

**NORTHAMPTON BOROUGH COUNCIL  
ANNUAL GOVERNANCE STATEMENT 2011/12**

## **1 Executive Summary**

This document describes Northampton Borough Council's governance arrangements and assesses how closely the Council aligns with good practice. In overall terms this is a positive statement for the financial year 2011/12. This document relies on several assurance mechanisms including the internal audit annual review, internal audit reports throughout the year, the Statement of Accounts, Audit Committee, the overview and scrutiny process and external audit.

External audit is undertaken by the Audit Commission and provides assurance on the controls the Council has in place. Where the auditor identifies weaknesses in the Council's arrangements, these are highlighted in the Annual Audit and Inspection Letter. The Council received an unqualified audit opinion on its 2010/11 accounts, the latest ones published.

The statement reports positive progress on the three significant issues that arose as part of last year's statement:

- IBS creditors
- Debt recovery
- Expenses

There are three significant areas raised for the financial year 2011/12:

- Procurement
- Voids
- Performance Indicators (Housing)

## **2 Statement of Compliance**

The authority's financial management arrangements conform with the governance requirements of CIPFA's Statement on the Role of the Chief Financial Officer in Local Government (2010) as set out in the Application Note to Delivering Good Governance in Local Government Framework.

## **3 Scope of responsibility**

The 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 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.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk. Overview and challenge of the Council's management of risk is performed by the Audit Committee.

Northampton Borough Council has, through its cross party Constitutional Review Working Group, agreed a local code of corporate governance which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives (SOLACE) Framework 'Delivering Good Governance in Local Government' from 2007. A copy of the local code is on the Council's website at [www.northampton.gov.uk](http://www.northampton.gov.uk).

This Annual Governance Statement explains how the Council has complied with the code and also meets the requirements of regulation 4(3) and 4(4) of the Accounts and Audit Regulations 2011.

## **4 The purpose of the governance framework**

The System of Internal Control and the Governance Framework have been in place at Northampton Borough Council for the year ended 31 March 2011 and up to the date of the approval of the statement of accounts.

The Governance Framework comprises the systems and processes, and culture and values, by which the council is directed and controlled and the activities through which it accounts to, engages with and leads the community. It enables the council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims, and objectives and can therefore only provide reasonable, 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 Council's policies, aims, and objectives. It is also designed to evaluate the likelihood of those risks being realised and their impact should they be realised, and to manage them efficiently, effectively and economically.

## **5 The Governance Framework**

The Constitution is the relevant governance document and the Code of Governance forms part of it. The Borough Solicitor (now called the Borough Secretary following a senior management restructure) (the 'Monitoring Officer') has a duty to monitor and review the operation of the Constitution to ensure its aims and principles are given full effect. The Council reviews the Constitution regularly to incorporate any necessary changes. A full review of the Constitution was undertaken during 2010/11 to ensure it was accurate and reflected current best practice and legal requirements and Council approved a revised Constitution on 14<sup>th</sup> March 2011. Various minor changes have occurred since then to respond to changing circumstances.

The Council's Governance Framework derives from the six core principles identified in a 2004 publication entitled The Good Governance Standard for Public Services. This was produced by the Independent Commission on Good Governance in Public Services – a commission set up by CIPFA, and the Office for Public Management. The commission utilised work done by, amongst others, Cadbury (1992), Nolan (1995) and CIPFA / SOLACE (2001). These principles were adapted for application to local authorities and published by CIPFA in 2007. The six core principles that this Governance Framework follows and the key elements of each of those core principles are as follows.

### **5.1 Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area**

The Council's strategic objectives are set out in the Corporate Plan 2012-15 which was adopted by the Full Council at its meeting on 29<sup>th</sup> February 2012. These objectives are based around the two headings:

- Your Town
- You

Progress against the plan is monitored via the Council's Corporate Performance Framework which integrates financial and service planning. The Council's annual financial planning process is driven by the council's Medium Term Financial Strategy to ensure that the future priorities and ambitions are resourced.

Partnership working is an increasingly important way in which Local Government can deliver more efficient and effective services to local residents. The Council is a member of a number of partnerships with organisations across the local area, and in some cases is also the lead authority with responsibility for establishing and leading some of these partnerships.

The Council has adopted a Partnerships Protocol. The protocol establishes minimum standards of governance and management to be followed by partnerships in order to satisfy the Council that the partnerships are being well run and are delivering benefit to the Council and the residents of the Borough. The protocol outlines key requirements for initiating, approving, setting up, operating, reviewing, and exiting partnership arrangements including the Governance Arrangements to be adopted.

The Council maintains a database of all partnerships it is involved in. This contains details of the Council's representatives in the partnership, the Council's contribution, the name of the lead organisation, the resources committed by the Council and the risk register. The Council evaluates each partnership to assess the risks and rewards to the Council and local communities, including legal issues, insurance, implications arising from the Councils Constitution, the Councils own processes and applicable protocols, financial regulations, issues of partnership procurement and whether the benefits from the partnership are likely to justify the costs involved in membership. The viability and validity of continuing with any partnership is reviewed on a regular basis as part of the ongoing service planning process.

The Council undertakes a significant number of consultations with customers. To facilitate this, the Council has adopted a consultation strategy, toolkit and web based portal. This process sets out a clear methodology for defining aims and objectives, resourcing the consultation, defining the level and method of consultation required, identifying whom to consult, ensuring inclusivity, planning the consultation, using the results, and evaluating the effectiveness of the consultation. Through adopting this methodology, the Council can be sure that consultations are more focussed and effective.

The Council has a comprehensive and robust performance management framework. The framework is reviewed annually to ensure that learning and improvement is captured and changes made where necessary. The Council monitors delivery of its priorities and objectives through the performance management framework. A service plan is in place for each of the Council's service areas and the objectives set out in the Corporate Plan are embedded in these plans. The service plans represent the key plan for each service and clearly set out targets and actions for each service and how each service area contributes to corporate objectives and targets. The service plans address service-level improvements, including value for money objectives. Service plans also set out how each service will contribute to a range of corporate performance and improvement imperatives, including data quality, Equalities, and Employee Opinion Survey action plans. Local service improvement plans are reflected in the plans.

A Management Board Data Set is reported on a monthly basis to Management Board and performance data is included in monthly dashboard monitoring reports to Cabinet. Service plans are reviewed at Departmental Management Teams, ensuring that plans remain current, that targets remain relevant and appropriately challenging, and that the service is delivering the actions necessary to achieve the corporate objectives.

Through reviews by external auditors, external agencies, Internal Audit, and internal review teams, the Council constantly seeks ways of ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency

and effectiveness. A corporate procurement strategy/toolkit has been developed to ensure proper arrangements are in place for procurement of goods and services. This was reviewed by Members and senior officers before being adopted.

The Council reviewed its financial regulations during 2010/11 with the updated financial regulations being approved by Council in May 2011. Revised procurement rules were adopted in March 2008. All budget heads are allocated to named budget officers, who are responsible for controlling spend against budgets, and who are also responsible for assets used in the provision of their services.

The Council's Risk Management Strategy, which incorporates business continuity management, has been further improved in 2011. The Strategy clearly sets out the processes and responsibilities for managing risks across the authority and is supported by a Risk and Business Continuity Management Handbook. Risks are identified and registers comprehensively refreshed on an annual basis as part of the Service Planning process and are updated monthly at Departmental Management Team meetings. This enables risks to be associated clearly to objectives and priorities, providing management with valuable monthly reporting information and ensuring resources are targeted to the priorities and objectives most at risk.

The Council has approved critical functions and business continuity plans for these functions are well developed across the authority. A high proportion of these plans have been tested. These business continuity plans are currently being reviewed and a Corporate Business Continuity Plan is being drafted. Assurance on the Council's risk and business continuity function is provided through regular verbal and written updates to the Audit Committee and through internal audits.

## **5.2 Members and officers working together to achieve a common purpose with clearly defined functions and roles**

### **5.2.1 The Constitution**

The Council has adopted a Constitution, which sets out how the Council operates, how decisions are made and the procedures that are followed to ensure these are efficient, transparent, and accountable to local people. The constitution reflects the 'Executive/Scrutiny' model following the Local Government Act 2000. The Constitution has been reviewed and a revised Constitution adopted in May 2011.

### **5.2.2 The Cabinet**

Cabinet is responsible for making executive decisions as defined by law and operates within the budget and policy framework approved annually by full Council. Meetings are open to the public except when personal or confidential matters are being discussed. Cabinet Portfolio Holders have authority to make non-key delegated decisions in accordance with the Leader's Scheme of Delegations in the Constitution. Furthermore, senior and other officers of the Council can make decisions under delegated authority – again the extent of these delegations is set out in the Officers' Scheme of Delegations in the Constitution. The Council publishes a forward plan, which contains details of key decisions to be made by the Cabinet. Each Cabinet member has a specific portfolio of responsibilities requiring him or her to work closely with senior and other employees in order to achieve the Council's ambitions.

### **5.2.3 Management Board**

The Council's Management Board, which consists of the Chief Executive, Directors (including the S151 officer), the Monitoring Officer, and Head of Human Resources

(replaced by the Head of Business Change in late 2011/12 following a senior management restructure), met on a weekly basis during 2011/12. Management Board considers other internal control issues, including strategic risk management, performance management, compliances, efficiency and value for money, and financial management. Management Board has a corporate responsibility for the messages that the Council puts out, both internally and externally.

### **5.2.3 Corporate Briefing**

This group consists of Management Board members and also all Heads of Service. The meetings are diarised fortnightly to meet as required. The agenda and meeting go ahead is agreed weekly by the Chief Executive.

The group, which is non-decision making, provides collective responsibility for:

- Providing corporate leadership
- Employee development
- Internal and external communications
- Performance management
- Co-ordinating and delivering corporate objectives and priorities for action
- Reviewing corporate policy
- Reviewing corporate standards
- Considering key operational matters

### **5.2.5 Directorate Management Team**

Each Directorate has a Directorate Management Team where the Director and Heads of Service meet to discuss Management Board feedback, council wide and service specific matters. These meetings ensure that:

- Directorates contribute to Management Board, Corporate Briefing and other teams/groups
- Feedback from Management Board, Corporate Briefing and other teams/groups is communicated within the Directorate
- Communication of corporate requirements within and between teams within the respective directorate occurs
- Service area performance is reviewed through Performance Report Packs

### **5.2.6 Managers' Workshop**

The managers' workshop started in 2007/08 and has a planned roll out of corporate subjects. The workshop attendance covers over 100 managers across the council.

### **5.2.7 Project Initiation Group**

During 2009/10 the Project Initiation Group (PIG) was formed. This group reviewed all new change plan initiatives and all existing live projects currently in progress. The group ensured that correct project management principles are applied, using the standard templates that were introduced. The group reviewed and challenged where necessary, ensuring that the projects were robust, financed, managed appropriately, authorised and necessary. The group has not met recently due to the lack of new major projects. A revised corporate governance structure for major projects is due to be published.

### 5.2.8 Other Groups

There are also corporate groups for equalities and Strategic Procurement Group (SPG) to name a couple.

### 5.2.9 Codes and Protocols

The council has adopted a number of codes and protocols that govern both Member and officer activities. These are mainly reviewed annually:

- Members Code of Conduct
- Members Register of Interests
- Officers Code of Conduct
- Officers Register of Interests
- Protocol for Members and officers regarding probity planning
- Protocol on Member/Employee relations
- Register of Gifts and hospitality – Members and Officers
- Counter Fraud
- Whistleblowing policy
- RIPA Policy
- Complaints and compliments procedures

### 5.3 Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

The Council has designated the Borough Secretary as the Council's Monitoring Officer. It is the function of the Monitoring Officer to ensure compliance with established policies, procedures, laws, and regulations. The Monitoring Officer also supports the Standards Committee and is the nominated officer for Whistleblowing. After consulting the Chief Executive and Director of Resources, he will report to the Council, under Section 5 of the Local Government and Housing Act 1989, if he considers that any proposal, decision, or omission would give rise to unlawfulness or maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered.

The Council has a Standards Committee which is responsible for: -

- Ensuring Councillors and other representatives are trained to carry out their duties effectively;
- Advising on the Members' Code of Conduct and helping Councillors and other representatives to understand what their duties are in relation to the Code;
- Investigating complaints received about elected Borough and Parish Council Members;
- Monitoring the operation of the Code;
- Conducting local hearings and determination of sanctions should a breach of the Code of Conduct be found;
- Granting dispensations to Councillors, co-opted members from requirements relating to interests set out in the Members' Code of Conduct;
- Advising the Council on other Codes and Protocols forming the authority's ethical framework;
- Considering arrangements for the appointment of Independent Members to the Committee;
- Ensuring the authority operates within a robust corporate governance framework; and

- Considering any report referred to it by the Cabinet or any other Committee where there are implications for ethical standards and report back as appropriate.

The Council's internal auditors carried out an electronic governance survey in December 2011, as part of the planned 2011/12 audit work. A similar survey was carried out in March 2010, which was compared with the 2011/12 results. In summary, The Council should consider further the responses to statements 2 and 3 where there was a negative change in perception since 2010 and the response to statement 7 where a quarter of respondents felt that the Council doesn't manage large projects and significant contracts effectively. The statements and the context to them are shown below.

- 2 We perform effectively in clearly defined functions and roles  
Matters to consider before making your assessment:  
Do we all know what we are supposed to be doing? Do we understand our roles and responsibilities and those of others charged with governance? Is there collective responsibility for decisions taken? Do we understand the views of the public and service users and do we obtain robust information about these views?
- 3 We promote values for the whole Council and demonstrate the values of good governance through behaviour.  
Matters to consider before making your assessment:  
What are the values we expect staff to demonstrate in their behaviour and actions? Does our behaviour (collectively and individually) demonstrate that we take our responsibilities seriously? Can our behaviour weaken the organisation's aims and objectives?
- 7 We manage large projects and significant contracts effectively and efficiently, minimising risk to the Authority and ensuring that the best outcomes are achieved from the resources used.  
Matters to consider before making your assessment:  
Do we perform effective risk management for large projects and contracts? Do we consult with the public and service users? Do we assess whether outcomes are achieved in line with expectations? Do we assess value for money appropriately before embarking on projects?

The financial management of the Authority is conducted in accordance with the financial rules set out at Article 13 and the Financial Regulations section within the Constitution. The Council has designated the Director of Resources as the Chief Finance Officer in accordance with Section 151 (S151) of the Local Government Act 1972. The Assistant Heads of Finance are Deputy S151 officers. The Council has in place a three-year Financial Strategy, updated annually, to support the medium-term aims of the Corporate Plan.

The Council maintains an Internal Audit service provided through a contract with PricewaterhouseCoopers, who operate to the standards set out in the 'Code of Practice for Internal Audit in Local Government in the UK'. Individual services produce annual service plans. These Service Plans are updated each year so as to incorporate the Corporate Plan requirements into service activities, so that services know what they are required to do to achieve the Council's priorities and ambitions. These plans also identify any governance impact.

The Council's external audit services are provided by the Audit Commission, who audit the statement of accounts, grant returns, whole of government accounts and national fraud initiative.



## **5.4 Taking informed and transparent decisions which are subject to effective scrutiny and managing risk**

The Council has several committees, which carry out regulatory or scrutiny functions:

### **5.4.1 Cabinet**

Cabinet makes executive decisions.

### **5.4.2 Planning Committee**

Planning Committee determines planning applications and related matters.

### **5.4.3 Standards Committee**

Standards Committee promotes monitors and helps to maintain high ethical standards amongst the Council's Members, and this extends to having the same responsibility for all town and parish councils within the Borough.

The Standards Committee has produced periodic newsletters for the benefit of Members, Parish Councillors and relevant officers, to provide updates on the national position, advice on matters in relation to Standards generally and to also remind Members of their obligations under the Code of Conduct, the Register of Interests, Gifts and Hospitality.

### **5.4.4 Audit Committee**

Audit Committee provides assurance about the adequacy of internal controls, financial accounting and reporting arrangements, and that effective risk management is in place. Its work is intended to enhance public trust in the corporate and financial governance of the council.

The Audit Committee has been very effective during 2011/12. All outstanding Internal Audit recommendations are reviewed at each meeting. High Risk Internal Audit Reports are brought to Audit Committee in their entirety. Senior officers are requested to attend the committee to explain why recommendations have not been implemented within the agreed timescales and for Audit Committee to question and challenge on any reports brought before it. The Committee, through its review of outstanding recommendations, has assisted in drastically reducing the number of overdue recommendations. This supports a good internal control framework.

The Committee also reviews risk registers, approved the 2010 /11 Annual Governance Statement (AGS) and Statement of Accounts, and will approve these for 2011/12. The committee receives annual training from internal audit.

### **5.4.5 Licensing Committee**

Licensing Committee monitors and reviews the effectiveness of the Council's licensing policy and procedures.

### **5.4.6 General Purposes Committee**

General Purposes Committee, which is a sub-committee of full Council, makes decisions that are not the responsibility of the Executive or other committees,

### **5.4.7 Appointments and Appeals Committee**

Appointments and Appeals Committee has responsibility for appraising senior officers and dealing with certain disciplinary and grievance matters.

### **5.4.8 The Overview and Scrutiny Committee**

In May 2010 the Overview and Scrutiny Structure changed. One Overview and Scrutiny Committee was established which sets up time-limited Scrutiny Panels to carry out in-depth Reviews. The Overview and Scrutiny Committee comprises fifteen Members. The

Scrutiny Panels now hold their meetings in public and individuals are encouraged to attend.

Some of the Overview and Scrutiny Committee responsibilities are:

- **Co-ordinating Work Programme** – to co-ordinate the work plan to avoid duplication and ensure joint working, or other suitable arrangements.
- **Allocation of Resources** – to consider the overall work loads of Scrutiny Panels and to agree the allocation of resources to each Panel according to need on an equal basis.
- **Involvement of other People in the Overview and Scrutiny Process** – to review arrangements for involving Councillors or people outside the Council, in the Overview and Scrutiny process, such as by co-option, or setting up working parties which include outside representatives and be responsible for agreeing appointments of external parties to relevant Scrutiny Panel.
- **Training and Development** – to review training needs of Overview and Scrutiny Committee Members and of Councillors and Council employees generally in relation to the Overview and Scrutiny process; and to consider the development of operational styles and techniques to aid the usefulness and effectiveness of the Overview and Scrutiny process.
- **Appoint three Overview and Scrutiny Panels**
- **Policy Development and Review** – The Overview and Scrutiny Committee may assist the Council and Cabinet in the development of its Budget and Policy Framework by in-depth analysis of policy issues by a variety of methods.
- **Support Needs** – To consider any general issues which arise with regard to the levels of co-operation and support which the Overview and Scrutiny Committee and Scrutiny Panels receive from other parts of the Council.

Overview and Scrutiny is a key part of the modernised arrangements for governance in local councils and also an important mechanism for driving forward performances in services. The four key legislative roles are: -

- Holding the Executive to account
- Policy development and review
- Best Value Reviews
- External Scrutiny

Overview and Scrutiny provides the opportunity for Councillors that are not members of Cabinet to examine various functions of the Council, to question how key decisions have been made and to champion issues of local concern to residents.

Overview and Scrutiny is charged with finding ways of ensuring that the issues that matter to the public are the focus of their attention, and with finding new ways of getting citizens involved in the things that affect them. Overview and Scrutiny has considerable powers:

- Holding decision makers to account
- Challenging and improving performance
- Supporting the achievement of value for money
- Challenging the ways things are done
- Influencing decision makers with evidence based recommendations
- Bringing the evidence and views of stakeholders, users and citizens

Overview and Scrutiny is Councillor led. As well as Councillors leading on the review of topics, where they research issues and develop recommendations, they are also involved in setting the Overview and Scrutiny Committee agenda, bringing forward

topics and issues, identifying who they want to hear from to help their work and what they want to know and how they want it presented to them.

The O&S Committees can “call-in” a decision that has been made by the Executive but not yet implemented, to enable it to consider whether the decision is appropriate. Call in can be referred to O&S by at least two Councillors.

Overview and Scrutiny becomes involved with decisions at an appropriate early stage to apply real influence and therefore play the important role of ‘critical friend’ to Cabinet. The first piece of pre-decision scrutiny work that the Overview and Scrutiny Committee undertook, early in 2010/11, was looking at the Delapre Abbey Options Appraisal. The Committee undertook five pre-decision scrutiny activities during this year and have undertaken three pre-decision scrutiny activities in 2011/12:

- De-pooling of Council Dwelling Rents
- Central Area Action Plan
- Community Centres – Management Organisation Appointments.

This pre-decision scrutiny activity demonstrates non-Executives influencing organisational culture at the Council.

During 2011/12, the scrutiny panels reviewed the following areas: -

- **Councillor Empowerment Fund** – to recommend a suitable scheme for a Northampton Councillor Empowerment Fund that enables Councillors to efficiently and effectively allocate money within their ward to make a positive impact on the areas they represent and to empower local residents to be active in their communities
- **Hate Crime** – to ensure that the approach to dealing with hate crime is embedded and responded to within Northampton Borough Council
- **Independent Living Strategy** – to evaluate the draft Independent Living Strategy for older people and to make recommendations for the development of this strategy
- **Customer Services** – to evaluate all customer services with a review of the customer contact centre, customer satisfaction, and the refurbished and extended one stop shop (started in 2011/12 but due to conclude in 2012/13).

The Council's Overview and Scrutiny (O&S) Committee is a very effective model, both for pre-decision investigations, and for a call-in process to scrutinize decisions of the executive. The annual report of the Overview and Scrutiny Committee was presented to Council on 9<sup>th</sup> July 2012.

### 5.5 Developing the capacity and capability of members and officers to be effective

The Council has a structured Councillor Development programme which is informed by corporate priorities, legislative changes and individual personal development plans for councillors. The programme is overseen by the Councillor Development Group, which comprises of councillors from all political groups and officers to determine priorities and agree programmes of development on a rolling three-month programme. It also evaluates and monitors outcomes from development sessions.

Extensive Members training was undertaken during 2011/12. The developments focused on three key areas: Knowledge briefings, personal skills development, and Committee Development Sessions. Some topics covered in knowledge briefings were: Emergency Planning, Community Safety, and Financial Budgets & Service Planning. Personal skills development was identified through Personal Development Reviews (based on the IdeA competencies). These ranged from IT skills to developmental conferences. Training was conducted for Committee members in the areas of Planning, Licensing, Standards, and Overview & Scrutiny.

## 5.6 Engaging with local people and other stakeholders to ensure robust public accountability

The Council's community engagement activities have been brought together into one overarching strategy. The key principles of the strategy are that:

- All communities should be involved in the decisions that affect them
- All communities deserve high quality public services, shaped around their needs
- Council policies and strategies should reflect local priorities, requirements and aspirations.

The Community Engagement Strategy recognises the diversity of our communities, the importance of community capacity building and the need to provide appropriate opportunities for customers and communities to participate at whatever level they wish to influence service delivery, decision making and policy development.

The Community Engagement Strategy aims to support strong, active and inclusive communities, who are informed and involved in decision-making and enable us to improve public services to enhance quality of life in Northampton. By this we mean:

- strong communities, who can form and sustain their own neighbourhoods, bringing people together to deal with their common concerns
- active communities, where people are supported to improve quality of life in their own communities
- influential communities, where all sections of the community feel they have opportunities to be involved in decision-making and influence public services

## 6 Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of its governance framework including the system of internal control. The process adopted during 2011/12 for a review is below.

- Contributions and comments from Heads of Service
- Internal Audit review for comment
- Audit Committee review for comment
- Review and approval by Management Board
- Review and approval by the Audit Committee

The review of effectiveness is informed by the work of the managers within the Council who have responsibility for the development and maintenance of the governance environment, the Internal Auditor's annual report and also by comments made by the external auditors and other review agencies and inspectorates. The process that has been applied in maintaining and reviewing the effectiveness of the governance framework includes:

Internal Audit, under the terms of engagement, is required to provide those charged with governance with an opinion on the overall adequacy and effectiveness of the council's:

- Risk management
- Control and;
- Governance processes.

Collectively this is referred to as "the system of internal control".

An audit plan is prepared each year and is agreed at the Audit Committee prior to the year commencing. For 2011/12 the audit plan was agreed at the Audit Committee meeting on 21<sup>st</sup> March 2011.

The reporting process for Internal Audit requires a report of each audit to be submitted to the relevant service manager and/or chief officer. The report includes recommendations for improvements that are included within an action plan and requires agreement or rejection by service manager and/or chief officers. The process includes follow-up reviews of recommendations to ensure that they are acted upon, usually within six months. All Internal Audit reports include a report on the quality and effectiveness of internal control within the Council's systems, and an assessment in accordance with quantification and classification of internal control level definitions. These definitions are summarised below.





Individual Findings are rated using the guidelines shown in the following table.

Finding rating	Assessment rationale
<b>Critical</b>	A finding that could have a: <ul style="list-style-type: none"> <li>• <b>Critical</b> impact on operational performance (quantify if possible); or</li> <li>• <b>Critical</b> monetary or financial statement impact (quantify if possible = materiality); or</li> <li>• <b>Critical</b> breach in laws and regulations that could result in material fines or consequences (quantify if possible); or</li> <li>• <b>Critical</b> impact on the reputation or brand of the organisation which could threaten its future viability (quantify if possible).</li> </ul>
<b>High</b>	A finding that could have a: <ul style="list-style-type: none"> <li>• <b>Significant</b> impact on operational performance (quantify if possible); or</li> <li>• <b>Significant</b> monetary or financial statement impact (quantify if possible); or</li> <li>• <b>Significant</b> breach in laws and regulations resulting in significant fines and consequences (quantify if possible); or</li> <li>• <b>Significant</b> impact on the reputation or brand of the organisation (quantify if possible).</li> </ul>
<b>Medium</b>	A finding that could have a: <ul style="list-style-type: none"> <li>• <b>Moderate</b> impact on operational performance (quantify if possible); or</li> <li>• <b>Moderate</b> monetary or financial statement impact (quantify if possible); or</li> <li>• <b>Moderate</b> breach in laws and regulations resulting in fines and consequences (quantify if possible); or</li> <li>• <b>Moderate</b> impact on the reputation or brand of the organisation (quantify if possible).</li> </ul>
<b>Low</b>	A finding that could have a: <ul style="list-style-type: none"> <li>• <b>Minor</b> impact on the organisation's operational performance (quantify if possible); or</li> <li>• <b>Minor</b> monetary or financial statement impact (quantify if possible); or</li> <li>• <b>Minor</b> breach in laws and regulations with limited consequences (quantify if possible); or</li> <li>• <b>Minor</b> impact on the reputation of the organisation (quantify if possible).</li> </ul>
<b>Advisory</b>	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

Each of these rating levels attracts a set number of points as shown in the table below.

Findings rating	Points
<b>Critical</b>	40 points per finding
<b>High</b>	10 points per finding
<b>Medium</b>	3 points per finding
<b>Low</b>	1 point per finding

The aggregate number of points an audit has scored indicates the overall level of risk of that control area. The number of points for each level of risk is shown in the table below.

Report classification	
	Points
 Low risk	6 points or less
 Medium risk	7– 15 points
 High risk	16– 39 points
 Critical risk	40 points and over

The Internal Audit Annual Report for 2011/12 was reported to Audit Committee on 21<sup>st</sup> March 2012. The program of internal audit work for the year ended 31 March 2012 included 31 reviews (including value enhancement reviews). This resulted in the identification of 0 critical, 4 high, 30 medium, and 38 low risk findings to improve weaknesses in the design of controls or operating effectiveness.

The audit plan was scoped to address the Council's key risks and strategic objectives. Each review was mapped to these areas in the 2011/12 Internal Audit plan. The internal audit plan was completed in line with the set timescales and training on fraud awareness was delivered in the year. The plan included 10 "value enhancement" reviews and work:

- HRA Business Plan Assumptions
- Environmental Services Contract Review
- Leisure Trust Contract Review
- Decent Homes Contract Review
- Governance survey
- Anti-fraud awareness training
- Audit Committee effectiveness training
- Anti-fraud health check
- IT benchmarking review
- Progression related pay

During the course of their work, internal audit have become aware of other issues that we believe could have, or have had an impact upon Northampton Borough Council's system of internal control. Based on the work completed, internal audit believe that there is some risk that management's objectives may not be fully achieved. Improvements are required in those areas to enhance the adequacy and / or effectiveness of governance, risk management, and internal control.

These areas relate to contract governance arrangements specifically for the following contracts:

- Leisure Trust
- Decent Homes
- Environmental Services

For these reviews, internal audit identified that more work is required to ensure that contracts are robustly set up, managed, and monitored.

Other key factors that contributed to the Internal Audit Opinion are summarised as follows:

- The Procurement review identified 2 high risk recommendations, although the follow up review indicated that only 1 high risk point remained outstanding and work had been completed to help mitigate this risk.
- The Voids review identified 1 high risk recommendations
- The Performance indicators review identified 1 risk recommendation.

Internal Audit noted that the majority of functions audited in 2011/12 were low risk and that no functions audited in this year had worse control than in 2010/11. Four of the five core financial systems were rated as low risk. The direction of control is overall one of improvements in control at the Council as shown by the following diagram.

<i>Finding rating</i>	<i>Trend between current and prior year</i>	<i>Number of findings</i>	
		<i>2011/12</i>	<i>2010/11</i>
Critical		0	0
High		4	5
Medium		30	62
Low		4. 38	63
<b>Total</b>		72	130

The Internal Audit service is subject to a review by the council's external auditors, the Audit Commission, who place reliance on the work carried out by the section. Internal Audit also carries out an annual self-assessment that is reviewed by the Director of Resources and external audit.

## 7 Significant Governance Issues

### 7.1 Review of the previous year's Significant Governance Issues

The 2010/11 Annual Governance Statement highlighted significant control weaknesses in the following areas:

Significant Control Weakness areas	Action to address weakness
<p><b>IBS creditors:</b> There was no review or authorisation of new suppliers on the IBS system, increasing the risk of false suppliers being created</p> <p>The following value for money issues were identified:</p> <ul style="list-style-type: none"> <li>• 4 significant contracts between the Authority and their suppliers had expired.</li> <li>• There was no preferred supplier listing in place.</li> <li>• The Authority did not use any purchasing consortium.</li> </ul>	<p>New procedure agreed and in place: No new suppliers will be added by finance without a signed authorisation form which will contain at least two signatures</p> <p>This will be addressed by the Stores Strategic Business Review (SBR) and the DSO SBR. The SBRs are due to commence during 2011/12.</p> <p>Since these are long term projects, interim arrangements will be put in place with interim short term contracts; Void works have been tendered and there is, therefore, a preferred supplier system in place for voids.</p>
<p><b>Debt recovery</b> A high number of control issues around delays within the debt recovery process were identified, increasing the likelihood that debts won't be collected. Specifically these were around: Backlogs for Former Tenant Arrears and Housing Benefit overpayments;</p> <p>Accountability for Sundry Debts; and</p> <p>Bailiff performance</p>	<p>For former tenant arrears and housing benefit overpayments, all backlogs have been cleared. All cases are monitored on a monthly basis.</p> <p>For sundry debts, the Director now writes to Heads of Service to ensure accountability for their debts is highlighted and understood.</p> <p>Bailiff performance to be addressed as part of contract management.</p>
<p><b>Expenses</b> The Authorised Signatory List was out of date and poorly organised meaning that signatures authorising expenses claims could not be checked properly.</p>	<p>The authorised signatory list has been updated, and payroll has been given a copy of the new updated Authorised signatory list.</p> <p>If an expense form is received and it is authorised by a person not on the authorised signatory list it will be returned and not processed.</p>



It should be noted that the Debt Recovery and Expenses control areas have been reported in the 2011/12 Internal Audit Report as an area of good practice, demonstrating the improvements that have been implemented by management.

## 7.2 This year's Significant Governance Issues

Significant control weaknesses in relation to the following services for 2011/12 were identified by Internal Audit and highlighted to the Audit Committee at its meeting of 21<sup>st</sup> May 2012 in the Annual Audit Report. During the course of internal audit's work they identified 4 high risk issues which have been outlined in the table below.

Significant Control Weakness areas	Action to address weakness
<p><b>Procurement</b> The procurement review was conducted following a management request for internal audit assistance. The procurement function became the responsibility of the finance function from the 1st April 2011 following a restructure. The procurement audit was designed to assess the design and operation of controls within procurement and provide recommendations to help management improve these controls where necessary. Two high risk findings were identified:</p> <p><b>Copies of Contracts</b> Signed copies of contracts selected for testing could not be located by the services responsible for managing the contracts.</p> <p><b>Compliance with Procedures</b> Sample testing of procurement transactions pointed to a number of issues with the cases tested; for example members of staff ordering goods often did not obtain the minimum required number of quotations, or comply fully with tender processes prior to purchasing goods or services. This leads to increased risks of poor value for money and inappropriate or unauthorised transactions.</p>	<p>A follow up of the Procurement recommendations raised was conducted at the request of Management in March 2012. In total internal audit identified 17 actions related to the 3 findings in the original report of which 11 were implemented, 5 were outstanding and 1 was no longer relevant. Of the 5 recommendations outstanding, 1 was high risk, 2 medium risk, and 2 low risk.</p> <p>Measures are now in place to remove this risk. Procurement have undertaken a major exercise compiling a contracts database centrally including obtaining copies of all contracts.</p> <p>This risk is still open. A training package has now been produced by developing a lesson already developed by Milton Keynes Council. However, this is yet to be rolled out in the Authority and therefore staff have not yet completed the training or signed the declaration that they understand the procurement requirements and will adhere to them. However this risk has been mitigated to some extent through the delivery of high level procurement training at the Managers meeting, targeting everyone from team leader and above. The procurement team also routinely attend senior management team meetings to pick up any control issues and to reinforce the process</p>

Significant Control Weakness areas	Action to address weakness
<p><b>Voids</b></p> <p>The void properties review (<b>11_12 NBC Voids 02</b>) focussed on controls in place over the management of void council houses. The review focussed on void operational management, void management information, and cost control. We identified one high finding that management information on voids is undermined because data on the Integrated Business Solutions (IBS) housing system is wrong in a number of cases and unlettable periods have been calculated incorrectly. This makes the Council's performance look better than it actually is. The root cause is that IBS is not updated fully when properties become lettable following unlettable periods, such as when major works have occurred.</p>	<p>Management welcomed the information in the report put in place an action plan to address all issues raised.</p> <p>Resources were identified to perform additional work to review the extent of this issue and the impact on the void (or 're-let') period. The average void period was recalculated to determine the overall effect of this on reported data.</p> <p>The procedures were reviewed and updated to ensure they clearly set out this aspect of the voids process and training was put in place.</p> <p>Following training monthly checks were implemented to ensure the accuracy of dates recorded on IBS and to ensure agreed procedures are followed; any necessary corrective and preventative action was then taken.</p>
<p><b>Performance Indicators</b></p> <p>The Council sets housing performance indicators to assess their performance against a number of qualitative and quantitative targets. This review looked to understand and comment on the quality of data collated by the Council for measurement of performance.</p> <p>For indicator HI 16 (Average number of days taken to resolve ASB cases), the start and end dates days for cases used to calculate this indicator should be supported by evidence to verify the case has been opened/closed (e.g. telephone notes or letters issued). In 4/10 cases tested, the dates used to calculate the days did not agree to supporting documentation. It has been established this is because officers are not always certain of the correct trigger for the start date (i.e. the initial contact or when the case was brought to the attention of the Council) In a further 5 cases, there was no evidence retained to support the dates. This is because no paper file was opened when the initial complaint was received.</p>	<p>The correct trigger date has now been identified and documented and all relevant staff have been trained in this area. Evidence to support the dates is now being retained to support those dates; paper files are now opened each time a complaint is received.</p>
<p><b>Other Weaknesses</b></p> <p>Internal Audit reviews identified the following common areas of weakness that should be considered by management:</p>	

Significant Control Weakness areas	Action to address weakness
<p>The review of a number of the Council's contracts identified that more work is required to ensure that contracts are robustly set up, managed and monitored. Concerns were identified around the governance arrangements for the following contracts:</p> <ul style="list-style-type: none"> <li>• Leisure Trust</li> <li>• Decent Homes</li> <li>• Environmental Services</li> </ul> <p>A number of recommendations were identified within these three reviews. The Council should learn lessons from these contracts in order to ensure that in future significant contracts are set up and managed appropriately.</p>	<p>Appropriate changes have been made to improve working relationships with contractors.</p> <p>Validation processes, performance indicators, and performance management have been strengthened, enabling penalties to be better enforced.</p> <p>There have been improvements to the formal documentation of meetings and relevant reporting is now in a more regular pattern.</p> <p>The ability of departments to share best practice and work more collaboratively has been improved thereby helping to enhance effective and appropriate challenge.</p> <p>The Partnership Board provides formal governance for the Environmental Services contract.</p> <p>Relevant risk registers and business continuity plans are now in place.</p>

### 7.3 Areas of Good Practice

Internal Audit also identified a number of areas where few weaknesses were identified and / or areas of good practice.

The following reviews were classified as low risk for 2011/12:

- Risk Management and Business Continuity
- Treasury Management
- Budgetary Control
- General Ledger (part of core financial systems review)
- Debtors (part of core financial systems review)
- Creditors (Agresso) (part of core financial systems review)
- Fixed Assets
- Cash and Banking (part of core financial systems review)
- Expenses
- Housing Benefits
- Housing Rents
- Debt Recovery
- Human Resources – Induction Training
- Planning applications
- Regeneration and Development – Development governance

Both the Debt Recovery and the Expenses control areas were been reported by internal audit in 2010/11 as being areas of weakness. Their inclusion in the list of areas of good practice for 2011/12 shows the positive steps taken by management and demonstrates the effectiveness of the Council's overall governance processes. The majority of functions audited in 2011/12 were low risk and no functions audited in the year had

worse control than in 2010/11. Four of the five core financial systems were rated as low risk.

**8 Conclusion**

The Council proposes to address the above matters, as set out in the table, to further enhance governance arrangements. The Council is satisfied that these steps will address the need for improvements that were identified in the review of effectiveness and the progress of these will be monitored during the year and their implementation and operation will be reported on as part of our next annual review.

**9 Approval of the Annual Governance Statement**

In accordance with the appropriate regulations, the Annual Governance Statement was approved by the Audit Committee on 24 September 2012 at the same time as the statement of accounts was approved.