

Annual Governance Report

Wirral Council

Audit 2009/10

September 2010

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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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Ladies and Gentlemen

2009/10 Annual Governance Report

I am pleased to present the final version of my report on the results of my audit work for 2009/10.

I discussed and agreed a draft of the report with the Director of Finance on 7 September 2010 and updated it as issues have been resolved.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the Pension Fund Annual Governance report and the recommendation of the Pensions Committee
- consider the matters raised in this report before approving the financial statements (pages 4 to 24);
- take note of the adjustments to the financial statements set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified which management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- approve the letter of representation on behalf of the Council and for the Pension Fund before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 5).

Yours faithfully

Michael Thomas
District Auditor

14 September 2010

Key messages

This report summarises the findings from the 2009/10 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements	Results	Page
Unqualified audit opinion	Yes/No	8
Pre audit financial statements free from material error	No	8
Post audit financial statements free from material error	Yes/No	8
Weaknesses in internal control	Yes	10
Value for money	Results	Page
Adequate arrangements to secure value for money	Yes	20

Audit opinion

- 1 I have now substantially completed my audit work and subject to the clearance of and decisions on outstanding matters I may need to issue a modified opinion on the Council's financial statements.
- 2 We are also required to issue an opinion on the Pension Fund accounts. Subject to satisfactory clearance of outstanding matters I plan to issue an unqualified opinion on the Pension Fund accounts.
- 3 My draft audit report (Appendix 1) will be presented to members at the Audit and Risk Management Committee on 28 September 2010 once the outstanding issues have been resolved.

Financial statements

- 4 The financial statements were submitted for audit on 25th June 2010 and were generally supported by satisfactory working papers prepared by finance and departmental staff.
- 5 I have identified five material issues which I draw to your attention in respect of:

Key messages

- My work on the audit of the Private Finance Initiative (PFI) has identified that since the inception of the PFI, control of a number of schools have been transferred from the Council to the governors of foundation schools. It is acknowledged that finance staff raised this issue with CIPFA and sought our view earlier in the year. My view is that the value of the assets for these transferred schools (£47.948m) should be removed from the balance sheet whilst the liability for the PFI agreement is retained. Management has adjusted for this (Appendix 2).
 - The 2008/09 Statement of Total Recognised Gains and Losses (STRGL) has been restated by way of a prior period adjustment (PPA) in respect of the Private Finance Initiative (PFI) agreement. The cumulative effect on the balance sheet of recognising all assets and liabilities has been incorrectly represented in the STRGL as a deficit on the revaluation of fixed assets. This means that £44.751m losses have been incorrectly recognised in the STRGL for 2008/09. Management has adjusted for this (Appendix 2).
 - I am awaiting information from officers on the treatment of government grants deferred (£228m in the balance sheet). I currently have some concerns that could potentially result in a material amendment or a material uncertainty. [Information received 09 September pm but does not show the carrying value of all assets]
 - I am required to report if the Annual Governance Statement does not comply with Chartered Institute of Public Finance and Accountancy (CIPFA) guidance, is misleading or inconsistent with other information identified during our audit. I have some concerns that the statement does not comply with CIPFA guidance and is inconsistent with our knowledge of the Council. Management has declined to amend the statement and I may need to give a modified opinion in the Auditor's Report (Appendix 1).
 - Last year I reported a number of weaknesses in relation to the adequacy of asset records, both in the 2008/09 accounts and for arrangements going forward under IFRS. Although there has been significant improvement with the introduction of the new asset register, this did not take place until February 2010 and the concerns raised last year remained for much of 2009-10.
- 6** I identified 19 non-trivial errors or uncertainties. In addition to the 3 material errors and uncertainties above, there are also 16 non-material errors. Of the 19 errors or uncertainties:
- 2 material and 9 non-material errors have been adjusted (Appendix 2);
 - 1 material uncertainty and 7 non-material errors/uncertainties have not been adjusted (Appendix 3); and
 - there were 6 errors in respect of the PFI (2 material).

- 7** The statement of accounts includes Merseyside Pension Fund's accounts as Wirral Council is the administering authority for the Fund. The Pensions Committee has received a separate Annual Governance Report and considered the issues arising, including 3 material amendments. It is, however, the role of the Audit and Risk Management Committee to consider that report before approving the financial statements, noting the adjustments, agreeing to adjust any errors that management has declined to amend, approving the letter of representation and agreeing the response to the action plan.

Value for money

- 8** I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources in 2008/09. The wording of my draft report (Appendix 1) will be presented to members at the Audit and Risk Management Committee on 28 September 2010. There are no issues to bring to members attention.

Audit fees

- 9** My fee proposals were communicated to you in my Audit Plan for 2009/10 and have been confirmed to be adequate in my opinion plan and progress reports issued during the year. However, we have now completed our work on the Public Interest Disclosure Act (PIDA) in respect of the Highways and Engineering Services Procurement Exercise (HESPE) contract which was not included in the fee set in June 2009. The HESPE PIDA report indicates that there will be an additional charge of £20k for this work.

Independence

- 10** I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

11 I ask the Audit and Risk Management Committee to:

- consider the matters raised in the Pension Fund Annual Governance report and the recommendation of the Pensions Committee
- consider the matters raised in this report before approving the financial statements (pages 4 to 24);
- take note of the adjustments to the financial statements set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified which management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- approve the letter of representation on behalf of the Council and for the Pension Fund before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 5).

Financial statements

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 these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

- 12** Subject to the clearance of and decisions on outstanding matters I may need to issue a modified opinion on the Council's financial statements. My draft audit report (Appendix 1) will be presented to members at the Audit and Risk Management Committee on 28 September 2010 once the outstanding issues have been resolved.
- 13** The outstanding matters are:
- I am unable to conclude on the following areas as I am awaiting information from officers on:
 - Government grants deferred.
 - Members need to consider whether to amend the Annual Governance Statement.
 - I will need to review the amended statements and any Annual Report.
- 14** We are not yet able to confirm whether the outstanding matter in respect of the Government grants deferred balance would have a material effect on the accounts.
- 15** I am also required to issue an opinion on the Pension Fund accounts. Subject to satisfactory clearance of outstanding matters I plan to issue an unqualified opinion. The opinion is included in the draft audit report at Appendix 1.

Errors in the financial statements

- 16** The financial statements were submitted for audit on 25 June and were generally supported by satisfactory working papers prepared by finance and departmental staff.
- 17** However, I identified 19 non-trivial errors or uncertainties. In addition to the 3 material errors and uncertainties above, there are also 16 non-material errors. Of the 19 errors or uncertainties:
- 2 material and 9 non-material errors have been adjusted (Appendix 2). There is no overall impact on the general fund balance from these amendments;
 - 1 material uncertainty and 7 non-material errors/uncertainties have not been adjusted (Appendix 3); and
 - there were 6 errors in respect of the PFI (2 material).

Financial statements

PFI foundation schools

- 18** My work on the audit of the Private Finance Initiative (PFI) has identified that since the inception of the PFI, control of a number of schools have been transferred from the Council to the governors of foundation schools. It is acknowledged that finance staff raised this issue with CIPFA and sought our view earlier in the year. My view is that the value of the assets for these transferred schools (£47.948m) should be removed from the balance sheet whilst the liability for the PFI agreement is retained. Management has adjusted for this (Appendix 2).
- 19** Change in accounting practice in 2009/10 through the introduction of IFRS has resulted in the need for the Council to recognise PFI assets and liabilities in its accounts for the first time. The Council recognised all PFI assets and liabilities in its restatement exercise.
- 20** As control of a number of schools transferred from the Council to the governors of Foundation Schools up to and including 2009/10, the Council considered whether the assets in respect of these schools should be de-recognised. Management made the decision to de-recognise Foundation Schools that were not in the PFI arrangement but kept those that came within the arrangement on the balance sheet in order to match the liability. My view is that as the Foundations Schools under the PFI arrangement are no longer in the control of the Council and should be de-recognised.
- 21** Although control over the assets has transferred to the Foundation Schools the Council's obligation to meet the ongoing liability for the PFI payments has not changed. Therefore, the Council needs to continue to recognise the liability which continues to be funded through central government grant for schools.
- 22** Management has agreed to amend the statements and this is shown at Appendix 2.

PFI Statement of Total Recognised Gains and Losses 2008/09

- 23** The 2008/09 Statement of Total Recognised Gains and Losses (STRGL) has been restated by way of a prior period adjustment (PPA) in respect of the Private Finance Initiative (PFI) agreement. The cumulative effect on the balance sheet of recognising all assets and liabilities has been incorrectly represented in the STRGL as a deficit on the revaluation of fixed assets. This means that £44.751m losses have been incorrectly recognised in the STRGL for 2008/09.
- 24** As noted above, change in accounting practice in 2009/10 through the introduction of IFRS has resulted in the need for the Council to recognise PFI assets and liabilities in its accounts for the first time. As the Council entered into the PFI agreement prior to the current accounting period, the PFI assets and liabilities have been recognised through a PPA. We have reviewed the PPA and concluded that the core financial statements comprising the income and expenditure account (I&E), statement of movement in general fund balances (SMGFB), cashflow statement and balance sheet are fairly stated.
- 25** However, the Council has included a £44.751m adjustment in the STRGL (which is also a core financial statement) to reflect the full net impact on its balance sheet of recognising all the PFI assets and liabilities. This entry should not be included in the STRGL for two reasons:

- The STRGL is an annual performance statement and should therefore only show entries relating to the accounting period. Therefore the 2008/09 restated STRGL should only show the effect of the PFI transactions that occurred in 2008/09 - that is the deficit for the year on the I&E account.
- The Council has shown the £44.751m as a deficit arising on the revaluation of fixed assets in the STRGL. As shown in the analysis of the balance sheet at note 1 the £44.751m does not relate to the revaluation of fixed assets.

26 Management has agreed to amend the statements and this is shown at Appendix 2.

Government grants deferred

27 I am awaiting information from officers on the treatment of government grants deferred (£228m in the balance sheet). I currently have some concerns that could potentially result in a material amendment or a material uncertainty. [Information received 09 September pm but does not show carrying value of all assets].

Merseyside Pension Fund accounts

28 The statement of accounts includes Merseyside Pension Fund's accounts as Wirral Council is the administering authority for the Fund. The Pensions Committee has received a separate Annual Governance Report and considered the issues arising, including 3 material amendments. It is, however, the role of the Audit and Risk Management Committee to consider that report before approving the financial statements, noting the adjustments, agreeing to adjust any errors that management has declined to amend, approving the letter of representation and agreeing the response to the action plan.

Recommendations	
R1	Ensure that all working papers used by the Council to prepare the accounts are presented at the start of the audit and queries are responded to promptly.
R2	Strengthen quality assurance of the accounts to ensure that errors are minimised.

Important weaknesses in internal control - fixed assets

29 Although there has been significant improvement towards the end of the year through the implementation of the new asset register in February 2010, there continues to be a number of weaknesses in relation to the adequacy of asset records and procedures, both in this year's accounts and for arrangements going forward under IFRS. The errors noted at appendices 2 and 3 in respect of Tangible Fixed Assets are directly attributable to these weaknesses. In addition, the asset records are unable to support proper accounting treatment for disposals and subsequent expenditure on existing assets for some classes of assets. The specific issues are set out below.

Financial statements

All fixed assets:

- 30** There is limited evidence of review and supervision of capital accounting transactions. For example, understanding of and challenge over capitalisation of expenditure, evidencing the review and authorisation of in-year transactions for revaluations and depreciation and review of the classification of assets under construction or surplus assets. The example of the unreconciled difference of £12m below also illustrates that systems need to be improved and departments, the Valuer and finance staff need to clarify roles and responsibilities to ensure that assurance is co-ordinated and capital accounting transactions are reliable.
- 31** The key control in respect of the reconciliation between the asset register and government grants deferred information has not operated during the year.

Other land and buildings:

- 32** The asset register is required to contain a relatively large amount of information in order to calculate the necessary accounting entries each year. During the year the Council has transferred records to the new asset register which was implemented in February 2010 and information is now being brought up to date. The necessary volume of information required to be held on land buildings will increase significantly under IFRS and it is essential that the system will be able to support proper accounting going forward, for example regarding component accounting.
- 33** The key control in respect of the three-way reconciliation between the asset register, the general ledger and the Valuer's certificate has not operated during the year. I found an unreconciled difference of £12m between the Valuer's certificate and the asset register. Of this £3.7m was identified as an error and is included at Appendix 3. The remaining £8.3m has now been confirmed as appropriate to capitalise by the Valuer.

Vehicles plant and equipment (VPE)

- 34** The system for managing and recording VPE needs further improvement. There has been some improvement since 2008/09 with the introduction of the new asset register and it is no longer purely maintained on the basis of expenditure capitalised annually for expenditure incurred in 2009/10. Work is continuing to identify the underlying asset purchased and record other details as to the location of the asset or information to allow unique identification. The impact of this is that more assets can now be easily identified which will allow confirmation of existence and ownership and eventual disposal to be accounted for properly.

Infrastructure assets

35 Like many Councils the asset register does not provide sufficient detail in order to properly account for subsequent expenditure or disposals. In order to capitalise expenditure on existing assets, the Council has to demonstrate enhancement and this is difficult where asset records do not identify individual assets. In addition, to capitalise expenditure on the replacement of an existing asset the Council must first recognise a disposal of that existing asset. As infrastructure assets are not identified in the asset register on a unique basis, this is currently not possible. This is also even more important going forward as under IFRS the valuation basis of infrastructure assets is likely to change and will require significant detail in the asset records. CIPFA has now produced guidance and Wirral Council is in the process of procuring a new highways asset management system to meet the needs of the new requirements. This will be implemented on 1 April 2011.

Community assets

36 As reported for the last two years, the asset register does not yet currently identify all individual community assets, such as ceramic objects and paintings held by museums and art galleries, as full cataloguing of assets held has not been completed.

37 With the introduction of the new asset register, a number of community assets valued at £1.3m on one system have not been identified in the Valuer's records and have therefore been excluded and written out. Management is currently reviewing the evidence for excluding the assets to confirm that the Council does not own these assets or that they are included within other assets that are owned by the Council.

Recommendation

R3 Improve and evidence internal controls around fixed assets - within departments, in finance and with the Valuer

- clarify and formally agree respective roles and responsibilities between departments, finance and the Valuer;
- review and enhance capital accounting processes and procedures to ensure that all key controls are in place including to prove existence, ownership and valuation for all classes of assets;
- ensure that key controls operate effectively throughout the year - for example, ensure all appropriate reconciliations are completed;
- improve and evidence management supervision and review of capital accounting entries to ensure accuracy and reasonableness, for example, depreciation, revaluations, changes in classification and reconciliations; and
- ensure processes maximise the assurance received from the Valuer and consider what assurance management requires in respect of expenditure capitalised during the year that is not currently on the Valuer's certificate.

Recommendation

- R4** Complete the input of information onto the new asset register:
- vehicles, plant and equipment: ensure all assets can be identified individually and relevant information is recorded, for example, information on location of the asset to ensure that existence can be tested and disposals identified and accounted for appropriately in the accounts;
 - land and buildings: ensure the information in the asset register is complete, including for PFI assets recognised on the balance sheet in 2009/10 and that it satisfies the developing requirements of financial reporting standards, for example in respect of component accounting; and
 - community assets: complete the cataloguing of community assets held in museums and art galleries and ensure that the asset register is subsequently updated.
- R5** Ensure that the proposed new Highways Asset Management System satisfies the developing requirements of financial reporting standards.

Letter of representation

- 38** Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation.
- 39** I am seeking specific assurance from you in respect of the unadjusted amendments at Appendix 3.

Key areas of judgement and audit risk

- 40** In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Table 1 Key areas of judgement and audit risk

Issue or risk	Assertions	Findings
Risks relevant for all councils		
The Statement of Recommended Practice (SORP) 2009 requires that Private Finance Initiative (PFI) schemes and service concessions are to be accounted for under IFRS. Relevant entries will therefore generally be required to be recognised on balance sheet. As the Council has a significant PFI scheme, there is a risk that the new accounting arrangements are incorrectly applied and the balance sheet is misstated.	Valuation and allocation	<p>I have identified 2 material and 4 non-material errors set out at Appendices 2 and 3. These include:</p> <ul style="list-style-type: none"> • Foundation Schools remaining on the balance sheet • The prior period adjustment incorrectly recognised in the 2008/09 STRGL • Incorrect use of indexed unitary payment in the model as opposed to unindexed payment • Council land incorrectly accounted for in the PFI
General market conditions are a trigger event for an impairment review. Impairment could be significant compared to previous years. Risk that the carrying value of assets are materially misstated at the year end.	Valuation and allocation	I raised no significant concerns about the carrying value of assets due to changes in general market conditions.
Current economic conditions suggest that an increase in the Bad Debt Provision (BDP) may be required. Risk that provision may be understated.	Valuation and allocation	I identified that the Council's bad debt provision for council tax may be understated. This is set out at Appendix 3.
Increased risk of fraudulent financial reporting due to current economic environment and increased financial pressures, for example overspends in DASS.	All	<p>I have received letters of assurance from management and those charged with governance (TCWG) and have no significant concerns about your arrangements.</p> <p>I have monitored the Council's reported financial performance throughout the year and found no evidence of fraudulent financial reporting.</p>

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Issue or risk	Assertions	Findings
<p>The Council is reviewing a number of accounting areas as part of the transition to IFRS work. There is a risk that detailed review of accounting entries may identify errors under UK Generally Accepted Accounting Practice (UK GAAP).</p>	<p>All</p>	<p>The lease of wheelie bins is currently treated as an operating lease and although I have accepted the Council's treatment of this under UK GAAP, under IFRS the lease is likely to be a finance lease.</p> <p>My view of the Council's progress to successfully implement IFRS is included in my progress report to you.</p>
<p>Housing benefits expenditure and grant income are material entries in the accounts. Our deadline to complete the certification of the housing benefits subsidy claim is after our opinion deadline on the accounts.</p>	<p>All</p>	<p>I have carried out early work and substantially completed my certification work on the housing benefit claim. I am satisfied that there would not be a material effect on the accounts arising from any errors identified.</p>
<p>Risks specific to Wirral</p>		
<p>Large number of manual, off ledger, significant adjustments actioned at the year end to produce the accounts. Risk of misstatement in the accounts, mainly in respect of the income and expenditure I&E account and Financial Reporting Standard (FRS)17 entries</p>	<p>Accuracy Completeness</p>	<p>I reviewed all material journals and there were no issues arising.</p> <p>The I&E account could not initially be agreed to the relevant codes within the ledger. The difference was £5.3m. This is explained at the section on accounting practice and financial reporting below.</p>
<p>A material weakness was identified in 2008/09 in relation to the Council's asset records. If no action is taken there is a risk of misstatement in the following areas:</p> <ul style="list-style-type: none"> - existence of vehicles plant and equipment (VPE) - capitalisation of expenditure on infrastructure assets - completeness of community assets 	<p>Existence, valuation and allocation, completeness</p>	<p>There has been significant progress against the action plan agreed in the 2008/09 Annual Governance Report but I identified a number of errors in fixed assets and raised concerns about continuing weaknesses in asset records and procedures.</p>

Issue or risk	Assertions	Findings
<p>2008/09 audit identified undisclosed related party transactions. Risk of non-disclosure of politically sensitive items in the accounts approved by members in June 2010.</p>	<p>Completeness</p>	<p>I am not aware of any undisclosed related party transactions. I have suggested an enhancement to the related party disclosure note and this is set out at Appendix 3.</p>
<p>Our PIDA work on the DASS charging policy applied at in-house supported living units from 1997 is unresolved. Risk of financial, legal and governance impact on the accounts.</p>	<p>Regularity</p>	<p>Cabinet has decided that users at these units should have been charged at lower rates and should be reimbursed back to December 2000 for the amounts overcharged. I have confirmed that this is reflected in the accounts. Cabinet has also commissioned an independent investigation into the whistleblower's allegations of bullying and harassment and an independent review of the original concerns to ensure all issues have been dealt with.</p>
<p>Our PIDA work on the HESPE contract is unresolved. Risk of financial, legal and governance impact on the accounts.</p>	<p>Regularity</p>	<p>Our report on the HESPE PIDA is being presented to this meeting of the Audit and Risk Management Committee.</p>

Financial statements

Issue or risk	Assertions	Findings
<p>13 non-trivial errors were identified during the 2008/09 audit, including the following three material errors:</p> <ul style="list-style-type: none"> - classification within the Best Value Accounting Code of Practice (BVACOP) analysis - netting off of Revenue Expenditure Funded from Capital Under Statute (REFCUS) in the service expenditure analysis (SEA) - valuation basis of community assets <p>We also identified 5 disclosure errors.</p> <p>There is a risk that the process that led to these errors will reoccur, leading to misstatement in 2009/10 accounts.</p>	<p>All</p>	<p>During the 2009/10 audit I have identified:</p> <ul style="list-style-type: none"> • 19 non-trivial errors/ uncertainties of which 3 are material • Of the total 19 errors 6 are in respect of the PFI and of these, 2 are material • I raised no issues this year regarding the BVACOP analysis • REFCUS: I identified that expenditure of £264k on the Marine Lake owned by the Council was incorrectly treated (see Appendix 2). • I raised no concerns regarding the valuation basis of community assets. <p>In addition to the non-trivial errors I identified 11 disclosure errors or improvements and a number of presentational issues.</p>
<p>The Council must produce its accounts by the end of June 2010 and we have planned for the majority of our work to be completed during July 2010. Any delay in the production of the accounts or supporting working papers will impact on our ability to complete the audit by the deadline and report to members.</p>	<p>All</p>	<p>I have updated members on the key milestones and timetable in progress reports. We completed our fieldwork for all areas with the exception of the PFI by the milestone date. There is still information required from the Council to enable me to conclude the audit and I have yet to decide the issue of the foundation schools under the PFI.</p>

Accounting practice and financial reporting

41 I consider the non-numeric content of your financial reporting. The issues I want to raise with you are noted below and at Table 2.

The Annual Governance Statement (AGS)

- 42** The Council is required to prepare and publish an annual governance statement (AGS) to meet the statutory requirement set out in Regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006. In particular, the regulations require the Council to 'conduct a review at least once a year on the effectiveness of its system of internal control' and to prepare a statement on 'internal control in accordance with proper practices'. With effect from 2007/08 proper practices are defined in 'Delivering Good Governance in Local Government: A Framework' published by the Chartered Institute of Public Finance and Accountancy/Society of Local Authority Chief Executives (CIPFA/SOLACE) in June 2007.
- 43** The AGS, signed by the Leader and the Chief Executive, reports on the arrangements for the governance of the Council's affairs and highlights any significant governance issues. The Council is required to set out any significant governance issues including an outline of the actions taken or proposed to deal with them. The purpose of the disclosure is to give assurance that any significant governance issues have been or are being addressed and that the AGS is a balanced reflection of the Council's position.
- 44** My audit needs to confirm that the statement 'reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published 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 accounting statements'.
- 45** I have some concerns that the AGS in the statement of accounts approved by members on 30 June 2010 does not comply with CIPFA guidance and is inconsistent with my knowledge of the Council. Management has declined to amend the statement and I may need to give a modified opinion in the Auditor's Report (Appendix 1).
- 46** Whilst the term 'significant governance issue' cannot be absolutely defined, guidance from CIPFA and the Auditing Practices Board (APB) of the Financial Reporting Council sets out areas to consider when determining what may be considered a significant governance issue:
- it has seriously prejudiced or prevented achievement of a principal objective
 - it has resulted in a need to seek additional funding to allow it to be resolved, or has resulted in significant diversion of resources from another aspect of the business
 - it has led to a material impact on the accounts
 - the audit committee or equivalent advises it should be considered significant for this purpose
 - the head of Internal Audit reports on it as significant for this purpose
 - the issue, or its impact, has attracted significant public interest or has seriously damaged the reputation of the organisation
 - it has resulted in formal action being taken by the Chief Financial Officer and/or the Monitoring Officer.

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- 47 There are no significant governance issues identified in the AGS included in the accounts approved by members on 30 June 2010. I ask members to consider whether there are any significant governance issues, for example in respect of:
- Tangible fixed assets
 - Libraries
 - PIDA - DASS
 - PIDA - HESPE
 - Vulnerable adults
 - Any other issues arising during the year or reported in the Chief Internal Auditor's annual report.
- 48 I have also reviewed the arrangements for the governance framework. The Council has indicated that a review of the effectiveness of the ARMC was carried out in the year. My understanding is that this is planned for 2010/11.
- 49 The CIPFA/SOLACE framework requires the signatories of the AGS to provide a statement to confirm that they 'have been advised on the implications of the review of the effectiveness of the governance framework by (the executive/audit committee/overview and scrutiny committee/risk management committee)...' There is no overall opinion given by the signatories or confirmation by the ARMC as those charged with governance by the Council.

Table 2 Accounting practice and financial reporting

Issue or risk	Finding
It is important that all transactions resulting in figures in the accounts are captured appropriately through the Council's accounting system.	The I&E account could not initially be agreed to the relevant codes within the ledger and differed by £5.3m. This arose as transactions were posted directly to the general fund balance and then manually reflected in the I&E account.
It is important that overheads are apportioned as accurately as possible within the service expenditure analysis.	There is scope to improve the allocation of overheads to more accurately apportion costs in the I&E account.
The SoRP sets out accounting and disclosure requirements.	I identified a number of disclosure errors and suggested some enhancements to existing disclosures. These are noted at Appendices 2 (adjusted) and 3 (unadjusted).

Recommendation

- R6** Review the governance issues arising in the year and consider amending the Annual Governance Statement to:
- acknowledge any significant issues, provide a plan to address weaknesses and ensure continuous improvement of the system is in place;
 - ensure that arrangements for the governance framework included in the AGS are relevant to the year of account; and
 - include an opinion on whether the governance arrangements (with the exception of any key areas identified) have been operating effectively during the year.
- R7** Review how the accounts are produced from the ledger to minimise the need for off ledger and other manual adjustments.
- R8** Review the allocation basis of overheads to ensure that costs are more accurately apportioned in the I&E account.

Value for money

I am required to decide whether the Council put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

Value for money conclusion

- 50** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my conclusions on each of the areas below.
- 51** I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. The wording of my draft report (Appendix 1) will be presented to members at the Audit and Risk Management Committee on 28 September 2010. There are no issues to bring to the attention of members.

Table 3 Value for money conclusion

The Council put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources

KLOE	Met
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural resources	Yes
Strategic asset management	Yes
Workforce	Yes

Managing finances

Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?

52 The Council manages its finances effectively to deliver value for money. Financial, strategic and service planning are well integrated and delivering the strategic priorities of the Council. There is also good partnership working and engagement with users and stakeholders. Financial management during 2009/10 was sound and the Council has delivered significant savings in excess of target with a balanced budget being set for 2010/11 in spite of significant funding challenges in the public sector.

Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?

53 There is good evidence of the Council using benchmarking which has significantly developed its understanding of costs and the link to performance. It is using benchmarking and costing information to contribute to better decision making and is achieving financial savings on, for example, the review of care homes. The Council has delivered significant savings in excess of target.

Is the organisation's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?

54 The Council produces relevant, timely and reliable financial monitoring and forecasting information and uses financial and related performance information to monitor performance during the year. Financial reports are clear and are presented in a combined financial and performance report to members on a quarterly basis. The Council's 2009/10 accounts complied with statutory requirements, regulatory timetables, and relevant accounting and reporting standards and an unqualified opinion was given although there were a number of material and significant errors. The implementation of IFRS for 2009/10 in respect of PFI has been satisfactory. However, we have identified some risk areas which could impact on the successful implementation of full IFRS accounting in 2010/11.

Governing the business

Does the organisation commission and procure quality services and supplies, tailored to local needs to deliver sustainable outcomes and value for money?

55 The Council has invested resources to continue to develop its corporate arrangements for procurement and is actively involved in both regional and sub-regional collaborative ventures. Procurement is being used to deliver financial savings but it is still too early to fully assess the impact on sustainable outcomes for local people. There is a need to drive procurement forward to ensure the benefits are maximised consistently across the organisation. The Council has demonstrated that it is actively responding to agreed recommendations resulting from our previous work.

Value for money

Does the organisation produce relevant and reliable data and information to support decision making and manage performance?

56 The Council produces relevant and reliable data and information to support decision making and manage performance and works well with partners to ensure the quality of partnership data, sharing access to the performance management system with other members of the Local Strategic Partnership. Understanding the needs of decision makers, for example around the economic recession, has improved and performance is aligned to financial information, monitored against priorities and targets and underperformance are being addressed. Data security has improved.

Does the organisation promote and demonstrate the principles and values of good governance?

57 The Council has a good understanding of the key ethical governance issues that it faces and the action needed to promote and maintain standards. During the year the Monitoring Officer and Chair of the Standards Committee have raised awareness of standards and inappropriate behaviour is challenged. It has adopted, promotes and demonstrates the principles of good governance and a satisfactory ethical framework and culture. The administration has set out clear purpose and vision in its strategic priorities and this is communicated both within the Council and to external stakeholders. From 1 April 2009 the Council streamlined its scrutiny committees from 10 to 5, aligned them with the strategic priorities and has adopted the 'Leader and Cabinet' executive arrangements going forward. The Council is planning to revise its corporate arrangements for governing partnerships although many outcomes from working in partnership are positive.

Does the organisation manage its risks and maintain a sound system of internal control?

58 Risk management arrangements are strong and the Council can demonstrate areas where risks have been successfully identified and mitigated. There are satisfactory arrangements in place to manage the risk of fraud and corruption. The system of internal control is generally satisfactory.

Managing resources

Is the organisation making effective use of natural resources?

59 As reported in 2008/09, the Council has an understanding of its environmental impacts that allows it to focus its management on areas of high impact. It has high level summary information on energy use across its main properties and plans to implement more detailed monitoring. Significant reductions have been achieved in its energy use and carbon dioxide emissions against a challenging target. The Council has met its target to reduce its carbon emissions by 20 per cent by 2010, achieving this two years early in 2008. From 2006/07 to 2007/08 the Council reported a 'weather corrected' saving of £69k. Through its ISO 14001 certificated environmental management systems, it has identified the environmental risks in key services that could cause pollution.

Does the organisation manage its assets effectively to help deliver its strategic priorities and service needs?

60 The Council has a strategic approach to asset management and is starting to implement its strategic asset review. Once implemented, the Council expects to make annual revenue savings of £2.3m from the closure buildings and £1m from rationalising office accommodation – as well as providing improved services and reducing the impact of Council buildings on the environment. The Council is working with partners and community groups to maximise the use of assets for the benefit of the local community.

Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities?

61 There is a strong commitment to people issues at the Council and some very good work on workforce planning and development has been taking place within individual directorates. Through its People Strategy, the Council is now working to ensure that this approach is replicated across the organisation. It is also implementing a new HR information system. This will make workforce information more readily accessible and will also help promote greater consistency in the way it is used.

Glossary

Annual governance statement (AGS)

62 A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

63 A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the certificate.

Audit opinion

64 On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
 - whether they have been prepared properly, following the relevant accounting rules; and
 - for local probation boards and trusts, on the regularity of their spending and income.
-

Qualified

65 The auditor has some reservations or concerns.

Unqualified

66 The auditor does not have any reservations.

Value for money conclusion

67 The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Appendix 1 – Independent auditor’s report to Members of Wirral Council

[To be presented to members once all outstanding issues resolved and adjusted/unadjusted errors confirmed.]

Appendix 2 – Amendments to the draft accounts

I identified the following misstatements during my audit and managers have made the necessary adjustments. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Table 4

Management has adjusted for 11 non-trivial errors.

		Income and Expenditure Account		Balance sheet	
Adjusted misstatements	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Balance sheet – buildings overstated £47,948k	PFI - 5 foundation schools included in the Council's PFI scheme should not be included on the Council's balance sheet as the Council does not control these assets	47,948			47,948
STRGL (2008/09) £47.144m	PFI - The revaluation of PFI assets occurred in 2006/07 but the Council has reflected the revaluation in the STRGL as occurring in 2008/09	n/a	n/a	n/a	n/a
Balance sheet - land and buildings	There is expenditure recorded within the asset register that is not attributable to specific assets and does not appear on the Valuer's certificate		3,737	3,737	

Appendix 2 – Amendments to the draft accounts

		Income and Expenditure Account		Balance sheet	
Adjusted misstatements	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
I&E account – service expenditure analysis	A cost centre recording both income and expenditure in respect of DASS extra care housing was omitted from the accounts	1,465	1,465		
Balance sheet – construction assets	Assets have been double counted in both surplus and construction asset balances			1,283	1,283
I&E account – service expenditure analysis	The asset lives of some libraries were changed in 09/10 to anticipate the disposal planned under the Strategic Asset Review. This resulted in an error in the depreciation calculation as the libraries are remaining with the Council	845			845
Balance sheet – construction assets	Surplus assets were incorrectly classified as construction assets			376	376
I&E account - service expenditure analysis	Expenditure on a Council owned asset has been incorrectly treated as REFCUS as opposed to capital expenditure	264			264
Balance sheet – capital adjustment account	Accounting entries in respect of disposed assets is incorrect			236	236

Appendix 2 – Amendments to the draft accounts

		Income and Expenditure Account		Balance sheet	
Adjusted misstatements	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Balance sheet - land and building	PFI - the Council has included land that it owns as part of the adjustment recognised in respect of the PFI scheme. The revaluation of land should be accounted for as an in-year adjustment rather than in the PFI PPA	4,996			4,996
Balance sheet - lease liability	PFI - the Council has incorrectly used indexed payments in the calculation of the PFI lease liability. This means that the lease liability in the balance sheet is overstated. In addition, the analysis of payments in note 22 shows figures which have been indexed and then inflated by 3%			3,791	3,791

68 Management has agreed to amend the following disclosure errors/enhancements to the accounts. These adjustments do not impact on the values disclosed in the core financial statements.

- Note 7 Related Party Transactions - added specific reference to the corresponding note contained within Merseyside Pension Fund's accounts;
- Note 13 Movement on fixed assets - Council owned land of £1.442m is disclosed within the PFI balance;
- Note 28 Provisions - The value disclosed in respect of self insured risk was overstated by approximately £2.5m; and

Appendix 2 – Amendments to the draft accounts

- Note 34 Events after the balance sheet date - an additional disclosure was required in respect of a change in measurement of the FRS17 pension liability from CPI to RPI following guidance issued by central government after the accounts were approved
- 69 There were a number of presentational and arithmetic errors that management has agreed to amend, such as:
- Note 5 on page 101 in respect of the collection fund was represented in £000s rather than £s; and
 - The Pensions Reserve on the balance sheet referred to note 35 rather than to note 33.

Appendix 3 – Unadjusted misstatements in the accounts

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities. If you decide not to amend, please tell us why in the representation letter. If you believe the affect 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.

Table 5

Management has declined to amend for 8 errors or uncertainties including 1 material issue.

Description of error	Accounts affected	Value of error £ million
Individual asset balances held in the government grants deferred balance have not been adjusted to reflect downward revaluations performed on the underlying asset	Balance sheet – government grants deferred balance overstated	227.786 (uncertainty)
PFI - To date approx £2.185m lifecycle costs have been expensed – the Council should consider if lifecycle costs meet the definition of capital expenditure going forward	Balance sheet – buildings understated	2.185 (up to)
Year end BACS payments processed through the ledger but not through the bank account are included in the accounts as creditors. However, at the balance sheet date, the Council is no longer in control of these payments and therefore they should be reflected in the cash balance.	Balance sheet – cash and creditors balances overstated	5.727

Appendix 3 – Unadjusted misstatements in the accounts

Description of error	Accounts affected	Value of error £ million
22 community assets were derecognised from the accounts as information could not be identified within the Council's asset records.	Balance sheet – community assets understated	1.276 (uncertainty)
PFI - The accumulated depreciation in respect of the PFI buildings is overstated by £0.881m as it was not correctly adjusted for following revaluation of the buildings in 2007/08	Balance sheet - buildings overstated	0.881
Based upon the Council's model and recovery trends of existing aged debt I consider that the council tax bad debt provision is understated	Balance sheet – debtors overstated	0.625
Internal recharges in respect of rental payments have not been eliminated from the accounts	I&E account - gross expenditure and income are overstated	0.491
The amount for the surplus arising on the revaluation of fixed assets disclosed in the STRGL is inconsistent with information disclosed elsewhere in the accounts	STRGL – surplus arising on the revaluation of fixed assets	0.314

70 We identified a number of areas where disclosure notes needed to be improved but management has not agreed to amend:

- The SoRP requires that the cumulative effect on reserves of the PPAs should be disclosed at the foot of the STRGL.
- Accounting policies - The explanation of the changes in accounting policies from 2008/09 could be enhanced.
- Note 7 Related party transactions - The disclosure would be strengthened by referencing member appointments to voluntary and other external bodies.
- Note 22 PFI - the analysis of payments is incorrect as figures have been indexed and also inflated by 3 per cent.

Appendix 3 – Unadjusted misstatements in the accounts

- Note 25 Debtors – The Council has changed the 08/09 balances disclosed from those in the 2008/09 audited accounts.
- Note 25 Debtors – The Council discloses its debtors net of the bad debt provision. However the total bad debt provision has been taken from sundry debtors rather than across all other classifications of debtors disclosed.
- Note 39 Analysis of grant - The Council has been unable to provide documentation to support the full amount of a grant of £30.107m disclosed in the note. Documentary support of £23.883m has been provided, leaving £6.224m unsupported.

Appendix 4 – Draft letter of representation

To:

Mike Thomas
District Auditor
Audit Commission
The Heath Business and Technical Park
Runcorn
Cheshire
WA7 4QF

Wirral Borough Council - Audit for the year ended 31st March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Wirral Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31st March 2010.

Compliance with the statutory authorities

I acknowledge my 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 give a true and fair view of the financial position and financial performance of the Council and for making accurate representations to you.

Uncorrected misstatements

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in the attached schedule are not material to the financial statements, either individually or in aggregate [schedule required to be attached]. These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are as follows;

- reason 1 etc; and
- reason 2.

Appendix 4 – Draft letter of representation

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council, Cabinet and other committee meetings, have been made available to you.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

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.

I also confirm that I have disclosed:

- my 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
- my 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

There are no instances of non-compliance with laws, regulations and codes of practice, 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

71 I confirm the reasonableness of the significant assumptions within the financial statements. For the assumptions made in the valuation of assets and liabilities, I confirm:

- 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
- subsequent events do not require adjustment to the fair value measurement.

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

Contingent liabilities

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; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

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

Appendix 4 – Draft letter of representation

Post balance sheet events

Since the date of approval of the financial statements by the Audit and Risk Management Committee, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

Signed on behalf of Wirral Borough Council

I confirm that this letter has been discussed and agreed by the Audit and Risk Management Committee of Wirral Borough Council on 28th September 2010.

Signed

Name

Position

Date [usually dated on date of audit report]

Appendix 5 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Governance Report 2009/10 - Recommendations						
10	R1 Ensure that all working papers used by the Council to prepare the accounts are presented at the start of the audit and queries are responded to promptly.	2				
10	R2 Strengthen quality assurance of the accounts to ensure that errors are minimised.	2				
12	R3 Improve and evidence internal controls around fixed assets - within departments, in finance and with the Valuer <ul style="list-style-type: none"> • clarify and formally agree respective roles and responsibilities between departments, finance and the Valuer; • review and enhance capital accounting processes and procedures to ensure that all key controls are in place including to prove existence, ownership and valuation for all classes of assets; 	3				

Appendix 5 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	<ul style="list-style-type: none"> ensure that key controls operate effectively throughout the year - for example, ensure all appropriate reconciliations are completed; improve and evidence management supervision and review of capital accounting entries to ensure accuracy and reasonableness, for example, depreciation, revaluations, changes in classification and reconciliations; and ensure processes maximise the assurance received from the Valuer and consider what assurance management requires in respect of expenditure capitalised during the year that is not currently on the Valuer's certificate. 					
13	<p>R4 Complete the input of information onto the new asset register:</p> <ul style="list-style-type: none"> vehicles, plant and equipment: ensure all assets can be identified individually and relevant information is recorded, for example, information on location of the asset to ensure that existence can be tested and disposals identified and accounted for appropriately in the accounts; 	2				

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	<ul style="list-style-type: none"> land and buildings: ensure the information in the asset register is complete, including for PFI assets recognised on the balance sheet in 2009/10 and that it satisfies the developing requirements of financial reporting standards, for example in respect of component accounting; and community assets: complete the cataloguing of community assets held in museums and art galleries and ensure that the asset register is subsequently updated 					
13	R5 Ensure that the proposed new Highways Asset Management System satisfies the developing requirements of financial reporting standards.	2				
20	R6 Review the governance issues arising in the year and consider amending the Annual Governance Statement to: <ul style="list-style-type: none"> acknowledge any significant issues, provide a plan to address weaknesses and ensure continuous improvement of the system is in place; ensure that arrangements for the governance framework included in the AGS are relevant to the year of account; and 	3				

Appendix 5 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	<ul style="list-style-type: none"> include an opinion on whether the governance arrangements (with the exception of any key areas identified) have been operating effectively during the year. 					
20	R7 Review how the accounts are produced from the ledger to minimise the need for off ledger and other manual adjustments	2				
20	R8 Review the allocation basis of overheads to ensure that costs are more accurately apportioned in the I&E account.	1				

The Audit Commission

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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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