



**NORTHAMPTON**  
**BOROUGH COUNCIL**

# Annual Governance Statement 2015/16

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ANNUAL GOVERNANCE STATEMENT 2015/16**

**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 2015/16. 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 2014/15 accounts, the latest ones published.

No significant issues were raised in last year's statement.

**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.

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, 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 2016 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 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. The Constitution is kept under regular review to ensure it is accurate and reflects current best practice and legal requirements.

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 2015 Update, which was adopted by the Council at its meeting on 23 February 2015. 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 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.

The Council undertakes a significant number of consultations with customers. To facilitate this, 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.

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 included in regular combined performance and financial 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 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.

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. Revised procurement rules were adopted in March 2008. All budgets 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, was further improved in 2011 and is subject to a full review that commenced in March 16 and is due to be concluded in 16/17. 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 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 was published in February 2013. A review of the Constitution is planned for 2016/17.

### **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. 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.

### **5.2.3 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 2015/16. 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.

#### **5.2.4 Corporate Briefing**

This group consists of Management Board members and all Heads of Service. This group met on a regular basis during 2015/16. 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' Sessions**

The managers' sessions started in 2007/08 and meets monthly throughout the year covering a range of corporate subjects. The sessions cover all managers and team leaders across the council.

#### **5.2.7 Programme and Project Management Governance**

During 2015/16 key Programme Boards reported into Management Board on the key project streams for the year of Northampton Alive, LGSS, Prevention, Improvement, and Capital 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 Programme and project governance framework will signpost to other areas of governance that are required within the organisation. This saves the need for separate governance boards being set up and ensures integration across all of the specialist areas.

During 2015/16 the Monitoring Officer chaired the Improvement Programme Board, which oversees the core improvement projects of the council.

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.

### **5.2.8 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 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.

The Council implemented a new governance structure for its key projects in 2012/13 that addresses the issues raised in the Governance Survey Report. (See section 5.2.7 above).

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 Managers 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 has in place a five-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. During 2014/15 the internal audit plan placed a focus on ensuring compliance across the organisation.

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.

#### **5.4 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 which can be called in by Scrutiny using formal call-in powers in the constitution.

##### **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 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 2015/16. Audit Committee has the opportunity to question and challenge on any reports brought before it. This supports a good internal control framework.

The Committee also approved the 2014/15 Annual Governance Statement (AGS) and Statement of Accounts, and will approve these for 2015/16. The committee receives annual training from internal and external audit.

##### **5.4.5 Licensing Committee**

Licensing Committee monitors and reviews the effectiveness of the Council's licensing policy and procedures and make individual licensing decisions as required.

#### 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

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. Overview and Scrutiny was nominated for an award as part of the Centre for Public Scrutiny’s (CfPS) Good Scrutiny Awards 2013 under the category transforming services for its review - Managing Community Centres.

## **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 Management Board who determine priorities and agree programmes of development for the year. The outcomes from the development sessions are evaluated and monitored.

The Council also has an extensive Councillor Induction programme, due to the elections in May 2015, all Councillors received training from the induction programme during 2015/16.

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

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’s community engagement activities are brought together into one overarching strategy. The key principles of the strategy 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.

## **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 2015/16 for a review is below.

- Contributions and comments from Heads of Service and Management Board
- 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 contributions from senior managers included suggestions for work to be undertaken to enhance skills, systems and processes to ensure standards are adhered to, improved financial management in the organisation, improvements to the transparency of decision making, capacity concerns and other risks arising from the pace of change. In addition it was recommended that work is undertaken to enhance the member/officer interface and understanding of the decision making process. It has also been highlighted that there are some challenges in developing and supporting the new Standards Regime following massive changes brought about by the legislation.

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 2015/16 the audit plan was agreed by Audit Committee in September 2015.

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 Draft 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 Draft internal Audit Outturn

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

<i>Type of opinion</i>	<i>Indication of when this type of opinion may be given</i>
<b>Satisfactory</b>	<ul style="list-style-type: none"> <li>• 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</li> <li>• None of the individual assignment reports have an overall report classification of either high or critical risk.</li> </ul>
<b>Generally satisfactory with some improvements required</b>	<ul style="list-style-type: none"> <li>• Medium risk rated weaknesses identified in individual assignments that are <i>not significant in aggregate</i> to the system of internal control; and/or</li> <li>• High risk rated weaknesses identified in individual assignments that are <i>isolated</i> to specific systems or processes; and</li> <li>• None of the individual assignment reports have an overall classification of critical risk.</li> </ul>
<b>Major improvement required</b>	<ul style="list-style-type: none"> <li>• Medium risk rated weaknesses identified in individual assignments that are <i>significant in aggregate but discrete parts</i> of the system of internal control remain unaffected; and/or</li> <li>• High risk rated weaknesses identified in individual assignments that are <i>significant in aggregate but discrete parts</i> of the system of internal control remain unaffected; and/or</li> <li>• Critical risk rated weaknesses identified in individual assignments that are <i>not pervasive</i> to the system of internal control; and</li> <li>• A <i>minority</i> of the individual assignment reports may have an overall report classification of either high or critical risk.</li> </ul>
<b>Unsatisfactory</b>	<ul style="list-style-type: none"> <li>• High risk rated weaknesses identified in individual assignments that <i>in aggregate are pervasive</i> to the system of internal control; and/or</li> <li>• Critical risk rated weaknesses identified in individual assignments that are <i>pervasive</i> to the system of internal control; and/or</li> <li>• <i>More than a minority</i> of the individual assignment reports have an overall report classification of either high or critical risk.</li> </ul>
<b>Disclaimer opinion</b>	<ul style="list-style-type: none"> <li>• An opinion cannot be issued because insufficient internal audit work has been completed. This may be due to either: <ul style="list-style-type: none"> <li>○ 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</li> <li>○ 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.</li> </ul> </li> </ul>

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

Based on the work completed, internal audit have issued a '***generally satisfactory with some improvements required***' opinion.

There were changes made in year to the Internal Audit Plan which have limited the amount of internal audit work undertaken to a certain extent. These changes were initiated 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 undertake a specific into the circumstances surrounding 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 support the Council in undertaking a risk and assurance mapping exercise and refresh of the risk management framework and strategic risk register. It was intended that following this exercise, additional assurance and compliance reviews would be undertaken to address specific areas of risk identified and that these would enable us to provide an assurance opinion over the Council's overall governance, internal control and risk management.

The start of the review was delayed whilst the Council undertook internal reorganisation, and in the absence of an officer to take forward the ongoing responsibility for the risk management process. An Officer has now been appointed, and this work will be completed in 16/17.

- The directorate governance reviews were planned to examine the controls in place to ensure the Council's established processes for governance and financial accountability are operating consistently across the organisation. In 15/16 a review of the Borough Secretary Directorate was planned, however this review has been deferred to 2016/17 due to a change in the directorate's structure and a need for new roles to be embedded.

During the year PwC completed the following work:

**Risk Management Workshops** – in February 16 PwC facilitated the first of a series of workshops with Directors to identify risks and existing sources of assurance. Further workshops are planned in 2016.

**LGSS Contract Review** – this advisory piece of work followed on from 2014/15 review of contract management around the LGSS agreement. Focus was primarily on HR, Payroll and Legal services. The recommendations made were:

- Monitoring of financial performance of the contract by the Council
- Tracking of staff costs within LGSS
- Monitoring of savings
- Monitoring of activity levels within LGSS and NBC
- Contract variations

**Review of the scope and effectiveness of the Section 151 Officer arrangement** – As detailed within section 5.3, the Section 151 Officer is provided by LGSS. The review considered whether the service delivered was in line with the Local Government Act 1972 and CIPFA guidance, whether procedures are in place to monitor and measure performance and whether key stakeholders believe the service provision is adequate and effective. The recommendations arising from this review were concerning the contract management of the provision, which have been agreed by the Council to be implemented going forward.

**Northampton Town Football Club Loan and Development of Land at Sixfields** – The Audit Committee issued an additional piece of work on the internal arrangements within the Council for processing the Northampton Town Football Club loan. This work is ongoing and the results will be communicated to the Audit Committee separately once concluded.

Although a number of areas for improvement were identified, particularly in relation to evidencing the risk management process and implementing improved contract management arrangements in relation to LGSS, these did not constitute significant control weaknesses. Management Board are currently reviewing the recommendations and taking actions to address these risks as appropriate.

## 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 environment.
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 2015/16 were Accounts Receivable (Debtors), Accounts Payable (Creditors), Payroll and Bank Reconciliation (Cash).

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

Auditable Area	Assurance Opinion
Accounts Receivable	Substantial
Accounts Payable	Substantial
Payroll	Good
Bank Reconciliation	Substantial

For each process area where the assurance is less than "Substantial", 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 2015/16 the audit plan was agreed by their Audit Committee in February 2015.

### RSM 2015/16 Annual Internal Audit Opinion

For the 12 months ended 31 March 2016, the Head of Internal Audit opinion for Northampton Partnership Homes is as follows:

#### Head of Internal Audit opinion 2015/16

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.

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RSM also provided the following to be included within the Annual Governance Statement for 2015/16:

The follow up of key financial controls audit from 2014/15 reported 'little progress' due to the timing of the review. NPH were going through several structural changes and recruiting for new posts which would help fulfil a number of the recommendations raised in April 2015, some of this had been delayed or taken longer than anticipated, which meant that implementing some recommendations had not progressed as expected and the dates for implementation had been pushed back. However, review of Key Financial Controls in 2015/16 was given reasonable assurance, evidencing improvements in internal controls.

"The audits of Planned Maintenance including Decent Homes and Human Resources, as stated above, resulted in partial assurance, however, this was predominantly down to these areas still being work in progress. We were assured that the organisation had identified the work to be undertaken to address the risks in these areas, however, this work should be completed at pace to ensure these risks are mitigated.

Our advisory audit of the risk management function resulted in an advisory Position Statement, to take into account the work that was on-going. The organisation has revised its approach to risk management from the original risk management processes put in place at inception. NPH has decided that formal local risk registers, feeding into the corporate risk register, will not be held. It is the responsibility of Heads of Service to manage local risks, and ensure these are escalated to the corporate risk register in line with risk appetite as required.

To support the monitoring of the corporate risk register, early warning indicators were being established and aligned to the register to support risk monitoring and identification. Whilst this work was on-going, we did communicate our concerns over the potential issues with the new processes, particularly the potential for local risks to not be appropriately managed, and potential lack of evidence of risk management at a local level being maintained. As the risk management work progresses, Internal Audit will continue to review the processes as these are embedded."

## **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 previous year's Significant Governance Issues**

One High Risk control weakness was identified by PWC for 2014/15 in relation to financial delegations set up in the financial system. This could potentially leave the Council open to the risk of inappropriate transactions. LGSS Internal Audit has tested user access within the financial system on both Accounts Receivable and Payables for 2015/16 and gave an opinion of substantial assurance.

### **8.2 This year's Significant Governance Issues**

#### **Northampton Town Football Club Loan and Development of Land at Sixfields**

As disclosed within the 2015/16 Statement of Accounts Narrative Report, in 2015/16 The Council fully impaired the £10.25m loan previously granted to Northampton Town Football Club. Reviews by both Internal Audit (PwC) and External Audit (KPMG) are currently ongoing. The findings of these reviews and any associated recommendations will be fully reflected in the 2016/17 Annual Governance Statement, once the reports are available.

**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 5<sup>th</sup> September 2016*

*In accordance with the appropriate regulations, the Annual Governance Statement was approved by the Audit Committee on 5th September 2016 at the same time as the Statement of Accounts for 2015/16 was approved.*

*CLLr M Markham*

*D Kennedy*

**Councillor Mary Markham**

**David Kennedy**

Leader of the Council

Chief Executive

Date: 05/09/16

Date: 05/09/16