

Annual Audit and Inspection Letter

March 2008



# Annual Audit and Inspection Letter

Liverpool City Council

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Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

### **Status of our reports**

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

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

Reports prepared by appointed auditors are:

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# Contents

<b>Key messages</b>	<b>4</b>
Action needed by the Council	5
<b>Purpose, responsibilities and scope</b>	<b>6</b>
<b>How is Liverpool City Council performing?</b>	<b>7</b>
The improvement since last year - our Direction of Travel report	8
Service inspections	12
<b>The audit of the accounts and value for money</b>	<b>14</b>
Additional services	22
<b>Looking ahead</b>	<b>23</b>
<b>Closing remarks</b>	<b>24</b>
Availability of this letter	25

## Key messages

- 1 Most of the services provided by the Council have continued to improve and these services, on the whole, compare favourably with other councils'. The Council has also continued to work well with partners to improve the prosperity of the City and the well-being of residents. Housing remains the service where the Council's performance is lagging behind that of other councils, although the Council expects the completion of stock transfer at the end of this financial year to make a significant impact on performance.
- 2 However in the last year I, as the District Auditor, and the Audit Commission have raised some significant concerns with regard to the finances of the City Council and with governance arrangements. In relation to the finances I have taken the unusual step of making a number of statutory recommendations under section 11 of the Audit Commission Act 1998, drawing attention to the weaknesses and the need for improvement. I have also issued qualified opinions on the Council's accounts due to deficiencies in the records of the Council's assets and on the Council's value for money arrangements.
- 3 In relation to the section 11 recommendations the Council has responded positively to the issues raised in the report but it will take time to build the Council to a position of financial strength and sound internal control. The Council has accepted that improvements are needed to the way in which it plans its finances and that a longer-term consideration of the potential risks is needed.
- 4 The Audit Commission's Corporate Assessment (a periodic assessment of how the Council is run), was also undertaken last year. This raised similar concerns regarding financial capacity in relation to its ambitions. In addition, the Corporate Assessment raised concerns regarding the Council's governance arrangements and highlighted the poor behaviour of some members.
- 5 The Corporate Assessment emphasised the generally positive message in relation to the provision of services and outcomes for local people but indicated the need for the Council to be clearer about its priorities.
- 6 The deficiencies in financial capacity and governance represent a real risk to the future improvement of the Council's services. Top performing councils almost universally are well led and managed and have strong finances.
- 7 The Council has accepted that it needs to change in these areas and has established the Liverpool Strategic Innovation and Improvement Group (LSIIG), with input from IDeA and the LGA to help with the necessary development.

## Action needed by the Council

- 8 The Council needs to continue to work through LSIIG on its improvement agenda. In particular:
- ensure there is clarity in relation to the Council's priorities and these drive actions and the financial plan;
  - improve the governance arrangements so there is improved behaviour amongst elected members and greater trust and better working between all senior members and senior officers;
  - improve the Council's financial position so that the long term position is secure and risks have been clearly identified and considered;
  - make improvements to the Council's internal control and in particular its asset management records; and
  - ensure the improvements in the housing service are delivered, both in terms of social housing provision and strategic management.

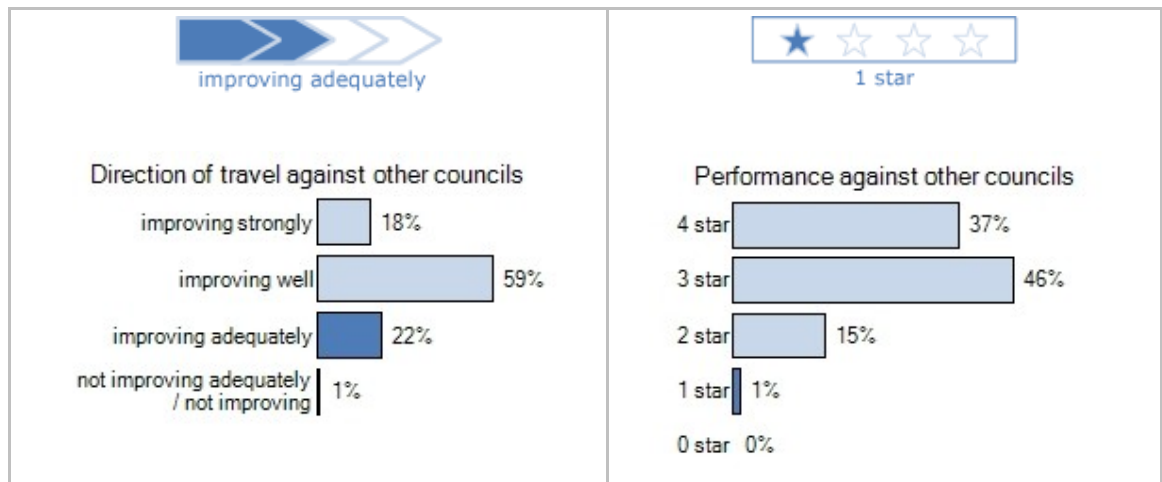
## Purpose, responsibilities and scope

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

## How is Liverpool City Council performing?

- 15 The Audit Commission’s overall judgement is that Liverpool City Council is improving adequately and we have classified the City Council as one star in its current level of performance under the Comprehensive Performance Assessment (CPA). This is a drop from last year's two stars and is a direct consequence of the fall in the 'Use of Resources' score. Most 'front line' services have continued to perform well in comparison with other councils but the Use of Resources is recognised as a key driver for continued improvement and therefore has significant weight in determining the overall CPA category.
- 16 These assessments have been completed in all single tier and county councils with the following results.

**Figure 1**



Source: Audit Commission

- 17 The detailed assessment for Liverpool City Council is as follows.

### Our overall assessment - the CPA scorecard

**Table 1 CPA scorecard**

Element	Assessment
Direction of Travel judgement	Improving adequately
Overall	One star
Corporate assessment/capacity to improve	2 out of 4
Previous corporate assessment/capacity to improve, as included in overall CPA judgement in 2007	3 out of 4
Current performance	
Children and young people*	3 out of 4
Social care (adults)*	3 out of 4
Use of resources*	1 out of 4
Housing	1 out of 4
Environment	3 out of 4
Culture	2 out of 4
Benefits	4 out of 4

(Note: \* these aspects have a greater influence on the overall CPA score)  
(1 = lowest, 4 = highest)

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

- 18 The latest Audit Commission corporate assessment of the Council was reported in February 2008. The overall assessment is that the Council's performance is 'at only minimum requirements - adequate performance'. Whilst this represents a fall in scored performance from the previous corporate assessment (from 3 to 2), this recent assessment was undertaken using a revised methodology: CPA 2005 - The Harder Test. The corporate assessment report recognised that the Council performs well in its achievements, with a strong record of achievement against national and local priorities. But the report highlighted significant concerns regarding capacity; in particular in relation to member behaviour and financial capacity.

- 19** This Direction of Travel report draws heavily on the findings of the corporate assessment but is also informed by other work undertaken by the local team. In assessing the Council's Direction of Travel we consider two aspects.
- What evidence is there of the Council improving outcomes?
  - How much progress is being made to implement improvement plans to sustain future improvement?
- 20** When taking these two aspects together our overall judgement is that the Council is performing adequately. There has been general improvement in relation to outcomes, albeit performance in some service areas is still below that of other councils and the improvement is not consistent across all services. We are concerned, however, that there is a real risk that the current level of improvement will not be sustained unless the capacity issues are addressed. The Council has responded positively but much work remains to be done.

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

- 21** The Council has made improvements to services and is working well with partners on cross cutting areas such as crime and health. Improvements in educational attainment, benefits and services for adults have continued and the Council is beginning to address poor recycling levels and the condition of housing, although this is still a major challenge for future years. Arrangements to challenge and secure value for money have not improved sufficiently in the past year. There are still a significant number of performance indicators where the Council's performance is below that of most other councils, despite improvements, and this continues to be a significant issue for the Council.
- 22** The Council is working well in partnership and is making good progress in a number of areas:
- the level of crime has continued to reduce at faster rates than other similar authorities;
  - there is a strong focus on addressing local neighbourhood issues;
  - an ambitious programme is being delivered to create a growing, vibrant and diverse city economy. Significant schemes such as transforming the docks, the Arena & Convention Centre, the Cruise Liner facility, Waterfront developments and retail centres are progressing well;
  - good progress has been made in enabling local decisions to be taken at a local level;
  - a strong neighbourhood approach for delivery of services is being developed; and
  - there is good commitment to joint working to address health issues for the whole community.

## 10 Annual Audit and Inspection Letter | How is Liverpool City Council performing?

- 23 Outcomes for children and young people in Liverpool are improving and many are now good. Good action is being taken to improve the health of children and young people and this is beginning to have an impact. The majority of children and young people are provided with a safe environment. Educational outcomes are improving rapidly. Attainment and progress of the majority of pupils is at least satisfactory across all Key Stages. Standards attained at GCSE are now close to the national average. Outcomes for looked after children and those with learning difficulties and/or disabilities are good overall.
- 24 Housing continues to be an area of poor performance for the Council as the level of decent homes continues to be well below other councils. Homelessness services are also in need of significant improvement.
- 25 The Council has established a range of activities to improve the condition of housing stock. The Council has made good progress in developing its local housing market by actively funding affordable housing. It is undertaking a range of schemes to improve existing housing stock, partly funded by Housing Market Renewal Initiative monies. It is anticipated that the Council's housing stock (16,000 properties) will be transferred to a registered social landlord by April 2008.
- 26 The Council is progressing well with its ambition to support active, healthy, independent living. The latest Adults' Annual Performance Assessment from the Commission for Social Care Inspection shows good progress in all areas and there are promising prospects for further improvement. The overall star rating remains at two stars.
- 27 In addition, progress on delivering the Supporting People action plan is now good. Following the two successive zero star assessments with 'uncertain' prospects for improvement in previous years, the latest review concluded that there has been a considerable shift in the direction of and improvement to the Supporting People programme delivered by Liverpool City Council resulting in a fair one star programme which has excellent prospects for improvement.
- 28 The Council is delivering against its health priorities and targets such as reducing teenage pregnancy and increasing life expectancy. Health in Liverpool is improving. The life expectancy of men and women is increasing although is still significantly lower than the national averages. There are a number of effective initiatives in place to reduce smoking and alcohol abuse.
- 29 Performance across the environment and street scene areas has been improving. Liverpool has 13 'Green Flag' awards for its parks and public satisfaction is high. Public satisfaction on street cleanliness has risen for four successive years but there are still challenges around levels of graffiti, fly-tipping and land with significant amounts of heavy littering.
- 30 There remain challenges in terms of the Council's ambitions to be a green and sustainable city. Recycling levels are beginning to improve but were still below national targets at the end of 2006/07. The latest projections for 2007/08 indicate that the Council is on course to exceed the agreed dry and green recyclable targets for 2007/08 of 20 per cent. However, there is a risk in not meeting future targets and the impact of fines if these are not met.

- 31 There are significant challenges if the Council is to improve value for money as the cost of services is high compared to others. The Council's approach to reducing overall costs has been successful and performance management arrangements have resulted in improvements to services. There have been some improvements in addressing value for money but there is much to do to ensure an effective and co-ordinated corporate approach. Efficiency savings have been achieved and are in line with Government targets. However, there is no systematic approach to reviewing and evaluating VFM and therefore the Council is unable to demonstrate specific examples of improvements in VFM for services.

## **2. How much progress is being made to implement improvement plans to sustain future improvement?**

- 32 There are a number of significant risks to the Council being able to maintain its improvement:
- a lack of financial capacity;
  - the absence of a robust Medium Term Financial Plan (MTFP);
  - poor governance arrangements and poor member behaviour; and
  - the Council's overall planning and target setting mechanisms are not fully effective.
- 33 We have reported separately regarding the first two risks in 'Strengthening the Council's Finances - The Way Forward', a report containing statutory recommendations made under the Audit Commission Act 1998. These issues are explored in more detail in the following section of this Letter.

### **Governance**

- 34 In last year's Letter we concluded that the Council as a whole had not sufficiently addressed cultural change in relation to its governance arrangements. We stated that there was little evidence that behaviours and conduct, or trust between officers and members had improved. The recent corporate assessment has highlighted similar concerns, and the overall conclusion is that some member behaviour at times is poor and affecting capacity. The corporate assessment concluded there has been inappropriate behaviour dealing with some officer issues and information is sometimes 'leaked' to the press for short-term political advantage. Trust between officers and members is not effective.
- 35 The underlying tensions within the Council are likely to have contributed to the lack of progress that has been achieved in improving the Council's financial position. There is a risk that these deficiencies are could impede the future improvement of the Council's services, although we are encouraged by the willingness of the Council to work with partners to make improvements in these areas.

### Planning and target setting

- 36 Whilst the Council has demonstrated its ability to develop robust plans for services such as regeneration, adults' and children's services, and the Council is making good progress with the development of the Local Area Agreement, other plans were less robust and the number of corporate aims and priorities did not give a clear focus. However the Council has recently updated its priorities and reduced from 30 last year to 10 for 2008/09.
- 37 Target setting and action planning is not fully effective, systematic challenge to the level of targets set is being introduced along with quality control checks within portfolios to ensure consistency in content and standard in 2008/09. Not all targets in the corporate plan are SMART (Specific, Measurable, Achievable, Realistic and Timebound). Connections between service planning, financial management and corporate planning are not integrated and service plans do not reflect how services contribute to the Council's wider priorities. Action plans supporting some strategies are variable with some plans not having clear milestones, timelines and targeted outcomes.

## Service inspections

- 38 During the year the Audit Commission carried out a Corporate Inspection and the key issues arising are included in our Direction of Travel paragraphs above. The summary scores are noted below.

**Table 2**

Headline questions	Theme	Score*
What is the Council, together with its partners, trying to achieve?	Ambition	2
	Prioritisation	2
What is the capacity of the Council, including its work with partners, to deliver what it is trying to achieve?	Capacity	1
	Performance management	2
What has been achieved?	Achievement	3
Overall corporate assessment score		2

- 39 An important aspect of the role of the Relationship Manager is to work with other inspectorates and regulators who also review and report on the Council's performance. Relationship Managers share information and seek to provide 'joined up' regulation to the Council. During the last year the Council has received the following assessments from other inspectorates.

**Table 3 Assessments from other inspectorates**

<b>Ofsted/CSCI</b>	<p>For Children's services, the Council consistently delivers above minimum requirements for users and was scored as an overall level 3.</p> <p>The assessment concluded that Liverpool City Council consistently delivers above minimum requirements and makes a good contribution towards improving outcomes for children and young people. Children's services make a significant contribution to improving the achievement and well-being of children and young people within a city that faces significant social and economic challenges.</p>
CSCI	<p>For Adults social care, the CPA performance rating is at level three out of four. The performance judgements for Liverpool were as follows.</p> <ul style="list-style-type: none"> <li>• Delivering outcomes: Good</li> <li>• Capacity for improvement: Promising</li> </ul> <p>The adult social care services performance rating by CSCI was 2 stars.</p>
BFI	<p>The Council's 2006/07 self-assessment showed that it achieved a rating of excellent against seven of the 13 performance measures scored by the Department and met 63 of the 65 enablers. The score for the Benefits service equates to excellent performance, level four out of four.</p>

## The audit of the accounts and value for money

- 40 As your appointed auditor, I have reported separately to the Audit and Accounts committee on the issues arising from our 2006/07 audit and have issued:
- my audit report, providing a qualified opinion on your accounts and a conclusion on your vfm arrangements to say that these arrangements are not adequate on 11 February 2008; and
  - my report on the Best Value Performance Plan confirming that the Plan has been audited.
- 41 As stated above I have also issued a separate report, *Strengthening the Council's Finances - The Way Forward*. This report includes recommendations under section 11 of the Audit Commission Act 1998 which requires the Council to make the report public and also respond formally to me and publish a notice of that formal response. Further details of the contents of this report together with my latest assessment of the progress that the Council has made with the implementation of the statutory recommendations are provided below in 'The key issues arising from the audit'.
- 42 My report containing section 11 recommendations was considered at the Resources and Corporate Services Select Committee on 9 January and subsequently by the full Council on 30 January.

### Use of Resources

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

**Table 4**

<b>Element</b>	<b>Assessment</b>
Financial reporting	1 out of 4
Financial management	1 out of 4
Financial standing	1 out of 4
Internal control	2 out of 4
Value for money	2 out of 4
Overall assessment of the Audit Commission	1 out of 4

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

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

### **Strengthening the Council's Finances - The Way Forward**

- 45** The report containing section 11 recommendations, set out my concerns relating to financial capacity and medium term financial planning. These same issues led me to qualify my conclusion on the Council's arrangements to deliver value for money and resulted in the Council's score in relation to Use of Resources.

#### **Financial capacity**

- 46** At 31 March 2007 the Council had £7.5m in available revenue balances. This is very low compared with other metropolitan councils. And although progress has been made since 2001/02 the Council remains some way from achieving the target it has identified of £11m as being the minimum level of balances it should maintain.
- 47** The Council was facing a significant additional financial pressure in 2008/09 arising from commitments in funding the Capital of Culture and was also facing significant additional potential pressures which could further exacerbate its weak financial position.
- Projected overspending in current year.
  - Service pressures.
  - Settlement following pre budget announcement in relation to the Comprehensive Spending Review.
  - Collection Fund deficit, at £25m at the end of 2006/07, being significantly higher than any other council.
  - Equal pay.
  - Other pressures as identified in the 2006/07 Statement of Accounts such as grant clawback.

### **Medium Term Financial Plan**

- 48 The lack of a robust, agreed, up to date and relevant medium-term financial plan (MTFP) in 2006/07 has contributed significantly to the difficulties that the Council now faces. Whilst there was a three year financial framework which provided some information to support decision-making, this did not take a broader view of the Council's financial position in the context of the Council's priorities and the other potential risks and pressures it faces. The lack of a MTFP has resulted in short-term financial decision making and in a failure to adequately plan for known financial liabilities and expenditure.
- 49 The MTFP was not in place at the time the 2007/08 budget was agreed and therefore could not underpin the decisions that were taken at that time.
- 50 Crucially the MTFP did not identify how a significant element of the funding for Capital of Culture will be met. Expenditure was planned of over £20m in 2008/09 with no agreed means of meeting this additional pressure.
- 51 The MTFP was not sufficiently robust in that it did not adequately:
- link expenditure with identified Council priorities and therefore did not provide an overall planning framework for the Council over the next three years; or
  - identify or quantify all the additional pressures that may impact on the Council's financial position in the future; most notably for the Capital of Culture, but also for some of the other pressures highlighted in the detailed report.

### **Current position**

- 52 The Council has responded positively to the issues raised in the above report but it will take time to build the Council to a position of financial strength. The Council has accepted that improvements are needed to the way in which it plans its finances and that a longer-term consideration of the potential risks is needed.
- 53 I provide a summary of progress against each of the statutory recommendations in Table 5.

**Table 5 Progress against section 11 arrangements**

A positive approach has been taken, but more remains to be achieved

	<b>Recommendations</b>	<b>Current position</b>
R1	<p>When setting the 2008/09 budget, ensure a prudent budget is set in the context of a robust and revised MTFP (see R3), ideally with cross-party support.</p>	<p>A budget has been set for 2008/09 that sets out proposals to deliver the identified £62m budget gap, including £20m for Capital of Culture. There was political engagement from the current administration in this process and an acceptance that hard choices and decisions needed to be taken. Cross-party support was sought but not achieved.</p> <p>There remain risks in relation to the delivery of the identified savings and in relation to the £20m funding for Capital of Culture in 2008/09. The identified service reconfigurations and staffing reductions will present management and political challenges in delivery. And I have reservations regarding some aspects of the £20m proposed funding for Capital of Culture. The Council is therefore still exposed to significant financial risk in my view.</p> <p>In setting the 2008/09 budget the Council did have regard to its longer-term financial position and identified some of the risks and uncertainties for the next three years. And to the extent it was possible, it did make decisions informed by its priorities. However there is more to do to improve these arrangements. The Council has very recently approved a revised Medium Term Financial Plan, after setting its budget, and further developments are needed to support improved financial management.</p>

	<b>Recommendations</b>	<b>Current position</b>
R2	Ensure the Collection Fund is restored to balance.	<p>The Council has taken measures to bring the Collection Fund back into balance during 2008/09. The tax base is now more robust and the assumptions regarding the level of collection are more prudent.</p> <p>However there may be some additional pressures in the current year as the Council's assumptions relating to collection of arrears of council tax may be optimistic and a higher level of bad debt provision may be required in the current year, further increasing the deficit and adding to pressure when council tax is set in future years.</p>
R3	<p>Review the Medium Term Financial Plan and specifically:</p> <ul style="list-style-type: none"> <li>ensure balances are restored to a prudent level, based on a rational assessment of risk and need, and are maintained at this level;</li> </ul>	<p>The Council has agreed to seek to increase its level of balances to £10m at the end of 2008/09 and by a further £1m in the following two years. I have indicated that I agree with the Director of Finance that the current level is too low and so I welcome the proposed increases. However the level should be informed through an assessment of risk and potential need. I have yet to see such an analysis to support the planned levels.</p>
	<ul style="list-style-type: none"> <li>ensure that the MTFP is used to ensure resources are aligned with the Council's stated priorities;</li> </ul>	<p>The Council has recently agreed revised priorities and these have been included in the recently revised MTFP. As stated above these have helped inform the contents of the MTFP, but there is more development required so that priorities can drive longer term budget planning more effectively.</p>

	<b>Recommendations</b>	<b>Current position</b>
	<ul style="list-style-type: none"> <li>ensure the council tax base is accurate and make realistic assumptions about the collection of council tax. Build these assumptions into the MTFP; and</li> </ul>	<p>As stated above the tax base is now more robust and the assumptions regarding the level of collection are more prudent. However there may be some additional pressures in the current year. Whilst the MTFP identifies the necessary additional resources any further pressures are not yet reflected in the MTFP. We are carrying out some further work with the Council's officers to understand how the accounts and the MTFP reflect the latest position.</p>
	<ul style="list-style-type: none"> <li>ensure that all potential uncertainties are properly identified and addressed in the MTFP, including additional expenditure in relation to Capital of Culture and its legacy, Equal Pay and other pressures.</li> </ul>	<p>We are working with the Council's officers to understand how the MTFP reflects these uncertainties and pressures.</p>
R4	<p>Ensure key actions in the Statement of Internal Control are implemented in a timely way and monitored.</p>	<p>Internal Audit is currently reviewing progress with improving the internal controls and will report progress to the Audit and Accounts Committee. We understand the Council is working hard to progress these issues.</p>

*Audit Commission*

**2006/07 statement of accounts**

- 54** As set out in our Annual Governance Report I provided a qualified opinion on the Council's accounts in respect of fixed assets as we were unable to obtain sufficient appropriate audit evidence to support the entries in the accounts in respect of Tangible Fixed Assets. There was also a significant adjustment to the accounts in respect of the council tax bad debt provision which officers agreed to increase. The effect of this was to increase the deficit carried forward on the collection fund.
- 55** However 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.

### **Value for money conclusion**

- 56 Our opinion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, the 'value for money conclusion', was qualified in that we were 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.
- 57 We carried out three specific pieces of work as part of our assessment of the value for money conclusion.
- Procurement - we concluded that procurement practices are adequate to ensure value for money from the use of procurement, but were not consistent and comprehensive across all activities of the Council at the time of the review.
  - User focus -the Council has an adequate approach to user focus overall, and has some elements of good practice
  - Implementing change - there has been a mixed response to the Council's implementation of 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.

### **Alleygating**

- 58 Last year we referred to unlawful expenditure in respect of the Council's alleygating programme, ie the erection of gates across the alleyways, as a method of crime reduction, and I agreed with an objector's view that the expenditure on the erection of these gates was unlawful. It was a concern that the Council incurred substantial expenditure without a proper basis and this year we carried out a review of the new process. We found that for those specific cases we tested the Council was able to provide evidence that we believe satisfied legal requirements, though ultimately it would be for the courts to determine.

### **Your Business at Risk: the e-agenda**

- 59 The systems, policies and procedures are generally in place to minimise IT risks in relation to business disruption, financial loss, reputation damage and loss of user confidence and in many areas there is a good understanding of those risks.
- 60 The survey identified some improvements from last year however it also highlighted a number of areas where:
- procedures are not still operating as intended and controls have been circumvented;
  - staff were not always aware of the policies or arrangements in place; and
  - arrangements could be strengthened to further mitigate risks.

### **Merseytram**

- 61 As has been widely reported, the proposed Merseytram scheme did not proceed as planned. The auditor to Merseytravel has issued a Public Interest Report relating to the way Merseytravel planned and managed the scheme and engaged with the district councils. And separately the auditors across Merseyside have reported jointly to the district councils and Merseytravel on the lessons for future joint working across Merseyside. This separate report concluded that arguably the scheme could have succeeded, or have been stopped before so much public money was spent, had there been a greater engagement across Merseyside on the project. It also concluded that there was not sufficient shared purpose and resolve across Merseyside to deliver this scheme. For future schemes of this nature there is a considerable opportunity for Merseyside Leaders to progress a greater pan-Merseyside approach to delivery, within the context of the proposed City Region.

### **National Fraud initiative**

- 62 In 2006/07, the local authority took part in the Audit Commission's National Fraud Initiative (NFI). The NFI, which is undertaken every two years, aims to help identify and reduce fraud by bringing together data from NHS bodies, local authorities and government departments and other agencies, to detect a wide range of frauds against the public sector. This year the data was accessed by authorities on a secure web application to obviate the need to send personal information through the post and this has worked well.
- 63 The Council's arrangements for responding to the Audit Commission's National Fraud Initiative (NFI) 2006/0 overall have been good. Matches are being followed up well for housing benefits, payroll, pensions, rents and care homes with some interesting issues arising and savings being made. Progress has been slower on creditors and prior year matches and the Council is still discussing the legal implications of matching council tax and electoral register records with the Audit Commission NFI team.

## **Additional services**

- 64 In March last year the Council formed an Audit Committee, that in June was joined with the existing Accounts Committee to become the body charged with governance. As this was a new committee with new members we were asked to facilitate a workshop to clarify the roles and responsibilities of the Audit and Accounts Committee.

## Looking ahead

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

## Closing remarks

- 68 This letter has been discussed with chief officers and is expected to be presented to the Executive Management Board on 11 April 2008 and to a subsequent Audit and Accounts Committee. Copies need to be provided to all Council members.
- 69 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Council during the year as shown in Table 6.

**Table 6** Reports issued

Report	Date of issue
Audit and inspection plan	March 2006
Interim audit memorandum	May 2007
Review of Procurement Arrangements	June 2007
Audit opinion and value for money conclusion progress report	September 2007
Supporting People Inspection	September 2007
Review of the Alleygating Process	November 2007
User Focus	December 2007
Implementing change	December 2007
Strengthening the Council's Finances - The Way Forward	December 2007
Use of Resources scored assessments for CPA	December 2007
BVPP report 2007/08	December 2007
Final accounts memorandum	January 2008
Data Quality	February 2008
Corporate Assessment	February 2008
Opinion on financial statements	February 2008
VFM Conclusion	February 2008
Whole of Government Accounts opinion	February 2008

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

## **Availability of this letter**

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

**Tim Watkinson**  
**Relationship Manager**

31 March 2008