

Annual Audit and Inspection Letter

March 2008



# Annual Audit and Inspection Letter

**Woking Borough Council**

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.
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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**

This report provides an overall summary of the Audit Commission's assessment of the Council, drawing on audit, inspection and performance assessment work and is prepared by your Relationship Manager.

In this report, the Commission summarises findings and conclusions from the statutory audit, which have previously been reported to you by your appointed auditor. Appointed auditors act separately from the Commission and, in meeting their statutory responsibilities, are required to exercise their professional judgement independently of the Commission (and the audited body). The findings and conclusions therefore remain those of the appointed auditor and should be considered within the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission.

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- addressed to members or officers and prepared for the sole use of the audited body; no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

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## Key messages

- 1 This report provides a summary of all audit and inspection work undertaken at Woking Borough Council (the Council) during 2006/07 and to date. It is available to the public, and is written particularly for members. The key messages contained in this report are as follows.
- 2 The Council's overall performance, as measured by a basket of performance indicators, is slightly above the average for district councils and it is improving at a rate that is about average. However the Council performs well in those areas it has set as its own priorities, most notably environmental sustainability and decent affordable housing.
- 3 Environmental sustainability is a key priority and the Council achieved a recycling and composting rate of 38 per cent in 2006/07, which was among the best performances in the country. The Council was also better than average at reducing the overall levels of waste collected. The Council has received Beacon awards for excellence in local government for its work on tackling climate change and for promoting sustainable communities through the planning process.
- 4 The Council provided 62 new affordable houses in 2006/07, which although fewer than in previous years was still among the best performing councils, given the size of the Borough. The Council also significantly reduced the percentage of local authority homes which did not comply with the Government's Decent Homes Standard from 19 per cent to 14 per cent. The Council plans to provide 190 new homes and supporting infrastructure over the next four years and also to achieve the Decent Homes Standard for all council housing.
- 5 The Council has generally sound arrangements to ensure good value for money in its use of resources. We scored the Council at 3 out of 4 indicating that the Council is performing well, with some scope to improve financial reporting and internal financial control.
- 6 The Council's medium term financial strategy is fully integrated with service planning. Budgets and capital programme are soundly based and designed to deliver strategic priorities. Performance is actively managed against budgets throughout the year and the Council regularly reviews its arrangements to ensure they remain fit for purpose.
- 7 The financial position going forward is challenging. The Council has set a zero increase in council tax, at a time when costs are increasing and the financial settlement from the government is very tight. The position will have to be closely managed if the Council is to maintain its good track record of meeting its financial targets.
- 8 The final accounts audit has been particularly problematic this year. At the time of writing we have yet to issue our opinion on the 2006/07 financial statements. However it is worth emphasising that this is largely due to technical accounting issues and should not be taken to imply concerns with the Council's overall financial management and financial standing.

- 9 The main issues are summarised below and further detail is given in the body of the report.
- The audited accounts of the Council's subsidiary companies were not provided until November 2007, so we were unable to give an opinion on the group accounts before the 30 September deadline set by the Audit Commission.
  - The reconciliation of adjustment A (which is a reconciliation between former and current systems of local authority capital accounting) was provided to us by the Council at the end of July 2007, and gave rise to a number of complex technical accounting issues. These have taken some time to resolve to a point where there is one material issue remaining. We are still considering this issue.
  - We identified a number of significant matters during the audit, a small number of which were as a result of late adjustments by the Council.

## Action needed by the Council

- 10 To consolidate and further improve performance the Council should concentrate on the following.
- Implement robust arrangements to ensure the Council's accounts and those of the subsidiary companies are free from material error and uncertainty and are made available for audit in time to meet statutory reporting deadlines.
  - Address the weaker areas (financial reporting and internal control) in the use of resources assessment and ensure the Council is ready for the requirements of the harder test in 2008 and 2009.
  - Carefully manage the financial position going forward to ensure the Council has the resources to maintain and improve its performance while maintaining financial balance.

## Purpose, responsibilities and scope

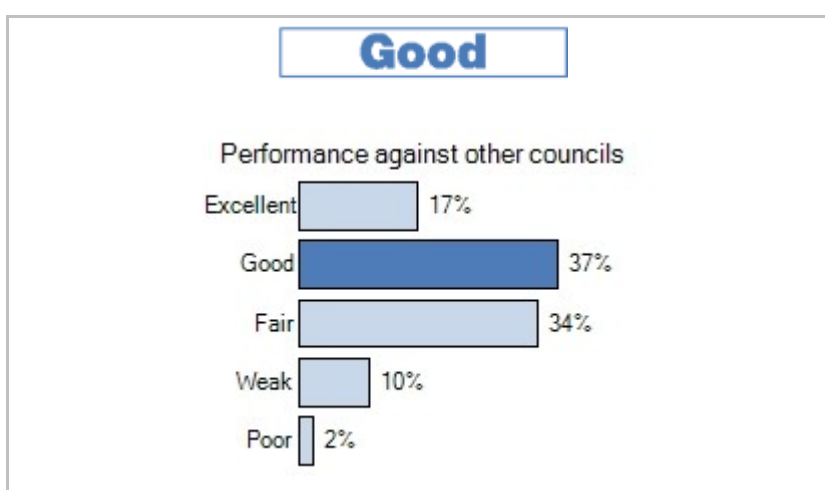
- 11 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the most recent Comprehensive Performance Assessment (CPA), the findings and conclusions from the audit of the Council for 2006/07 and from any inspections undertaken since the last Annual Audit and Inspection Letter.
- 12 We have addressed this letter to members as it is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. We have made recommendations to assist the Council in meeting its responsibilities.
- 13 This letter also communicates the significant issues to key external stakeholders, including members of the public. We will publish this letter on the Audit Commission website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).
- 14 As your appointed auditor I am responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, I review and report on:
  - the Council's accounts;
  - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion); and
  - whether the Council's best value performance plan has been prepared and published in line with legislation and statutory guidance.
- 15 This letter includes the latest assessment on the Council's performance under the CPA framework, including our Direction of Travel report, and the results of any inspections carried out by the Audit Commission under section 10 of the Local Government Act 1999. It summarises the key issues arising from the CPA and any such inspections. Inspection reports are issued in accordance with the Audit Commission's duty under section 13 of the 1999 Act.
- 16 We have listed the reports issued to the Council relating to 2006/07 audit and inspection work at the end of this letter.

## How is Woking Borough Council performing?

- 17 Woking Borough Council was assessed as Good in the Comprehensive Performance Assessment carried out in 2003. These assessments have been completed in all district councils and we are now updating these assessments, through an updated corporate assessment, in councils where there is evidence of change. No update has been deemed necessary for Woking Borough Council. The following chart is the latest position across all district councils.

### Figure 1 Overall performance of district councils in CPA

This is an authority that demonstrated **Good** overall performance in 2004.



Source: Audit Commission

## The improvement since last year - our Direction of Travel report

### Performance overview

- 18 The Council's overall rate of improvement in 2006/07, as measured by a basket of performance indicators (PIs), was 54 per cent. This was slightly below the district council average of 57 to 59 per cent. The rate of improvement over the past three years was about average for district councils.
- 19 The Council's performance, as measured by the number of PIs in the best quartile, was 34 per cent which is slightly above the district council average of 33 per cent.
- 20 The Council achieved level two of the Government's equality standard in 2006/07. This is average performance. Level two has been achieved by 47 per cent of councils with 24 per cent having achieved levels three to five, with five being the highest rating.

- 21 The Council has performed well in its priority areas, notably recycling, housing benefit processing times, culture, sustainability and affordable housing. The following paragraphs highlight the Council's performance against each of its three key objectives for improvement, drawing on relevant performance indicators. Those priorities were:
- decent affordable housing;
  - the environment; and
  - health and well being.

### **The environment**

- 22 Woking Borough Council has an established reputation as a leading council on environmental and sustainability issues. In early 2008 Woking was one of only six councils nationally to receive a 'Beacon' award for excellence in local government, recognising its pioneering work on climate change.
- 23 The Beacon Scheme said of Woking Borough Council 'Long standing commitment from senior management and a cross party group of members has given Woking an impressive record of achieving emissions reductions through the imaginative use of energy management, an energy service company and renewable technologies. The Council's actions have led to high levels of climate awareness within the community (93 per cent) and willingness to make lifestyle changes. Woking has engaged very effectively with partners including the Asian business community and plays a key role within the regional climate change forum.'
- 24 In 2007 the Council also received a Beacon award for 'Promoting Sustainable Communities through the Planning Process'. The Council continues to be active within the community, for example through its community strategy, its participation in the LSP and in the Safer Woking Partnership.
- 25 The Council has consistently performed well in recycling, composting and kerbside collection. A recycling and composting rate of 38 per cent was achieved in 2006/07 compared to 29 per cent in 2005/06. This placed Woking among the best performing Councils nationally. The Council has also had success in minimising the overall waste stream, collecting less than the average amount of waste per household in both 2006/07 and 2005/06. Recycling is an ongoing priority and the Council has stated that it will 'continue to divert waste from landfill by running the wheeled bin scheme, and identifying more opportunities to increase the range of materials that can be recycled.'<sup>1</sup>
- 26 This improvement comes with relatively high costs which are now above average for all district councils. Satisfaction with waste collection and recycling was below average in 2006, however this was common among councils making the change to alternate weekly bin collections. The Council's own surveys show that the public in 2006 were satisfied with bins in place of sacks, that streets were perceived to be cleaner after collection and that the timing of collections was acceptable.

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<sup>1</sup> Woking Borough Council Performance Plan 2006/07

- 27 Previous challenges continued in delivering cleanliness in public spaces. The satisfaction rate of 64 per cent as measured by the three yearly Best Value Satisfaction Survey was among the worst councils nationally. This had not changed significantly from the 2003/04 census figure of 59 per cent. The Council carries out its own quarterly satisfaction survey of the street cleaning service, which shows satisfaction to be above 70 per cent.
- 28 In 2006/07 the percentage of land littered to a heavy or significant extent continued to be in the worst quartile, however the Council points out that its most recent inspection in November 2007 showed a significant improvement in performance. The Council continues to set street cleansing as a priority area and is working to improve its relationship with the external contractor 'Serco', to improve performance in the fifth year of the contract.
- 29 The Council's performance on the time taken to determine planning applications was mixed. The proportion of minor applications determined in eight weeks fell from 88 per cent in 2005/06 to 78 per cent in 2006/07. The proportion of major applications determined in 13 weeks also fell to 64 per cent, which was in the worst quartile. The time taken to process other applications was in the best quartile. Unaudited data for 2007/08 shows the Council's performance on major applications has improved substantially, while minor applications have stayed around the same level.
- 30 The Council tries to ensure applications are in as complete a state as possible before submission in order to reduce subsequent delays. Performance improvement in this area will be assisted by the Council piloting the Surrey Collaboration Group's 'Vanguard' project which is designed to screen out inappropriate or inadequately developed applications at the earliest stage possible.

### **Decent affordable housing**

- 31 The Council achieved successes in its priority area of decent affordable housing in 2006/07. It reduced the percentage of local authority homes which did not comply with the Government's Decent Homes Standard from 19 per cent to 14 per cent and improved performance in rent collection rates from 97.3 per cent in 2005/06 to 98.6 per cent in 2006/07 (which is best quartile performance).
- 32 The Council is giving priority to housing issues and has introduced new IT systems for home finding and choice letting. Sustaining improvement will depend on plans to provide 190 new homes and supporting infrastructure over the next four years and also achieving the Decent Homes Standard for all council housing properties through the pride project (partnership).

- 33 The Council continues to be successful in addressing homelessness by providing additional support to vulnerable families. Homelessness PIs show improved performance especially for length of stay in temporary accommodation. The average length of stay in bed and breakfast accommodation improved from five weeks in 2005/06 to three weeks in 2006/07. The average length of stay in hostel accommodation improved from 29 weeks in 2005/06 to 18 weeks in 2006/07. Homelessness is high on the Council's agenda and the Council plans to avoid the use of bed and breakfast accommodation and develop services to prevent homelessness.
- 34 The Council's benefits service directly helps the more vulnerable in the community. National performance indicators for the time taken to process new housing benefit claims and changes of circumstance are both improving and are in the best quartile.

### **Health and well being**

- 35 The Council supports a population that is healthier, lives longer and has higher educational achievements than the national average. It continues to listen to the local community through questionnaires, surveys and workshops. In 2007, it started a new process of engagement with citizens, voluntary and community groups in specific neighbourhoods under the banner of its 'tune in' programme. The aim was to find out more about the issues that concern local people and how local people can be empowered to deal with the majority of the issues themselves. The Council will now be working with the community and its partners to address the issues arising from the programme, which include reinforcing a sense of community and facilitating social networks. This work should also put the Council in a strong position to address the forthcoming Government Agenda on citizen engagement and empowerment.
- 36 Culture continues to be a priority area and the Council continues to promote increasing the number of people from all sections of the community taking part in sports and cultural activities. The 2006 household survey showed overall good public satisfaction for cultural services, with high satisfaction in respect of theatres, libraries, sports and recreation. Although the overall performance for the culture key PIs in 2006/07 did not change, the Council has an above average proportion in the best quartile compared to other district councils, with no indicators in the worst quartile.
- 37 The Council's Crime and Disorder Reduction Partnership (CDRP) has secured some successes during the year, but there remains scope for improvement going forward. Figures for 2006/07 show a reduction in the rate of domestic burglaries, robberies and sexual offences, but increased rates of theft of motor vehicles and violence against the person. The Council is aware of the community safety challenges it faces and is an active player in the CDRP in aiming to reduce crime, the fear of crime and anti-social behaviour. A number of initiatives have been introduced including the recent location of 50 police officers and staff in the civic offices, assisting Surrey police to work much more closely with neighbourhood officers and the community safety group.

## The future

- 38 Challenges for 2008/09 include the resubmission of the Local Development Framework (LDF). In 2007 the original core strategy for the LDF was withdrawn because it did not meet the new guidance. A new core strategy for the LDF will be adopted towards the end of 2009. Other areas the Council plans to concentrate on include addressing deprivation in the borough, focusing on equality issues and supporting environmental issues, particularly those relating to climate change.
- 39 In common with many Surrey district councils, Woking faces significant financial challenges. However, the Council does not plan to increase council tax at this time. Instead it is to embark on a restructuring programme over 2008/09 that is aimed at generating a £1.5 million saving each year. Achieving the level of savings proposed and continuing to improve services will be a significant challenge for the Council.
- 40 The Council continues to maintain sound management arrangements. In our view, there are no significant weaknesses in arrangements for securing continuous improvement and no noted failures in corporate governance that should prevent improvement being sustained.

## Service inspections

- 41 No service inspections were carried out for the Council during the year and none are planned.

## The audit of the accounts and value for money

- 42 The Audit Commission requires auditors to issues their audit opinion by 30 September following the end of the financial year to which the Statement of accounts relates. However, we have been unable as yet to issue an opinion on the 2006/07 financial statements. A summary of the main matters arising follows in the paragraphs below.
- 43 In December 2007 we issued a report on the Best Value Performance Plan confirming that the Plan has been audited.

### Use of resources

- 44 The findings of the auditor are an important component of the CPA framework described above. In particular the Use of Resources score is derived from the assessments made by the auditor in the following areas.
- Financial reporting (including the preparation of the accounts of the Council and the way these are presented to the public).
  - Financial management (including how the financial management is integrated with strategy to support council priorities).
  - Financial standing (including the strength of the Council's financial position).
  - Internal control (including how effectively the Council maintains proper stewardship and control of its finances).
  - Value for money (including an assessment of how well the Council balances the costs and quality of its services).
- 45 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in these five areas as follows.

**Table 1**

<b>Element</b>	<b>Assessment</b>
Financial reporting	2 out of 4
Financial management	3 out of 4
Financial standing	3 out of 4
Internal control	2 out of 4
Value for money	3 out of 4
<b>Overall assessment of the Audit Commission</b>	<b>3 out of 4</b>

*(Note: 1 = lowest, 4 = highest)*

- 46 The Council achieved a score of three in three of the five themes, which means that it is consistently performing above minimum requirements for those themes, and also that it scores level three overall. It scored level two in financial reporting and internal financial control, which means that performance is adequate in those areas but there is some scope for improvement.

### **Financial reporting**

- 47 We were unable to give our opinion on the financial statements by the statutory reporting deadline of 30 September. The main reasons for this were:
- group accounts; and
  - reconciliation of adjustment A.

### **Group accounts**

- 48 The Council's financial statements include the accounts of its subsidiary companies and therefore are presented as group accounts. Due to delays in completing the audit of the subsidiary companies (which are not audited by the Audit Commission) the Council was not able to present us with the final audited group accounts until 2 November 2007.
- 49 The 2 November version of the accounts contained a small number of significant changes from the original draft, pre-audit accounts presented to us in July 2007. There was also one material error in the revised consolidation of the group accounts, which the Council has now corrected.

### **Adjustment A**

- 50 In 2004, the Government changed the way local authorities account for the financing of capital expenditure, from the use of 'credit ceilings' to the current methodology known as 'prudential borrowing'. Adjustment A refers to the reconciliation between the old and new methods of capital financing.
- 51 Last year's audit opinion (for 2005/06) was unqualified but contained an emphasis of matter concerning the need to reconcile adjustment A. At that time Woking was one of only a very small number of councils nationally which had yet to complete the reconciliation. We raised this issue with the Standards Committee in March 2006, through our Annual Audit and Inspection Letter. We also requested the reconciliation on several occasions in meetings with officers.
- 52 We received the reconciliation on 30 July 2007. The reconciliation contained a number of technically complex and uncertain areas. Since then we have met on a number of occasions with officers and briefed the Leader of the Council and Portfolio holder for Finance.
- 53 We are still unable to complete our work. This is because we are still considering the accounting treatment of the Council's investment in Woking Planet in the mid 1990s. The amount involved is substantially higher than the materiality level we set in auditing Woking's financial statements.

- 54 Other than this issue, we have now resolved the original areas of uncertainty in respect of Adjustment A to a level where there are no other individual issues above materiality. This means that the remaining unreconciled balance and other issues are amounts which of themselves would not prevent our issuing an unqualified opinion.
- 55 The government has been consulting on an amending regulation on adjustment A. We have been waiting to see if the resulting regulation would address our questions on Woking Planet . However the regulation has now been laid before Parliament and it does not appear to cover the issue we have been discussing with the Council.
- 56 I am continuing to consider this matter and to discuss it with the Council.

#### **Other issues with the accounts**

- 57 There were a number of other issues with the draft financial statements, some of which have only recently been resolved. These included the following.
- The cash flow statement was materially unreconciled when the financial statements were originally presented for audit. There is still a balancing figure, but it is now below the materiality level.
  - There was a late change in the revised accounts, which we received in November 2007, concerning the accounting treatment of premia on restructuring of long term loans. We disagreed with the accounting treatment of this and the Council has now amended its statements.
  - There was an item treated as capital which, in our view, did not result in the creation or enhancement of a fixed asset and should therefore have been charged to revenue. The Council subsequently amended its accounts.
  - There is scope to improve the related parties' disclosure note, namely, the completeness of disclosures and the robustness of systems to collect disclosures. A number of Members and senior officers did not make an annual declaration of related party transactions in 2006/07. This is particularly important in an election year, when there is likely to be significant turnover of Councillors.
  - We raised a number of other points around the need to disclose clearly the significant transactions which have a material bearing on the reader's understanding of the financial statements. The Council has agreed to make these additional disclosures.
- 58 At the conclusion of our audit we will report more fully to Members on accounts issues in the form of an Annual Governance Report.
- 59 It is worth emphasising that while we identified a number of issues with the accounts as presented for audit, most are of a technical accounting nature and should not be taken to imply concerns with the overall management of the Council's finances or its financial standing. We report on financial management and financial standing below.

## **Financial management**

- 60 The Council performs well in the management of its finances. The Council's medium term financial strategy is fully integrated with service planning. Budgets and capital programme are soundly based and designed to deliver strategic priorities. Performance is actively managed against budgets throughout the year and the Council regularly reviews its arrangements to ensure they remain fit for purpose.

## **Financial standing**

- 61 The Council has a good track record of meeting its financial targets and its arrangements for ensuring good financial standing are sound. Key financial health indicators are actively monitored and reported to members. Levels of reserves are also reported to members regularly.
- 62 The financial environment going forward is challenging. The Comprehensive Spending Review in December 2007 indicated a headline increase of 1.8 per cent in 2008/09 and 0.5 per cent in the subsequent two years. As inflation is expected to be between 2 and 3 per cent over the same period, this represents a reduction in real terms.
- 63 In addition to this, the efficiency savings target (Gershon savings) has been increased to 3 per cent. Expectations of councils from service users and the wider community are constantly increasing. Moreover the government has given a clear indication that councils should be building capacity, dealing with inequality and engaging with the community.
- 64 At the same time the Council has set itself the challenging target of maintaining council tax at 2007/08 levels, with a zero increase in council tax. With a general fund balance of £1 million, the Council does not have significant levels of revenue reserves to call on.
- 65 The scale of the challenge facing the Council was set out in the financial strategy, presented to the Executive on 27 September 2007, and in the General Fund service plan presented to the Executive on 7 February 2008. A major programme of efficiency savings is required over the next three years if financial balance is to be maintained.
- 66 The 'Green Book' monitoring reports show the Council to be on track to break even in 2007/08. Going forward, the financial position will have to be managed carefully if the Council is to maintain its good track record of meeting its financial targets.

## **Internal control**

- 67 Over the year the Council has demonstrated a commitment to improving its arrangements to manage its significant business risks. However there is further scope for these to develop and become more embedded. The Council has also been developing an overarching business continuity plan, through its new business continuity group.

- 68 The Council has an internal audit service which meets the CIPFA internal audit standards. The main financial systems are sound. Good arrangements are in place to ensure high standards of financial conduct.

### **Value for money**

- 69 The Council continues to demonstrate that it offers good quality services overall at below average cost. The Council has a well managed capital programme, up to date procurement practice, strong value for money culture and internal review programme supported by clear and reliable information on its costs.

### **Data quality**

- 70 The Council has adequate arrangements for ensuring the quality of data. At the time of our review the Council was working on a new data quality strategy, which should clarify and formalise arrangements throughout the organisation.
- 71 We tested a small sample of performance indicators to gain assurance over the quality of data. Within the limited scope of our work we had no concerns over the quality of the underlying data. For one group of indicators the wrong figures had been transposed and subsequently reported, due to clerical error. The Council has now corrected this and taken steps to strengthen arrangements to prevent incorrect data being reported in future.

### **Additional services**

- 72 No additional work was carried out for the Council during the year.

## Looking ahead

- 73** The public service inspectorates are currently developing a new performance assessment framework, the Comprehensive Area Assessment (CAA). CAA will provide the first holistic independent assessment of the prospects for public services for local areas and the quality of life for people living there. It will put the experience of citizens, people who use services and local tax payers at the centre of the new local assessment framework, with a particular focus on the needs of those whose circumstances make them vulnerable. It will recognise the importance of effective local partnership working, the enhanced role of Sustainable Communities Strategies and Local Area Agreements and the importance of councils in leading and shaping the communities they serve.
- 74** CAA will result in reduced levels of inspection and better coordination of inspection activity. The key components of CAA will be a joint inspectorate annual area risk assessment and reporting performance on the new national indicator set, together with a joint inspectorate annual direction of travel assessment and an annual use of resources assessment. The auditors' use of resources judgements will therefore continue, but their scope will be widened to cover issues such as commissioning and the sustainable use of resources.
- 75** The first results of our work on CAA will be published in the autumn of 2009. This will include the performance data from 2008/09, the first year of the new Local Area Agreements.

## Closing remarks

- 76 This letter has been discussed and agreed with the Chief Executive. A copy of the letter will be presented at the meeting of the Standards Committee on 27 March 2008. Copies need to be provided to all Council members.
- 77 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Council during the year.
- 78 For the reasons highlighted earlier in this report we have yet to issue our statutory opinions and Annual Governance Report.

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**Table 2     Reports issued**

<b>Report</b>	<b>Date of issue</b>
Audit and inspection plan	March 2006
Data quality	December 2007
Use of resources	February 2008
Annual audit and inspection letter	March 2008

- 79 I wish to thank the Council's staff for their support and cooperation during the audit.

## Availability of this letter

- 80 This letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk), and also on the Council's website.

**Nick Ward**  
**Relationship Manager**

March 2008