Outline Annual Governance Statement

NORTHAMPTON BOROUGH COUNCIL
OUTLINE ANNUAL GOVERNANCE STATEMENT 2010/11

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 2010/11. This document relies on several assurance mechanisms including the internal audit annual review, internal audit reports throughout the year, the Statement of Accounts, Audit Committee, the overview and scrutiny process and external audit.

External audit is undertaken by the Audit Commission and provides assurance on the controls the Council has in place. Where the auditor identifies weaknesses in the Council's arrangements, these are highlighted in the Annual Audit and Inspection Letter. The Council received an unqualified audit opinion on its 2009/10 accounts, the latest ones published.

The statement reports positive progress on the three significant issues that arose as part of last year's statement:
- Debtors
- Uniclass Creditors
- Grounds Maintenance

There are three significant areas raised for the financial year 2010/11:
- IBS creditors
- Debt recovery
- Expenses

2 Scope of responsibility

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

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

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

This Annual Governance Statement explains how the Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006, in relation to the publication of a statement on internal control.

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3   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 2010 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.

4   The Governance Framework

The Constitution is the relevant governance document and the Code of Governance forms part of it. 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.

4.1   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 2011-14 which was adopted by the Full Council at its meeting on 28th February 2011. These objectives are based around the three headings:
- You
- Your Town
- Your Council

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

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

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is also the lead authority with responsibility for establishing and leading some of these partnerships.

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

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

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

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

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

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

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

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

The Council's Risk Management Strategy, which incorporates business continuity management, has been further improved in 2010. The Strategy clearly sets out the processes and responsibilities for managing risks across the authority and is supported by a Risk and Business Continuity Management Handbook. Risks are identified and registers comprehensively refreshed on an annual basis as part of the Service Planning process and are updated monthly at Departmental Management Team meetings. This enables risks to be associated clearly to objectives and priorities, providing management with valuable monthly reporting information and ensuring resources are targeted to the priorities and objectives most at risk.

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

4.2 Members and officers working together to achieve a common purpose with clearly defined functions and roles

4.2.1 The Constitution

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

4.2.2 The Cabinet

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

4.2.3 Management Board

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The Council's Management Board, which consists of the Chief Executive, Directors (including the S151 officer), the Monitoring Officer, Assistant Chief Executive and Head of Human Resources, met on a weekly basis during 2010/11. Management Board considers other internal control issues, including strategic risk management, performance management, compliances, efficiency and value for money, and financial management. Management Board has a corporate responsibility for the messages that the Council puts out, both internally and externally.

4.2.3 Corporate Briefing

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

The group, which is non-decision making, provides collective responsibility for:
- Providing corporate leadership
- Employee development
- Internal and external communications
- Performance management
- Co-ordinating and delivering corporate objectives and priorities for action
- Reviewing corporate policy
- Reviewing corporate standards
- Considering key operational matters

4.2.5 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

4.2.6 Managers' Workshop

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

4.2.7 Project Initiation Group

During 2009/10 the Project Initiation Group (PIG) was formed. This group reviews all new change plan initiatives and all existing live projects currently in progress. The group ensures that correct project management principles are applied, using the standard templates that have been introduced. The group will review and challenge where necessary, ensuring that the projects are robust, financed, managed appropriately, authorised and necessary.

4.2.8 Other Groups

There are also corporate groups for equalities, comprehensive performance assessment use of resources, ICT Exchange Group, Procurement Monitoring Group (PMG) to name a few.

4.2.9 Codes and Protocols

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

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

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

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

- Ensuring the authority operates within a robust corporate governance framework; and
- Considering any report referred to it by the Cabinet or any other Committee where there are implications for ethical standards and report back as appropriate.

The Council's internal auditors carried out an electronic governance survey in March 2010, as part of the planned 2009/10 audit work. A similar survey was carried out in 2006/07, which was compared with the 2009/10 results. In summary, the results indicate that perceptions of the strength and quality of governance have increased for Members and senior management as a whole since the 2006/07 survey.

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

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

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

4.4 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:

4.4.1 Cabinet
Cabinet makes executive decisions.

4.4.2 Planning Committee
Planning Committee determines planning applications and related matters.

4.4.3 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;

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

The Audit Committee has become a very effective committee meeting. During 2010/11, the committee has again monitored the delivery of internal audit recommendations. The

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Committee has requested officers to attend where recommendations have not been implemented by the due date. This extends to audit reports that have a no or limited assurance rating or where there is a significant high risk recommendation. This supports a good internal control framework.

The Committee also reviews risk registers, approved the 2009/10 Annual Governance Statement (AGS) and Statement of Accounts and will approve these for 2010/11. The committee received its annual training from internal audit in March 2010.

4.4.5 Licensing Committee

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

4.4.6 General Purposes Committee

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

4.4.7 Appointments and Appeals Committee

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

4.4.8 The Overview and Scrutiny Committee

In May 2010 the Overview and Scrutiny Structure changed. One Overview and Scrutiny Committee was established which sets up time-limited Scrutiny Panels to carry out in-depth Reviews. The Overview and Scrutiny Committee comprises fifteen Members. The Scrutiny Panels now hold their meetings in public and individuals are encouraged to attend.

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

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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. There were four Call-In Hearings during 2010/2011, which demonstrates that the decision-making process is transparent and open to challenge.

Overview and Scrutiny becomes involved with decisions at an appropriate early stage to apply real influence and therefore play the important role of `critical friend' to Cabinet. The first piece of pre-decision scrutiny work that the Overview and Scrutiny Committee undertook, early in 2010/2011, was looking at the Delapre Abbey Options Appraisal. The Committee undertook five pre-decision scrutiny activities during this year and already has one pre-decision scrutiny activity programmed for 2011/2012.

A key example of pre-decision scrutiny was on the Environmental Services Procurement. Cabinet agreed that the Council's waste, grounds and street care services should be market tested. The procurement would be undertaken in partnership with Daventry District Council. This project was recognised as being a major procurement initiative for the Council. In addition to its large scale and ambitious scope, it presented the added challenge of being undertaken in partnership with another Local Authority. Its outcomes had the potential for a major impact on key factors, i.e. customer experience, finance and organisational reputation. Risk and legal implications were noted as potential concern. For these reasons, the process was selected for pre-

decision scrutiny by O&S. A non-Executive from Daventry District Council was co-opted to the pre-scrutiny activity.

Upon completion of the pre-decision scrutiny process, O&S was satisfied a thorough process had been undertaken to determine the preferred bidder for the award of the proposed joint contract and was satisfied that robust mechanisms would be developed to ensure that costs and benefits would be appropriately shared between the two partner Councils and neither Council would in any way subsidise (or be subsidised by) the other. This pre-decision scrutiny activity demonstrates non-Executives influencing organisational culture at the Council.

During 2010/11, the scrutiny panels reviewed the following areas: -
- **Northamptonshire Alcohol Strategy** – to review the local delivery of Northamptonshire Alcohol Strategy in Northampton
- **Commissioning Framework for the Voluntary and Community Sector** – To investigate the development of a Commissioning Framework for the Voluntary and Community Sector.
- **Absence Management** – To evaluate the impact that staff absence has upon service delivery.
- **Neighbourhood Model** – To investigate which groups will be engaging with and who the Council will be working with.
- **Lease between Northampton Borough Council and Northampton Town Football Club and the contractual arrangements between Northampton Town Football Club and the Rugby and Northampton Athletics Club** – To review the operation of the lease that Northampton Borough Council has with Northampton Town Football Club, the contractual arrangements between Northampton Town Football Club and the Rugby and Northampton Athletics Club, and make recommendations for improvement to the facility, if appropriate.

4.5 Developing the capacity and capability of members and officers to be effective

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

Extensive Members training was undertaken during 2010/11. The developments focused on three key areas: Knowledge briefings, personal skills development and Committee Development Sessions. Some topics covered in knowledge briefings were: Emergency Planning, Community Safety, and Financial Budgets & Service Planning. Personal skills development was identified through Personal Development Reviews (based on the IdeA competencies). These ranged from IT skills to developmental conferences. Training was conducted for Committee members in the areas of Planning, Licensing, Standards & Overview & Scrutiny.

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

The Council's community engagement activities have been brought together into one overarching strategy. The key principles of the strategy are that:
- All communities should be involved in the decisions that affect them

- All communities deserve high quality public services, shaped around their needs
- Council policies and strategies should reflect local priorities, requirements and aspirations.

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

The Community Engagement Strategy aims to support strong, active and inclusive communities, who are informed and involved in decision-making and enable us to improve public services to enhance quality of life in Northampton. By this we mean:
- strong communities, who can form and sustain their own neighbourhoods, bringing people together to deal with their common concerns
- active communities, where people are supported to improve quality of life in their own communities
- influential communities, where all sections of the community feel they have opportunities to be involved in decision-making and influence public services

5   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 2010/11 for a review is below.

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

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

The Borough Solicitor (the 'Monitoring Officer') has a duty to monitor and review the operation of the Constitution to ensure its aims and principles are given full effect. The Council reviews the Constitution regularly to incorporate any necessary changes. A full review of the Constitution was undertaken during 2010/11 to ensure it was accurate and reflected current best practice and legal requirements and a revised Constitution was approved by Full Council on 14th March 2011.

The Council's Overview and Scrutiny (O&S) Committee is described above and is a very effective model, both for pre-decision investigations, and for a call-in process to scrutinize decisions of the executive. The annual report of the Overview and Scrutiny Committee was presented to Cabinet on 11th July 2011.

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

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Members of their obligations under the Code of Conduct, the Register of Interests, Gifts and Hospitality.

The Audit Committee has been very effective during 2010/11. An example is that all outstanding Internal Audit recommendations are reviewed at each meeting. Senior officers are requested to attend the committee to explain why recommendations have not been implemented within the agreed timescales. The Committee, through its review of outstanding recommendations, has assisted in drastically reducing the number of overdue recommendations.

Internal Audit, under the terms of engagement, is required to provide those charged with governance with an opinion on the overall adequacy and effectiveness of the council's:
- Risk management
- Control and;
- Governance processes.

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

An audit plan is prepared each year and is agreed at the Audit Committee prior to the year commencing. For 2010/11 the audit plan was agreed at the Audit Committee meeting on 22nd March 2010.

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:

High Assurance: No control weaknesses were identified or some low impact control weaknesses were found.

Moderate Assurance: There are some weaknesses in the design and/or operation of controls, which could impair the achievement of the objectives of the system, function or process. However, their impact would be less significant or they are unlikely to occur.

Limited Assurance: There are some weaknesses in the design and/or operation of controls, which could have a significant impact, but should not have a significant impact on the achievements of the organisational objectives.

No Assurance: There are some weaknesses in the design and/or operation of controls, which could have a significant impact and may put at risk the achievement of organisational objectives.

Risk ratings, ranging from critical to low, are also included within the audit reports.

The Internal Audit Annual Report for 2010/11 was reported to Audit Committee on 27th June 2011. In this report, Internal Audit noted excellent progress in some areas, including:

- **Bank Reconciliations** – where Internal Audit found that "The Authority has successfully made significant changes to this process over the last two years and we can now conclude that bank reconciliations are well controlled."
- **Fixed Assets, Housing Benefits and IT Backup and Recovery** – where Internal Audit found that "We were able to provide high assurance opinions for all three of these areas."
- **General Ledger and Cash Collection** – where Internal Audit found that "We identified an overall improvement in control for both these audits."

In 2009/10 Internal Audit provided a 'No assurance' opinion for three audits and this resulted in their limited assurance opinion on the system of internal control.

In 2010/11 however, no internal audit reports were issued with a no assurance opinion which indicates improving levels of control at the Authority. Internal Audit have, however, provided 'Limited' assurance opinions for Expenses, IBS Creditors and Debt Recovery. The Authority has further work to do in these areas to address the control weaknesses identified. These issues are identified in more detail below.

Therefore, on the basis of their conclusions, Internal Audit gave **moderate** assurance on the design, adequacy and effectiveness of the system of internal control at the Council. Internal Audit noted this significant improvement on their prior year assessment and recognised the improved control framework that is now in place. Internal Audit provide 'moderate' assurance in our annual opinion where they have identified mostly low and medium rated risks during the course of their audit work on business critical systems, but there have been some isolated high risk recommendations and the number of medium rated risks is significant in aggregate. The level of their assurance is therefore moderated by these risks and so they cannot provide a high level of assurance.

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

6   Significant Governance Issues

6.1   Review of the previous year's Significant Governance Issues

The 2009/10 statement highlighted significant control weaknesses in the following areas:

Significant Control Weakness areas	Update
Core Financial Systems: Debtors Uniclass Creditors	
Other Systems Audits: Grounds Maintenance	

It should be noted that the 2008/09 statement highlighted significant control weaknesses in Uniclass Creditors system which was reported again 2009/10 due to the delay in the

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implementation of the IBS system. However, the replacement for the Uniclass Creditors system, IBS Creditors, has been reported in 2010/11 (below).

6.2 This year's Significant Governance Issues

Significant control weaknesses in relation to the following services for 2010/11 were identified by Internal Audit and highlighted to the Audit Committee at its meeting of 27th June 2011 in the Annual Audit Report.

Significant Control Weakness areas	Action to address weakness
IBS creditors: There was no review or authorisation of new suppliers on the IBS system, increasing the risk of false suppliers being created The following value for money issues were identified: • 4 significant contracts between the Authority and their • suppliers had expired. • There was no preferred supplier listing in place. • The Authority did not use any purchasing consortium.	
Debt recovery A high number of control issues around delays within the debt recovery process were identified, increasing the likelihood that debts won't be collected	
Expenses The Authorised Signatory List was out of date and poorly organised meaning that signatures authorising expenses claims could not be checked properly.	

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

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7   **Certification by the Leader of the Council, Chief Executive, Director of Finance and Support and the Monitoring Officer.**

Signed: **Signed:**

Date: **Date:**

Councillor David Palethorpe   David Kennedy
Leader of the Council   Chief Executive

Signed: **Signed:**

Date: **Date:**

Isabell Procter   Francis Fernandes
Director of Finance and Support   Borough Solicitor
(S151 Officer)   (Monitoring Officer)

Northampton Borough Council has, through its cross party Constitutional Review Working Group, agreed a local code of corporate governance which is scheduled to be adopted by Full Council in July 2010. The code format is based on the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (CIPFA 2007). The code, when implemented, will be subject to a review by Internal Audit.