

Annual Audit Letter

Liverpool City Council

Audit 2008/09

November 2009



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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Audit Opinion

- 1 I gave an unqualified opinion on your financial statements on 25 September 2009. My draft audit report was included as Appendix 2 of my Annual Governance Report, as reported to the Audit and Accounts Committee on 18 September 2009.

Financial Statements

- 2 The financial statements were submitted for audit on time and were supported by clear working papers prepared by finance staff. No material errors were identified in the financial statements. There were a number of non-material errors and amendments. The City Treasurer adjusted the financial statements for the errors and other amendments identified in Appendix 2 of my Annual Governance Report.

Value for money conclusion and use of resources

- 3 I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources. The wording of my draft report was attached in Appendix 1 of the Annual Governance Report. There are no issues to bring to members' attention in addition to those reported under the Use of Resources section below.
- 4 I have completed my work on the Use of Resources assessment for 2008/09. Use of Resources is a scored judgement which determines how well councils manage and use their financial resources. I concluded that the Council was performing adequately – at the minimum standards specified by the Audit Commission.

Comprehensive Area Assessment and Organisational Assessment

- 5 The Audit Commission introduced a new assessment regime during 2009, Comprehensive Area Assessment. This aims to review the performance of local partners in delivering better outcomes for local people. The assessment is designed to focus attention on areas that need attention in order to deliver additional and sustained improvement. Our work in this area is being led by the local Comprehensive Area Assessment Lead (CAAL). The CAAL has shared draft findings with officers and he is due to formally report on 9th December 2009. Alongside the CAA report we will issue our organisational assessment which combines our judgements on your use of resources and managing performance. Any issues arising will be discussed with you and planned into future years' audit and assessment activity.

Audit Fees

- 6 My fee proposals were communicated to the Audit and Accounts Committee in my Audit Plan for 2008/09. In my updated Opinion Plan, presented in June 2009, I reported that I was satisfied that the audit fee was appropriate and no adjustment was required. I expect to contain the 2008/09 audit fee within the total amount agreed with you.

Table 1 **Audit fees**

	Actual	Proposed
Financial statements and annual governance statement	460,446	460,446
Value for money	127,510	127,510
Total audit fees	587,956	587,956
Non-audit work	0	0
Total	587,956	587,956

Actions

- 7 Recommendations are shown within the body of this report and have been agreed with the Council's Audit and Accounts Committee.

Independence

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

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

Significant issues arising from the audit

- 9 I issued an unqualified opinion on the Council's financial statements on 25 September 2009.
- 10 No material errors were identified in the financial statements. Amendments were made to the presentation of material figures in the Statement of Total Recognised Gains and Losses (STRGL) and the Reserves disclosure note. Some other amendments were made, as detailed in Appendix 2 to the Annual Governance report, to provide further clarity to the reader and for the correction of some errors. The changes to the draft accounts did not affect the net Income and Expenditure figures or therefore the Council's reserves and balances.
- 11 Appendix 3 to the AGR included a schedule of misstatements identified during the course of the audit for which the financial statements were not amended. These included an incorrect debtor of £4.186m, where the cash had been received at the end of the year. Other misstatements included two incorrect creditors totalling £1.3m and the potential to write-back income of £1.238m in relation to a long term reconciling balance in a debtor reconciliation.

Material weaknesses in internal control

- 12 I did not identify any weaknesses in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware.

Accounting Practice and financial reporting

- 13 I considered the qualitative aspects of your financial reporting.
- 14 The audit identified the following areas where the procedures for compiling the financial statements could be further improved:
 - keep under review the methodology for all bad debt provisions to ensure they are based on the most current information available and most appropriate basis;
 - clear unallocated income codes on a timely and regular basis; and
 - ensure timely year-end invoicing between the Council and the Arena and Conference centre.

- 15** The presentation of the financial statements could be further improved by providing additional disclosure in respect of the nature of movements in material provisions and a further analysis of material reserves.

Recommendations

- R1** Strengthen procedures for compiling the financial statements in the areas identified:
- review of control account reconciliations and the methodology for bad debt provisions;
 - clearing unallocated income codes; and
 - reviewing year-end invoicing between the Council and Arena and Conference Centre.
- R2** Provide additional disclosure in respect of the nature of movements in material provisions and a further analysis of material reserves.

International Financial Reporting Standards (IFRS)

- 16** In March 2008 the Treasury announced that the annual financial statements of government departments and other public sector bodies would be prepared using International Financial Reporting Standards (IFRS) from 2009/10 onwards. For local government bodies the first full year of application is the 2010/11 financial statements but the starting period for this (the transition date) is 1 April 2009. Local government bodies will be required to produce their 2009/10 Whole of Government Accounts return on an IFRS basis.
- 17** As part of my 2008/09 audit I have completed an Audit Commission survey on the Council's progress in preparing for the implementation of the IFRS. The Council has made a good start in its preparations for IFRS. Officers have identified the key risk areas for Liverpool, undertaken an initial analysis to assess the work required and are in the process of preparing detailed methodologies for the various work areas. However, officers recognise that, in keeping with many councils, considerable further work will be needed during 2009/10 to ensure required timeframes are met.

Treasury Management

- 18** As part of my 2008/09 audit, I completed an Audit Commission return on the Council's Treasury Management arrangements. The Council had no investments with Icelandic banks in 2008/09. As noted in its Statement of Accounts, during 2007/08, acting on advice of its Credit Rating Agencies, the Council withdrew the names of Icelandic banks from its list of potential investment areas. There were no key issues identified in my review. I noted that the Council plans to review its Treasury Management framework in Autumn 2009 following updated Cipfa guidance and that specific Treasury Management training is planned for relevant Members.

Value for money and use of resources

I considered how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources judgements

- 19** In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2. The KLOEs reflect higher expectations than the previous assessment and include some areas not previously reviewed, including commissioning and procurement and use of natural resources.
- 20** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 21** The Council's final use of resources theme scores are shown in Table 2 below. The key findings and conclusions for the three themes are provided below.

Table 2 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	2
Governing the business	2
Managing resources	2

- 22** The Council's performance reflects a significant improvement on its performance in 2007/08, when the Council was assessed as level one for two use of resources themes, and compared to 2006/07 when the Council was assessed as level one overall.

- 23** A key area of improvement has been in respect of financial management. The Council has taken significant action during 2008/09 to more effectively plan its finances to deliver strategic priorities and secure sound financial health. The Medium Term Financial Plan (MTFP) has continued to improve. The Council has improved its arrangements for maintaining its spending within available resources. The Council has strengthened its business planning processes with greater focus on costs, risk, and service performance.
- 24** The Council has made good progress in developing its arrangements for effective asset management and implemented measures to better understand what its main costs are, the factors that influence these and how they link to performance. The Council is performing well in several areas, including aspects of its arrangements for ethical governance and making effective use of natural resources.

Managing finances

- 25** The Council has made significant improvements in its financial planning and financial management arrangements during 2008/09. Use of resources assessments in recent years have concluded that the Council did not have a medium-term financial strategy, budgets and a capital programme that were soundly based and designed to deliver its strategic priorities and did not have adequate arrangements to ensure that its spending matches its available resources. The improvements the Council has made during 2008/09 have meant that it is now getting the basics right.
- 26** During 2008/09 the Council strengthened its medium term financial planning arrangements and progressed plans to increase the level of working balances. The Council has also improved its budget-setting arrangements and introduced more integrated in-year financial and service reporting, with strong financial leadership at Executive Member and Director level.
- 27** The Council has adequate arrangements in place to understand costs and achieve efficiencies. The Council has implemented a programme of value for money reviews and progressed with its corporate improvement programme. Some services have detailed cost information but the Council recognises the need to develop and improve the routine use of cost data to ensure it is consistently used across the Council to inform decision making and commissioning.
- 28** The Council has further improved its arrangements for financial reporting. It has strengthened the arrangements for the preparation of the Council's accounts. The audit of the accounts did not identify any material errors. The Council recognises that there are weaknesses in its arrangements for reviewing the financial performance of some partnerships and has plans in place to strengthen arrangements in this area.

Governing the business

- 29** Overall, the Council is getting the basic right in each of the four KLOE areas, although there are some areas where the Council recognises the need to improve.

Value for money and use of resources

- 30** The Council's arrangements for commissioning and procurement are adequate. The Council has made a sustained effort to improve its arrangements. There are well developed joint commissioning arrangements in place in respect of social care services. For partnerships more generally a commissioning framework has been agreed, though it is at an early stage to show positive impact. A good procurement strategy was developed in 2007, which set out clear outcomes that were to be achieved, although the Council has yet to complete a formal evaluation of the effectiveness of its strategy. User involvement is prominent in the commissioning of social care contracts but for other services this is less developed.
- 31** The Council has adequate arrangements in place for producing relevant and reliable data and works with partners to secure data security. The Council has appropriate arrangements in place to monitor performance against corporate plan aims and priorities and provides adequate information to support the decision making process. However, it recognises that it has more to do to ensure robust data security arrangements are in place across the Council. The Council's Annual Governance Statement recognised that Information Management is a key issue for the Council in terms of its use, security and accuracy. Weaknesses in the Council's arrangements have meant there has been a lack of consistent compliance with procedures in a number of areas, including data protection, data retention, FOI and RIPA. The Council has been working to improve its business continuity arrangements. The Council did not have a corporate business continuity plan (BCP) in place during 2008/09. However a draft BCP has now been prepared and is to be signed off in September 2009.
- 32** The Council has adequate arrangements in place overall for Ethical Governance. The Council is performing well in some areas, including personal development plans for Members, extensive member training, and involvement in the DCLG Democracy Commission pilots. The Council recognises there are weaknesses in its arrangements for the management of corporate policies, procedures and guidelines and the monitoring of compliance with some codes and procedures. The Council has limited overarching corporate arrangements in place in respect of partnership governance and recognises the need to formalise and codify its arrangements and ensure appropriate arrangements for partnership governance are consistently applied across all Council Partnerships.
- 33** Risk management and internal control are satisfactory overall, with strong arrangements in place in relation to the investigation of fraud and corruption.

Managing resources

- 34** The Council has adequate arrangements in place for making effective use of natural resources and in some areas is performing well. The Council has a good understanding of its environmental use of resources that allows it to focus its management on improving areas of high impact. The Council shows a high level of commitment to managing natural resources and has a comprehensive suite of policies that cover the range of environmental issues. The Council can demonstrate positive use of natural resources in a range of other areas.

- 35** Previous use of resources assessments have concluded that the Council did not have adequate arrangements in place for asset management. The Council has made significant process in 2008/09 and the current arrangements reflect a Council that is now getting the basics right.
- 36** The Council has significantly improved its arrangements for strategic asset management. During the year the Council have produced service Asset Management Plans (SAMPs) for all relevant business units and a five year indicative asset management programme for each of its three Corporate Aims. The Council has undertaken an Office Accommodation review during 2008/09 and plans to review the entire asset base over a three year period and produce an Asset and Investment Rationalisation Strategy by March 2010. The Council has made good progress in improving its arrangements for managing assets. In March 2009, it completed an 18 month project to ensure that baseline data on all the Council's land and property is held within a single data set (Tribal). During 2008/09, the Council introduced a robust capital project appraisal process. Reporting of the performance of the asset portfolio to Members remains limited, although improvements are planned in this area. The Council has several examples of partnership and community working.
- 37** However, there are areas where the Council needs to improve. The more significant improvement opportunities from my assessment are reflected in the following recommendations.

Recommendations	
R3	Strengthen the Council's arrangements for information management. The Council needs to ensure more consistent compliance with procedures in respect of data protection, data retention, FOI and RIPA, and ensure robust data security arrangements are in place across the Council.
R4	Approve and embed corporate business continuity arrangements.
R5	Strengthen the Council's procedures for the management of corporate policies, procedures and guidelines and the monitoring of compliance with some governance codes and procedures.
R6	Formalise the Council's overarching corporate arrangements for the management of partnerships and ensure appropriate arrangements for partnership governance and review of financial performance of partnerships are consistently applied across all Council Partnerships.
R7	Improve reporting of the performance of the asset portfolio to members.

VFM Conclusion

- 38** I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body.
- 39** I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Closing remarks

- 40** The economic downturn, public sector funding and the banking crisis is having a very significant impact on public finances and the bodies that manage them. It is envisaged that there will be wide ranging and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes in the short to medium term, including pressures on income streams. There are further challenges for policy priorities where patterns of demand for services are also changing. In addition the Council continues to implement its own efficiency and improvement review programme. These changes and the Council's response will be a key focus of my attention for future audits.
- 41** I have discussed and agreed this letter with the Chief Executive and the City Treasurer. I will present this letter at the Audit and Accounts Committee meeting on 20 January 2010.
- 42** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Table 3

Report	Date issued
Audit and Inspection Plan	May 2008
Annual Governance Report	September 2009
Opinion on financial statements	September 2009
Value for money conclusion	September 2009
Triennial Review of Internal Audit	September 2009
Final accounts memorandum (draft)	October 2009
Annual Audit Letter	December 2009
Review of 2008/09 Grant Claims	January 2010 (planned)

- 43** The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Michael Thomas
 District Auditor
 December 2009

The Audit Commission

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

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

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

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