

# Annual Audit and Inspection Letter

## Birmingham City Council

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<b>Reference:</b>	BIOO1 Annual Audit and Inspection Letter
<b>Date:</b>	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

2004

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2004

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The report has been discussed with senior officers. Our findings and recommendations



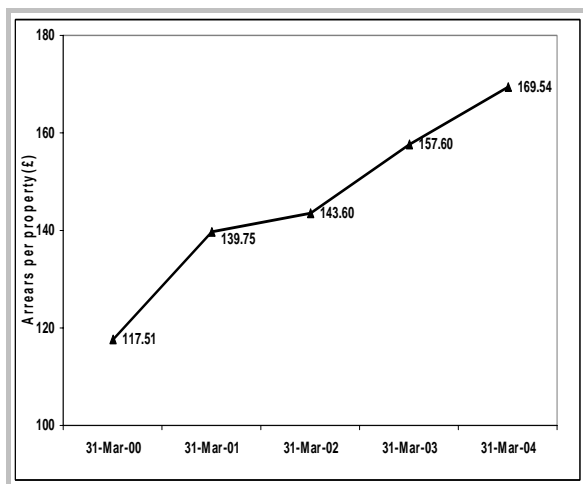
Audit of 2003/04 accounts

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**Housing Revenue Account (HRA)**

The Housing Revenue Account (HRA) balance increased during 2003/04 by £4.4 million to

**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.

2004

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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

## 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



## 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.

## Audit and inspection fee

## Audit fee update

Audit area	Plan 2003/04 (£)	Actual 2003/04 (£)
Accounts	265,000	265,000