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NORTHAMPTON
BOROUGH COUNCIL

AUDIT COMMITTEE REPORT

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| Report Title | Progress Update on Implementing the Governance Action Plan |
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AGENDA STATUS: PUBLIC

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| Audit Committee Meeting Date: | 11 th September 2017 |
| Policy Document: | No |
| Directorate: | Borough Secretary |
| Accountable Cabinet Member: | Cllr Jonathan Nunn |

1. Purpose

- 1.1 This report outlines the progress made to date on implementing the Council's Governance Action Plan.

2. Recommendations

- 2.1 That the Committee review and comment and where appropriate constructively challenge the Governance Action Plan to inform further work on its content, development and implementation.
- 2.2 That the Committee receive update reports on the implementation of the Governance Action Plan from the Borough Secretary and Chief Finance Officer at every future meeting until it determines otherwise.

3. Issues and Choices

3.1 Report Background

- 3.1.1 The Governance Action Plan is a fundamental document for the Council. The purpose of the plan is to ensure training and support is available for officers to strengthen and put in place effective governance arrangements and processes within the Council. Procedures that should be in place, or need to be reinforced, to ensure that proper and effective governance happens in practice at all times will be implemented and will be on a par of organisational importance with the Budget Book and/or the Constitution.

3.1.2 **Plan update:** In August 2017, the items within the Governance Action Plan were reviewed and the number of actions reduced from 67 to 48. The process areas where the reductions were made are:

| Process area | Original number of action points | Revised number of action points | Diff | Reason for change |
|--------------------------------|----------------------------------|---------------------------------|------|-----------------------------|
| Projects | 10 | 3 | -7 | Merged into relevant action |
| Programme & Project support | 8 | 5 | -3 | Merged into relevant action |
| Internal audit recommendations | 7 | 4 | -3 | Merged into relevant action |
| Governance | 5 | 4 | -1 | Merged into relevant action |
| Other | 6 | 1 | -5 | Duplicates - deleted |

Other than the duplicates (items 63 – 67 on the original document), no other points were deleted from the plan, they were merged with the existing points where the process was the same.

At 'Appendix 1' the current Governance Action Plan is shown with an additional column to show the changes/deletions/merged items from the original document presented in June 2017. For example:

- Action points 8,9,10 & 20 for project management on the original action plan are now merged in to item 8 on the revised action plan document.

Of the 48 items listed, 26 still remain open and 22 items have now been closed based on evidence received during the August review.

| GOVERNANCE AREA | Number of Actions | Fully Implemented | Partly Implemented | Not Implemented | To Be Confirmed |
|-------------------------------------|-------------------|-------------------|--------------------|-----------------|-----------------|
| Risk Management | 6 | 0 | 5 | 1 | 0 |
| Project Processes | 3 | 0 | 3 | 0 | 0 |
| Programme & Project Support | 5 | 2 | 0 | 3 | 0 |
| Due Diligence | 1 | 0 | 1 | 0 | 0 |
| IA Recommendations | 4 | 2 | 2 | 0 | 0 |
| Exec. Decisions – Cabinet Processes | 13 | 8 | 4 | 0 | 1 |
| Governance | 4 | 2 | 2 | 0 | 0 |
| Financial Governance | 11 | 8 | 3 | 0 | 0 |
| Other | 1 | 0 | 1 | 0 | 0 |
| Total | 48 | 22 | 21 | 4 | 1 |
| Percentage | 100% | 46% | 44% | 8% | 2% |

3.1.3 Key to the success of the Governance Action Plan will be:

- Substantively revised governance culture and structure for the Council, including for risk management, to enhance and support deliberation and assessment of all recommendations, decisions, programmes and projects before approval, during implementation and on completion.

- Renewed and greatly enhanced focus on officer compliance with policies, procedures and best practice in all aspects of governance, backed by enhanced professional and technical engagement and a central capacity to provide support, training, development and enforcement to ensure compliance
- Enhancements and strengthening to the role of the Audit Committee in overseeing compliance with policies and procedures. Specifically moving into the future this will be to further develop the Audit Committee to ensure organisationally independent assurance to the Cabinet on:-
 - The adequacy of risk management and the control environment at the Council
 - The Council's financial and non-financial performance to the extent it affects exposure to the risk and the control environment
 - The financial reporting process
 - The effectiveness of internal audit, risk management and anti-fraud plans and strategies and functions
 - Effective working arrangements between internal and external audit
 - The annual plans of internal and external audit
 - The implementation of audit recommendations
 - Achieving compliance with CIPFA/SOLACE recognised best practice in local authority governance

3.1.4 Implementation of this Governance Action Plan is owned and overseen by this Committee, by the Leader of the Council, the Chief Executive and the Statutory Officers, by Management Board and the Corporate Governance and Support Programme Board led by the Borough Secretary.

3.2 The following are the key improvement areas in the Governance Action Plan.

3.2.1 Risk Management

3.2.2 Risk management is a key priority in the Governance Action Plan and has three linked tasks which are firstly to review the risk management framework, policy, procedures and processes of the Council, secondly to embed risk management throughout the organisation and lastly to ensure there is effective risk reporting through the governance process.

3.2.3 To date the Council has in terms of progress to achieve these three tasks appointed on a permanent basis in June 2017 a Governance and Risk Manager with the experience and expertise to lead on strengthening governance and risk processes and to contribute also on establishing the Licence to Practice framework as a key vehicle to address governance weaknesses in the organisation.

3.2.4 Further action completed during the summer included an in-depth review of the Council's risk management strategy (encompassing a review of the risk

policy and related risk procedures and processes such as the production of a Council Statement of Risk Appetite).

- 3.2.5 Importantly the Risk Appetite Statement complies best practice in corporate and public sector governance and is a published disclosure to our stakeholders and community of the nature and amount of risk the Council is willing to accept and take on further to the pursuit of its strategic objectives as outlined in its corporate plan Securing Northampton's Future.
- 3.2.6 An draft risk management strategy prepared by PWC was presented to the audit committee in December 2016, this document has since been reviewed by the Interim Governance & Risk Manager and is currently at formal draft stage and is being consulted upon with Management Board and the Audit Committee. Further consultation and embedding of the strategy will also occur with Heads of Service, directorate management teams and the cross-directorate Corporate Governance and Support Officer Programme Board. The risk management strategy will ultimately be approved by the Cabinet on behalf of the full Council.
- 3.2.7 Where appropriate there will be targeted presentations and Q&A sessions for the new strategy held alongside the consultation such as to the Management Board and Audit Committee and also the cross-directorate Managers' Session forum which is composed of all service-managers and heads of service at the Council.
- 3.2.8 Arrangements for risk management as outlined in the strategy and the processes for embedding the new strategy will also be the subject of an internal audit in Quarter 3 to provide further assurance that the new arrangements are robust, comply with best practice and are meaningful and fully embedded at the Council.
- 3.2.9 Further action completed includes regular risk liaison and quarterly production and update (capturing new and emergent risks and closing risks managed down to target levels of residual risk) of the corporate risk register which is reported to the Management Board, Audit Committee and Corporate Governance and Support Officer Programme Board in support of their responsibilities for risk management.
- 3.2.10 Regular meetings and slots have also been established with directorate management teams (DMTs) and at these meetings the corporate risk register is reviewed and constructively challenged by the DMTs to greater ensure it is accurate and complete and divisional risk registers also similarly reviewed and challenged by the corporate centre. In this way "top down" and "bottom up" challenge mechanisms are being put in place for risk registers.
- 3.2.11 Additionally further to Action 6 in the Governance Action Plan risk management training and development plans have also been largely agreed and completed over the summer for the Cabinet, Management Board, Heads of Service and the Audit Committee.
- 3.2.12 In this way the Council is continuing to build a visible risk-aware culture which is "live" and "active" in the organisation, is understood and acts meaningfully in support of decision-making.

3.3.1 Due Diligence

- 3.3.2 The 2015/16 External Auditor's ISA 260 report identifies the need for systematic, robust and objective processes for assessing and documenting due diligence procedures in relation to loan finance. Officers have put a hold on the issuing of any loans pending a review of due diligence processes. A summary of existing loans and key documentation has been compiled and centralised in one place. An extensive loans compliance checklist has been developed, and reviewed by the Council's banker Barclays with use of the checklist mandatory part of this and the above actions being a part of the on-going review of due diligence at the Council. This is going through final refinements and will be ready for use, and subsequently shared with the external auditors by the end of August 2017.
- 3.3.3 A due diligence and compliance manual is also in the process of being prepared and will operate as a toolkit support for officers. Estimated completion for this piece of work is 31.12.17.
- 3.3.4 Due diligence has also been identified as a high-priority dedicated training modules as part of Licence to Practice to be delivered before 31.12.17. The estimated date for completion has been amended from 31.07.17 due to the position of Training and Development Manager becoming unexpectedly vacant in July 2017, an interim HR Manager has been appointed and will be instrumental in delivering the LTP training.

3.4.1 Project & Programme Support

- 3.4.2 A review of project governance and development and implementation of a Corporate Project Management Framework are the two key tasks set for project and programme support in the Governance Action Plan.
- 3.4.3 Work has started on a compliance review of the Museum Project with further retrospective reviews planned in the next quarter for the remaining live projects including Vulcan Works. A work programme has been developed that will cover the key control points within the process, where those key points are not compliant, retrospective documentation will be put in place. A summary report will be produced and presented to Management Board and communicated to the Audit Committee at the next available meeting after completion of the reviews. Continual reporting will be put in place during 2017/18 for the compliance programme within NBC once implemented through recruitment of additional team members in the Governance Department to cover internal controls.
- 3.4.4 The Corporate Project Management Framework policy and procedures documentation is in the process of being completed. A working group has been identified to contribute to defining the project process flow and control points. A revised reporting guide will be incorporated into the process to ensure that clear reporting of the progress of projects is made to Management Board and above. The draft policy and process documentation will be presented to the Audit Committee once completed and approved by Management Board and Cabinet.

3.5.1 Internal & External Audit

- 3.5.2 The Governance Action Plan identifies the review of internal audit recommendations and improved reporting of internal audit recommendations as the two key tasks of the plan.
- 3.5.3 As previously agreed by the Audit Committee, there will be separate reporting and attendance at Audit Committee by the LGSS Internal Audit team to provide assurance in areas relevant to their role and responsibility to NBC.
- 3.5.4 A review of NBC Internal Audit and LGSS Internal Audit plans has been undertaken to ensure they complement each other and to ensure that there are no gaps, inconsistencies or clashes between these plans. This will continue to be reviewed each year in framing and then monitoring the Annual Audit Plans.
- 3.5.5 An area of identified weakness for the Council is the monitoring and reporting of delivery against audit recommendations, both internal and external. To address this, the PWC TrAction software that is available to NBC is now being actively used with access and training given for relevant staff. The Governance team have taken responsibility for monitoring the implementation of recommendations for all internal and external audits including agencies such as the Food Standards Agency. The Governance team will perform follow ups for the internal audits completed by PWC. Reports of outstanding actions will become a standing agenda item for the Audit Committee at the next and subsequent meetings.

3.6.1 Cabinet Clearing Processes

- 3.6.2 One area of weakness identified by Internal Audit was the level of detail that was available to Cabinet to support their decision-making.
- 3.6.3 Changes have now been made by officers to the process used to review and clear Cabinet reports. These include that reports need to be assessed and cleared at Management Board and that more time needs to be given in the process to consideration by the Council's statutory officers.
- 3.6.4 Tighter monitoring of Cabinet decisions, their implementation and compliance with the agreed recommendations of Cabinet has also been implemented. This will include tighter consideration of the circumstances in which delegated decisions should be referred back to Cabinet if there have been changes in the context applying that decision. Monitoring and compliance is being reported to the Leader of the Council and Audit Committee.
- 3.6.5 In addition Cabinet reporting deadlines are now published in advance on the Council's intranet and a report writing guide has been published on the intranet.
- 3.6.6 Cabinet clearance processes have also been designated a Licence to Practice module for learning for officers to be delivered before 31.12.17.

3.6.7 Improvements to the call over process, development of the audit committee, cabinet clearance and the standard of cabinet reports are all key deliverable tasks in this area of the Governance Action Plan.

3.7.1 CIPFA/SOLACE Delivering Good Governance

3.7.2 The key tasks set in this area of the Governance Action Plan for are firstly to undertake a substantive review of the effectiveness of the Council's corporate governance processes and secondly to put in place the improvements that will enable the Council to achieve the External Validation accreditation (Mark of Excellence) awarded by CIPFA/SOLACE for the efficacy of its governance processes.

3.7.3 To date four of the five self-assessment questionnaires have been completed by senior managers. The Governance and Risk Manager also completed the questionnaire based on actual evidence available to demonstrate how NBC compare against the standard. Although initial results have been complied, the final questionnaire needs to be completed before a conclusion can be shared with the Corporate Governance and Support Officer Board, Management Board and Audit Committee.

3.7.4 In addition the update of the Council's Code of Governance and related processes has been designated a high-priority Licence to Practice learning module to be delivered to officers by 31.12.17.

3.8.1 Financial Governance

3.8.2 Key tasks set for Financial Governance as part of the Governance Action Plan are to:-

- Improve the purchase order process
- Review and improve reserves drawdown process
- Review & improve supplementary estimates
- Review and improve virement
- Improve the operation of the capital programme
- Raise financial awareness

3.8.3 To date any non-compliance by service areas with purchase orders is now reported as part of financial dashboard to Management Board monthly and the finance team have engaged and communicated with all managers the benefits in improved purchase orders practice through the training programme delivered in March 2017.

3.8.4 Finance have improved consistency of process, and therefore compliance, by introducing a single form for supplementary estimates/reserves/virement which includes guidance on process. The compulsory finance training undertaken in March included training on this process, and participants were tested on their understanding. Supplementary Estimates and Reserve Drawdowns are reported to Management Board and Cabinet as part of the regular finance monitoring reports.

3.9.1 Other Governance Areas

3.9.2 The key tasks set for this area of the Governance Action Plan are to:-

- Review the Whistleblowing policy
- Review Officer & Member Gifts and Hospitality

3.9.3 The Whistleblowing Policy was approved at full cabinet 21.06.17. An external service provider was selected at the end of July and subject to agreeing T's & C's with the legal team, the policy will go live imminently. Posters and wallet cards showing the external whistleblowing contact details (website/email/telephone number) are in the process of being costed. Awareness campaigns for employees will be instigated at the time of launch.

3.9.4 Gifts & Hospitality: Officers - The Employees' Code of Conduct contains the requirements in relation to registration of personal interests and gifts/hospitality by officers. It also contains the associated forms. This document was considered by the Standards Committee's Working Group on 3rd July, 2017 and approved by the Standards Committee on 17th July. The approved document has yet to be uploaded onto the intranet. In the meantime, the current Employees' Code of Conduct is still in place online and contains guidance about gifts and hospitality.

Members - A new guidance document for Members on acceptance and declaration of gifts and hospitality was also approved by the Standards Committee on 17th July. This is still to be updated on the intranet/internet.

3.9.5 Whistleblowing has been included in the Licence to Practice learning module to be delivered to officers before 31.12.17 and alongside the Code of Governance module above.

4. Implications (including financial implications)

4.1 Policy

4.1.1 There will be various impacts and indeed transformation of current policies. The Governance Action Plan will ensure that all policies are tightened and individually and in aggregate contribute to embedding effective arrangements for risk management and to building a strong control environment at the Council.

4.1.2 Compliance with these policies will now be strongly monitored once resource is in place and reported upon through the governance structure and to the Audit Committee.

4.2 Resources and Risk

4.2.1 The additional capacity required to implement the Governance Action Plan previously reported to the Audit Committee has now been put in place

through normal decision-making processes. Financial implications will be reported through the budget process.

4.3 Legal

4.3.1 None to report at present.

4.4 Equality

4.4.1 Whilst there are no specific equality implications at this stage, various HR policies will be reviewed through the Governance Action Plan. All these reviews will be supported by equality and community impact assessments using Stonewall LGBT rights charity.

4.5 Consultees (Internal and External)

4.5.1 Internal consultation has taken place with Management Board and other senior officers, LGSS finance, and Internal Audit and External Audit on the matters in the Governance Action Plan and external expert advice has been taken where required.

4.6 Other Implications

4.6.1 None specifically

5. Background Papers

5.1 None

Francis Fernandes, Borough Secretary
Glenn Hammons, Chief Finance Officer
Joanne Bonham, Governance & Risk Manager