DRAFT Annual Governance Statement 2016/17

NORTHAMPTON BOROUGH COUNCIL
ANNUAL GOVERNANCE STATEMENT 2016/17

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 2016/17.   This document relies on several assurance mechanisms including the internal audit annual review, internal audit reports throughout the year, returns by Senior Officers, the Statement of Accounts, Audit Committee, the overview and scrutiny process, and external audit.

External audit has been undertaken since November 2012 by KPMG. This 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 2015/16 main financial statements with no significant issues, but an adverse opinion in relation to value for money relating to a previous loan to a third party.

A significant change in 2016/17 has been the development of a Governance Action plan to address the recommendations from a PwC internal audit report relating to the football club loan. This was developed by management board and presented to Audit Committee in December 2016. The progress against this plan has been a key report to each subsequent Audit Committee and a key focus within the organisation.

2   Statement of Compliance

The authority's financial management arrangements conform to 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 in the majority of areas.

In response to the issuing of new guidance on governance by CIPFA SOLACE in December 2016 the authority has commenced a self-evaluation of its compliance within the framework which is planned to be completed in July 2017. This will identify any gaps in compliance which may need addressing through policy updates and/or training.

There is one area which has slightly different arrangements from those outlined in the CIPFA Statement and this will continue into future years:

Partnerships – The creation of Northampton Partnership Homes (NPH) on 5 January 2015, to manage the Housing Stock on behalf of the Council. The Governance of this wholly owned subsidiary is through the NPH Board. The Board is responsible for the business of the Company subject to compliance with the provisions of the Companies Act 2006 and the articles of association for Northampton Partnership Homes Limited.

The Board comprises of 16 members including representatives from tenants, Northampton Borough Council elected Members, independent members and two employees of the Company. The structure of the Board is such that no single group holds a majority position. The Board meet approximately every six weeks. The Board is supported by five Committees; Finance, Audit & Risk, Operations and HR and the Remuneration Committee. Each Committee comprises of 5/6 Members of the Board and currently meet approximately every six weeks. Committees have no delegated powers relevant to their specific terms of reference but they consider the detail of matters under their remit and report to the Board where formal approval to any reports and proposals is given.

3   **Scope of responsibility**

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for, and is 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 agreed a local code of corporate which takes account of, and is currently being reviewed and developed against 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 2016.

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 2017 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 key document in the Council's governance framework. The Borough Secretary (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 that are approved as part of any policy changes.

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, with a revision in 2016. The core principles that this Governance Framework follows and the key elements of each of those core principles are as follows.

5.1   Defining outcomes in terms of sustainable economic, social, and environmental benefits.

The Council's corporate priorities are set out in the Corporate Plan 2017 -22, which was adopted by the Council at its meeting on 27 February 2017. These are based around seven key areas:
- Northampton Alive – a vibrant successful town for now and the future
- Safer Communities – making you feel safe and secure
- Housing for Everyone – helping those that need it have a safe and secure home, and ensuring that a buoyant market provides a wide choice of homes for all ages
- Protecting Our Environment – a clean and attractive town for residents and visitors
- Love Northampton – Enhancing leisure facilities for local people and encouraging participation
- Working hard and spending your money wisely – delivering quality modern services
- Improving Our Governance – implementing the Governance Action Plan

The final priority around improving governance is in direct response to reports and recommendations of both Internal and External Auditors during 2016, in order to raise the profile and change the culture of the organisation in relation to governance.

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.

Through reviews by external auditors, external agencies, Internal Audit, and internal review teams, the Council constantly seeks ways of ensuring the economic, 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.

There are detailed contract procedure rules set out in the constitution, these explain how procurement must be carried out. A detailed review of these rules by external advisors commenced in 2016/17, and is due for completion by the end of 2017.

The Council's Risk Management Strategy, which incorporates business continuity management, was further improved in 2011 and has been subject to a review during 2016 supported by the Council's internal auditors PwC. The revised draft strategy was presented to Audit Committee in January 2017 and is being finalised by a specialist external resource, supported by the Governance and Risk Manager. 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 regularly 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.

All significant projects have their own risk register, which is maintained and monitored by project managers and Programme and Project Boards as appropriate.

The Council has approved a list of critical functions, and business continuity plans for these functions are well developed across the authority. A high proportion of these plans have been tested.

5.2   Determining the interventions necessary to optimise the achievement of intended outcomes

The Council's governance action plan includes governance around decision making, financial governance and project management. It is designed to ensure that decisions made by the Council either at Cabinet or at project level include robust option appraisal and identification of any risks involved.

The Council undertakes a significant number of consultations with customers, ranging from statutory consultations to some which are used to inform and shape decision making. To facilitate this and to set objective standards, the Council has adopted a consultation 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.

5.3 Developing the entity's capacity, including the capability of leaders and individuals.

5.3.1 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 with the latest revision in February 2013. The Council commissioned external advisors in March 2017 to undertake a review of the Constitution with a focus on the scheme of delegation, and contract and finance procedures. Council will be required to approve a revised Constitution during 2017 once this work is complete.

5.3.2 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. Accountable Cabinet Members 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 an executive decision notice, which contains details of key decisions to be made by the Cabinet. Each Cabinet member has a specific range of responsibilities requiring him or her to work closely with senior and other employees in order to achieve the Council's ambitions. Cabinet members also meet on a regular basis at Executive Programme Board with senior officers to consider and discuss potential future cabinet reports and other relevant issues.. This is a recent change as part of the Governance Action Plan to inform and improve decision making. In addition to the above, the Cabinet and Leadership Team meet on a cycle to discuss key strategic issues, by reference to Cabinet member priorities.

5.3.3 Management Board

The Council's Management Board, which consists of the Chief Executive, Directors, the Chief Finance (s.151) Officer, and the Monitoring Officer met on a regular basis during 2016/17. Management Board considers other internal control issues, including strategic risk management, performance management, compliance, 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.

A new Governance Action Plan was developed during 2016 by the authority's three statutory officers with input from other staff before being reviewed and signed off by Management Board. This focussed on areas that needed to be strengthened within the organisation to improve the robustness of decision making and monitoring, as well as the management of risk. Three new posts were identified to increase the organisation's capacity in relation to risk and project management, and these have been or are in the process of being recruited to.

5.3.4 Corporate Briefing

This group consists of Management Board members and all Heads of Service. This group met on a regular basis during 2016/17. 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

5.3.5 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.

5.3.6 Managers' Sessions

These are held on a monthly basis throughout the year covering a range of corporate subjects. During 2016/17 these included health and safety, housing and wellbeing, organisational changes. The sessions cover all managers and team leaders across the council.

As part of the Governance Action Plan a 'licence to practice' training programme is being developed for all managers and relevant staff. This is being targeted to cover all governance areas within the Council, and is planned for delivery during 2017. Initial mandatory training sessions around financial governance have already taken place during early 2017, which will form part of the programme.

5.3.7 Councillor Induction and Development

The Council has a structured Councillor Development programme which is informed by corporate priorities, legislative changes and development plans for councillors.   The outcomes from the development sessions are evaluated and monitored. The authority also offers its training schedule to parish councils within the borough, a number of parish councillors attended various sessions in 2016/17.

The Council also has an extensive Councillor Induction programme, this takes place after each four yearly election cycle. Any councillors elected mid-term are provided with individual sessions as appropriate.

5.3.8 Programme and Project Management Governance

During 2016/17 key Programme Boards reported into Management Board on the key project streams for the year. The governance arrangements were amended as part of the governance action plan to improve the focus of decision making, and to support the early consideration of issues through new member/officer arrangements. Individual projects are governed by project boards report into the following new or redefined programme boards for decision or by exception:

- Corporate Governance & Support Officer Programme Board
- Northampton Alive Officer Programme Board
- Transformation and People Officer Programme Board
- Efficiency/MTFS Officer Programme Board

Each Programme Board is chaired by the Chief Executive, Borough Secretary, or a Director, and they report into Management Board by exception. The programme boards will not encompass every single project that NBC is actively delivering, but rather those identified by Management Board as requiring corporate governance controls.

The NBC Project Management Best Practice Guide provides direction on the approach and the tools and templates available to support the programmes and projects. This ensures that those projects that are not deemed as requiring corporate governance controls will still maintain the NBC project management approach.

5.4 Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.

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 Chief Finance Officer (section 151 Officer), 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.

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

The financial management of the Authority is conducted in accordance with the financial rules set out at Article 13 and in the Financial Regulations section within the Constitution. The Council has appointed and has a designated Chief Finance Officer in accordance with Section 151 (S151) of the Local Government Act 1972. The Strategic Finance Business Partners are Deputy S151 officers. The Section 151 and Deputy 151 Officers are LGSS employees and their function is provided to the Council through the LGSS Partnership Agreement. This arrangement has been reviewed against CIPFA's Statement on the Role of the Chief Finance Officer 2010, and successfully complies with all of the criteria. As stated above, the Chief Finance Officer is a member of Management Board and reports directly to the Chief Executive.

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 have been provided by KPMG since November 2012. They audit the Statement of Accounts; grant returns, whole of government accounts and national fraud initiative.

5.5 Managing risks and performance through robust internal control and strong public financial management.

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.

A Management Board Data Set of performance statistics is reported on a monthly basis to Management Board and performance data is reported on a quarterly basis 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.

The Council has several committees, which carry out regulatory or scrutiny functions, and ensure that decisions and financial performance can be scrutinised:

5.5.1 Cabinet
Cabinet makes executive decisions which can be called in by Scrutiny using formal call-in powers in the constitution.

5.5.2 Planning Committee

Planning Committee determines planning applications and related matters.

5.5.3 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.

On behalf of Standards Committee the Council's Monitoring Officer has provided briefings and guidance to Members, Parish Councillors and relevant officers 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.

5.5.4 Audit Committee

Audit Committee provides assurance about the adequacy of internal controls, financial accounting and performance 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. It also reviews areas of concern to the committee, particularly around risk, fraud and failure of systems of control.

The Audit Committee has continued to be effective during 2016/17. Audit Committee has the opportunity to question and challenge on any reports brought before it. This supports a good internal control framework. Action plans around changes to the governance framework and responding to external audit recommendations have both been regularly reported to Audit Committee. The Committee have continued to review financial performance including debt management, treasury management and the use of interim/agency staff.

The Committee also approved the 2015/16Annual Governance Statement (AGS) and Statement of Accounts, and will approve these for 2016/17. The committee receives annual training from internal and external audit, as well as officer training relating to the Statement of Accounts.

5.5.5 Licensing Committee

Licensing Committee monitors and reviews the effectiveness of the Council's licensing policy and procedures and make individual licensing decisions as required. Committee Members receive initial training to enable them to sit on the Committee, and ad-hoc training on any legislation changes as required.

5.5.6 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.

5.5.7 Appointments and Appeals Committee

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

5.5.8 The Overview and Scrutiny Committee

Since May 2010 the Council has had one Overview and Scrutiny Committee 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 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.

5.6   Ensuring openness and comprehensive stakeholder engagement

The Council is committed to the importance of openness and transparency in local government. The Constitution contains Access to Information Procedure Rules and Guidelines for Open Government, which are managed on a day to day basis by the Council's Democratic Services Department to ensure that the public are able to easily access Council meetings and information in accordance with legislative requirements.

The Council recognises the diversity of our communities, the importance of community empowerment 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 Council adopts a strategy of community engagement activities through a number of routes including the following:

- Six community forums held bi-monthly covering equality characteristics including; the women's forum; disabled peoples' forum; pensioners' forum; youth forum; LGBTQ forum and diverse communities forum
- Parish council forum
- Park Management Committees
- Residents Association forum
- Community Centre forum

The key principles of our engagement are that:

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

The Council's Corporate Plan embraces, among other priorities, the ambition to have a vibrant town, to provide value for money to protect local services, to create empowered communities and to respond to people's needs when providing and delivering services. A robust performance framework is in place to monitor progress and success.

5.7   Implementing good practices in transparency, reporting and audit to deliver effective accountability

The Council as part of its governance action plan has included the following actions to improve transparency in decision making and reporting:

- Gateway reviews for all major projects to ensure progress on track and within scope
- Project and board meetings to be properly minuted and where appropriate declarations of interests obtained
- The requirement for full and comprehensive project files and records
- Extensive risk management and reporting processes.
- Regular reporting back to Cabinet on key projects
- A review of the decision 'call over' process

- Guidance on standards around cabinet report writing, including evidence and options expected, and enhanced procedures around clearance of reports

The Audit Committee has a key role to play in ensuring effective accountability. The committee receives regular reports around financial and performance management, as well as developments in corporate governance. During 2016/17 it has requested additional information and scrutiny over a number of different areas. Both external and internal auditors attend committee to provide assurance and challenge to the committee on aspects of council delivery.

Partnership working is an 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 Council's Constitution, the Council's 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.

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 2016/17 for a review is below.

- PwC Internal Audit reports as part of the audit plan
- Development of a Governance Action Plan
- 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.

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. For 2016/17 the audit plan was considered by Audit Committee on June 27 2016.

As part of the changes with the implementation of the LGSS project, certain internal audits were transferred to LGSS to provide assurance where the relevant services had been transferred to LGSS. The Internal Audit Outturn is therefore reported in 2 parts below – PWC findings and LGSS.

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.

PWC Internal Audit Outturn

The below table sets out the Internal Audit opinions that can be given:

Type of opinion	Indication of when this type of opinion may be given
Satisfactory	• A limited number of medium risk rated weaknesses may have been identified, but generally only low risk rated weaknesses have been found in individual assignments; and • None of the individual assignment reports have an overall report classification of either high or critical risk.
Generally satisfactory with some improvements required	• Medium risk rated weaknesses identified in individual assignments that are *not significant in aggregate* to the system of internal control; and/or • High risk rated weaknesses identified in individual assignments that are *isolated* to specific systems or processes; and • None of the individual assignment reports have an overall classification of critical risk.
Major improvement required	• Medium risk rated weaknesses identified in individual assignments that are *significant in aggregate but discrete parts* of the system of internal control remain unaffected; and/or • High risk rated weaknesses identified in individual assignments that are *significant in aggregate but discrete parts* of the system of internal control remain unaffected; and/or • Critical risk rated weaknesses identified in individual assignments that are *not pervasive* to the system of internal control; and • A *minority* of the individual assignment reports may have an overall report classification of either high or critical risk.
Unsatisfactory	• High risk rated weaknesses identified in individual assignments that *in aggregate are pervasive* to the system of internal control; and/or • Critical risk rated weaknesses identified in individual assignments that are *pervasive* to the system of internal control; and/or • *More than a minority* of the individual assignment reports have an overall report classification of either high or critical risk.

Disclaimer opinion	• An opinion cannot be issued because insufficient internal audit work has been completed. This may be due to either:
	  ◦ Restrictions in the audit programme agreed with the Audit Committee, which meant that our planned work would not allow us to gather sufficient evidence to conclude on the adequacy and effectiveness of governance, risk management and control; or
	  ◦ We were unable to complete enough reviews and gather sufficient information to conclude on the adequacy and effectiveness of arrangements for governance, risk management and control.

Based on the work completed, internal audit have issued the following opinion:

Satisfactory	Generally satisfactory with some improvements required	**Major improvement required**	Unsatisfactory

There are significant weaknesses and non-compliance in the framework of governance, risk management and control which put the achievement of organisational objectives at risk.

Major improvements are required to improve the adequacy and effectiveness of governance, risk management and control. Please see our Summary of Findings in Section 2.

The significant change in opinion from 'generally satisfactory with some improvements required' has followed the issuing of their final report on the Northampton Town Football Club loan. The report highlighted issues around decision making, governance, risk management and project management. Internal Audit recognised in their annual report that the Council were taking significant steps to address these issues, which commenced with the implementation of a far reaching governance action plan in December 2016. Progress against the governance action plan is being monitored by Audit Committee, and a number of actions have already been completed.

The other internal audit reports during 2016/17 identified limited findings, with most findings being rated generally medium or low risk.

There were significant changes made in year to the Internal Audit Plan to enable the Football Club Loan Report to be concluded which has limited the amount of internal audit work undertaken in other planned areas. These changes were agreed jointly by the Council in order to respond to key risks and amended priorities. However, PwC were satisfied that sufficient internal audit work had been undertaken to allow an opinion to be given as to the adequacy and effectiveness of governance, risk management and control, but have noted this opinion is based solely on the audit reviews completed in the year and interactions with management and the Audit Committee.

The changes in the audit plan can be summarised as follows:
- Resource was diverted to complete a report on the loan granted to Northampton Town Football Club and in particular to consider the relevant policies and procedures that are applicable to a transaction of this nature.

- The original internal audit plan included work to review the resources in place within LGSS to compare the level of charges with the service being received. This did not take place as the Council gave notice on a number of elements of the LGSS contract.

- The following reviews were not undertaken with resource being diverted to the loan report; partnerships and communities, private sector housing, customers and cultural services, borough secretary directorate governance, business continuity and corporate policy.

- The planned review of performance management was deferred until the Council had completed building new outturn reports, resetting KPIs, and new processes around performance management were fully embedded.

During the year PwC completed reviews in the following areas:

- Environmental Health and Licensing
- Economic development and regeneration
- Planning: Building Control
- Housing options
- Key financial system controls

The reviews identified 18 findings in total of which 13 are classified as a low rating and 5 medium.

Risk Management Support – in November and December 2016 PwC provided advice on governance, including supporting development of a new risk management strategy and policy, input into the job description for a new Governance and Risk Manager role.

LGSS Internal Audit

It was agreed by the S151 Officer and the council's internal auditors (PwC) that where LGSS have the responsibility to undertake the primary functions, LGSS Internal Audit would complete the assurance work relating to these LGSS functions, and PwC would continue to audit those aspects which remain in the direct control of the council. LGSS has worked with PwC to plan and undertake their work to ensure the full coverage required to provide the assurance opinions, whilst minimising duplication of work.

Individual Findings and the overall level of control are rated by LGSS Internal Audit using the guidelines shown in the following table.

Assurance	Definition
Substantial	There are minimal control weaknesses that present very low risk to the control environmental.
Good	There are minor control weaknesses that present low risk to the control environment. .
Moderate	There are some control weaknesses that present a medium risk to the control environment.
Limited	There are significant control weaknesses that present a high risk to the control environment.
No Assurance	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment.

The areas reviewed by LGSS in 2016/17 were Accounts Receivable (Debtors), Accounts Payable (Creditors), Payroll and Bank Reconciliation (Cash), General Ledger, Revenues and Benefits, System Access to ICON and IBS, and Treasury Management.

LGSS is pleased to report that they were able to give an overall "***substantial***" or "***good***" assurance on all the systems that have been reviewed.

Auditable Area	Control Environment Assurance	Compliance Assurance
Accounts Payable*	Substantial	N/A
Accounts Payable*	Substantial	N/A
General Ledger*	Substantial	N/A
Revenue and Benefits*	Substantial	N/A
Bank Reconciliations	Substantial	Substantial
ICON System Access	Substantial	Good
IBS System Access**	Substantial	Substantial
Treasury Management**	Substantial	Substantial

*Reviews focus on assessing control environment with limited compliance testing (i.e. walkthrough) meaning that it is impractical to assess compliance assurance.
**Audit at draft report stage at the time of writing this report but the emerging opinions are included

For each process area where the assurance is less than "Substantial" either at an overall opinion level or for specific areas within the process, an action plan of improvements for implementation by LGSS has been agreed between the relevant LGSS Service Manager and LGSS Internal Audit. These actions will be monitored and followed up.

7   Northampton Partnership Homes (NPH)

On 5 January 2015 NPH began trading. NPH is an Arm's Length Management Organisation, wholly owned by the Council. NPH is a subsidiary of the Council for accounting purposes and their accounts have been consolidated into the Council's Group Accounts. The governance structure of NPH is detailed at section 2 above.

7.1 Statement on Internal Controls

As part of their Annual Report, NPH are required to make a formal statement on Internal Controls, covering:
- Corporate Governance
- Business Planning
- Executive Management Team
- Risk Assessment and Management
- Audit
- Performance Management
- Financial Control and Budget Management
- Budgetary Control and Reporting
- Service Level Agreements
- Policies and Procedures

7.2   **NPH - Review of Effectiveness**

Internal Audit, under the terms of engagement, is required to provide the Board 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 NPH's Audit Committee. For 2016/17 the audit plan was agreed by their Audit Committee on 8 March 2016 and ratified by their main Board on 30 March 2016.

RSM 2016/17 Annual Internal Audit Opinion

Head of internal audit opinion 2016/17

The organisation has an adequate and effective framework for risk management, governance and internal control.

However, our work has identified further enhancements to the framework of risk management, governance and internal control to ensure that it remains adequate and effective.

RSM stated that their work had not identified any issues that should be included within the Annual Governance Statement for 2016/17

LGSS Internal Audit

NPH also receive the same back office support functions as The Council from LGSS. Therefore, please see section 6 for the review of effectiveness by LGSS Internal Audit.

8   Significant Governance Issues

8.1   Review of the current and previous year's Significant Governance Issues

The key issue raised by both the internal and external auditors related to governance and value for money surrounding the Northampton Town Football Club Loan. The Council has developed a Governance Action Plan to address the issues raised. Implementation of the plan started in autumn 2016, and will continue through 2017.

The focus is around governance of decision making, both at officer and member level including early review of key decisions, and increasing the capacity and capability of risk and financial management both corporately and across the organisation.

9   Conclusion

The Council and its wholly-owned subsidiary NPH, proposes to address the matters arising 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.

10   Approval of the Annual Governance Statement

To be signed post-audit, before Audit Committee on 11th September 2017

In accordance with the appropriate regulations, the Annual Governance Statement was approved by the Audit Committee on 11th September 2017 at the same time as the Statement of Accounts for 2016/17 was approved.

Councillor Jonathan Nunn

Leader of the Council

Date:

David Kennedy

Chief Executive

Date: