government SoRP. These errors have necessitated a number of amendments to the draft financial statements approved by Members in July 2008. Details of these are set out in Table 2.

### Value for Money

- 6 I am required to assess whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. We assess the Council's arrangements against eleven criteria specified by the Commission.
- 7 I have assessed the Council's arrangements as inadequate in a number of areas, in particular the following.
  - Risk Management.
  - Internal Control (in particular the lack of an internal audit function).
  - Budget monitoring (in particular the lack of regular reporting to a Member Committee on outturn against budget).
  - Probity and propriety (in particular the lack of a whistleblowing policy, and formal arrangements for investigating allegations of fraud and corruption).
- 8 I therefore propose issuing a qualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.

### Formal audit powers

9 I do not propose to use any of the formal powers available to me.

### Next steps

10 We ask Members to:

- consider the matters raised in the report before recommending the financial statements for approval;
- agree to adjust the financial statements as set out in our recommendations;
- approve the representation letter on behalf of the Council before we issue our opinion, conclusion and certificate; and
- agree the proposed action plan.

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# Financial statements and Annual Governance Statement

- 11 The Council's financial statements and Annual Governance Statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for the financial statements and Annual Governance Statement. It is therefore important that you consider our findings before you adopt the financial statements and the Annual Governance Statement.
- 12 In planning our audit we identified specific risks and areas of judgement that we have focused on during our audit. We report to you the findings of our work in those areas.
- 13 In addition, auditing standards require us to report to you:
- the draft representation letter which we are asking management and you to sign;
  - our views about the Council's accounting practices and financial reporting;
  - errors in the financial statements;
  - any expected modification to our report;
  - weaknesses in internal control; and
  - certain other matters.

## Key areas of judgement and audit risk

- 14 In planning our audit we identified key areas of judgement and audit risk that we have considered as part of our audit. Our findings are set out in Table 1.

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**Table 1 Key areas of judgement and audit risk**

<b>Issue or risk</b>	<b>Finding</b>
In previous years we have identified the draft financial statements did not comply with the disclosure requirements set out by the Local Government Statement of Recommended Practice.	In common with previous years, our audit of the 2007/08 draft financial statement identified a number of areas where the draft financial statement did not comply with the Local Government Statement of Recommended Practice 2007 (2007 SoRP).

### Draft representation letter

**15** Before we issue our opinion, auditing standards require us to obtain from you and management, written representations that:

- you acknowledge your collective responsibility for preparing financial statements in accordance with the applicable financial reporting framework;
- you have approved the financial statements;
- you acknowledge your responsibility for the design and implementation of internal controls to prevent and detect fraud and error;
- you have told me the results of your assessment of the risk that the financial statements might be materially misstated because of fraud;
- you have told me any actual or suspected fraud by management, employees with significant roles in internal control or others (where the fraud could have a material impact on the financial statements);
- you have told me of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
- you have told me about all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements;
- you have assessed the reasonableness of significant assumptions, including whether they appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Council where relevant to the fair value measurements or disclosures;
- you are satisfied that all related parties requiring disclosure in the financial statements have been disclosed and that the disclosure is adequate;
- you are satisfied that the individual or collective impact of errors we have identified, but that you have not corrected, is not material; and
- cover areas where other sufficient appropriate evidence cannot reasonably be expected to exist, for example the completeness of the disclosure of contingent liabilities.

**16** Appendix 2 contains a request for a draft letter of representation from you.

### Accounting policies and financial reporting

**17** We consider the qualitative aspects of your financial reporting. Table 2 contains the issues we want to raise with you.

**Table 2 Accounting practice and financial reporting**

Issue	Finding
Annual Governance Statement	The draft financial statements for 2007/08 did not include an Annual Governance Statement as required by the document 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007; instead the Council continued to include in its accounts a Statement of Internal Control. The draft accounts have now been amended to include an Annual Governance Statement.
Compliance with Local Government Statement of Recommended Practice	The Council had not reflected in its financial statements the requirements of the 2007 SoRP. The Council had not included a Capital Adjustment Account or Revaluation Reserve but had instead followed the practice set out in previous versions of the SoRP and had accounted for the movement on fixed asset balances through a Capital Financing Account and Fixed Asset Restatement Account. The draft accounts have now been amended to reflect the revised 2007 SoRP disclosure requirements.
Compliance with Local Government Statement of Recommended Practice	<p>The Council had not complied with the requirement set out in the 2007 SoRP that Debtors, Creditors and Loans and Borrowings should be accounted for for in accordance with Financial Reporting Standards 25, 26 and 27. Consequently the Council had omitted a number of required disclosures from its accounts.</p> <p>The draft accounts have now been amended to reflect the revised 2007 SoRP disclosure requirements.</p> <p>The Council had not included disclosure notes on related party transactions and post balance sheet events, as required by the 2007 SoRP. The draft accounts have now been amended to reflect the 2007 SoRP disclosure requirements.</p>

**Recommendation**

**R1** The Council should put in place appropriate arrangements for ensuring that the financial statements for future years are produced in accordance with the version of the Local Government SoRP in place for that year.

### Errors in the financial statements

- 18** We identified errors in the financial statements (other than those of a trivial nature) and reported these to management. Details of these errors are set out in paragraphs 21 to 26.

### Purchase of Hedge Cutter Side Arm

- 19** During the course of 2007/08, the Council purchase a tractor attachment at a cost of £5,415. This expenditure meets the definition of a fixed asset as set out in Financial Reporting Standard 15, and is above the Council's capitalisation threshold of £5,000. The value of fixed assets in the balance sheet has therefore been understated by £5,415, and expenditure in the income and expenditure account has been overstated by £5,415.

### Acquisition of Play Equipment at Birchwood Leisure Centre

- 20** During the course of 2007/08, the Council acquired the play equipment in Birchwood Leisure Centre following liquidation of a leaseholder. This equipment was acquired at a cost to the Council of £9,500. This expenditure meets the definition of a fixed asset as set out in Financial Reporting Standard 15, and is above the Council's capitalisation threshold of £9,500. The value of fixed assets in the balance sheet has therefore been understated by £9,500, and expenditure in the income and expenditure account has been overstated by £9,500.
- 21** Management has not adjusted the financial statements for the errors identified above. We would therefore ask you to consider whether to adjust these errors. If you decide not to do so, please tell us why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

### The audit report

- 22** We plan to issue an unmodified report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of our draft report.

### Material weaknesses in internal control

- 23** Other than the matters set out in Table 3, we have not identified any weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware.

### Other matters

- 24** There are no other matters that auditing standards require me to report to you.

# Value for money

- 25** We are required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. We assess your arrangements against seven criteria specified by the Commission. Our conclusion is informed by our work on Use of Resources, a scored judgement reported to the Audit Commission.
- 26** We identified weaknesses in arrangements for securing value for money as detailed below.

**Table 3 Value for money conclusion: criteria where assessed as not adequate**

Criterion	Finding
The body has put in place arrangements to maintain a sound system of internal control	In 2007/08, the Council had not put in place any mechanism for obtaining independent assurance on the adequacy of, and effective operation of, its system of internal control. We understand that throughout 2008/09, the Council has put in place an Internal Audit function.
The body has put in place arrangements to manage its significant business risks	In 2007/08 the Council had not put in place formal arrangements for assessing its business risks, and ensuring that these risks were adequately controlled. Members are not sufficiently involved in risk management, and reports to Members to support policy decisions did not include a formal risk assessment.
The body has put in place arrangements for managing performance against budgets.	Throughout 2007/08, Members Committees did not receive formal budget monitoring reports. Consequently Members' ability to influence necessary corrective action was limited. We understand that Resources Committee now receives a regular summary of outturn against budget.
The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	Throughout 2007/08, the Council did not have in place a counter fraud and corruption policy, a whistle blowing policy, or formal arrangements for investigating allegations of breaches of proper standards of financial conduct, and of fraud and corruption.

**Recommendation**

**R2** The Council should put in place appropriate procedures for assessing business risks on a regular basis, identifying the actions necessary to mitigate those risks, and reporting the outcome of this to Members on a regular basis.

**R3** The Council should put in place a formal whistle blowing policy, and establish and publicise procedures for investigating allegations of fraud and corruption.

**27** We therefore propose to issue a qualified conclusion stating the Council did not have adequate arrangements for securing economy, efficiency and effectiveness. Appendix 1 contains the wording of our draft report.

# Formal audit powers

28 We have:

- a power to issue a public interest report. We do so where we believe this is necessary to draw a matter to your attention, or to that of the public;
- a power to apply to court for a declaration that an item in the Council's accounts is contrary to law;
- a power to issue an advisory notice. An advisory notice requires the Council to meet and consider the notice before:
  - making a decision that might give rise to unlawful expenditure;
  - taking an unlawful course of action that would give rise to a loss; or
  - making unlawful entry in the accounts; and
- a power to seek judicial review of a decision of the Council.

29 We have not and do not propose to exercise these powers.

# Independence

- 30** The Code of Audit Practice and the APB's Ethical Standards with which auditors must comply require that auditors act, and are seen to act, with integrity, objectivity and independence.
- 31** We confirm that we comply with the APB's Ethical Standards, that we are independent and that our objectivity is not compromised.
- 32** We communicate to you:
- any relationships between us and the Council, its members and senior management that might affect our objectivity and independence and any safeguards put in place;
  - total fees charged to you for audit and non-audit services; and
  - our arrangements to ensure independence and objectivity.

## Relationships with the Council

- 33** We have identified no relationships that might affect objectivity and independence.

## Audit fees

- 34** We reported our fee proposals as part of the Audit Plan for 2007/08. Table 4 reports the outturn fee against that plan.

**Table 4     Audit fees**

	<b>Plan 2007/08</b>	<b>Actual 2007/08</b>
Financial statements and Annual Governance Statement	£8,300	£8,300
Value for Money	£1,000	£1,000
<b>Total Audit Fees</b>	<b>£9,300</b>	<b>£9,300</b>

## Our arrangements to ensure independence and objectivity

- 35** We have comprehensive procedures to ensure independence and objectivity. These are outlined in Table 5.

**Table 5 Arrangements to ensure independence and objectivity**

Area	Arrangements
Independence policies	<p>Our policies and procedures ensure that professional staff or an immediate family member:</p> <ul style="list-style-type: none"> <li>● do not hold a financial interest in any of our audit clients;</li> <li>● may not work on assignments if they have a financial interest in the client or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the client; and</li> <li>● may not enter into business relationships with UK audit clients or their affiliates.</li> </ul> <p>Our procedures also cover the following topics and can be provided to you on request:</p> <ul style="list-style-type: none"> <li>● the general requirement to carry out work independently and objectively;</li> <li>● safeguarding against potential conflicts of interest;</li> <li>● acceptance of additional (non-audit) work;</li> <li>● rotation of key staff;</li> <li>● other links with audited bodies;</li> <li>● secondments;</li> <li>● membership of audited bodies;</li> <li>● employment by audited bodies;</li> <li>● political activity; and</li> <li>● gifts and hospitality.</li> </ul>
Code of Conduct	<p>The Code of Conduct forms part of the terms and conditions of all Audit Commission employees. The Code of Conduct states that staff have to comply with ethical guidance issued by their relevant professional bodies.</p>
Confidentiality	<p>All staff are required to sign an annual undertaking of confidentiality as a condition of employment.</p>

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# Appendix 1 – Draft Audit Opinion

## Independent auditor's report to the Members of Hatfield Town Council

### Opinion on the financial statements

I have audited the accounting statements and related notes of Hatfield Town Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Hatfield Town 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 Responsible Finance Officer and auditor

The Responsible Finance Officer's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Statement of Accounts.

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 accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007:

- the financial position of the Council and its income and expenditure for the year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE 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 governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures.

## Appendix 1 – Draft Audit Opinion

I read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting 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 accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, 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 accounting statements and related notes 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 accounting statements and related notes.

### Opinion

In my opinion:

- The Town Council financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended.

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

### Town Council's Responsibilities

The Town Council's 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 regularly to review the adequacy and effectiveness of these arrangements.

### 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.

### Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice. In so doing, I identified the following weaknesses in the Town Councils' arrangements.

- Risk Management, in particular the lack of a formal risk management process, and reporting of risk issues to Members.
- Internal Control, in particular the lack of an internal audit function.
- Budget monitoring, in particular the lack of regular reporting to a Member Committee on outturn against budget.
- Probity and propriety, in particular the lack of a whistleblowing policy, and formal arrangements for investigating allegations of fraud and corruption.

For the reasons set out above, and having regard to relevant criteria specified by the Audit Commission for principal local authorities, I am not satisfied that, in all significant respects, Hatfield Town Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008, in that it did not put in place:

- adequate arrangements to maintain a sound system of internal control;
- adequate arrangements to manage its significant business risks;
- adequate arrangements for managing performance against budgets; and
- adequate arrangements for the management of its asset base.

## Appendix 1 – Draft Audit Opinion

### Best Value Performance Plan

I have issued our statutory report on the audit of the Authority's best value performance plan for the financial year 2007/08 on 17 July 2008. I did not identify any matters to be reported to the Town Council and did not make any recommendations on procedures in relation to the plan.

### 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.

.....

Date:.....

**Mark Hodgson**  
**District Auditor**

**Audit Commission**  
**1st Floor, Sheffield House,**  
**Lytton Way,**  
**Stevenage,**  
**Herts SG1 3HG**

# Appendix 2 – Request for a Letter of Representation

25 March 2009

Ms C Lloyd  
Town Clerk  
Hatfield Town Council  
Birchwood Leisure Centre  
Hatfield

Dear Ms Lloyd

## **Audit of accounts 2007/08 Request for a letter of representation**

International Standards on Auditing set out guidance on the use by auditors of management representations (ISA (UK&I) 580) and on possible non-compliance with laws and regulations (ISA (UK&I) 250). We have interpreted this guidance as it affects councils and we expect the following points to apply:

- auditors may wish to obtain written representation where they are relying on management's representations in respect of judgemental matters (for example the level of likely incidence of a claim), which may not be readily corroborated by other evidence;
- auditors are likely to request written representations on the completeness of information provided;
- auditors may wish to obtain written representation on issues other than those directly related to the financial statements;
- the letter is dated on or near to the date on which the auditor signs the opinion and certificate;
- the letter is signed by the person or persons with specific responsibility for the financial statements; and
- the letter is formally acknowledged as having been discussed and approved by the Resources Committee, as those charged with governance of the Council.

## Appendix 2 – Request for a Letter of Representation

I would expect the letter of representation for Hatfield Town Council to include the following.

### Compliance with the statutory authorities

An acknowledgement of your responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which present fairly the financial position and financial performance of the Council and for making accurate representations to us.

### Uncorrected misstatements

Confirmation that the effects of any uncorrected financial statements misstatements (to be listed in the annual governance report) are not material to the financial statements, either individually or in aggregate and that these misstatements have been discussed with those charged with governance. The reasons for not correcting any such items should be given.

### Supporting records

Confirmation that all the accounting records, other records and related information, including minutes of all Council and Committee meetings have been made available to us for the purpose of our audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records.

### Irregularities

Confirmation of responsibility for the design and implementation of internal control systems to prevent and detect fraud or error and that there have been no:

- irregularities involving management or 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; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

Confirmation that you have disclosed:

- knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

### Law, regulations, contractual arrangements and codes of practice

Confirmation that there are no instances of non-compliance with laws, regulations and codes of practice, which are likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

### Fair values

Confirmation that the significant assumptions within the financial statements, covering investments, provisions, depreciation and accruals assumptions, are reasonable. Specifically in relation to:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- if subsequent events require adjustment to the fair value measurement.

### Contingent liabilities

Confirmation that there are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements
- no financial guarantees have been given to third parties.

### Related party transactions

Confirmation of the completeness of the information disclosed regarding the identification of related parties and that the Council's registers of interest are complete and up to date in respect of Councillors and senior staff. The Council has ensured that all senior staff are aware of the requirement to declare all interests relevant to the Council, including interests of families, partners and entities controlled by them.

### Post balance sheet events

Confirmation that since the date of approval of the financial statements by the Council, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements and that the Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

## Appendix 2 – Request for a Letter of Representation

### Long term investments

Confirmation that the Council has the ability and the intention to continue to hold the investments classified in the balance sheet as long term for periods in excess of one year.

### Group entities

Confirmation that there are no other material group entities requiring the preparation of group accounts other than those included in the financial statements and that all joint arrangements have been properly and accurately reflected in the financial statements.

### Going concern

Confirmation that the financial statements, including the group financial statements, have been prepared on a going concern basis and that this basis is an appropriate one.

Yours sincerely

Mark Hodgson  
District Auditor

\* - Signed by the Town Clerk and Chair of the Resources Committee (as 'those charged with governance' at the Council).

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# The Audit Commission

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

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

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

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