

<b>*PART 1 – PUBLIC DOCUMENT</b>	<b>AGENDA ITEM No.</b>
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**TITLE OF REPORT: THE AUDIT COMMISSION – ANNUAL AUDIT AND INSPECTION LETTER, MARCH 2008**

Carol Ryan, Audit Manager – Audit Commission, will introduce this item and invite comments from PARC and invite PARC to note the contents of this Annual Audit and Inspection Letter and recommend its referral to Cabinet to ensure that key portfolio holders receive the key messages and that they have the opportunity to ask questions of the Audit Commission.

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Annual Audit and Inspection Letter

March 2008



# Annual Audit and Inspection Letter

**North Hertfordshire District 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.
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The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998, 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**

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.

Reports prepared by appointed auditors are:

- prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission; and
- 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 The Council continues to perform well across key services, with an above average percentage of selected performance indicators performing well or excellently. The overall improvement in the Council's relative performance over the last 12 months is however, below average when compared with other district councils.
- 2 The cost of most Council services is relatively high and there has been no demonstrable improvement in the value for money offered by those services. Information on cost and performance is not yet used consistently across service areas. A fundamental service review (FSR) of efficiency has been undertaken and will report later in 2008, but has yet to have any significant impact.
- 3 There is a continued need to improve prioritisation and focus on what are agreed to be the Council's key issues. The Council has a number of plans to deliver improvements, but there is no overall improvement plan which draws together key projects and plans. The lack of a co-ordinated strategic approach to improvement presents a risk to future improvement.
- 4 Performance management arrangements need to be strengthened to be more focused on the key performance areas identified in the proposed Improvement Plan in order to provide the Council with a clearer sense of how it is performing on its corporate and service improvement objectives.
- 5 The Council is strengthening its capacity to deliver its future plans and has successfully implemented a number of changes over recent years. It has worked in partnership with a range of agencies to deliver broader community objectives and is beginning to make progress in some areas. The commitment and hard work of staff and councillors has been crucial to achieving the recent changes and there is a willingness amongst staff to bring about further improvements.
- 6 Action has been taken to improve access to services. The Customer Service Centre (CSC), which opened in September 2006, provides a number of services and is key to the Council's plans to improve access. The Council has a clear commitment to diversity but has not clearly identified its vulnerable or previously excluded groups corporately or set overall objectives to improve access for them.
- 7 Arrangements for financial reporting remain robust and the standard of working papers represents notable practice. I gave an unqualified opinion on the Council's accounts in September 2007.
- 8 During 2006/07, the Council made proper arrangements, in all significant respects, to secure economy, efficiency and effectiveness in its use of resources and I issued an unqualified value for money conclusion in September 2007.
- 9 Overall, the Council's arrangements for its use of resources continue to meet minimum requirements. Although the overall assessment was unchanged from the previous year, arrangements had been strengthened in a number of areas, as reflected by the increases in score in two of the sub themes (managing performance against budget and risk management).

- 10 The Council's arrangements for data quality remain adequate, although there are weaknesses in the underlying procedures for collecting and calculating data in accordance with the guidance. A Data Quality Policy has been drafted which can be used to drive improvement.

## Action needed by the Council

- 11 The Council needs to:
- complete a detailed analysis of the cost and performance information available to enable it to undertake a comprehensive benchmarked assessment of the value for money of services;
  - implement the recommendations of the Efficiency Fundamental Service Review to improve value for money and to strengthen its overall arrangements;
  - implement a co-ordinated approach to service improvement, with an overall improvement plan drawing together key projects and plans;
  - strengthen performance management arrangements to provide a greater focus on the Council's key improvement areas and priorities in line with the recommendations included in our performance management report; and
  - develop and implement action plans to address the areas for improvement and recommendations included in our reports on use of resources and data quality.

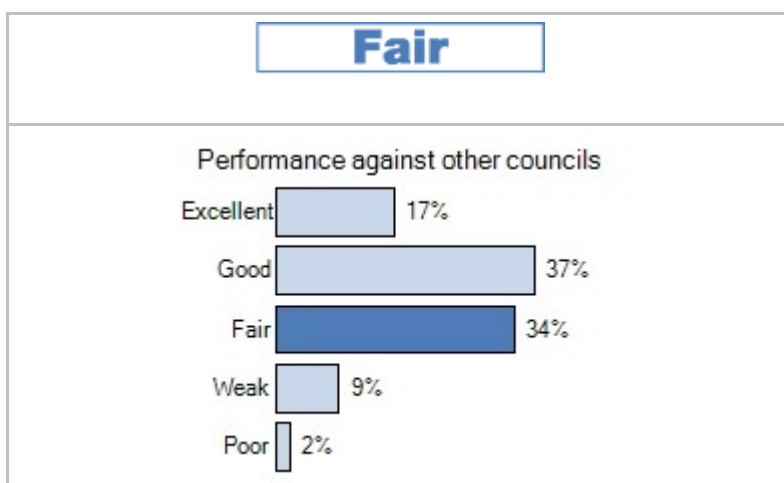
## Purpose, responsibilities and scope

- 12 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.
- 13 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.
- 14 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). In addition the Council is planning to publish it on its website.
- 15 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.
- 16 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.
- 17 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 North Hertfordshire District Council performing?

- 18 North Hertfordshire District Council was assessed as Fair in the Comprehensive Performance Assessment carried out in 2004. 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. We have not undertaken an updated assessment in North Hertfordshire District Council. The following chart is the latest position across all district councils.

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



Source: Audit Commission

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

### Summary

- 19 North Hertfordshire District Council continues to perform well across key services, with an above average percentage of selected performance indicators performing well or excellently. The overall improvement in the Council's relative performance in the last 12 months, when compared with other district councils, is however below average. The cost of most Council services is relatively high and there has been no demonstrable improvement in the value for money offered by those services.

- 20 Changes have been introduced which are beginning to improve performance in priority areas and the Council has demonstrated an ability to bring about change. The commitment and hard work of staff and councillors has been crucial to achieving the recent changes. Action has been taken to improve access to services, but the impact of these initiatives, particularly on customer satisfaction, is not yet clear. The Council has prioritised incremental investment based on local priorities. There is a continued need to improve prioritisation and focus on what are agreed to be the Council's key issues. For instance, further improvements could be made by undertaking an assessment of existing performance to ensure a focus on underperforming services/areas. The Council is strengthening its capacity to deliver its future plans, but there remain risks to future delivery.

### **What evidence is there of the Council improving outcomes?**

- 21 The Council's performance, as measured by a basket of 77 performance indicators, remains high, with 38 per cent of indicators in the upper quartile compared to a district council average of 33 per cent. Performance in those areas identified by local people as most important in the best value survey is above average or better.
- 22 The overall improvement in the Council's relative performance declined in the last 12 months and is less than the average for district councils: 49 per cent of the basket of indicators showed improvement compared to a district council average of between 57 and 59 per cent. Performance in areas where indicators are in the worst quartile (a total of 14 out of 77) has shown limited improvement, with 29 per cent improving in the last year and 64 per cent deteriorating.
- 23 The Council has focused on three principal strategic aims; sustainable, safe and satisfied communities: the 3 Ss. These were identified as the most important areas for local people in the '2006 District Wide Survey'. The three other strategic aims are seen as less of a priority for investment. Funds have been redirected to support strategic priorities and balances used to support spending in priority areas; £0.9 million of funds redirected and planned use of £1.3 million of balances in 2007/08. There is evidence of improved performance in areas of additional funding.
- 24 Changes have been implemented to support the Council's priorities and early improvement has been demonstrated as a consequence. In October 2007, the Council implemented a fortnightly waste and recycling service, which included an increased range of kerbside recyclables. Unaudited operational data indicates that this has led to an immediate improvement in performance, for example in reduced amounts of waste being taken to landfill.

- 25 The Council has worked in partnership with a range of agencies to deliver broader community objectives and is beginning to make progress in some areas. There has been recent progress on delivering wider community outcomes relating to crime and health. The Council has taken a lead role in the North Hertfordshire Crime and Disorder Reduction Partnership, working in collaboration with partners to closely assess crime reduction strategies in each locality, and funding initiatives such as the provision of CCTV and actions to reduce anti-social behaviour. At September 2007, all crime was reported locally to be down by nine per cent. The Council recognises however that the incidence of some specific crimes continues to be an issue and is taking action to remedy them; for example, reducing domestic violence and theft from cars. Recent consultation has shown that the fear of crime is becoming a lower priority for residents.
- 26 The Council has taken action to improve access to services, but is not yet able to establish the impact of this on customer satisfaction. The Customer Service Centre (CSC), which opened in September 2006, provides a number of services and is key to the Council's plans to improve access. The full impact of the CSC is however difficult to determine without a detailed baseline assessment of satisfaction with each service before its introduction. The Council is currently measuring impact against the information from the 2006 District Wide survey which was completed just prior to the opening of the CSC. CSC monitoring focuses on aspects of service provision rather than levels of satisfaction; for instance performance management reports focus on response times and the percentage of abandoned calls. From May to October performance in these areas declined, but has since improved, with the 80 per cent target for enquiry resolution exceeded in October. A 'gov-metrics' system has recently been introduced which will give immediate feedback on satisfaction. The Council is in the process of establishing baseline data from this system. There has been a 64 per cent increase in the number of recorded complaints in the period April to September 2007. Difficulties with the new Customer Relations Management system have prevented the Council obtaining a detailed breakdown of the causes of complaints to establish the reasons for this increase, although the Council feels this may be due to the active encouragement for the public to provide feedback on where they need to improve. Satisfaction with complaints handling in the BVPI general survey was 32 per cent, which is third quartile performance, although the Council has very few ombudsman cases and no cases of maladministration. The Council is not yet able to evidence improved satisfaction with its services in 2007 or be sure that it has focused its work effectively to improve access and satisfaction.

- 27 The Council has stated a clear commitment to diversity and has maintained Level 3 of the equality standard for local government. Although it has not yet achieved its target of Level 4, current performance at level 3 is in line with the best 24 per cent of councils. The equalities officer has undertaken some informal work in relation to vulnerable or previously excluded groups and there is a commitment at a service level to work with these groups, but the approach adopted is not analytical and the impact is not monitored effectively. The Council has not clearly identified vulnerable or previously excluded groups corporately or set overall objectives to improve access for them. It has sought to improve access generally rather than separately identifying the needs of individual groups. The inclusive services strategy includes the goal for an inclusive customer service, but the action plan to achieve this goal is not specific. The 2006/07 BVPI survey indicates dissatisfaction amongst BME respondents, with only 42 per cent satisfied with the Council's running of services, the second lowest of any group. The lack of clear action plans hinders the Council's ability to achieve its stated goals in relation to diversity.
- 28 Overall costs remained relatively high in 2006/07, being marginally under the upper quartile for all district councils. The value for money of the Council's services has not improved. Information on cost and performance is not used consistently across service areas. Some information on cost is available and has been used, for example in the waste management review, but arrangements are not formalised or fully understood in all areas. The Council has initiated a review of issues relating to improving value for money through a fundamental service review (FSR) of efficiency. This will report later in 2008 and has yet to have any significant impact. One of the outputs of the review will be a detailed analysis of the cost and performance information available to enable the Council to make a comprehensive assessment of the value for money of services.

### **How much progress has the Council made in implementing improvement plans to sustain future improvement?**

- 29 The Council is strengthening its capacity to deliver its future plans and has successfully implemented a number of changes over recent years, but there remain risks to future delivery. The commitment and hard work of staff and councillors has been crucial to achieving the recent changes. There is a willingness amongst staff to bring about further improvements, and indeed for more challenging targets to be set. An approach to business process improvement (BPI) has been developed which, along with the establishment and expansion of the CSC, will provide further capacity to support the delivery of plans. The Council works with partners to deliver community priorities but the Local Strategic Partnership (LSP) is not yet fully effective. The Council has a large number of partnerships but is not currently clear which of these are having a positive impact and a partnerships FSR is therefore planned.

- 30** There is a lack of a co-ordinated strategic approach to improvement. The Council has a number of plans to deliver improvements, but there is no overall improvement plan which draws together key projects and plans. At a corporate level plans include: 'Service@NorthHerts', Organisational Development (OD) and the Corporate Plan. The Corporate Plan is being developed but does not yet effectively drive change. It outlines the Council's general objectives, but these are not sufficiently specific and targets need to be more challenging. There is a clear project structure and project management arrangements for the implementation of the 'Service@NorthHerts' changes and a number of projects have been completed in 2007. The Chief Executive and Directors actively manage the OD programme via the OD Team and a high level project plan. The OD strategy is not supported by a detailed action plan. The strategy describes the overall framework but not what will be achieved by a particular timescale. The Council therefore cannot be assured that it has plans in place to meet its OD agenda. The lack of an overall improvement plan makes it more difficult for the Council to implement the various plans in place in a co-ordinated manner, ensuring appropriate focus on key areas that contribute to the strategic objectives of the Council.
- 31** The process for performance managing change that goes beyond the next 12 months is not clearly defined. Actions in the corporate plan focus on process rather than outcomes and while 'measures of success' have been identified, the data for the majority of these is collected annually or less frequently, making in year progress difficult to quantify. Clearer links need to be established between the corporate plan and the new sustainable community strategy, which is being developed with partners. Early consultation on the Sustainable Community Strategy has shown a greater focus on sustainability compared to previous consultations. There is recognition that this is a wider agenda than the Council can deliver alone.
- 32** There are stronger links between the corporate strategy and key financial plans. The capital strategy clearly links spending plans of £8 million for 2007/08 to the Council's corporate objectives. The Council's 2008-2013 medium term financial strategy has been further developed and considers the financial position and specific cost pressures over the next five years. Changes to the service and financial planning cycle have been recommended as part of the efficiency FSR. These aim to further integrate the corporate plan into the overall service and financial planning process to ensure it is the driver of change and the budget setting process. These changes have been partially implemented in the 2008/09 budget setting round and will be fully implemented in 2009/10, thereby providing greater support to the delivery of the Council's priorities.

## Service inspections

- 33 No service inspections have been undertaken at the Council in 2006/07. An inspection will be undertaken in March 2008. The inspection will consider whether the Council's response to managing the environmental aspects of the street scene (including parks and open spaces) and reducing minor crime, the fear of crime, antisocial behaviour and improving community safety are effective, in line with strategic objectives and likely to lead to further improvements. This has been given the title 'envirocrime'. We expect to issue a draft report in April 2008. The key messages from this inspection will be reported to PARC and Cabinet and summarised in our next Annual Audit and Inspection Letter.

## Performance management

- 34 We undertook a review of the Council's performance management arrangements at the end of 2006. The review focused on the Council's high-level, corporate arrangements rather than detailed departmental arrangements for performance management. Our final report was presented to Members of PARC in January 2008.
- 35 The review concluded that the Council's performance management arrangements needed to be strengthened. The arrangements need to be more focused on the key performance areas in order to provide the Council with a clearer sense of how it is performing on its corporate and service improvement objectives and effectively drive improvement and support delivery of its corporate priorities. Although the reporting framework enables the identification of issues from reported indicators and Councillors play an important role in challenging and supporting officers, at the time of our review, there were a number of weaknesses in corporate arrangements. Some of the specific areas for improvement identified are listed below. Changes identified elsewhere in this letter indicate that actions are already being taken to address some of these areas.
- Measures of success are not consistently SMART (specific, measurable, achievable, relevant and timely) and there is a lack of clarity about when medium term objectives will be delivered.
  - Arrangements for monitoring delivery of corporate objectives do not provide adequate challenge. Quarterly performance reports are 'narrative' rather than monitoring delivery against SMART targets and focus on actions agreed for the year rather than progress in achieving changes that may take longer to implement and which will give a sense of how successfully strategic objectives are being met.
  - The focus on best value performance indicators (BVPIs) has achieved improvement over the range of these key indicators with evidence of challenge occurring at many levels. However, as a result of the focus on BVPIs, performance management and challenge is not always directed on the most appropriate and important areas. For example, nationally collated indicators on 'culture services' provide only a limited insight into performance within that service area.

- There is limited corporate use of benchmarking information on cost and performance. This limits the Council's ability to undertake an analysis of respective strengths and weaknesses of services or identify improvement priorities.
  - The priorities of the Council do not always affect how resources are allocated and only partly drive the priorities and work of the Council. The medium term financial strategy does not adequately describe how investment in services will change.
  - There are some good processes and well-established performance management mechanisms, but they are resource intensive and rely on manual data collection/checking.
- 36** The introduction of the 'refreshed' corporate plan and the concomitant arrangements, which will be needed to support it, is an opportunity for the Council to address these issues. We have agreed a report with officers which included a limited number of recommendations and have had initial discussions with officers about acting as a 'critical friend' to support and facilitate the improvements identified. Members may wish to monitor the implementation of agreed actions to address the issues in the report.

## The audit of the accounts and value for money

- 37 As your appointed auditor I have reported separately to the Performance, Audit and Review Committee on the issues arising from our 2006/07 audit and have issued:
- my audit report, providing an unqualified opinion on your accounts and a conclusion on your vfm arrangements to say that these arrangements are adequate on 25 September 2007; and
  - my report on the Best Value Performance Plan confirming that the Plan has been audited.

### Use of resources

- 38 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).
- 39 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in these five areas as follows.

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**Table 1**

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

(Note: 1 = lowest, 4 = highest)

## **The key issues arising from the audit**

- 40 The 2007 use of resources assessment was a 'harder test' and there has been limited opportunity for improvements to be made given the short timescale since the last assessment which was reported in March 2007. It is, therefore, positive that the Council has maintained a score of level 2. Although the overall assessment was unchanged from the previous year, arrangements had been strengthened in a number of areas, as reflected by the increases in score in two of the sub themes (managing performance against budget and risk management). The key messages from the audit are outlined below.
- 41 The Council has continued to demonstrate high standards in financial reporting and the final accounts working papers represent notable practice. This was facilitated by strong leadership from the Accountancy Manager, who has since left. The Council therefore needs to take steps to ensure these high standards are maintained.
- 42 The Council has maintained its standards of financial management. The medium-term financial strategy and budget monitoring processes have been developed, and the Council should now look to ensure that these processes become fully embedded and meet the requirements of the revised 2008 criteria. The Council sets balanced budgets and consistently manages its finances without significant under or overspends.
- 43 The Council's financial standing is performing well. Targets for the collection of council tax and non domestic rates are set and have been exceeded. Processes have recently been put in place to proactively manage sundry debt. The Council now needs to consider whether targets set are sufficiently challenging and stretch performance.
- 44 The Council has continued to strengthen its internal control arrangements. Risk management processes, including the formation of an Audit and Risk Panel, have been developed further and risk management training has been provided to members and officers. The Audit and Risk Panel allows more robust scrutiny of audit issues and now needs time to become embedded and demonstrate its effectiveness.
- 45 The Council is taking a positive and proactive approach to the next assessment and should now focus on the areas of improvement outlined in our detailed report as well as having regard to the further changes to the assessment criteria for 2008, in particular in relation to the value for money assessment where there are a number of changes.

## **Value for money conclusion and data quality**

- 46 Our work in relation to our value for money conclusion had regard to the 12 criteria for local government bodies specified by the Audit Commission and published in July 2005. We concluded that the Council had made proper arrangements in relation to all 12 criteria and issued an unqualified value for money conclusion in September 2007.

- 47 The Council's arrangements for ensuring data quality are adequate, but could be further strengthened. Detailed spot checks on three performance indicators identified weaknesses in the underlying procedures for collecting and calculating data in accordance with the guidance. This resulted in reservations on two indicators (BV199 - the percentage of relevant land and highways that is assessed as having combined deposits of litter and detritus that fall below an acceptable level and HIP HSSA - percentage of total private sector homes vacant for more than six months). The Data Quality Policy approved in September 2007 should be used to drive improvement
- 48 We have issued a separate report on data quality which has been discussed and agreed with officers.

### **Grant claims**

- 49 The Council has continued to make significant progress in strengthening arrangements for the production and audit of the housing benefit grant claim. The claim was certified by the statutory deadline. This is an improvement from the previous two years.

## Looking ahead

- 50 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 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.
- 51 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.
- 52 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

- 53 This letter has been discussed and agreed with the Director of Finance. A copy of the letter will be presented at the Performance, Audit and Risk Committee on 27 March 2008. Copies need to be provided to all Council members.
- 54 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.

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**Table 2      Reports issued**

<b>Report</b>	<b>Date of issue</b>
Audit and inspection plan	March 2007
Annual Governance Report	September 2007
Opinion on financial statements	September 2007
Value for money conclusion	September 2007
Performance management report	November 2007
Annual audit and inspection letter	March 2008

- 55 The Council has taken a positive and constructive approach to audit and inspection work, and I wish to thank the Council's staff for their support and cooperation during the audit.

## Availability of this letter

- 56 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.

**Debbie Hanson**  
**Relationship Manager**

March 2008