

# **NOTTINGHAM CITY COUNCIL**

## **STATEMENT ON INTERNAL CONTROL – 2005/06**

### **(A FRAMEWORK FOR IMPROVEMENT AND EXCELLENCE)**

#### **1. SCOPE OF RESPONSIBILITY**

Nottingham City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The City Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the City Council is responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.

#### **2. THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL**

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the City Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place at Nottingham City Council for the year ended 31<sup>st</sup> March 2006 and up to the date of approval of the accounts and accords with proper practice.

#### **3. THE INTERNAL CONTROL ENVIRONMENT**

The City Council's internal control environment comprises the many systems, policies, procedures and operations in place to:-

- establish and monitor the achievement of the City Council's objectives.

The Council's key objectives are contained in the Strategic Plan. Progress against strategic objectives is monitored and reported to the Executive Board on a quarterly basis. In addition, all directorates have service plans which link to the Strategic Plan and which have been monitored on a regular basis. The Scrutiny function is well established and has an agreed programme of scrutiny reviews.

- facilitate policy and decision making.

The Constitution sets out how the Council operates, how decisions are made and the procedures followed to ensure that these are efficient, transparent and accountable to local people. Responsibility for decision making, the role of full Council, the Executive Board, Committees and the process for determining the City Council's Key Decisions are defined in the Constitution. Delegations are detailed so that the functions of full Council, Executive Board, Portfolio Holders, Committees and Officers are specified.

The full City Council Constitution was reviewed during 2005. The Overview and Scrutiny Committee established an informal cross party working group to which all political parties were invited to participate in the review. During February and March 2005, this working group met six times and took evidence from a range of internal and external sources. An extensive review of constitutions from other local authorities was undertaken to identify best practice. Submissions were invited from all political parties as part of the review process. The majority of the 36 recommendations made by the Overview and Scrutiny Committee in April 2005 were accepted by the Executive. The revised Constitution was then approved at Full Council in July 2005. ensure compliance with established policies, procedures, laws and regulations.

The City Council has in place Budget and Policy Framework Procedure rules which set out how budget and policy decisions are made. Key roles are performed by statutory officers, including the City Council's Monitoring Officer and Section 151 Officer. A regular programme of work is carried out by Internal Audit reviewing compliance with established procedures. In addition, Scrutiny Committees, external audit and external Inspection Agencies contribute to the review of the City Council's compliance with its policies, procedures, laws and regulations.

The Risk Management Strategy developed in 2002 was reviewed taking into account the more recent recommendations from both internal and external audits, best practice from other local authorities and the requirements of CPA 2005: The Harder Test. This culminated in a new Risk Management Framework being approved by Members at Executive Board in April 2006. The key objective of the new framework is to promote and embed a consistent approach to Risk Management across all Council services, projects and partnerships. A range of strategic and operational improvements to Risk Management throughout the financial year 2005/6 have been achieved; these have been documented and are available as a background document to the main SIC.

- ensure the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which the City Council's functions are exercised.

The Council's budget process establishes the resources required to deliver its services and objectives which involves a review of the overall use of resources. The Council's approach to Best Value includes continuous

improvement programmes such as Gearing Up (organisational development) which concluded successfully during the year, and the use of service reviews to support service change and improvement. An Annual Efficiency Statement has been produced in accordance with government targets. A Medium Term Financial Plan has been prepared setting out how the Council will utilise resources and re-prioritise its resources linked to its strategic priorities. The Performance Management Framework developed during 2004/5 has been implemented in 2005/6. Internal Audit's annual plan of work includes reviewing the use of resources and customer surveys (conducted by bodies such as MORI) which are used to gauge the public's perception of services provided. Efficiency savings have been delivered for re-investment in the Council's stated priority areas; a Value for Money Strategy is being developed which will be considered for approval during the 2006/7 year.

- provide appropriate financial management of the City Council and reporting of financial management.

The City Council set a balanced budget with revenue and capital budgets integrated and presented as such to Members. The financial outturn for 2005/6 showed directorate spend overall within cash limits; and an underspend on corporate budgets.

Appropriate limits have been approved in line with the Prudential Code for Capital Accounting. Budgets are monitored regularly and Members receive financial information which is relevant, understandable and consistent with underlying financial records. Financial reserves are kept under review and the City Council maintains an adequate Internal Audit function. Financial procedures are identified in approved Financial Regulations. The City Council prepares its accounts in accordance with statutory and professional guidance and complies with the statutory timetable for publication;

- ensure adequate performance management of the City Council and the reporting of performance management.

The City Council's Strategic Plan reflects national and local priorities and contains targets to be met in achieving its objectives. These are translated into departmental objectives in department Statements of Accountability and to service objectives in Service Plans. The achievement of targets is monitored and appraised and this year has included performance meetings with Portfolio Holders. Benchmarking against the performance of a similar group of councils is undertaken as part of performance improvement activity; examples of this activity include BVPP performance indicators, MORI surveys and Library Services. A self assessment against the Key Lines of Enquiry of the Comprehensive Performance Assessment was carried out in year. The Audit Commission reviews the operation of the City Council's Performance Management Framework. The Council has focused on embedding its Personal Development and Review (PDR) process across all staff during 2005/6 as the most effective way of translating its corporate and service plan objectives. In addition a review of Strategic Leadership Management Grades (SLMG) was undertaken to improve the Council's focus on performance.

#### 4. REVIEW OF EFFECTIVENESS

The City Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of Internal Audit: by all Managers within the City Council who have responsibility for the development and maintenance of the internal control environment; and also by feedback from the Audit Commission in their Annual Audit and Inspection Letter and the inspection reports of other agencies and inspectorates.

A review of all Internal Audit reports issued in 2005/6 has been completed with particular focus on areas of highest risk.

Corporate Directors are responsible for ensuring that proper standards of internal control operate within their Directorates. Internal Audit reviews these controls and gives an opinion in respect of the systems and processes put in place. The service operates within professional standards as laid down in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government and is annually reviewed against this Code by the external auditor.

The Internal Audit service has undertaken reviews of the internal control procedures in respect of the key systems and processes of the City Council. The work was planned using a risk based model of the Council's activities. The work has been supplemented by ad hoc reviews in respect of irregularities and other work commissioned by Corporate Directors or the partners of the City Council. Reports in respect of all reviews have been issued to the responsible officers, together with recommendations and agreed action plans. Furthermore, each quarter, a list of reports has been sent to lead Members for their consideration. Although no systems of control can provide absolute assurance, nor can Internal Audit give that assurance, on the basis of the audit work undertaken during the 2005/6 financial year, the Head of Risk and Audit Services is able to give reasonable assurance that the City Council's internal control system has been operating effectively, and issues considered to be significant have been included in this statement

All Corporate Directors have provided a signed assurance statement supporting this Statement on Internal Control for 2005/6. The statement contains 17 criteria based on national guidance issued by the Chartered Institute of Public Finance and Accountancy.

The Monitoring Officer confirmed that he did not need to exercise powers during 2005/6 to call attention to an illegal matter; and confirmed that he had no significant matters to report in relation to the City Council's internal control system.

The Chief Finance Officer (Section 151 Officer) has provided a signed assurance statement.

The Overview and Scrutiny Committee considered reports on the following issues relevant to keeping the internal controls of the organisation under review.

- § The Council's Constitution
- § Audit Commission Report – 'Access to Services'
- § Comprehensive Performance Assessment
- § Governance Review
- § Management Agreement with Nottingham City Homes
- § One Nottingham – One Plan: Nottingham's Community & Neighbourhood Renewal Strategy
- § Local Area Agreement
- § Framework for Service Planning Scrutiny
- § Nottingham city council Residents Survey 2005
- § Nottingham City Homes: Audit commission Inspection and Proposed Delivery Plan
- § Corporate Peer Review
- § Gearing Up Close Down
- § Risk Management Framework
- § Annual Internal Audit Plan
- § Anti-Fraud Strategy

The Executive Board considered reports on the following issues relevant to keeping the internal controls of the organisation under review:

- § Strategic Plan Refresh 2005/06
- § Review of the Constitution
- § Internal Audit Annual Plan 2005/06
- § Housing Strategy 2005-08
- § Treasury Management Annual Report 2004/05
- § Capital Outturn 2004/2005
- § Provisional Revenue Outturn 2004/05
- § Revised City Council Management Arrangements
- § Quarterly Performance Reports
- § Reviews of the 2005/06 Budget
- § Review of 2005/06 Budget
- § Housing Capital Programme 2005/06 update

- § Mori Residents Survey 2005
- § Community Participation in Equality Scrutiny and Monitoring
- § Annual Audit and Inspection Letter
- § Medium Term Financial Plan and Budgets
- § The Audit Commission Inspection of Nottingham City Homes
- § Gearing Up Programme – Close Down Report
- § Performance Management Framework
- § Governance Arrangements – Risk Management Framework / Internal Audit Annual Plan 2006/2007 and Internal Audit Strategic Plan 2006-2008 / Anti-Fraud Strategy

Full Council considered reports on the following issues relevant to keeping the internal controls of the organisation under review:

- § Best Value Performance Plan, Statement of Accounts 2004/05 and Statement on Internal Control 2004/05
- § Review of the Council's Constitution
- § New Financial Regulations and Contract Procedure Rules
- § Budget 2006/07

In summary, the City Council has reviewed its systems of internal control and has taken a broad approach to considering and obtaining assurance from many different sources.

## 5. INTERNAL CONTROL ISSUES

### (a) Review of 2004/5 issues

There were five issues identified for noting in the Statement on Internal Control for 2004/5 which are reviewed below. All significant issues reported in the 2003/2004 Statement have been resolved or were rolled forward to the 2004/2005 Statement.

Significant progress has been made against all five control issues identified in the 2004/5 SIC in terms of better and clearer systems and increased understanding. This demonstrates that the Council is learning and improving from the issues highlighted in the SIC and that as well as meeting its statutory requirements, the SIC is one tool to drive improvements to services and governance arrangements in the Council.

The five issues for noting for 2004/5 were:

<u>(i) Political publicity</u>	
<b>Issue for noting</b>	<b>Current Position</b>
<p>An objection was raised to the accounts for 1999/2000 in relation to publicity material produced by the Council; the Audit Commission concluded that some material was contrary to the national Code of Recommended Practice on publicity but that the sums involved were relatively small. The Audit Commission issued three recommendations under Section 11 of the Audit Commission Act (1998) in relation to training, awareness and vetting procedures for publicity. The Council accepted these recommendations and is taking steps to implement them; it is a relevant issue to note for this Statement on Internal Control because these systems and processes were not fully in place during the whole of 2004/5.</p>	<p>Significant work has been undertaken to develop and establish a stronger system of control.</p> <p>The three recommendations made by the Audit Commission have been actioned as follows:</p> <p>§ All publicity should now be issued through a centrally co-ordinated point, enabling staff, with familiarity with the Code and the law, to have an overview, with referral for legal advice as appropriate.</p> <p>§ A template document for appropriate sign-off has been developed to provide an audit trail for the vetting of publicity material.</p> <p>§ Discussions are ongoing with the Audit Commission to agree an approach to the training for Members.</p>
<u>(ii) Social Services Overspend</u>	
<b>Issue for noting</b>	<b>Current Position</b>
<p>The Housing and Social Services Portfolio overspent by £2.249m in 2004/5. This was mainly the result of demand led placements for children with complex needs, adults with learning disabilities and older peoples care services. Management action during the year taken to strengthen commissioning arrangements and reviewing options for placements as well as savings in other parts of the Social Services budget, reduced the impact of these overspends on the wider City Council. The Council has been able to fund the overspend from underspent corporate budgets.</p>	<p>This issue has been resolved. There is now a projected underspend in 2005/06. The Social Services Departmental Management Team has monitored and pro-actively managed budgets in 2005/6 to deliver financial balance at year end.</p>

Management action continues to address these demand led pressures for 2005/6.	
<u>(iii) Commission for Social Care Inspection report on Care Home</u>	
<b>Issue for noting</b>	<b>Current Position</b>
A number of issues of serious concern were identified during an unannounced visit by the Commission for Social Care Inspection relating to national minimum standards for bathing facilities. Immediate action was taken within one week to address these, including the installation of a new bath and electric shower. The Directorate reviewed bathing facilities across all care homes at the same time to identify any further control weaknesses. Accountability issues between the Social Services and Corporate Services for property maintenance and related issues were clarified and improved as a result of this event.	The Council has fitted appropriate filters to all requisite showers and baths in care homes across the City. Furthermore a method statement has been produced and implemented in respect of the proper procedures to be used for bathing clients in care homes. There are no reported problems with these arrangements. The Social Services department has strengthened its monitoring arrangements in respect of estate management and communication channels with Property Services.
<u>(iv) Qualification of Performance Indicators by the Audit Commission</u>	
<b>Issue for noting</b>	<b>Current Position</b>
A detailed programme of internal audit was commissioned during 2004/5 on the eight performance indicators qualified by the Audit Commission. These audits demonstrate that basic procedures in some services for collecting data for certain Performance Indicators are weak and do impact on the formal performance rating of the City Council. A range of detailed improvements to secure consistency and reliability are being implemented and this focus on continuous improvement is being led by the Deputy Chief Executive (Performance and Strategy). Specific improvements have been made in the accuracy of	Audit work was broader than the eight qualified indicators. It is also important to highlight the fact that departments themselves undertook more detailed quality assurance work, supported by the Performance Improvement Team. As such, the internal audit work was one part of a broader picture. The Performance Improvement Team circulated a draft corporate guidance on quality assurance (QA) and have been liaising with departments on their QA.  In the most recent certification of the BVPP by the Audit



<p>how the definition of performance indicators has been applied and consequently, the data collected.</p>	<p>Commission no BVPIs were qualified. This reflects positively on the work that was undertaken corporately and in departments. There are however still quality assurance issues that need to be addressed. Departments continue to implement the corporate QA framework. The Performance Improvement &amp; Planning Team continue to check the robustness of departmental processes. A further programme of corporate QA activity needs to be agreed between Audit Services and the Performance Improvement &amp; Planning Team.</p>
<p>(v) <u>Grants</u></p>	
<p><b>Issue for noting</b></p>	<p><b>Current Position</b></p>
<p>The Council is responsible for securing and accounting for significant sums of grant funding £350m per annum. Action was taken during 2004/05 to improve the processes for preparing grant claims, following a review by the external Auditor the previous year, but this work needs to be continuously developed as the range and scale of external grant funding itself changes. Work continues to improve the processes required to support the Council in discharging responsibilities as an accountable body for certain external funding regimes; establishment of a single gateway for many of the external funding regimes is planned to occur by September 2005 via Neighbourhood Services Directorate.</p>	<p>This issue has been identified as an area of weakness for the last two financial years, partly due to the rapidly changing grant regimes within which the City must operate.</p> <p>Considerable progress has been made in tightening up the Council's grants recovery systems.</p> <p>The approach developed to overcome this weakness is as follows: Good / recommended practice has been identified in consultation with the Audit Commission, both through their national guidance and local advice, the officers responsible for managing grants within departments and the departmental lead officers for finance.</p> <p>This practice has been rolled out to each area with the intention of providing a standard approach to the management and control of grants, from the identification of funding opportunities to the audit of</p>

	<p>final claims. This will be supported by further specific training and associated written guidance over the next few months.</p> <p>This process has been further strengthened through the development and implementation of an electronic grants register. This imposes the requirement to submit details of each grant claimed, the objectives linked to the grant, the responsible officer and the audit requirements. In turn, this allows robust corporate monitoring and control.</p>
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(b) Significant Control issues for 2005/6

On the basis of the review work carried out, it was considered that the majority of the internal control arrangements were operating adequately. However, one significant internal control weakness has been identified which requires a formal report.

(i) There is one significant issue identified for 2005/6 which is as follows:

Nottingham City Homes (NCH) Ltd is an arms length company wholly owned by the City Council and set up as part of the arrangements to ensure the achievement of the Government's Decent Homes Standard by 2010. In order to gain appropriate funding to finance the improvements required NCH Ltd had to obtain a two star performance rating as measured by the Audit Commission. The organisation failed at the last assessment to achieve the required rating and as such, there will be a delay in the receipt of capital funding to improve the social housing stock of the City. Nottingham City Council had sole responsibility for establishing Nottingham City Homes Ltd as a separate entity. Although the Management Agreement detailing the relationship and operating environment between the Council and NCH Ltd was not signed until October 2005, a 'Memorandum of Understanding' was signed by both NCH and the Council in March 2005, which committed both partners to adhere to the agreement as it stood in draft, until finalised. A corporate performance monitoring system was developed during the year by the Council (with appropriate involvement and reporting to Council Members). However, because of the significance of the housing management operation of NCH and the impact of the failure to achieve a two star rating on resources for future investment, the relatively late development of the corporate performance system is identified as a control weakness.

Following the inspection report published by the Audit Commission, the Council is establishing a more robust set of monitoring arrangements including a Member led Accountability Body. A revised Delivery Plan demonstrating how NCH Ltd will address weaknesses identified and achieve

a two star service has been developed and will be presented to the Executive Board in June 2006.

(c) There is a number of issues that are considered important enough to identify within the Statement on Internal Control for 2005/6 for the purpose of noting.

As in previous years, these are issues that require attention to address certain weaknesses and ensure continuous improvement of the system of internal control. The issues are as follows:-

(i) Breach of the Data Protection Act

A proven significant breach of the Data Protection Act occurred during 2005/6 and involved the publication of personal data (names and address details) in papers published by the Council on behalf of the School Organisation Committee (SOC) about school re-organisation matters. This was reported to the Information Commissioner's Office (ICO) and the judgement taken by the ICO was that it was inappropriate to do this. Although the SOC is an independent legal entity not formally part of Nottingham City Council, the judgement of the ICO was against the Council. This practice did take place in relation to other committees such as the Development Committee and it has now ceased altogether.

(ii) Records management system

The requirements of the Freedom of Information Act 2000 and the Environmental Information Regulations have placed new burdens on Local Authorities to disclose a wide range of both historic and more recent data on request within 20 working days. Over the last 12 months, this has identified weaknesses in the existing record management systems of the City Council. The risks to the Council's reputation is high as it conveys the impression that it is reluctant to release information when it is the challenge of locating the appropriate information via manual retrieval that causes the majority of delays in meeting this statutory requirement. This is a corporate issue as there would be significant costs if a corporate electronic records management system was implemented fully and immediately. The Council is taking steps to strengthen its approach and is following a procurement process for a document management system for Adult Services. A Freedom of Information request handled by the Council has required consideration by the Information Tribunal after it was considered by the Information Commissioner's Office.

(iii) Register of Interests at departmental level

The Council's Neighbourhood Services and City Development Departments have indicated that they have not maintained a register of interests within their services. These have been established for 1<sup>st</sup> April 2006.

(iv) Statutory Notice served on residential home

The Commission for Social Care Inspection (CSCI) served a statutory notice on the former Social Services Department to replace all external windows and doors due to the potential risk they posed to the residents of that establishment (Oakdene). The CSCI took the step of issuing a statutory notice as they were concerned about the length of time it was taking to address this. The works required were actioned immediately at a cost of £50,000. Receipt of this notice has led to a more systematic approach being adopted so that the concerns of CSCI are actioned effectively.

## **6. EMERGING ISSUES**

The emerging issues section of the SIC is intended to identify significant service, financial and organisational issues that may impact in a positive or negative way on the achievement of the Council's corporate objectives in the future. The identification of issues in this section does not imply in any way that there are control weaknesses or concerns; rather, it is intended to demonstrate that the Council is scanning its horizon and actively recognising major change management issues.

### **(a) The Children Act 2004**

As part of the implementation of the Children Act 2004, the reorganisation and restructuring of the Council's Education Department and Social Services Department into an Education and Children's Services Department and an Adult Services, Housing and Health Department is a major change. This is intended to improve the way in which the Council meets the needs of all age groups in a better way, particularly the most vulnerable of its clients. The Council will monitor these complex changes to ensure the planned improvements in service delivery occur.

### **(b) Single Status / Equal Pay**

As part of Central Government's Single Status initiative to bring into a single arrangement the pay of clerical and manual workers and to deal with equal pay issues, a major change in the remuneration structure for staff is in progress. The majority of posts in the Council are in the process of being reviewed, with a target date of 1st April 2007 for the full implementation of an agreed pay structure. There are timetable pressures due to quality assurance issues and the need to negotiate locally the detailed terms and conditions. The Council will closely monitor the timetable and consult with staff and their representatives about changes required and their likely implications.

## 7. SUMMARY

The internal control framework operating during 2005-6 is considered to provide reasonable and objective assurance that significant risks impacting on the achievement of the Council's principal objectives have been identified and actions taken to avoid or mitigate their impact. There was one significant internal control issue to report. There are issues identified for noting where the City Council recognises the need for continuous improvement and actions have been taken, or are in progress, to make these improvements. The Risk Management Framework of the City Council has been significantly refreshed and enhanced during 2005/6 which provides the foundation for further embedding and improvement in the day to day activities of the organisation. There are key emerging issues for the Council where internal control systems need to support performance and these will be monitored closely.

We have been advised about the results of the review of effectiveness of the system of internal control by the Council and plans to address weaknesses and implement improvements to the control systems are in place.

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A. ROBERTS  
ACTING CHIEF EXECUTIVE

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COUNCILLOR J COLLINS  
LEADER

DATE: \_\_\_\_\_

DATE: \_\_\_\_\_