

Annual Audit and Inspection Letter

Birmingham City Council

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Reference:	BIOO1 Annual Audit and Inspection Letter
Date:	January 2005

Executive summary

The purpose of this Letter

This is our audit and inspection 'Annual Letter' for members which incorporates the Annual Audit Letter for 2003/04, and is presented by the council's Relationship Manager and District Auditor. The Letter summarises the conclusions and significant issues arising from our recent audit and inspections of the council.

We have issued separate reports during the year having completed specific aspects of our programme. These reports are listed at Appendix 1 for information.

Appendix 2 sets out the scope of audit and inspection.

Appendix 3 provides information about the fees charged.

Key messages

Council performance

Birmingham has again been categorised as a weak council in the updated Comprehensive Performance Assessment (CPA). There are many aspects of the council's work which are very good, but our overall judgement is held back by the continuing poor performance in housing and children's social services.

Our updated assessment of the way the council is managed identified significant improvements in some areas since the previous assessment, primarily around how you translate your overall ambitions into more detailed plans and manage performance against these. You now need to ensure that these improvements are translated into step changes in service performance, particularly in poorly-performing areas.

The accounts

We gave an unqualified opinion on your accounts on 18 November 2004.

Financial position

Your overall financial position has been of increasing concern over the past six months, although we are satisfied that you are taking robust action to rectify the situation and that the current significant overspends will not have a major impact on your longer-term financial standing.

Action needed by the council

You are continuing to face a very demanding agenda as you seek to make the necessary significant improvements in housing and children's services as well as continuing the recent progress in improving the way the council is managed. There is also a demanding agenda of externally driven changes, including improved integration of services for children currently provided through education and social care.

Key actions arising from the issues summarised in this Letter are:

- maintain focus on improvements to the housing service, while at the same time clarifying longer-term plans for the service;
- continue to address the underlying financial management issues which have led to the current overspend in social care and health;
- ensure that you make best use of the latest external support being provided by the Department of Health for your children's services; and
- vigorously pursue the new plans for reprovisioning of services for elderly people.

Above all, you need to ensure that you continue to focus on and prioritise the demanding agendas facing you. The substantial efforts you have made to put in place the 'building blocks' for improvement now need to be translated into improvements in the services provided for the people of the City.

Council performance

CPA scorecard

Birmingham continues to be classified as a weak council in the updated 2004 CPA scores.

EXHIBIT 1

Element	Assessment
Overall	Weak
Current performance	Out of 4
Education	4
Housing	1
Use of resources	4
Social care (children)	1
Social care (adults)	2
Benefits	4
Environment	3
Libraries and leisure	3
Capacity to improve	2 out of 4

(Note: 1=lowest and 4=highest.)

The text published by the Audit Commission alongside the updated scorecard was as follows.

Birmingham is a weak council. It has made improvements to its environmental services over the last year. It identified children's services and housing as priorities but has made only limited progress in improving them.

The council has improved the way it focuses on particular priorities and manages its performance. Working well with partners has significantly reduced crime and fear of crime.

Its education service has retained its high score and attainment continues to improve.

Birmingham again has 'no stars' for social services and in particular is not serving children well. However, prospects for improvement are now judged to be 'promising'. The way children's services are managed has improved but this has not yet made sufficient difference to services and outcomes.

The council has made considerable efforts to improve housing services. Progress has been made but the service remains unsatisfactory overall and is receiving special supervision and support from the Audit Commission.

Birmingham needs to continue to focus on improving housing and children's services. The council has plans in place to do this and we will continue to monitor progress over the next 12 months.

CPA improvement report

Corporate assessment

We updated our assessment of how well the council is run and its capacity to improve by carrying out a corporate assessment in October 2004. The previous such assessment was carried out in 2002.

The assessment concluded that in the past two years, the council has made significant improvements in its capacity and ability to deliver better outcomes for its community. As England's second city and largest local authority, it has traditionally set itself a demanding regional, national and international agenda, in addition to being responsible for delivery of local services. Officers and members demonstrate a passion for their city and share a determination to deliver quality services and improvements. The newly elected administration has broadly adopted the programme of the previous controlling group although ambitions are now being refined.

The council's performance ranges from the impressive to the disappointing. It has demonstrated considerable success in, for example, city centre regeneration. Its approaches have been pragmatic and both providing and enabling. The recent completion of the Bull Ring development continues the transformation of the cultural, retail and commercial centre of the city. Plans for the development of the Eastside provide the basis for further complementary provision. Other notable successes have been in community safety and environmental services (improved from two to three out of four) as well as education performance (remaining as four out of four).

In contrast in two major service areas, children's social care and housing (both one out of four), the legacy of past neglect is considerable and the council has still to secure the performance its community needs. As a result of recent focused attention, the council has put in place arrangements to make improvements but overall outcomes in these two services are still unsatisfactory.

A major project and investment in the last two years has been the move to the localisation of council services. The 'going local' project is bold, and has been carefully managed, but the impact on services is not yet felt.

Integral to the reorganisation has been a successful move from the discrete service directorates to new corporate management arrangements. Cross-service working is rightly an aspiration and expectation, but is not yet common. There is good and open leadership from the chief executive, and greater clarity of purpose has contributed to a substantial improvement in staff morale.

The change in political administration in June 2004 has provided fresh energy but has led to some lack of clarity over future direction. The new coalition has signalled an intention to maintain the broad direction of the existing corporate plan, but changes in emphasis are increasingly emerging.

Working with partners is crucial to the success of the city and there have been some spectacular successes resulting from partnership working. The council's partnership style is not yet, however, universally productive, particularly when working with the public and voluntary sectors. This situation should improve as more manageable district strategic partnerships are set up to supplement the somewhat unwieldy citywide strategic partnership, but more work is needed to ensure a good fit between the developing agendas of devolution, district plans and participation.

Overall, the score for the assessment went up from 28 in 2002 to 32 in 2004, representing a noticeable improvement in some key areas. There was no increase in the heavily weighted achievement theme, however, because the recent efforts to improve housing and children's services have not yet resulted in the necessary step change in performance.

EXHIBIT 2 CORPORATE ASSESSMENT CATEGORY SCORES

	2004	2002
Ambition	2	3
Prioritisation	3	2
Focus	3	2
Capacity	3	3
Performance management	3	2
Achievement (weighting 3x)	2	2
Investment (weighting 2x)	3	2
Learning	3	3
Future plans	3	3
Total (with weightings)	32	28

Service performance

The performance of council services, as measured by best value performance indicators, is taken into account both in the corporate assessment (measuring improvement) and in CPA service scores (measuring current performance). Overall, 53 per cent of your BVPIs showed improvement in 2003/04, where comparable, placing Birmingham among the top 10 per cent of improving councils.

Twenty one per cent of your BVPIs were in the best 25 per cent of authorities, but 29 per cent remain in the worst 25 per cent of authorities.

The pattern varies substantially between services, however (Exhibit 3). Members need to be aware, however, that these figures do not give a full picture of service performance. For example, two service areas where the council is scored as four out of four in CPA, education and benefits do not have good levels of performance when measured only by BVPIs. This is because the BVPI comparisons are mostly based on comparisons with all English councils and therefore do not take into account factors such as deprivation.

EXHIBIT 3 BVPI PERFORMANCE

Service area	Per cent improved	Per cent in best quartile	Per cent in worst quartile
Education	58	4	46
Social care	60	17	8
Housing	57	11	33
Environment	64	34	17
Benefits	20	9	64
Use of resources	73	36	18
Libraries and leisure	27	36	18
OVERALL	53	21	29

Other work relating to improvement priorities

In addition to the corporate assessment, we have undertaken a range of work intended to contribute to the council's improvement agenda. This work was also taken into account during the corporate assessment.

Procurement

Improving arrangements for procurement of goods and services was one priority identified in the original corporate assessment, and procurement has since gained a much higher profile nationally. We finalised our report on your procurement arrangements in September 2004.

Overall, we found that you had made a number of important steps to develop your procurement practices:

- developing a procurement strategy;
- clarifying responsibility for procurement at Cabinet level;
- creating a new corporate procurement service;
- preparation of a good quality procurement manual; and
- setting up a procurement network at assistant director level across the council.

At the time of our work, however, these new arrangements were having a limited impact, with variable levels of knowledge across front-line services of the new arrangements. We were satisfied, however, that there was considerable potential for future improvement and members need to ensure that this potential is realised and major efficiency gains result.

Connecting with citizens

Significant areas for improvement identified in the original 2002 corporate assessment were consultation, communication and dealing with complaints. We therefore carried out a project, 'connecting with citizens', to assess the progress made on these areas.

We concluded that good progress had been made in putting the right building blocks in place, including:

- developing a new communications and engagement strategy;
- implementing a new corporate charter for service standards, backed with more effective systems for learning from complaints; and
- improved cross-directorate working to enable more effective communication and engagement.

We identified a number of significant barriers which need to be overcome in implementing further improvements:

- achieving further joined up working across what is a very large organisation with a history of working in 'silos';
- working more effectively with partners when engaging with citizens;
- becoming more confident in engaging and communicating with stakeholders; and
- developing the organisational culture to improve communications and capture learning.

Performance management

We carried out a major review of your performance management arrangements between November 2003 and January 2004, early results from which were reflected in last year's Letter.

Our work comprised two main strands:

- an assessment of the corporate approach to performance management; and
- an assessment of how this approach is being applied in three areas of the council – education, development and local services.

We concluded that the council had made significant progress in developing its performance management arrangements since the first corporate assessment. This view was confirmed in the recent corporate assessment, with the theme score for performance management improving from two to three.

We identified a significant number of strengths, including:

- an integrated corporate planning framework, with a good balance between prescription and discretion;
- improved links between planning and resourcing decisions;
- clear corporate responsibilities for managing performance, including Cabinet-level responsibility; and
- effective regular monitoring of performance through the quarterly reporting process.

We made a number of recommendations for improvement, which you have since been addressing, including:

- fine-tuning the timing of some elements of the corporate planning framework;
- improving links between the Cabinet and corporate plan and the community strategy;
- using IT to increase the accessibility of performance information;
- ensuring that the responsibility for performance management lies at service or locality level and focuses on local action to improve services; and
- ensuring a consistent approach to individual performance management.

Human Resource (HR) inspection

We carried out the second stage of our inspection of Human Resources (HR) in July 2004. This built on your own best value review of HR carried out in 2002/03. We concluded that the council's HR function was providing a fair (one star) service and had promising prospects for improvement. We found:

- an HR strategy in place but lacking in measurable outcomes;
- an HR function which is increasingly proactive and strategic rather than reactive and operational;
- improvements in the recruitment process;
- reductions in the overall level of sickness absence; and
- a staff appraisal process in place but not yet applied consistently across the council.

We judged the prospects for improvement to be promising because the best value review had successfully identified the issues to be addressed and there is strong commitment for improvement. However, more work is needed to strengthen understanding of and commitment to the HR agenda as a key driver for change across all members and officers.

Our report included recommendations for improvement, and we will monitor progress in future years.

Housing repairs and maintenance

As a result of receiving a second 'no star' inspection score for housing repairs and maintenance, the council has been receiving special supervision and support from the Audit Commission Housing Inspectorate. This will culminate in a further re-inspection, planned for May 2005.

We published an interim report at the mid-way stage of the supervision and support in September 2004. This concluded that a number of improvements had been delivered, including an improved strategic approach to investing in the housing stock, clearance of the backlog of non-urgent repairs, progress in renegotiating the two main repairs contracts and faster turnaround of most empty properties.

Work was, and still is, continuing on a wide range of other improvements. Particular issues to be addressed included:

- further improvements in the standard of non-urgent repairs, such as waiting times and appointment systems;
- improving information for tenants;
- a more fundamental shift in resources to planned maintenance;
- poor performance in dealing with disrepair litigation; and
- high levels of vacant properties awaiting major works.

Since then, progress has continued to be made in some areas but the scale of the task remains very demanding. Officers and members need to remain very focused on implementation of the improvement plans in the period between now and the re-inspection.

E government inspection

We carried out an inspection of how you are using technology to improve service delivery and accessibility. We concluded that you were providing a 'fair' (one star) standard of service with promising prospects for improvement.

Our most significant findings included:

- very good performance on the proportion of interactions with the public which can be undertaken electronically;
- significant improvements in the benefits service as a result of new ICT; and
- improved telephone call answer rates as a result of setting up Contact Birmingham.

However:

- there is no effective customer tracking system in place, and a multiplicity of customer relationship management systems across the council;
- ICT systems in neighbourhood offices are poor;
- use of Contact Birmingham is not yet being maximised; and
- English is the only language on the council's main website.

We judged the prospects as promising because of the clear commitment to improve, the level of investment and the existence of plans to overcome identified weaknesses. Progress is being made on negotiating a strategic partnership to improve services for local people, although this is an acknowledged risk with many details still to be finalised.

Other performance work

Educational achievement of Children Looked After (CLA)

The educational achievement of Children Looked After (CLA) has become an increasing cause of concern particularly at a national level as part of the focus on social exclusion. Our review concluded that there have been many and significant improvements recently in the arrangements and provision for Children Looked After (CLA) in Birmingham but much remains to be done. We found that:

- there is a strong commitment from senior officers and members to the education of CLA and increasing clarity of leadership and strategy in this area;
- there is evidence of improvement in working between different directorates and agencies in a number of areas; and
- the collection, validation, reliability and amount of data and information relating to CLA has improved significantly over the last year or so.

The council now needs to:

- define with all members their role as corporate parents, to provide a clearer steer to the CLA operational group and to ensure that all the relevant council business plans identify how the needs of CLA will be met;
- ensure that joint protocols are adhered to and that arrangements in some areas are strengthened, for example, the completion and monitoring of personal education plans; and
- make further improvements to the data relating to CLA, for example, the use of attendance data and the care first database.

The report has been discussed with senior officers. Our findings and recommendations have been agreed and an action plan completed to address the issues raised by the review.

Performance information

We have completed our statutory audit of performance indicators. The number of indicators qualified this year has increased slightly (six out of 86 compared with four last year). However, we were still able to give an unqualified opinion on your 2004/05 Best Value Performance Plan (BVPP).

Other Audit Commission Inspections

Culture inspection

We carried out an inspection of cultural services, including libraries, museums, sport and leisure and events. This was carried out because previous inspection reports in this service area had become dated and an updated assessment was needed for the CPA scorecard.

Overall, we judged the services to be good (two star) with promising prospects for further improvement. Particular strengths included:

- strong aspirations for cultural services, which link into the council's overall ambitions for the City;
- past investment has transformed the City into a world-class venue for sporting and arts events;
- effective use of cultural services to drive regeneration and to celebrate the City's multicultural status; and
- effective targeting of underrepresented groups to increase wider participation.

The main factor which prevented a score of 'excellent' was the proportion of the public library standards (set by Government) which were not being met; in particular, those relating to the amount spent on book purchases and library opening hours. We also commented on the disappointing condition of some of the local sport and leisure facilities.

The prospects for improvement are promising because there are clear plans for further development of cultural services, based on effective consultation and supported by strong leadership.

Working with other inspectorates and regulators

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. These include:

- Ofsted;
- Commission for Social Care Inspection (CSCI);
- Benefits Fraud Inspectorate (BFI);
- DfES; and
- Government Office for the West Midlands.

We share information and seek to provide 'joined up' regulation to the council. During the last year, in addition to the overall service assessments (BFI, CSCI, and Ofsted) used in the CPA scorecard, the council has undergone a CSCI inspection of its children's' services.

CSCI concluded that children's services were not serving children and young people well, but that there were promising prospects for improvement. A package of external support is currently being agreed between CSCI, the council and the Department of Health, and it is vital that the council gains the greatest possible benefit from this to help overcome its long-standing problems in children's services.

Accounts and governance

We have given your accounts an unqualified audit opinion.

Your overall corporate governance arrangements are satisfactory in most key areas. However, the council is subject to serious financial pressures and some significant weaknesses were identified in systems of internal financial control, which are now being addressed.

Audit of 2003/04 accounts

We gave an unqualified opinion on the council's accounts on 18 November 2004.

Matters arising from the final accounts audit

The published accounts are an essential means by which the council reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources. Members approved the council's annual accounts on 30 June 2004. This is earlier than last year and is well in advance of the statutory deadline. This year we have also seen a significant improvement in the completeness of the accounts and supporting records. We will continue to work closely with your accountants to ensure further improvements are made for next year.

Report to those with responsibility for governance in the council

We are required by professional standards to report issues arising from our audit to those charged with governance, in your case the Cabinet and council Business Management Committee.

We reported to the Cabinet and council Business Management Committee in December 2004. The significant matters we reported were:

- the large number of audit adjustments required to the Statement of Accounts. Only three of these were material but the accounting for them is such that there was no overall impact on the reported surplus for the year. We will be working with officers to ensure this problem is minimised in future years; and
- weaknesses in systems of internal financial control.

We refer to these matters briefly later in this Letter.

Financial standing

The council is subject to serious financial pressures. There is a substantial projected overspend in the current year. Action is being taken to address the overspend and to identify savings. This needs to be closely monitored.

Financial projections for the next three years show a growing shortfall of resources. You need to continue to develop clear plans to address this.

The capital programme has slipped again this year and needs to be closely monitored during 2004/05.

We are aware of two significant long-term financial risks which the council needs to continue to take into account:

- *potential liabilities in relation to loans to NEC Ltd; and*
- *the potential long-term deficit on the pension's fund.*

General fund spending and balances

The general fund balance increased by £5.0 million during 2003/04 to £22.1 million (excluding school balances). The budget for 2004/05 planned to increase balances further by making a contribution to balances of £1.5 million. However, the balance at March 2004 represents only 1.6 per cent of the council's net expenditure for 2004/05 and gives little room for flexibility.

There are serious financial pressures in 2004/05 with a projected year end overspend of £22.6 million. This is mainly the result of spending pressures in social care and health amounting to £17.7 million and housing general fund £4.5 million. These projected overspends are after the council approved additional resources for social care and health of £10 million. An action plan is being prepared to implement reductions in spending. Difficult decisions will have to be made to address these budget pressures. Failure to achieve these savings will have serious consequences for the council's financial standing.

The financial projections for the years 2005/06 to 2007/08 indicate a growing shortfall of resources over this period. You need to continue to develop clear plans to address this shortfall in resources.

Housing Revenue Account (HRA)

The Housing Revenue Account (HRA) balance increased during 2003/04 by £4.4 million to £11.1 million. This coupled with the brought forward major repairs allowance of £16.1 million means that there is £27.2 million available for use in 2004/05 or later years. The council proposes to utilise all of the major repairs allowance and £3.9 million of the HRA balance during 2004/05.

Capital programme

The capital outturn for 2003/04 was £242.2 million against a revised approved budget of £317 million. The slippage of £74.8 million (24 per cent of the budget) follows a slippage of £31.4 million in 2002/03 and £31.3 million in 2001/02. You need to closely monitor the 2004/05 capital programme to ensure the timely delivery of new schemes.

School balances

The overall level of school balances is substantial and increasing. School balances increased by £11.4 million during 2003/04 to £33.2 million. However, the number of schools with deficits is also increasing with approximately 20 per cent of Birmingham schools reporting a deficit. You need to continue to monitor, provide support and challenge, and intervene in schools' financial management as appropriate.

Income collection and arrears

Exhibit 4 summarises the major (over £10 million) categories of debtors at 31 March 2004.

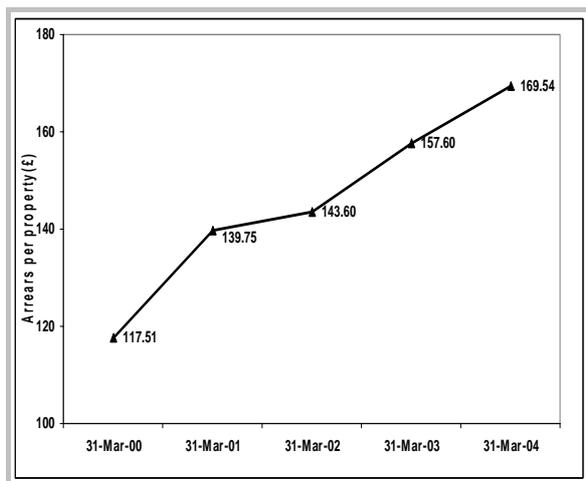
**EXHIBIT 4 DEBT CATEGORIES OVER
£10 MILLION AT 31 MARCH 2004**

	31 march 2004 £ million	31 march 2003 £ million
Council tax payers	48.3	47.2
Business ratepayers	13.4	14.0
Housing rents	13.7	13.5
Government departments	71.4	61.7
Sundry debts	37.8	28.7

The council's collection rate for council tax has improved during 2003/04 from 93.9 per cent to 94.7 per cent.

For NNDR the collection rate has fallen during 2003/04 from 98.4 per cent to 97.7 per cent. Perversely, the debt outstanding has also fallen. This is because the debt figures are for all years' debts whereas the collection rates relate only to collection of debt for a particular year within that year. Debt fell because of successful recovery action within 2004/04 relating to debt from earlier years.

The council's housing rent arrears continued to increase during 2003/04. Current arrears per property at 31 March 2004 stood at £169 (31 March 2003: £158). The trend is demonstrated in Exhibit 5.

EXHIBIT 5 CURRENT ARREARS PER PROPERTY

Our review of rent recovery concluded that whilst some progress has been made further action is needed to improve collection rates. Since the year-end, total arrears have reduced from £13.7 million to £11.9 million (mid November 2004).

The amount due from government departments has increased significantly mainly because of the special housing subsidy determinations awarded during the year.

The level of sundry debt arrears increased by 32 per cent during 2003/04, although this was in part because of some large invoices raised close to the year end. Since the year-end, sundry debts have reduced from £37.8 million to £29.3 million (31 December 2004).

National Exhibition Centre (NEC)

In previous Annual Letters we have highlighted the need for you to continue to assess the risks faced by the council in relation to the loans taken out by the NEC which you are guaranteeing. There remain substantial sums involved in this matter and we are satisfied that you have been assessing risk and responding appropriately.

Pensions fund deficit

Employees of the city council, other than teachers, may be members of the West Midlands pension fund. The fund is subject to an actuarial valuation every three years, the last one being 31 March 2001. The council's share of the fund's current deficit amounts to £590 million (31 March 2003 £740 million).

The process for funding the deficit is through higher contribution rates following the three yearly full valuations. The next valuation is due as at 31 March 2004 and the actuaries are currently working on this. Although the deficit has fallen substantially in 2003/04, the new valuation is expected to lead to a higher employer contribution rate from 2005/06. This is a very long-term issue and has already been factored into the council's medium-term financial projections. The situation will need continuing monitoring in the longer-term.

Systems of internal financial control

We have identified some significant weaknesses in the overall control framework. However, action is being taken to address these weaknesses.

Internal Audit

Our review of Internal Audit found that, in general, they are meeting their key responsibilities and the quality of work performed is good.

Weaknesses in internal financial control

Internal Audit and ourselves have identified some significant weaknesses in the following areas:

- payments system;
- supporting people;
- carefirst system;
- implementation of new systems;
- housing benefits; and
- Trust fund accounts.

We reported these weaknesses to members in December 2004 and action is now being taken (and in some cases was already been taken at the time of our report).

Standards of financial conduct and the prevention and detection of fraud and corruption

We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption.

Overall arrangements are in place to ensure that the council's affairs are managed in accordance with proper standards of financial conduct, and prevent and detect fraud and corruption.

Legality of transactions

We have not identified any significant weaknesses in the framework established by the council for ensuring the legality of its significant financial transactions.

We have reviewed the council's overall arrangements and there are no issues to report to members. The council continues to respond effectively to changes in legislation.

Once again we have liaised with your officers over a number of specific issues during the year. In addition, questions and allegations have been raised with us by a small number of members of the public. Some of the issues raised are still under investigation; others have been satisfactorily resolved.

Governance reviews

We have undertaken a number of governance reviews to address the risks we have identified. These are summarised in Exhibit 6.

EXHIBIT 6 KEY ISSUES ARISING FROM OUR GOVERNANCE REVIEWS

Service reviewed/key findings	Outcome
<p>Older people's services</p> <p>A draft commissioning strategy was presented to the Cabinet on 1 November 2004. The emphasis is on the promotion of independent living, enabling as many as people as possible to continue living in their own homes. This will involve a significant shift in balance of care provision away from residential care and towards domiciliary care.</p> <p>This commissioning strategy follows two unsuccessful attempts to transfer elderly person's homes. It is unfortunate that the council did not produce the commissioning strategy prior to incurring the significant costs of two tendering exercises.</p>	<p>A number of significant issues will need to be addressed over the coming months. These include:</p> <ul style="list-style-type: none"> • translating the strategy into detailed actions; • ensuring that the proposals are affordable; and • liaising with partner agencies to help shape proposals.
<p>Schools Private Finance Initiative (PFI)</p> <p>The council is directly involved in PFI schemes covering two groups of schools. A package of ten schools, which formed the council's first grouped school rebuild scheme was completed in 2002 on time and within budget. The second schools package (PPP2) is expected to be operational from August 2008.</p> <p>Our review found that the council has made a number of improvements to its arrangements for implementing and monitoring PFI schemes. At the time of our review, some important areas remained to be addressed, including determining a solution to the affordability gap in PPP2.</p>	<p>Options for bridging the affordability gap are now being considered.</p>
<p>Single Regeneration Budget (SRB)</p> <p>The council and partner bodies have been successful in securing funds from Single Regeneration Budget challenge fund in five of the six available rounds.</p> <p>Our review of the North West Birmingham SRB6 found that the programme has recovered well from a difficult start. The programme team, the Board and the accountable body have begun to put in place some effective processes for reviewing projects and progress has been made in the performance of the programme as a whole. The SRB6 programme could now experiment with methods to involve local communities in specifying and evaluating the performance of projects.</p> <p>Both the council and the Board have found the service level agreement developed between the City and the programme useful in clarifying roles and responsibilities. The council needs to move beyond its focus on process and assurance and do more to cascade good practice and advice to the range of partnerships across the City.</p>	<p>Action is being taken to address the issues identified by our review. There is a need to closely monitor the progress being made.</p>

Other work

Grant claims

Over recent years the number of claims requiring audit certification has grown and audit fees have risen in line with this growth. In accordance with Strategic Regulation, the Audit Commission has adopted a more risk-based approach to the certification of grant claims. With effect from 2003/04 the smaller claims have not been subject to audit or have received a lighter touch. However, the impact of this has been small because of the size of the Birmingham's claims. The approach to larger claims has been determined by risk and the adequacy of the council's control environment.

There have been some improvements in the council's grant claim administration arrangements compared with last year. However, a number of significant weaknesses remain in grant co-ordination, claim preparation, timeliness of claim submission and supporting documentation. For 2003/04:

- 34 per cent of claims (2002/03 53 per cent) were submitted late for audit; and
- 63 per cent of claims (2002/03 59 per cent) required either amendment or a report to the grant paying body.

The council runs the risk of suffering financial penalties as a result of inadequate claims preparation. Furthermore, these problems mean that we have to charge the council more for auditing the claims.

We have discussed our report with officers. Our findings and recommendations have been agreed and an action plan completed to address the issues raised.

National Fraud Initiative (NFI)

The council took part in the Audit Commission's National Fraud Initiative (NFI) 2002/03. The NFI, which is undertaken every two years, brings together data from local authorities, NHS bodies, government departments and other agencies, to detect a wide range of frauds against the public sector. Total national savings from the 2002/03 exercise exceeded £83 million.

The council participated fully in the NFI 2002/03. A total of 353 cases were investigated and £461,000 of overpayments was identified.

The Commission is repeating the exercise this year and will again collect payroll, pensions, housing benefits, student loan and housing rents data from authorities. Alongside the core exercise a number of pilot initiatives are being undertaken at selected sites. These are focused on risk areas that were highlighted by authorities and include payments made to privately run care homes, abuse of blue badge parking permits, serial insurance claimants and duplicate payments to suppliers. These pilot areas, if they prove effective, will be incorporated into future NFI exercises.

Looking forwards

Future audit and inspection work

We have an agreed plan for 2004/05 and we have reported in this Letter those aspects that have already been completed. The remaining elements of that plan, including our audit of the 2004/05 accounts, will be reported in next year's Annual Letter. Our planned work, together with that of other inspectorates, is included on both the Audit Commission and LSIF (Local Services Inspectorates Forum) websites.

We have sought to ensure, wherever possible, that our work relates to the improvement priorities of the council. We will continue with this approach when planning our programme of work for 2005/06.

We will seek to reconsider, with you, your improvement priorities in the light of the latest CPA assessment and your own analysis, and develop an agreed programme by 31 March 2005. We will continue to work with other inspectorates and regulators to develop a co-ordinated approach to regulation.

Revision to the Code of Audit Practice

The Audit Commission has consulted on a revised Code of Audit Practice for application to the audit of the 2005/06 accounts. The new Code, which will be laid before parliament in January 2005, is designed to secure:

- a more streamlined audit, which is proportionate to risk and targeted on areas where auditors have most to contribute to improvement;
- a stronger emphasis on value for money, focussing on bodies' corporate performance and financial management arrangements (rather than individual services and functions); and
- better and clearer reporting of the results of audits.

Further details will be provided in the audit and inspection plan 2005/06.

CPA 2005 and beyond

The Audit Commission has also consulted on a new framework for CPA in 2005 and beyond. The main changes proposed are as follows:

- rationalisation of service blocks;
- 'achievement' assessment element of corporate assessment to be driven by review of community plan and shared priority themes;
- a move away from the rigid numerical model, to one based on rules;
- corporate assessments to be undertaken on rolling programme, integrated with joint area reviews of children and young people;
- stronger focus on service delivery for users and customers; and
- more robust and explicit view of value for money and cost-effectiveness, linked to the new emphasis in the Code of Practice.

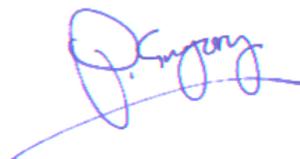
Closing remarks

This Letter has been discussed and agreed with senior officers. A copy of the Letter will be provided to all members and will be presented to the Cabinet on 24 January 2005.

The council has taken a positive and constructive approach to our audit and inspection and I would like to take this opportunity to express my appreciation for the council's assistance and co-operation.

Availability of this Letter

This Letter will be published on the Audit Commission's website at www.audit-commission.gov.uk, and also on the council's website.



John Gregory
District Auditor and Relationship Manager
14 January 2005

Status of our Letter to the council

Our Annual Audit and Inspection Letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Annual Audit and Inspection Letters are prepared by relationship managers and appointed auditors and addressed to members and officers. They are prepared for the sole use of the audited and inspected body, and no responsibility is taken by the Audit Commission or its appointed auditors to any member or officer in their individual capacity, or to any third party.

Reports issued during 2004/05

Report	Date issued
Audit and Inspection Plan	June 2004
Performance Management	July 2004
Joint Working Arrangements	August 2004
Single Regeneration Budget	August 2004
Recovery of Housing Rent Arrears	September 2004
Human Resources Inspection Report	September 2004
Procurement	September 2004
Connecting with Citizens	September 2004
Repairs and Maintenance Supervision and Support report	September 2004
Culture Inspection report	October 2004
Educational Achievement of Children Looked After	November 2004
Schools Private Finance Initiative	November 2004
Corporate Assessment	December 2004
E-government Inspection	January 2005

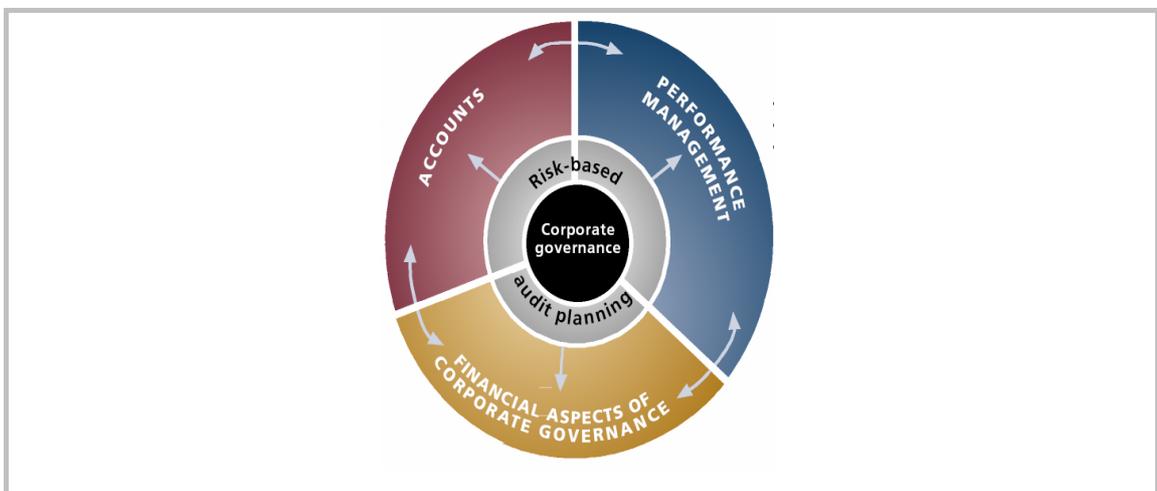
Scope of audit and inspection

Audit

Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.

Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Exhibit 7.

EXHIBIT 7 THE THREE MAIN ELEMENTS OF OUR AUDIT OBJECTIVES



Accounts

- Opinion.

Financial aspects of corporate governance

- Financial standing.
- Systems of internal financial control.
- Standards of financial conduct and the prevention and detection of fraud and corruption.
- Legality of transactions.

Performance management

- Use of resources.
- Performance information.
- Best Value Performance Plan (BVPP).

Inspection

Inspection work is based around section 10 of the Local Government Act 1999, which requires us to carry out inspections and deliver reports that will:

- enable the council and the public to judge whether best value is being delivered;
- enable the council to assess how well it is doing;
- enable the Government to assess how well its policies are being implemented; and
- identify failing services where remedial action may be necessary.

The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.

Audit and inspection fee

Audit fee update

Audit area	Plan 2003/04 (£)	Actual 2003/04 (£)
Accounts	265,000	265,000
Financial aspects of corporate governance	155,000	155,000
Performance	240,800	240,800
TOTAL CODE OF AUDIT PRACTICE FEE	660,800	660,800
Grant claim certification (1)	380,000	420,000
Additional voluntary work (under section 35)	0	0

Note (1) the grant claim audit continues and the actual fee reported is our current estimate of the likely fee for the 2003/04 certification work.

Inspection fee update

The full year inspection fee is £109,200. The work reported in this Audit and Inspection Letter has been funded by an element of the fee covering 2003/04 and by an element of the fee covering 2004/05. In both years the actual fee will be in line with that planned.