

Annual Governance Report

February 2008



Annual Governance Report

Liverpool City Council

Audit 2006/07

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Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

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

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Purpose of this document

- 1 In accordance with the Audit Commission's Code of Audit Practice (the Code), this report provides a summary of the work we have carried out during our 2006/07 audit of accounts, the conclusions we have reached and the recommendations we have made to discharge our statutory audit responsibilities to those charged with governance (for Liverpool City Council this is identified as the Audit and Accounts Committee) at the time they are considering the financial statements.
- 2 In preparing our report, the Code requires us to comply with the requirements of International Standards on Auditing (United Kingdom & Ireland) – ISA (UK&I) - 260 'Communication of Audit Matters to Those Charged With Governance', by reporting to you matters relating to the audit of the financial statements. Other auditing standards require us to communicate with you in other specific circumstances including:
 - where we suspect or detect fraud;
 - where there is an inconsistency between the financial statements and other information in documents containing the financial statements; and
 - non-compliance with legislative or regulatory requirements and related authorities.
- 3 We are also required to communicate to you the Audit Commission's requirements in respect of independence and objectivity, and these are set out at Appendix 2.
- 4 This report has been prepared for presentation to the Audit and Accounts Committee on 11 February 2008. The audit was not complete by the end of September and a progress report was presented to the Committee on 27 September 2007. Members considered the progress report and approved the amended financial statements presented by officers on that date.
- 5 Members are now invited to:
 - consider the matters raised in this report before the financial statements are approved; (need to re-approve as those approved at 27 September did not contain all the amendments from the increase to the BDP)
 - approve the representation letter on behalf of the Authority and those charged with governance before we issue our opinion; and
 - consider amending the financial statements for significant qualitative aspects of financial reporting and any recommendations for improvement in the action plan.
- 6 Our work during the year was performed in line with the 2006/07 Audit and Inspection Plan that we presented to the Council in April 2005. We have issued separate reports during the year having completed specific aspects of our programme, which are listed at Appendix 3.

Key messages

- 7 Our work on the 2006/07 audit is substantially complete. We are issuing qualified opinions on the financial statements, the whole of government accounts and the Value for Money Conclusion and have issued a report containing section 11 recommendations which require a public response.
- 8 Our work on the financial statements is now complete. Officers have previously reported to members that 'the assets recorded within the accounts are most likely subject to error' and we have concerns over the link between underlying records to the fixed asset register. We have considered the impact this has on our opinion and we are issuing a qualified opinion in respect of this matter. Our draft opinion is at Appendix 4.
- 9 In our view, the Statement on Internal Control (SIC) has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit, although a significant number of weaknesses have been identified in comparison to similar authorities. The Council has action plans to respond to these weaknesses and we are currently reviewing the progress that has been made.
- 10 Our work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources is now complete. We propose issuing a qualified conclusion on the use of resources and the current draft report is attached at Appendix 4.
- 11 We have reported our concerns regarding the Council's financial management arrangements and financial standing and made statutory recommendations under section 11 of the Audit Commission Act 1998 in our separate report *Strengthening the Council's Finances - The Way Forward*. The report was sent to the Council on 17 December 2007 and was presented to the Resources Select Committee on 9 January 2008 and will be considered at the following full Council meeting. We will consider the Council's response during the course of our current audit.
- 12 The Authority has taken a positive and constructive approach to our audit and we would like to take this opportunity to express our appreciation for the Authority's assistance and co-operation.

Accounts and Statement on Internal Control

- 13 Our work on the financial statements is complete. Officers have previously reported to members that 'the assets recorded within the accounts are most likely subject to error' and we have concerns over the link between underlying records to the fixed asset register. We have considered the impact this has on our opinion and we are issuing a qualified opinion in accordance with section 9 of the Audit Commission Act 1988 in respect of this matter. Our draft opinion is at Appendix 4. We are also concerned that, in addition to the errors in the financial statements, the lack of controls and reliable data impacts on the decision making of the Council.
- 14 Auditors are required to obtain written confirmation of certain representations from management and those charged with governance before an audit report is issued, such as acknowledgement of responsibility for the fair presentation of the financial statements in accordance with the applicable financial reporting framework and responsibility for the design and implementation of internal control to prevent and detect error.
- 15 The auditor should also obtain written representations from management on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist.
- 16 The final draft of the letter of representation has been attached at Appendix 5.

Adjustments to the financial statements

- 17 We are also required to bring to your attention misstatements that have already been corrected by management where we consider them relevant to your wider governance responsibilities. These are recorded in full at Appendix 7 but we provide an analysis of the most significant item below for your attention. Members were advised of adjustments and re-approved financial statements presented by officers on 27 September 2007. Further adjustments to represent wider impacts of the adjustment to the Collection Fund bad debt provision have since been made by officers.

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| <i>Recommendations</i> |
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| <i>R1 Re-approve the amended financial statements.</i> |
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| <i>R2 Ensure the accuracy of financial statements presented in future years.</i> |
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- 18 The most significant item is in respect of the council tax bad debt provision. In the pre-audit statement of accounts a contingent liability highlighted the possibility that the council tax bad debt provision may need to be increased. However we raised concerns regarding the adequacy of the level of the provision for bad debts and officers agreed to increase the provision in the accounts for 2006/07 by £5.8m - the amount previously identified as a contingent liability. The effect of this is to increase the deficit carried forward on the collection fund from £19.6m to £25.4m and decrease the net assets and reserves on the balance sheet to £8.4m.

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| <i>Recommendation</i> |
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| <i>R3 Ensure the Collection Fund is restored to balance.</i> |
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Unadjusted misstatements

- 19 We are required to report to you all unadjusted misstatements that we have identified during the course of our audit, other than those that are clearly trivial.
- 20 The Council has incurred expenditure in providing advance funding to Liverpool Land & Development Co for capital works. The works will eventually be eligible for grant funding and a claim will be made in due course. The council's expenditure has been financed on an accruals basis by raising a debtor of £3.008m for grant to be received. We believe it would be more appropriate for the council's expenditure to be accounted for as a 'pre-payment' but as debtors and prepayments are within the same heading on the balance sheet officers have decided not to amend the statements.
- 21 At the Audit and Accounts Committee meeting on 27 September 2007 you chose not to amend the statements for this unadjusted misstatement. In accordance with ISA (UK&I) 260 we request that you extend the representation letter to explain why.

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| <i>Recommendation</i> |
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| <i>R4 Consider how expenditure on projects for which grant has not yet been claimed is represented in the financial statements.</i> |
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Accounting practices

- 22 We are also required to report to you our view on the qualitative aspects of the Authority's accounting practices and financial reporting and have set out below our observations on key issues affecting the Authority.

Quality of financial statements and working papers

- 23 Our annual governance report last year highlighted a significant number of errors and recommended that the Council improves the quality of financial statements and working papers. We are pleased to report that there has been a significant reduction in the number of errors which has resulted from high level commitment, better management review of the financial statements prior to audit and better quality assurance processes. There was also improvement in the accessibility of working papers and links to the statement of accounts. Officers did particularly well in anticipating and responding to the new financial reporting requirements this year and were proactive in preparing early drafts of the statements using comparable figures, enabling us to do early work to confirm the new format and prior year figures. The Council still needs to improve working papers further, especially in relation to:

- cash and bank reconciliations;
- provisions; and
- accruals.

- 24 We also made some suggestions to improve the readability and accuracy of the statements.

Recommendation

R5 Ensure the statements are fully supported by comprehensive working papers.

Events after financial statements

- 25 Housing Benefit recovery for 2005/06 has been confirmed at £2.3m. The financial statements contain a provision of £2.58m for 2005/06 and 2006/07 recovery. The remaining £0.28m is unlikely to be sufficient for 2006/07 recovery and so the Council may need to consider how this provision can be increased during 2007/08.

Recommendation

R6 Consider the adequacy of the provision for Housing Benefit subsidy recovery.

Whole of Government Accounts

- 26 Liverpool City Council is required to submit information on the Statement of Accounts to central government to enable the consolidation of statements from across the public sector into a single set of accounts. We are required to report whether the WGA submission is consistent with the statement of accounts for the year ended 31 March 2007 on which the opinion is entered in accordance with section 9 of the Audit Commission Act 1998.
- 27 Our work on the Liverpool City Council Whole of Government Accounts (WGA) submission is now complete.
- 28 The Council submitted an un-audited consolidation pack on 1 October which was consistent with the original statement of accounts approved on 28 June. The audited WGA submission contains a number of adjustments to reflect the amendments to the statement of accounts made by officers recorded at Appendix 7 and referred to at paragraph 17 above. We concluded that the audited WGA submission is consistent with the statement of accounts for the year ended 31 March 2007. However, the report on the WGA submission is qualified in that it refers to the qualification in respect of tangible fixed assets on the full financial statements. The audit report is attached at Appendix 4.

Systems of internal control

- 29 As part of our audit, we consider the systems of accounting and financial control and report to you any material weaknesses identified. Members approved the statement on internal control (SIC) included in the statement of accounts and we have reviewed the process for its compilation.
- 30 We have reviewed whether the SIC has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit. There are no matters arising but draw to members' attention the number of significant weaknesses identified in comparison to other similar authorities. The Council has action plans to respond to these weaknesses and we are currently reviewing the progress that has been made.
- 31 We have not provided a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made, but have addressed only those matters which have come to our attention as a result of the audit procedures we have performed and are significant weaknesses.

Fixed Asset Register

- 32 As officers have reported and the Council has recognised in its SIC there are weaknesses in the systems and underlying records that support entries in the fixed asset register.

- 33** In recent audits we had concerns with regard to the reconciliation of the asset register to the general ledger. We are now satisfied that these accounting records are reconciled to within acceptable amounts. This year you have introduced a new ledger system and are introducing a new fixed asset information system and we carried out more testing on the underlying information that supports the fixed asset register. This testing confirmed the further uncertainties around the underlying records and controls.
- 34** We were unable to conclude that the figures reported in the statement of accounts were complete and accurate due to these weaknesses, both in terms of the values of fixed assets reported and the subsequent depreciation charges charged to services in the Income and Expenditure account, leading to the qualification of our opinion on the accounts.

Recommendation

R7 Ensure that asset records are brought up to date, are complete and accurate to ensure the integrity of the fixed asset register and accounting records and to provide reliable information for decision making.

Alleygating

- 35** Liverpool City Council has been using alleygating, ie the erection of gates across the alleyways, as a method of crime reduction for some years. Last year we referred to unlawful expenditure in respect of the Council's alleygating programme 2004/05. Following an objection to the 2004/2005 accounts we concluded that the City Council had not complied with legal requirements in 2004/2005 before installing alleygates and the District Auditor agreed with the objector's view that the expenditure on the erection of these gates was unlawful. As reported in last year's Annual Audit and Inspection Letter, as the Council has agreed to ensure that it uses the legal processes now available, there appeared to be little purpose in seeking a view from the courts. But it is a concern that the Council incurred substantial expenditure without a proper basis underpinning this expenditure.
- 36** This year we carried out a review of the new process and found that for those specific cases we tested the Council was able to provide evidence that we believe satisfied legal requirements, though ultimately if this was challenged it would be for the courts to determine.

Recommendation

R8 Ensure the Council adequately demonstrates its legal responsibilities and that the standards of evidence are consistently good.

Systems of accounting and financial control

- 37 Our audit identified the following weaknesses in systems of accounting and financial control which we should report to you.
- The VAT partial exemption calculation was out of date at the time the statements were prepared. Although this has been subsequently recalculated it is important to keep it up to date, particularly with the likely impact of the Housing Stock Transfer in 2007/08.
 - The statements did not record Capital commitments in line with the SORP definition but included additional information in the relevant note on schemes which the Council plan to carry out but which do not yet have binding legal agreements.
 - A number of trivial errors in the year end accruals process were found which did not raise concerns over the final statement figure but which highlight weaknesses in the process for identifying relevant expenditure for year end closedown.
 - A number of trivial errors in the cash and bank reconciliations process were found which did not raise concerns over the final statements figure but which highlight where improved controls could be implemented. Additionally the working papers supporting the cash and bank reconciliations were not of sufficient standard for us to gain assurances without significant detailed work.
 - The pooled budget with Liverpool PCT had not been updated and re-signed, and the arrangement was based on documentation relating to a PCT body that no longer exists.

| Recommendations |
|---|
| <i>R9 Keep the VAT partial exemption calculation up to date.</i> |
| <i>R10 Fully comply with the SoRP disclosure requirements.</i> |
| <i>R11 Improve processes for identifying relevant expenditure for year end closedown</i> |
| <i>R12 Improve controls for cash and bank reconciliations and improve working paper standards.</i> |
| <i>R13 Keep the pooled budget with Liverpool PCT up to date and ensure that it is signed by partners in advance of expenditure.</i> |

Use of resources

Work performed

- 38** The Code requires us to reach a conclusion on whether we are satisfied that the Council has proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources – the value for money conclusion. In meeting this responsibility, we review evidence that is relevant to the Council's corporate performance management and financial management arrangements across a range of criteria specified by the Audit Commission. Our work to support our conclusion comprised the following elements:
- reviews of procurement, user focus and implementing change;
 - a review of data quality arrangements; and
 - our audit of the best value performance plan.
- 39** We also drew on our knowledge of the Council from previous pieces of audit work and inspections. Detailed recommendations are contained within the respective reports for all these areas of work.
- 40** My opinion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, the 'value for money conclusion', has been qualified in that I am not satisfied that, in all significant respects, the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2007. Specifically, it did not put in place:
- arrangements to ensure that its spending matches its available resources;
 - a medium-term financial strategy, budgets and a capital programme that are soundly based and specifically designed to deliver its strategic priorities;
 - arrangements for the management of its asset base; and
 - arrangements to maintain a sound system of internal control.
- 41** Conclusions for each of the criteria specified by the Audit Commission are summarised at Appendix 8 and we note the areas of concern below.

Spending matching available resources

- 42** The Council has not managed its spending within the available resources. Reserves and balances are low and there is a significant funding gap going forward. The Collection Fund deficit has risen again this year and the balance was £25.4m (deficit) at 31 March 2007.

- 43 The latest audited accounts, for the year ended 31 March 2007, show that the Council has £7.5m in available revenue balances, with no other reserves available to support ongoing or unforeseen additional expenditure. Whilst this is higher than in recent previous years it remains very low compared with other metropolitan councils.
- 44 The Collection Fund has changed from being £1.6m in surplus in 2004 to £25.4m in deficit at 31 March 2007. The deficit has increased over recent years as a result of overly optimistic estimates of the council tax base and levels of current and arrears collection and is £9.5m greater than anticipated when the 2007/08 council tax was set. Whilst the Council has set aside additional reserves of £5.2m in 2006/07, an additional £4.3m identified within its MTFP for 2008/09 still represents a call on next year's Council Tax requirement. The requirement could also be greater if the current year's collection levels are lower than anticipated.
- 45 In addition, the Council is next year facing significant pressures, including equal pay, a less than anticipated settlement and commitments in funding the Capital of Culture. There is currently an anticipated 'gap' of over £20m to meet the Capital of Culture known commitments in 2008/09. The Council is considering and pursuing a number of alternative potential ways of bridging this gap, but none of these has yet been finalised.

Medium term financial strategy, budgets and the capital programme

- 46 The Council did not have a medium-term financial strategy in place for the period and budgets and the capital programme are not sufficiently aligned and developed to deliver strategic priorities. There are also weaknesses in the Council's management of its asset base. It does, however, manage its performance against budgets.
- 47 Last year we identified that the Council had not updated its medium term financial strategy since publishing it in 2004 and although it has moved forward with this agenda, progress has been slow. The Council reviewed its aims and objectives in spring 2007 and has now developed a medium term financial plan to link to those objectives. However, it did not have the plan in place for preparing the 2007/08 budget or capital programme, nor to use in making financial decisions throughout the year. The MTFP is not sufficiently robust in that it does not adequately link expenditure with identified Council priorities or identify and quantify all the additional pressures that may impact on the Council's financial position in the future, most notably the funding required for Capital of Culture.

Management of asset base

- 48 The Council has not yet put in place adequate arrangements for the management of its asset base. Although the Council finalised an integrated Corporate Capital Strategy and Asset Management Plan in March 2006, it is not linked to an up to date medium term financial plan. In addition, we have concerns over the completeness of underlying records that support the fixed asset register.

System of internal control

- 49 The Council's overall arrangements for managing significant business risks and promoting and ensuring probity and propriety in the conduct of its business are adequate. However the arrangements for ensuring business continuity and the governance of partnerships were still being developed during 2006/07 and were not in place during the period. Moreover the SIC, approved as part of the financial statements, highlights a number of significant control weaknesses on issues including risk management, some financial controls, ethical standards, governance of partnerships, business continuity and management of assets. The Council does not have a process for formal legal review of all reports provided to members although we had evidence of some informal review and consideration by the legal services team. The overall arrangements for legality are adequate but there is scope for legal services to be more proactive to ensure that the Council complies with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful.

Exception report

- 50 In the light of the poor financial position and the underlying weaknesses in relation to the Council's finances we have separately reported our concerns regarding the Council's financial management arrangements and financial standing and made statutory recommendations under Section 11 of the Audit Commission Act 1998. The Council is required to consider the report at a public meeting and to decide what action to take in response to our final report containing the Section 11 recommendations, *Strengthening the Council's Finances - The Way Forward*, was sent to the Council on 17 December 2007 and was presented to the Resources Select Committee on 9 January 2008 and will be considered at the next full Council meeting.

Use of resources assessment

- 51 We also assess the Council's Use of Resources (UoR) arrangements for the purposes of the Comprehensive Performance Assessment (CPA).
- 52 The overall use of resources assessment is made up of five themes. Judgements have been made for each theme using the Audit Commission's scale. This scale is used across its inspection and performance assessment frameworks.

Table 1 Standard scale used for assessments and inspections

| | |
|---|---|
| 1 | Below minimum requirements – inadequate performance |
| 2 | Only at minimum requirements – adequate performance |
| 3 | Consistently above minimum requirements – performing well |
| 4 | Well above minimum requirements – performing strongly |

- 53 In forming our assessment, we have used the methodology set out in the Use of Resources Guidance for Councils 2007, which can be found on the Commission's web site. We have also taken account of our findings and conclusions from previous years' assessments and updated these for any changes and improvements to the Council's arrangements. The scores over the five themes are set out below. A separate, more detailed report provides our key findings and identifies areas for improvement.

Use of resources judgements

Table 2 Summary of scores at theme and KLOE level

| Key lines of enquiry (KLOEs) | Score 2007 | Score 2006 |
|---|------------|------------|
| Financial reporting | | |
| 1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers. | 1 | 1 |
| 1.2 The Council promotes external accountability. | 1 | 3 |
| Financial management | | |
| 2.1 The Council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities. | 1 | 1 |
| 2.2 The Council manages performance against budgets. | 2 | 2 |
| 2.3 The Council manages its asset base. | 1 | 1 |
| Financial standing | | |
| 3.1 The Council manages its spending within the available resources. | 1 | 1 |
| Internal control | | |
| 4.1 The Council manages its significant business risks. | 2 | 2 |
| 4.2 The Council has arrangements in place to maintain a sound system of internal control. | 1 | 1 |
| 4.3 The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business. | 2 | 2 |
| Value for money | | |
| 5.1 The Council currently achieves good value for money. | 2 | 2 |
| 5.2 The Council manages and improves value for money. | 2 | 2 |

- 54 The Council's performance demonstrates that it is not managing and using its resources effectively. Strategic financial management and financial reporting arrangements are not adequate and financial standing is poor. Overall, internal control and arrangements for achieving, managing and improving value for money are only at minimum requirements. The use of resources is failing to support the Council in the achievement of its priorities and improving services.

Performance reports

Procurement

- 55 Overall, procurement practices are adequate to ensure value for money from the use of procurement, but were not yet consistent and comprehensive across all activities of the Council for the end of the 2006/07 financial year.
- 56 The Council has begun to address a range of issues aimed at promoting more consistent and effective procurement across the Council and this has also given procurement a higher priority within the Council. There are areas of good practice and recent progress such as developments in joint procurement and e-procurement. There are still key areas to address, which include weaknesses in management information, monitoring, and performance management. Progress on issues has been slower than anticipated in a number of areas and support mechanisms, are still being developed, such as detailed procurement guidance. Arrangements for embedding effective procurement arrangements across the Council are still at an early stage.

User focus

- 57 The Council's approach to user focus is adequate overall. As part of this review we also identified some elements that represent good practice. The ambition to meet the needs of all residents and service users is strong and is backed up by efforts to engage local people. The Council has an understanding overall of the needs of local people, through a wide range of consultations. However, there are opportunities to further improve by ensuring that the consultation strategy is followed in all cases, especially in relation to accessing the views of hard-to-hear groups and feedback to all consultees.
- 58 The Council is making good progress in developing local priorities, but the mechanisms to respond to views expressed in the quality of life survey are not sufficiently robust to ensure that action is taken. There is a good culture of concern to meet users' needs, and this is backed up by a sound approach to equality impact assessments (though there is room for improvement in the assessments themselves), and a wide suite of local performance indicators to measure progress on equalities issues. The Council acknowledges that the handling of complaints and their use to drive improvement are areas for development - which is underway.

Implementing change

- 59 There has been a mixed response to implementing recommendations made by external bodies. There has been good progress with the action it has taken following inspections of front-line services but a more inconsistent approach to action planning arising from reviews of corporate functions. In the case of services, recommendations arising from inspections are fed into wider service improvement arrangements and are subject to Member scrutiny as part of these arrangements. The process of implementing recommendations arising from corporate reviews is less clear with little Member input. As a result, progress in implementing recommendations has been mixed.
- 60 There is a clear focus on improving public facing services. However, it is important that similar emphasis is placed on the role that corporate functions play in facilitating and supporting improvements at an operational level so that progress in these areas facilitates service delivery.
- 61 The recent establishment of the Audit and Accounts Committee provides the Council with an opportunity to take an overview of inspection and audit reports to support a more consistent corporate approach.

Data quality work

- 62 We have completed our data quality review and have reported our detailed findings to the relevant officers. The Council's overall management arrangements for ensuring data quality are adequate. Of the sample PIs that we reviewed and spot checked, one PI; BV 183b Temporary accommodation: hostels was unfairly stated. In addition, one other PI; BV 214 Repeat homelessness was amended. Our follow up work from last year on BV 215 Speed in fixing street lights found that our recommendations in the 2005/2006 action plan regarding the retention of documentation to support the audit trail had been fully implemented.

Best value performance plan

- 63 Our work in respect of the Authority's 2006/07 Best Value Performance Plan (BVPP) was issued on 21 December 2006 and reported in the 2006 Annual Audit and Inspection Letter. No recommendations were made to the Audit Commission or the Secretary of State.

Audit fee update

- 64 We reported our fee proposals as part of the Audit Plan for 2006/07. The table below reports the outturn fee against that plan.

| | Plan 2006/07 | Actual 2006/07 |
|--|---------------------|-----------------------|
| Financial statements and Statement on Internal Control | £448,991 | £468,991 |
| Use of Resources | £128,737 | £128,737 |
| Total Audit Fees | £577,728 | £597,728 |
| Grants certification work | £270,000 | £270,000 (estimate) |
| Other work - Audit & Accounts Committee workshop | | £2,500 |

- 65 The analysis above shows that our audit fee has been increased by £20,000. This is in respect of additional work.
- To form a view and report on the Council's arrangements to ensure the legality of its Alleygating scheme.
 - To consider the impact of the issues on tangible fixed assets in the statement of accounts and ensure the appropriate opinion was given.
 - To form a view on the Council's finances and prepare the report: *Strengthening the Council's Finances - The Way Forward*.
- 66 At the time of this Letter, the grants certification work for 2006/07 is still in progress.
- 67 The outturn on inspection fees will be reported in the annual audit and inspection letter.

Appendix 1 – Action plan

| Page | Recommendation | Priority 1 = Low 2 = Medium 3 = High | Responsibility | Agreed | Comments | Anticipated Implementation Date |
|------|--|---|----------------|--------|--|---------------------------------|
| 8 | R1 Re-approve the amended financial statements | High | Robert Corbett | Yes | Will arrange Accounts & Audit Cttee as soon as the date when the Annual Governance Report will be available is known. | Mid February 2008 |
| 8 | R2 Ensure the accuracy of financial statements presented in future years | High | Jean Sibeon | Yes | Workshop held in October reviewed the issues arising from the Audit of the Accounts to identify actions required. Arrangements for 2007/08 Accounts being strengthened. | October 2007 March 2008 |

| Page | Recommendation | Priority 1 = Low 2 = Medium 3 = High | Responsibility | Agreed | Comments | Anticipated Implementation Date |
|------|--|---|----------------|--|--|---------------------------------|
| 8 | R3 Ensure the Collection Fund is restored to balance | High | Robert Corbett | Yes | <p>Backlog of correspondence now cleared allowing more informed forecasting of financial position.</p> <p>More prudent forecast made of likely Collection Fund position on 15 January 2008. Collection performance and debit adjustments monitored and considered each month</p> | 15 January 2008 |
| 8 | R4 Consider how expenditure on projects for which grant has not yet been claimed is represented in the financial statements. | Medium | Robert Corbett | Yes – but recommended practice is inconsistent with other capital funding for third parties. | Guidance on recommended practice issued to accounting practitioners. | January 2008 |

| Page | Recommendation | Priority 1 = Low 2 = Medium 3 = High | Responsibility | Agreed | Comments | Anticipated Implementation Date |
|------|--|---|--|--------|---|---------------------------------|
| 9 | R5 Ensure the statements are fully supported by comprehensive working papers | High | Jean Sibeon and other Heads of Finance | Yes | Working papers in identified areas under review to ensure improvements made for 2007/08 Accounts. | March 2008 |
| 9 | R6 Consider the adequacy of the provision for Housing Benefit subsidy recovery | Medium | Maria Wilcox | Yes | Adequacy of provision and reserves under review to ensure they are adequate – will be reviewed further after sample testing as part of audit of accounts. | March 2008 |
| 11 | R7 Ensure that asset records are brought up to date and are accurate to ensure the integrity of the fixed asset register and accounting records and to provide reliable information for decision making. | High | Phil Halsall | Yes | Working Group established to implement Tribal asset software. Progress monitored by Steering Group including Asst Exec Member. Project has been extended to incorporate 'associated assets'. | March 2009 |

| Page | Recommendation | Priority 1 = Low 2 = Medium 3 = High | Responsibility | Agreed | Comments | Anticipated Implementation Date |
|------|--|---|----------------|---|---|---------------------------------|
| 11 | R8 Ensure the Council adequately demonstrates its legal responsibilities and that the standards of evidence are consistently good. | Medium | Mike Kenworthy | Yes – but the circumstances giving rise to the issue were unique. | Ongoing arrangements kept under constant review. Annual assurance statement to be prepared. | March 2008 |
| 12 | R9 Keep the VAT partial exemption calculation up to date. | Medium | Richard Arnold | Yes | VAT Partial Exemption calculation has been updated. | November 2007 |
| 12 | R10 Fully comply with the SORP disclosure requirements. | Medium | Robert Corbett | Yes | Guidance on required practice issued to accounting practitioners. | January 2008 |
| 12 | R11 Improve processes for identifying relevant expenditure for year end closedown | Medium | Jean Sibeon | Yes | Guidance on required practice issued to accounting practitioners. | January 2008 |

| Page | Recommendation | Priority 1 = Low 2 = Medium 3 = High | Responsibility | Agreed | Comments | Anticipated Implementation Date |
|------|--|---|----------------|--------|--|---------------------------------|
| 12 | R12 Improve controls for cash and bank reconciliations and improve working paper standards. | High | Richard Arnold | Yes | Guidance on required practice already issued to accounting practitioners. Working papers in identified areas under review to ensure improvements made for 2007/08 Accounts. | October 2007 March 2008 |
| 12 | R13 Keep the pooled budget with Liverpool PCT up to date and ensure that it is signed by partners in advance of expenditure. | Medium | Tony Devine | Yes | Action already time-tabled into closure of service accounts action plan. | March 2008 |

Appendix 2 – The Audit Commission's requirements in respect of independence and objectivity

- 1 We are required to communicate the following matters to those charged with governance:
 - the principal threats, if any, to objectivity and independence identified by the auditor, including consideration of all relationships between the Authority, directors and the auditor;
 - any safeguards adopted and the reasons why they are considered to be effective;
 - any independent partner review;
 - the overall assessment of threats and safeguards; and
 - information about the general policies and processes for maintaining objectivity and independence.
- 2 We are not aware of any relationships that may affect the independence and objectivity of the audit team and which are required to be disclosed under auditing and ethical standards.

Appendix 3 – Audit reports issued

| Planned output | Planned date of issue | Actual date of issue | Addressee |
|---|-----------------------|----------------------|---------------------------------------|
| Audit and Inspection Plan | 31 March 2006 | 31 March 2006 | Audit & Accounts Committee |
| Interim audit memorandum | April 2007 | 1 May 2007 | Financial Management |
| Audit opinion and value for money conclusion progress report | not planned | September 2007 | Audit and Accounts Committee |
| Annual governance report | September 2007 | February 2008 | Audit & Accounts Committee |
| Opinion on financial statements | September 2007 | February 2008 | Audit & Accounts Committee |
| VFM Conclusion | September 2007 | February 2008 | Audit & Accounts Committee |
| WGA report | October 2007 | February 2008 | Audit & Accounts Committee |
| Use of Resources scored assessments for CPA to the Audit Commission and report to the Council | December 2007 | December 2007 | Executive Director, Finance and Legal |
| Final accounts memorandum | October 2007 | January 2008 | Financial Management |
| Review of the Alleygating Process | July 2007 | November 2007 | Community Safety |
| BVPP report 2006/07 | December 2006 | December 2006 | Audit & Accounts Committee |

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| Planned output | Planned date of issue | Actual date of issue | Addressee |
|--|------------------------------|------------------------------|--|
| Data quality report | October 2007 | October 2007 | Head of Policy and Best Value |
| Strengthening the Council's finances - the way forward | Not planned | 17 December 2007 | Resources Select Committee and The Council |
| Performance reports: | | | |
| Follow up of previous reports | September 2007 | September 2007 | Head of Policy & Best Value |
| Your Business at Risk | September 2006 | March 2007 | Assistant to the Chief Executive |
| Ethical Governance | July 2006 | November 2006 and March 2007 | Chief Executive |
| Procurement | April 2007 | June 2007 | Executive Director, Finance & Legal |
| User Focus | September 2006 | September 2007 | Assistant to the Chief Executive |
| Merseytram - working across Merseyside | - | January 2008 | Chief Executive |
| Annual audit letter | March 2008 | | Chief Executive |

Appendix 4 – Proposed auditor's report

Independent auditor's report to the Members of Liverpool City Council

Opinion on the financial statements

I have audited the financial statements of Liverpool City Council and its Group for the year ended 31 March 2007 under the Audit Commission Act 1998. The financial statements comprise the Income and Expenditure Account, 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 Collection Fund, the Group Accounts and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to Liverpool City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Chief Finance Officer and auditors

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities.

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

I report to you my opinion as to whether the financial statements present fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006.

I review whether the statement on internal control reflects compliance with CIPFA’s guidance ‘The statement on internal control in local government: meeting the requirements of the Accounts and Audit Regulations 2003’ issued in April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not 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 financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified 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 financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, 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 financial statements 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 financial statements.

However, I was unable to obtain sufficient appropriate audit evidence to support the entries in the Statement of Accounts in respect of Tangible Fixed Assets. The Council was not able to provide sufficient appropriate evidence to support the fixed asset register and the entries in the accounts for ‘Other Land and Buildings’ of £651.4m and ‘Community Assets’ of £35.6m. As a consequence I am unable to confirm:

- that Tangible Fixed Assets and the Fixed Asset Restatement Reserve in the Balance Sheet have not been materially under or overstated; and

- that depreciation charged to service revenue accounts has not been materially under or overstated in the Income and Expenditure Account and inaccurately reflected in the Statement of Movement on the General Fund Balance.

There were no other satisfactory audit procedures I could adopt to confirm these balances, amounts and disclosures and was unable to determine whether any adjustments to the accounts were necessary.

Qualified Audit Opinion

In my opinion, except for the possible effects of the limitation of evidence available to me, as described in the Basis for Qualified Audit Opinion paragraph, the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of Liverpool City Council and its Group as at 31 March 2007 and its income and expenditure for the year then ended.

Tim Watkinson

Audit Commission, 2nd Floor, Aspinall House, Aspinall Close, Middlebrook,
Horwich, Bolton BLQ 6QQ

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 to regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the authority is required to prepare and publish a best value performance plan summarising the authority’s assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Auditor’s Responsibilities

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

I am required by section 7 of the Local Government Act 1999 to carry out an audit of the authority’s best value performance plan and issue a report:

- certifying that I have done so;
- stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

Adverse 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 December 2006, I am not satisfied that, in all significant respects, Liverpool City Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2007, in that it did not put in place:

- arrangements to maintain a sound system of internal control;
- a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities;
- arrangements to ensure that its spending matches its available resources; and
- arrangements for the management of its asset base.

Best Value Performance Plan

I issued my statutory report on the audit of the authority's best value performance plan for the financial year 2006/07 on 21 December 2006. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

Exception report

Auditors' responsibilities

Under section 11 of the Audit Commission Act 1998, auditors may designate any audit recommendation as one that requires the authority to consider it at a public meeting held within one month of the issue of the relevant report and to decide what action to take in response.

On 17 December 2007 I issued a report: Strengthening the Council's Finances – The Way Forward containing recommendations designated under section 11. The authority is currently responding to the recommendations.

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.

Tim Watkinson

Audit Commission, 2nd Floor, Aspinall House, Aspinall Close, Middlebrook, Horwich, Bolton BLQ 6QQ

Auditors’ report to Liverpool City Council on the Whole of Government Accounts (WGA) Consolidation Pack

I have examined pages 1 to 19 of the consolidation pack of Liverpool City Council for the year ended 31 March 2007, which has been prepared and certified by the Consolidation Officer in accordance with instructions from HM Treasury.

I confirm that we have performed the procedures for Band 1 bodies as set out in the Audit Commission’s Auditor Briefing 1/2006.

This report is made solely to Liverpool City Council in accordance with section 10 (2) of the Government Resources and Accounts Act 2000 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and Audited Bodies prepared by the Audit Commission.

In my opinion, pages 1 to 19 of the amended consolidation pack dated [Same date as main opinion] replacing the original consolidated pack dated 28 September 2007 are consistent with the statement of accounts for the year ended 31 March 2007 on which I have entered my opinion in accordance with section 9 of the Audit Commission Act 1998.

However my opinion on the full financial statements was qualified because I was unable to obtain sufficient appropriate audit evidence to support the entries in the Statement of Accounts in respect of Tangible Fixed Assets. The Council was not able to provide sufficient appropriate evidence to support the fixed asset register and the entries in the accounts for ‘Other Land and Buildings’ of £651.4m and ‘Community Assets’ of £35.6m. As a consequence I was unable to confirm:

- that Tangible Fixed Assets and the Fixed Asset Restatement Reserve in the Balance Sheet have not been materially under or overstated; and
- that depreciation charged to service revenue accounts has not been materially under or overstated in the Income and Expenditure Account and inaccurately reflected in the Statement of Movement on the General Fund Balance.

There were no other satisfactory audit procedures I could adopt to confirm these balances, amounts and disclosures and was unable to determine whether any adjustments to the accounts were necessary.

Tim Watkinson

Audit Commission, 2nd Floor, Aspinall House, Aspinall Close, Middlebrook,
Horwich, Bolton

BLQ 6QQ

Appendix 5 – Management representation letter

Included separately with papers to Audit and Accounts Committee 11 Feb 2008.

Appendix 6 – Summary of unadjusted misstatements

- 1 We are required to report to you all unadjusted misstatements that we have identified during the course of our audit, other than those that are clearly trivial. The items below are brought to your attention to enable you to consider whether the financial statements should be amended for them. If you choose not to amend the financial statements in respect of these items, you should extend the representation letter to explain why.

| | | Income and Expenditure Account | | Balance Sheet | |
|---|--|--------------------------------|----------|---------------|----------|
| Unadjusted misstatements | Nature of Adjustment | Dr £000s | Cr £000s | Dr £000s | Cr £000s |
| The Council has incurred expenditure in providing advance funding to Liverpool Land & Development Co for capital works. The works will eventually be eligible for grant funding and a claim will be made in due course. The council's expenditure has been financed on an accruals basis by raising a debtor of £3.008m for grant to be received. | We believe it would be more appropriate for the council's expenditure to be accounted for as a pre-payment but as debtors and prepayments are within the same heading on the balance sheet officers have decided not to amend the statements | nil | nil | nil | nil |
| Net Effect | | | | | |

Appendix 7 – Summary of adjusted misstatements

- 1 The following misstatements were identified during the course of our audit and the financial statements have been adjusted by management. We bring them to your attention to assist you in fulfilling your governance responsibilities.

| | | Income and Expenditure Account | | Balance Sheet | |
|--|--|--------------------------------|----------|---------------|----------|
| Adjusted misstatements | Nature of Adjustment | Dr £000s | Cr £000s | Dr £000s | Cr £000s |
| Description of Misstatement | | | | | |
| The Accounts Receivable bad debt provision has been overstated whilst the miscellaneous bad debt provision has been understated by £977k respectively. | Both bad debts provisions have been adjusted to show correct values. | nil | nil | nil | nil |
| The year end debtors and creditors for rechargeable works were both overstated by £2.007m. | The balance sheet and disclosure note for debtors and creditors have been amended. | nil | nil | 2,007 | 2,007 |

| | | Income and Expenditure Account | | Balance Sheet | |
|---|---|--------------------------------|----------|---------------|----------|
| Adjusted misstatements | Nature of Adjustment | Dr £000s | Cr £000s | Dr £000s | Cr £000s |
| The Council has incurred expenditure in provided advance funding to Liverpool Land & Development Co for capital works. The works will eventually be eligible for grant funding and a claim will be made in due course. The council's expenditure has been financed on an accruals basis by raising a debtor of £3.008m for grant to be received. It would be more appropriate for expenditure to be accounted for as a 'pre-payment'. | The balance sheet values for creditors and prepaid expenditure have been amended. | nil | nil | nil | nil |

| | | Income and Expenditure Account | | Balance Sheet | |
|--|---|--------------------------------|----------|---------------|----------|
| Adjusted misstatements | Nature of Adjustment | Dr £000s | Cr £000s | Dr £000s | Cr £000s |
| The Accounts identified a contingent liability in respect of council tax arrears. However, since June 2006 the collection performance of council tax arrears has not exceeded targets as anticipated. Therefore the provision for bad debts for council tax arrears within the Collection Fund should be increased by £5.843m to be consistent with the current collection performance target. | The provision for bad debts within the Collection Fund has been amended. The Collection Fund deficit has been increased by £5,843k. | nil | nil | nil | 5,843 |
| Net Effect | | | | 2,007 | 7,850 |

Appendix 8 – Value for money conclusion

- 1 The Audit Commission has published, in accordance with the Code of Audit Practice, 12 criteria on which auditors are required to reach a conclusion on the adequacy of an audited body’s arrangements for economy, efficiency and effectiveness in its use of resources.
- 2 The Code criteria are linked to the use of resources assessment (UoR) key lines of enquiry (KLoEs). A score of Level 2 or higher under the KLoEs will result in an assessment that the Authority has adequate arrangements in place for the purposes of the Code criteria. The Code criteria and the linked KLoEs are show in the table below.

| Code Criteria | Description | Associated UoR KLoE | UoR Score | VFM Conclusion |
|---------------|--|---------------------|-----------|----------------|
| 1 | The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives. | N/A | N/A | Adequate |
| 2 | The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account. | N/A | N/A | Adequate |
| 3 | The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members. | N/A | N/A | Adequate |
| 4 | The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members. | LG DQ KLoEs | N/A | Adequate |
| 5 | The body has put in place arrangements to maintain a sound system of internal control. | 4.2 | 1 | Not adequate |

| Code Criteria | Description | Associated UoR KLoE | UoR Score | VFM Conclusion |
|----------------------|--|----------------------------|------------------|-----------------------|
| 6 | The body has put in place arrangements to manage its significant business risks. | 4.1 | 2 | Adequate |
| 7 | The body has put in place arrangements to manage and improve value for money. | 5.2 | 2 | Adequate |
| 8 | The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities. | 2.1 | 1 | Not adequate |
| 9 | The body has put in place arrangements to ensure that its spending matches its available resources. | 3.1 | 1 | Not adequate |
| 10 | The body has put in place arrangements for managing performance against budgets. | 2.2 | 2 | Adequate |
| 11 | The body has put in place arrangements for the management of its asset base. | 2.3 | 1 | Not adequate |
| 12 | The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business. | 4.3 | 2 | Adequate |