

Annual Audit and Inspection Letter

January 2006



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Contents

Key messages	5
Council performance	5
The accounts	5
Financial position	5
Action needed by the Council	6
Performance	7
CPA scorecard	7
Direction of Travel report	8
Improving outcomes	8
Plans for future improvement	11
Other performance work	15
Other Audit Commission inspections	15
Working with other inspectorates and regulators	16
Accounts and governance	17
Audit of 2004/05 accounts	17
Report to those with responsibility for governance in the Council	17
Matters arising from the final accounts audit	17
Financial standing	18
Systems of internal financial control	21
Standards of financial conduct and the prevention and detection of fraud and corruption	21
Legality of transactions	21
Other governance reviews	21
Use of resources judgements	24
Other work	27
Grant claims	27
National Fraud Initiative	27
Looking forwards	28
Future audit and inspection work	28
Revision to the Code of Audit Practice	28

4 Annual Audit and Inspection Letter Contents

Closing remarks	29
Availability of this letter	29
Appendix 1 – Background to this letter	30
The purpose of this letter	30
Audit objectives	30
Appendix 2 – Audit reports issued	32
Appendix 3 – Audit fee	33
Inspection fee update	33
Appendix 4 - Report to Council Business Management Committee	34
Introduction	34
Status of the audit	34
Matters to be reported to those charged with governance	34
Next steps	35

Key messages

Council performance

- 1 Under the new Comprehensive Performance Assessment (CPA) framework, the Council is improving well and its overall category is two-star. The Council has improved in most of its priority services. There are significant improvements to children's social care and its housing service, which were previously poor. Both were inspected during 2005 and received improved ratings with promising prospects for further improvement. However, much more work is needed to ensure that the services fully meet people's needs.
- 2 The Council has achieved some improvement in performance across all of its core service areas, and 56 per cent of core service performance indicators improved in 2004/05, compared with 2002/03. The level of improvement was particularly strong in education, environment and 'capacity' (which includes areas

Action needed by the Council

- 7 As in previous years, you continue to face a number of challenges linked to your corporate priorities. Whilst we have included many recommendations in individual audit and inspection reports, our broad recommendations to members are:
- continue to build on improvements made to the children's social care and housing services. For children's services in particular, ensure that the integrated children's services agenda is fully implemented with no short-term 'dip' in service delivery;
 - take urgent action to improve learning disability services;
 - ensure that improvement plans include those areas of service where performance is still in the worst quartile and there was no improvement in 2004/05;
 - continue to develop arrangements for ensuring value for money across all key services, so that an efficiency culture is instilled across the Council; and
 - continue to take forward the localisation agenda in delivering the Council priorities, taking on board our earlier findings and the outcomes of the current scrutiny exercise. In particular, ensure that the processes put in place to deliver services locally continue to result in actual improvements for service users.

Performance

- 8 The Council has made significant improvements to its two most challenging services – housing and children’s social care – and as a result, is now a two-star Council which is improving well.

CPA scorecard

- 9 The CPA judgements this year have been made using the revised methodology: CPA - the harder test. As the title implies, CPA is now a more stringent test with more emphasis on outcomes for local people and value for money. We have also added a new dimension, a Direction of Travel judgement that measures how well the Council is improving. Under the new framework the Council is improving well and its overall CPA category is two-star.

Table 1 CPA scorecard

Element	Assessment
Direction of Travel judgement	Improving well
Overall	**
Current performance	Out of 4
Children and young people	2
Social care (adults)	2
Use of resources	2
Housing	2
Environment	3
Culture	3
Benefits	4
Corporate assessment/capacity to improve (not reassessed in 2005)	2 out of 4

(Note: 1=lowest, 4=highest)

- 10 The Council has improved in most of its priority services. There are significant improvements to children’s social care and its housing service, which were previously poor. Both were inspected during 2005 and received improved ratings with promising prospects for further improvement. However, much more work is needed to ensure that the services fully meet people’s needs.

- 11 Whilst progress has also been made in adults' social care, urgent action is still needed to improve services for people with learning disabilities. There has been continued improvement in education and benefits services, with pupils' attainment levels improving overall and turnaround times for benefits claims continuing to fall.
- 12 The Council has worked well with partners to achieve significantly improved community outcomes including reduced crime and continued economic regeneration.
- 13 It has begun to develop its arrangements for ensuring services provide value for money and is continuing to improve the way it monitors performance and drives improvement. It has clear plans for further improvement which link effectively with one another and will improve further now that the new Community Plan and district plans have been adopted.

Direction of Travel report

Improving outcomes

- 14 The Council has achieved some improvement in performance across all of its core service areas, and 56 per cent of core service performance indicators improved in 2004/05, compared with 2002/03. The level of improvement was particularly strong in education, environment and 'capacity' (which includes areas such as benefits and equalities).

Table 2 Key service performance indicators

Service area	Percentage improved	Percentage in best quartile	Percentage in worst quartile
Education	63	10	24
Social care	40	15	8
Environment	58	39	23
Housing	50	5	50
Community safety	100	100	0
Capacity	64	27	13
Culture	17	13	25
Overall	56	23	24

- 15 This level of improvement is encouraging. However, only around half of those PIs in the lowest quartile have improved and the Council needs to ensure that performance in these areas is closely monitored. Some of these indicators are in housing and we are aware that performance has already improved since 2004/05; others include school exclusions and reductions in 'slight injury' road accidents.

Children's services

- 16 Improvement of children's social care is one of the Council's top priorities and significant progress has been made during the year. An inspection carried out by the Commission for Social Care Inspection in July 2005, reported in September 2005, found that children's social care services were now serving some children well, with promising prospects for improvement. The inspection

- 20 The inspection found that significant improvements had been made, but considerable further work was needed. Key improvements included higher standards of customer care, a clear programme to address non-decent stock and improvements in the promptness of repairs. Issues still to be fully addressed included ensuring that diversity issues are better reflected in service delivery, reducing the proportion of repairs which are treated as emergency or urgent and reducing high-cost and long-term void properties. More detail appears later in this letter.

Adult services

- 21 The Commission for Social Care Inspection awarded your Services for Adults a score of 2 out of 4 for CPA purposes. In their annual performance review report, they identified a number of areas where improvements had taken place, and commented that the overall level of performance had been maintained while responding robustly to serious concerns about financial management and the management of the integrated service for people with learning disabilities. They noted that investment in adult services had increased and that funding was being directed to strategic priorities.
- 22 The rate of implementation of strategies and consequent improvement in outcomes is, however, variable. Variation in the quality of frontline practice is too high. Significant concerns remain regarding improving outcomes for people with learning disabilities.

Other areas

- 23 The Council's benefits service has continue to improve and is judged by the Benefits Fraud Inspectorate to be excellent. Speed of processing both new claims and changes of circumstances has continued to improve. For new claims, performance is well within the BFI standard, and that for changes is only just outside the standard. The service has come a long way in recent years.
- 24 As part of our work on your direction of travel, we looked specifically at regeneration. Much of the Council's regeneration work is inevitably long-term and it can be difficult to measure outcomes in the shorter-term, the available information suggests that the Council is having an impact in this area. This is confirmed by the changes in the built environment of the City. Key projects for the future include the Eastside, the SW Birmingham Central Technology Belt and the North West Birmingham HUB. Valuable results have been achieved in helping to ensure that people from deprived wards have obtained jobs in new developments such as the Bull Ring.
- 25 The Council has, together with its partners, achieved significant reductions in recorded crime levels. There were significant falls in 2004/05 in domestic burglaries, robberies and thefts of and from motor vehicles. Where there were increases (violence and sexual offences) these were very small.

Improving value for money

- 32 The Council has made significant improvement to its arrangements for achieving value for money, although it cannot yet demonstrate that value for money is being consistently achieved. Key recent developments include the efficiency programme and forum, the use of priority-based budget reviews and continuing improvements in procurement practices. The Council now needs to ensure that the new culture of value for money, which is represented by these initiatives, becomes an integral part of everyday management.

Performance management

- 33 The Council has continued to improve the way it monitors performance and drives improvement. At a corporate level, arrangements are good and improvements have also been made to departmental arrangements.

Capacity

- 34 Overall, the Council has the capacity to implement its plans although there are weaknesses in a few areas. Inspection reports have been positive about the prospects for improvement. The housing and children's services inspections both rated prospects as promising, while the children's services annual performance assessment concluded that prospects for improvement are good, with a key strength being the strategic direction provided by councillors and managed by officers.
- 35 Improvements have been made to partnership working with other agencies and the voluntary sector, further extending the Council's capacity. This is evidenced through the children's and adults' services annual assessments and our own work on regeneration.
- 36 Steady progress is being made in increasing capacity by reducing staff sickness. This has reduced from an average of 10.4 days per employee in 2002/03 to 9.8 in 2004/05, very close to the average for other authorities and the best among the core cities.

Other work relating to improvement priorities

- 37 As in previous years we have carried out work in areas linked to your improvement agenda

Commissioning services for older people

- 38 The Council currently supports around 890 older people in its 29 Council operated elderly persons care homes at an annual cost in the region of £21.6 million. The Council's homes do not currently meet new care home standards and the unit cost of purchasing care from council homes when compared with costs in the independent sector, is high.

Complaints, communications and consultation

- 45 In August 2005, we assessed the progress you have made in addressing our recommendations relating to the way the Council approaches engagement with citizens. Building blocks continue to be put in place which should help deliver and sustain future improvement. However, progress has been variable, with limited progress on consultation and communication despite having identified this as an area for improvement in 2003.
- 46 In particular:
- complaints - the Council has made good progress with implementing its policy and processes for dealing with compliments, comments and complaints. Implementation of a strategy is now underway with this work being effectively project managed. There is potential to significantly improve the quality of the Council's customer service;
 - consultation - the development and implementation of a strategy has been hindered by lack of dedicated resources. Recently, the Council has committed resources to creating a dedicated corporate consultation team which should enable implementation of the strategy. Although there is some good innovation in Districts, development of a shared approach to citizen engagement with partners at a city-wide level is at an early stage; and
 - communications - although an interim Head of Corporate Communications has recently been appointed, the approach to communications has lacked clear strategic direction. However, we noted that officers have continued to deliver some good work in this area eg in marketing. Since our audit, considerable groundwork has been done to improve the strategic approach, with a new communications plan and operating plan now prepared and being agreed.

Housing repairs and maintenance reinspection

- 47 Following two previous 'no-star' inspection scores for the service and special supervision and support from the Audit Commission Housing Inspectorate, a reinspection was carried out in May 2005.
- 48 The Council was assessed as providing a 'fair', one-star service with promising prospects for improvement. This represents a very significant achievement, and members, officers and partners now neD0 To7n0.0023 Twan in a

However:

- tenant satisfaction levels, though improving, are still poor compared to other housing organisations;
- diversity issues are still not sufficiently embedded in service delivery;
- little progress has been made in addressing the high numbers of emergency and urgent repairs; and
- the Council has not explored the potential of shifting towards more planned maintenance.

Prospects were judged to be promising as the Council could demonstrate sustained focus on improvement which has resulted in service improvements in most areas, resulting in discernable benefits to customers. Investment in new partnerships and IT has helped to strengthen the capacity of the Housing department. Birmingham's current housing priorities are seeking to address the issues raised in the report.

Other performance work

Single status

- 49 During the year, we carried out an overview of the Council's arrangements to

- 52 A composite report reflecting the findings of both phases of the inspection is due to be published in 2006. Our report will comment on how effectively the Council delivers the programme as well as the value for money presented by the contracted services and the outcomes for vulnerable people. It will reflect the context for the Council at the time of the inspection together with any improvements or deterioration in the delivery of the programme during the intervening months.

Working with other inspectorates and regulators

- 53 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.
- 54 We share information and seek to provide 'joined up' regulation to the Council. We have already commented on assessments from other inspectorates in our Direction of Travel statement.

- 60 Whilst the accounts were once again produced to timetable, we noted issues around the quality of inclusions in the draft statements and supporting documentation. Good progress has already been made by officers to deal with these issues. Changes to closedown procedures have already been put in place to help secure improvements in the accounts produced for 2005/06. We have reported our detailed findings separately and officers are taking appropriate action.

Financial standing

- 61 Your financial position is sound overall. Your medium-term financial strategy continues to develop and you recognise a number of issues which may impact on a long-term financial shortfall. Whilst continuing to ensure levels of reserves are maintained at an appropriate level, you need to ensure that risks to your financial position continue to be identified at an early stage and action taken as a result.

- 62 Whilst there are some in-year over and undeseuu 599tj- 0 g 1 h hese ire sbesgourtkoortindalcsed

- 66 The general fund balance increased by £3.6 million during 2004/05 (£5.6 million in 2003/04) to £25.7 million (excluding school balances). Of the total, £10.9 million has been set aside to act as a minimum working balance in line with recognised good practice, with £1.5 million allocated in 2004/05 through the budget process as in previous years. Whilst total balances have risen, the balance at March 2005 represents only 1.8 per cent of the Council's budgeted net expenditure for 2005/06 and this requires particularly effective management of risks.
- 67 The Council continues to ensure its financial planning processes incorporate the impact of changes in ongoing contribution rates to the West Midlands Pension Fund. The impact of the latest actuarial valuation (as at 31 March 2004) has resulted in increased future contribution rates which continue to be taken into account in medium-term financial planning.

Capital programme

- 68 Slippage on the capital programme continues to be an issue for the Council which needs to be addressed as a priority. Capital outturn for 2004/05 showed slippage of £114.9 million on a budgeted outturn of £389.9 million, equivalent to 29 per cent of the approved capital programme. Comparison with previous years shows an increasing level of slippage: £74.8 million in 2003/04 and £31.4 million in 2002/03. This needs to be improved. The Council has recognised this as an issue and is in the process of reviewing the reasons for the slippage. It is important that action is taken on the outcome of the review to ensure the capital programme is delivered as planned.

Housing Revenue Account

- 69 The Housing Revenue Account (HRA) balance increased again during 2004/05 by £5.8 million to £16.9 million. The outturn for the year showed a favourable variation of £9.7 million (2.3 per cent of total income and expenditure). As planned, the Council used all of the major repairs allowance and £3.9 million of the HRA balance during 2004/05 and proposes to utilise £4.2 million of the HRA balance during 2005/06.

School balances

- 70 The overall level of school balances, which are earmarked reserves available solely for schools' use, continues to be substantial and increasing. School balances increased by £7.3 million during 2004/05 to £40.5 million. The number of schools with deficits reduced with approximately 13 per cent (20 per cent in 2003/04) of Birmingham schools reporting a deficit. Whilst this is an improvement, the position should continue to be monitored to ensure individual schools' financial management is robust.

- 87 In addition, a number of other major developments had started and are at different stages in their respective life cycles. In particular:
- cash receipting (PARIS);
 - debtors (Aims);
 - constituency management information system (InfoRM);
 - a corporate performance management information system; and
 - e-procurement.
- 88 We concluded that since our last review there had been major changes to corporate governance arrangements and significant developments had taken place in the majority of the projects covered by the review. Action had been taken to address the recommendations arising from our 2001/02 review. Further progress had been made with the ongoing development of the majority of the systems covered by our previous reviews.
- 89 Compliance with corporate project management standards was satisfactory in most cases. Corporate project management standards and associated guidelines had been reviewed and updated. Development areas include:
- further work to ensure that these (minimum) standards are developed to accommodate the requirements of different directorates; and
 - earlier production in the development life cycle and regular review of business case justifications and risk assessments.
- 90 The main concern was with budgetary and cost control where there had been only limited improvement since our last review. Project management standards and guidelines provided little guidance on budgetary and cost control. Consequently the quality and consistency of approach and of financial information varied significantly from project to project. The Council is currently working to improve the monitoring and reporting of costs against budgets in this area.

Strategic approach to the voluntary and community partnership

- 91 The Council is undertaking a long-term project to develop a strategic, corporate approach to funding the third sector (voluntary and community). The Council's Corporate Third Sector Group is charged with designing and overseeing implementation of this approach. During 2004/05, we reviewed progress as it was made, raising challenge questions on the developing approach. Our questions covered governance arrangements and corporate compliance; the commissioning (gateway) framework; communications and consultation; and, development of a corporate support structure. The Council has responded positively to our questions by, among other things: appointing a political champion, establishing a full-time team to deliver the project, producing a draft corporate funding strategy which takes account of our comments and piloting the new commissioning approach. In 2005/06, we will audit and monitor the Council's progress in implementing the new arrangements.

Governance aspects of partnership working

- 92 An internal audit of the Council's approach to partnership working, focusing on the Birmingham Children's Fund, led to a briefing report in December 2004. This raised three internal partnership governance issues, the lack of: a partnership database, of corporate guidelines for partnership working and of corporate responsibility. The Council's internal auditor determined that a comprehensive audit of the Council's partnership working was required but has agreed that this be conducted as a joint exercise with the Audit Commission. This audit will take place in early 2006 and the first part will consider the Council's governance of partnerships at corporate and directorate level. The second part of the audit will review the Council's relationships with its partners and the effectiveness of its partnership working structures with the introduction of District Strategic Partnerships and a Local Area Agreement.

Risk management

- 93 Our follow-up work showed that overall arrangements for risk management continue to work effectively. The Council has introduced workable guidance and systems which are being operated consistently. Members at Cabinet and Scrutiny levels are involved in the process, which is operating both ways through the management chain. Performance management of risk is established and the organisation has improved operational capacity by ensuring that risk responsibilities are spread widely.
- 94 Amongst the areas where further improvements could be made are:
- making an explicit link between risk practices and the budget processes particularly for major new risk controls which require additional resources;
 - reviewing how risk is dealt with where the Council is involved in major partnerships where it is not the lead body; and
 - establishing working mechanisms for sharing good practice more widely.

Use of resources judgements

- 95 The use of resources assessment is a new assessment which focuses on financial management but links to the strategic management of the authority. It looks at how the financial management is integrated with strategy and corporate management, supports council priorities and delivers value for money. It will be carried out annually, as part of each council's external audit. For single tier and county councils, the use of resources assessment forms part of the CPA framework. It was intended to be a harder test for authorities than the previous auditors' scored judgements used in previous years, and the pattern of scores achieved by authorities bears this out.

- 96 For the purposes of the CPA, we have assessed the Council's arrangements for use of resources in five areas.

Table 4 Use of resources

Element	Assessment (out of 4)
Financial reporting	2
Financial management	2
Financial standing	3
Internal control	2
Value for money	2
Overall	2 out of 4

(Note: 1=lowest, 4=highest)

- 97 In reaching these judgements, we have drawn on all our audit work and supplemented this with a review against specified key lines of enquiry.

Financial reporting

- 98 We have previously commented on some of our key findings around producing the accounts in this letter under 'matters arising from the final accounts audit' and 'report to those charged with governance'. In addition we noted good development of the Council's website for allowing access to copies of the accounts, key reports and Council minutes. Amongst further developments in this area is the need for systematic review of final accounts working papers to ensure they properly support entries in the Council's statement of accounts.

Financial management and financial standing

- 99 Our comments relating to the Council's medium-term financial framework and performance monitoring, particularly in Social Care and Health Directorate, are included previously in this letter. We also noted good progress on management of the Council's asset base including setting up of a property board and more recently, establishment of a dedicated committee to take forward the Council's priorities in this area.

Internal control

- 100 A sound framework is in place for carrying out risk management across the Council with a policy which has been updated and a risk register in place. Whilst expertise in contract risk management is evident, there is opportunity to extend this to other areas such as partnership arrangements. We have previously commented that Internal Audit meets relevant CIPFA standards. Whilst the Statement of Internal Control reflects the Council's position, further development is required to bring together the assurance and risk framework for internal control by setting up a member committee with specific responsibilities in these areas. You now have firm plans to do so.

Value for money

101

Other work

Grant claims

- 103** In accordance with Strategic Regulation, the Audit Commission has continued with a more risk-based approach to the certification of grant claims. Whilst we have reduced our audit of these claims wherever possible our ability to reduce further continues to depend on the adequacy of the Council's control environment.
- 104** There are continued weaknesses in the Council's arrangements for managing and quality assuring grant claims submitted for audit. As identified in our previous letter, grant co-ordination, claim preparation and supporting documentation, as well as timeliness of claim submission require improvement. For 2003/04:
- 45 per cent of claims were submitted after the required deadline required by the grant paying body (53 per cent for 2002/03); and
 - 70 per cent of claims require either amendment or a report to the grant paying body (59 per cent for 2002/03).
- 105** As a result of these issues, there remains a risk to the Council of financial penalties and increased costs. We have noted, however, that there has been some improvement on the timeliness of submission of 2004/05 claims, although it is too early to see any improvement in the level of amendments to claims.

National Fraud Initiative

- 106** In 2004/05, 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. These include housing benefit fraud, occupational pension fraud, tenancy fraud and payroll fraud as well as, new for 2004/05, right to buy scheme fraud and providing new contact details for former tenants with arrears in excess of £1,000.
- 107** The local joint working initiative with neighbouring authorities continues to operate with employee cases given high priority. As at October 2005, in excess of 400 benefit and 200 corporate cases were under investigation. As reported in previous years, the Council continues to participate fully in the NFI.

Looking forwards

Future audit and inspection work

- 108** We have an agreed plan for 2005/06 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 2005/06 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)

Closing remarks

- 112 This letter has been discussed and agreed with senior officers. A copy of the letter will be presented to all members and will be presented to the cabinet in February 2006.
- 113 Once again, the Council has taken a positive and constructive approach to our audit and inspection I would like to take this opportunity to express my appreciation for the Council's assistance and co-operation.

Availability of this letter

- 114 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
January 2006

Appendix 1 – Background to this letter

- 7 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsib

Appendix 3 – Audit fee

Table 6

Audit area	Plan 2004/05 (£)	Actual 2004/05 (£)
Accounts	283,000	283,000
Financial aspects of corporate governance	190,000	190,000
Performance	182,400	182,400
Total Code of Audit Practice fee	655,400	655,400
Additional voluntary work (under section 35)	0	0
Total	655,400	655,400

Inspection fee update

- 1 The full year inspection fee is £147,600. The work reported in this Audit and Inspection Letter has been funded by an element of the fee covering 2004/05 and by an element of the fee covering 2005/06. In both years, the actual fee will be in line with that planned.

Appendix 4 - Report to Council Business Management Committee

Introduction

- 1 Professional auditing standards require auditors to report certain matters arising from the audit of the financial statements to 'those charged with governance':
 - expected modifications to the audit report;
 - unadjusted non-trifling misstatements;
 - material weaknesses in accounting and internal control systems;
 - qualitative aspects of accounting practice and financial reporting;
 - matters required by other auditing standards to be reported to those charged with governance; and
 - other matters that we wish to draw to your attention.
- 2 We have agreed with the Council that the communications required under these auditing standards would be with the Council Business Management Committee. This report sets out for Members consideration the matters arising from the audit of the financial statements for 2004/05.

Status of the audit

- 3 Our work on the financial statements is now complete. We issued an unqualified opinion on 21 October 2005 (statutory deadline of 31 October 2005).

Matters to be reported to those charged with governance

- 4 We have the following matters to draw to the Council Business Management Committee's attention. 4

Annual Audit and Inspection Letter