

# Annual Governance Report

London Borough of Hammersmith & Fulham

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 results of my audit work for 2009/10.

I discussed and agreed a draft of the report with the Chief Executive and Director of Finance on 21 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 report before approving the financial statements (pages 6 to 8);
- take note of the adjustments to the financial statements set out in this report (Appendix 2);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3); and
- agree your response to the proposed action plan (Appendix 5).

Yours faithfully

Jon Hayes  
District Auditor

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.

<b>Financial statements</b>	<b>Results</b>	<b>Page</b>
Unqualified audit opinion	Yes	6
Financial statements free from material error	Yes	6
Adequate internal control environment	Yes	6
<b>Value for money</b>	<b>Results</b>	<b>Page</b>
Adequate arrangements to secure value for money	Yes	9

## Financial statements

- 1 I plan to issue an audit report including an unqualified opinion on the financial statements subject to the completion of outstanding work.

## Value for money

- 2 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.

## Independence

- 3 I can confirm that there were no relationships giving rise to a threat to independence, objectivity and integrity.

# 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.**

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**4** I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 8);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3); 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

- 5 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report. Work remains in progress on the cash flow statement.
- 6 The audit has progressed quicker than in previous years with most of our work completed by the end of August. To further improve the process the Council would benefit by ensuring that all the working papers set out in my working paper requirements are available at the agreed date of the commencement of the audit.

### Recommendation

- R1** Ensure a full set of working papers is available for the agreed date of the commencement of the audit.

## Errors in the financial statements

- 7 I have not identified any material errors in the financial statements.

## Important weaknesses in internal control

- 8 I have not identified weaknesses in internal control that would lead to material mis-statements in the accounts.
- 9 As at 31 March 2010, the sales ledger contains £2.3 million of unallocated receipts. This amount has been correctly accounted for in the accounts by netting it off the debtors balance. However, there is a risk that individual debtor accounts remain open where the balance has been paid. Officers should review this balance and write off amounts as appropriate.

### Recommendation

- R2** Review the £2.3 million of unallocated receipts in the sales ledger.

### Key areas of judgement and audit risk

10 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	Finding
Although International Financial Reporting Standards do not take effect in Local Government until 2010/11, the CIPFA Statement of Recommended Practice (SoRP) does adopt one standard (IFRIC12) for 2009/10. The impact of this is the Council's Private Finance Initiative scheme will have to be re-assessed and is likely to be accounted for on-balance sheet. In previous years the scheme has been off-balance sheet.	I have reviewed the Council's arrangements for identifying and assessing contracts that potentially fall within the scope of IFRIC12. I have audited the Council's Private Finance Initiative scheme which is the only contractual arrangement to be assessed as 'on balance sheet' as a result of IFRIC12. I have no issues to report.
The SoRP includes other changes to the format of the accounts: <ul style="list-style-type: none"> <li>• Changes to accounting for local taxation; and</li> <li>• Deletion of some notes and other minor changes.</li> </ul>	I have reviewed changes to the accounts to ensure they are in accordance with the SoRP.
Amendments to the accounts and audit regulations require more disclosures about senior officers' pay.	I have reviewed senior officer pay disclosures and ensured they have been made in accordance with the regulations.
Reconciliations of feeder systems to the general ledger require improvement. Reconciliations are often difficult to understand and review, both from a management and audit perspective.	I have reviewed the reconciliations of significant feeder systems. I have not identified any issues other than those reported under "important weaknesses in internal control" above.
In 2008/09 the Council elected not to prepare group accounts. The case for not producing these accounts needs refreshing each year.	I have reviewed the case for not preparing group accounts. I have asked management for specific representation that the increase on the ALMO pension liability is not considered material in this context. See appendix 3 for the draft letter of representation.
In 2008/09 we made recommendations about the Council issuing clear guidelines to valuers and reviewing advice for	I have reviewed instructions to valuers and the valuation of fixed assets and have no issues to report.

Issue or risk	Finding
<p>reasonableness. The current economic climate suggests property values are still volatile and the valuer's advice will be critical to ensuring the balance sheet is materially accurate.</p>	
<p>The 2008/09 Penalty Control Notices (PCN) debtor was approximately £55 million, though most of this was uncollectible. We recommended that this debtor be written off against the corresponding bad debt provision.</p>	<p>I have reviewed debtors and confirmed that the uncollectable debt has been written off.</p>
<p>Calculation of the housing rent and temporary accommodation bad debt provision appears unusual as it is based on the size of the debt rather than an aged debt analysis.</p>	<p>I have reviewed the process for calculation of the housing rent bad debt provision and have no issues to report.</p>
<p>Controls concerning petty cash were found to be in need of improvement during the 2008/09 audit.</p>	<p>I have sample tested cash balances and have no issues to report.</p>

### Letter of representation

- 11** 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.



# 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.

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## Value for money conclusion

- 12 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 in Appendix 4.
- 13 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. Appendix 1 contains my draft report.

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# Glossary

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## Annual governance statement

- 14** Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.
- 15** It comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.
- 16** The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

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## Audit closure certificate

- 17** 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.

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## Audit opinion

- 18** 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; and
  - whether they have been prepared properly, following the relevant accounting rules.

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## Unqualified

- 19** The auditor does not have any reservations.

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## Value for money conclusion

- 20** 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 London Borough of Hammersmith & Fulham

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## Opinion on the Authority accounting statements

I have audited the accounting statements and related notes of London Borough of Hammersmith & Fulham for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account, the Collection Fund and the related notes. The accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of London Borough of Hammersmith & Fulham in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

## Respective responsibilities of the Director of Finance and Corporate Services and auditor

The Director of Finance and Corporate Services responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

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

I report to you my opinion as to whether the accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority and its income and expenditure for the year.

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in

June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

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

### **Basis of audit opinion**

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

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

### **Opinion**

In my opinion the Authority accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended.

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### **Opinion on the pension fund accounting statements**

I have audited the pension fund accounting statements for the year ended 31 March 2010 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

## **Appendix 1 – Independent auditor’s report to Members of London Borough of Hammersmith & Fulham**

This report is made solely to the members of London Borough of Hammersmith & Fulham in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

### **Respective responsibilities of the Director of Finance and Corporate Services and auditor**

The Director of Finance and Corporate Services responsibilities for preparing the pension fund accounting statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

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

I report to you my opinion as to whether the pension fund accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the pension fund during the year and the amount and disposition of the fund’s assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

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

### **Basis of audit opinion**

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

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

## **Opinion**

In my opinion the pension fund accounting statements and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Pension Fund during the year ended 31 March 2010, and the amount and disposition of the fund’s assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year.

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

### **Authority’s Responsibilities**

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

### **Auditor’s Responsibilities**

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

## **Conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance, I am satisfied that, in all significant respects, London Borough of Hammersmith & Fulham made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

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## **Certificate**

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

# Appendix 2 – Amendments to the draft accounts

I identified misstatements during my audit that managers have agreed to adjust. There are also some amendments made by management to the draft accounts approved in June. I bring the following to your attention to assist you in fulfilling your governance responsibilities.

Description of adjustment	Income and Expenditure Account		Balance sheet	
	Dr £000	Cr £000	Dr £000	Cr £000
Error in converting the trial balance to the accounts. <ul style="list-style-type: none"> <li>Cultural, Environmental and Planning Services: Income</li> <li>Housing General Fund: Income</li> </ul>	2,800	2,800		
Gain on disposal of fixed assets understated. <ul style="list-style-type: none"> <li>Central services to the public</li> <li>(Gain) / loss on disposal of fixed assets</li> </ul>	646	646		
Section 106 receipts not netted off the correct account resulting in overstatement of debtors and creditors. <ul style="list-style-type: none"> <li>Creditors</li> <li>Debtors</li> </ul>			1,035	1,035

Adjustments to notes	£000
Statement of total recognised gains and losses	
Additional narrative on the cumulative impact of prior period adjustments	n/a
Note 2 Private finance initiative	
- Table 3: Impairment and depreciation charges understated, though the net book value remains unchanged	688
- Table 5: Error in unitary charge profile	2,190
Note 6 Pension Costs	
Changes to the movement in the pension reserve:	
- London Borough of Hammersmith & Fulham	-240
- London Pension Fund Authority	240
Note 9 Agency income and expenditure	
Arithmetic error	4,090
Note 10 Leasing charges	
Include the PCT sub-lease for the PFI within the disclosure	
- Gross book value	5,100
- Depreciation	243

## Appendix 2 – Amendments to the draft accounts

<b>Adjustments to notes</b>	<b>£000</b>
Note 11 Material transactions with related parties Adjustment to pension fund average cash balance	202
Note 41 Events after the balance sheet date The Council has included an additional disclosure as a non-adjusting post balance sheet event to reflect the Government's announcement to adopt the Consumer Price Index (CPI) as the measure of price inflation for public sector pension schemes from April 2011. It is estimated that this change will reduce the pension fund liability as at 31 March 2010.	n/a



# Appendix 3 – Draft letter of representation

To: Jon Hayes, District Auditor, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1p 4HQ

## London Borough of Hammersmith & Fulham - Audit for the year ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of London Borough of Hammersmith & Fulham, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010. All representations cover the Council's accounts and Pension Fund accounts included within the financial statements.

### 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.

### 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 and 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

I confirm the reasonableness of the significant assumptions within the financial statements.

### 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. Except as disclosed in Note 25 to the financial statements we have no other lines of credit arrangements.

### 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;
- 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.

### Appendix 3 – Draft letter of representation

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

#### Post balance sheet events

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

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

#### Specific representations

- The increase in the ALMO pension liability to £12.3 million is not considered material to users of the accounts and therefore group accounts have not been prepared.

#### Signed on behalf of London Borough of Hammersmith & Fulham

I confirm that the this letter has been discussed and agreed by the Council on [date]

Signed

Name

Position

# Appendix 4 – Value for money criteria

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

## Appendix 5 – Action plan

Rec.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
1	Ensure a full set of working papers is available for the agreed date of the commencement of the audit.	3	Deputy Director of Finance	Agreed	To achieve an even quicker conclusion to the audit process, the Council will ensure all working papers are produced for the agreed start date of the audit	June 2011
2	Review the £2.3 million of unallocated receipts in the sales ledger.	2	Deputy Director of Finance	Agreed	This has been accounted for correctly, however, as part of the WCFM programme, unallocated cash in AR will be dealt with under a series of agreed options	Dec 2010

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# The Audit Commission

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

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

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

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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

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