

# **STATEMENT ON INTERNAL CONTROL**

## **1 STANDARDS OF GOVERNANCE**

- 1.1** The Council expects all of its Members, officers and contractors to adhere to the highest standards of public service with particular reference to the Constitution, formally adopted Codes of Conduct and protocols and policies of the Council as well as the applicable statutory requirements.

## **2 RESPONSIBILITIES**

- 2.1** Northampton Borough 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 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, having regard to value for money.
- 2.2** In discharging this overall responsibility, the Council (elected Members and officers) is responsible for ensuring there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

## **3 PURPOSE OF THE SYSTEM OF INTERNAL CONTROL**

- 3.1** The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance. 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
  - Evaluate the likelihood of those risks being realised
  - Assess the impact should they be realised, and
  - Manage risks efficiently, effectively and economically

## **4 THE INTERNAL CONTROL ENVIRONMENT**

- 4.1** The policy and procedural guidance to support the Council's governance includes:
- Council Constitution
  - Codes of Conduct for Members and officers

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- Governance arrangements and processes have been further refined and clarified i.e. the decision-making roles and responsibilities of Management Board and the various decision-making structures of the Council
- Financial Regulations, Contract Procedure Rules and other Procedure Rules
- Officers and Executive Scheme of Delegations
- Registers of Officer and Member's Interests
- Specific corporate policies, for example, whistle blowing policy, confidential reporting policy, anti-fraud and prosecution policy
- Medium Term Service Planning and organisational priorities
- Measures to establish and monitor the Council's organisational objectives. These include the application of the performance management system. In addition we track recommendations for improvement arising from audit and inspection reports are tracked in order to ensure that actions are taken. Results of audits are reported to the Audit Committee
- Owing to this Council's status as a 'poor' Council following the Comprehensive Performance Assessment (CPA) in 2004, a detailed Strategic Improvement Plan is in place. This sets out the key areas of organisational weakness and the actions identified to strengthen performance. This plan is closely monitored by management board, Cabinet and political leaders who specifically lead on performance and improvement. A joint political statement agreeing to collaborative working on improvement matters has been signed, with each groups support, by leaders of each group.
- A range of programme boards are in place to ensure the delivery of projects related to service delivery. These include the Customer Services Board and the Housing Implementation Boards. A new IT Governance Board is being implemented from July 2007 to ensure proper governance and procurement of IT equipment, services and applications
- Housing Service improvement plan where there are 12 key objectives. Specific projects include the estate services review, IBS implementation, choice lettings schemes etc.

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### 4.2 Facilitation of policy and decision making

The Council operates a Strong Leader and Cabinet model of policy and decision-making. The Cabinet is comprised of 6 portfolio holders and the Leader. The Leader is able to appoint and remove portfolio holders subject to legislative limits only and is able to choose portfolios. Accountabilities for decision-making within the Cabinet are clear and transparent. For part of the 2006/07 financial year there was one Overview and Scrutiny body with a series of task and finish groups reporting into it. Currently, changes to the constitution have resulted in 3 Overview and Scrutiny Committees, which mirror executive portfolios. The work of the 3 Overview and Scrutiny Committee are coordinated through an Overview and Scrutiny Management Committee. The Agendas and Minutes of these bodies demonstrate the process to properly control the development and adoption of policy and decision-making. A formal Scheme of Officer Delegations is in place to govern the operational decisions in line with agreed policy.

Following the recent local elections changes were made to the constitution to facilitate clear, effective, efficient and accountable decision-making. A more in depth review is planned, including changes to the financial regulations to strengthen financial governance.

#### **Ensuring compliance with policies, procedures, laws and regulations**

- The Council's Monitoring Officer is the Solicitor to the Council
- All Key decisions of the Cabinet must be approved by both the Monitoring Officer and Director of Finance. Other reports need to ensure that proper legal and financial advice has been sought
- Legal Services are available to all managers for advice and support and service all the main decision-making structures i.e. a Solicitor is in attendance.
- Internal Audit delivered an operational plan for 2006/07 designed to provide assurance on key risks within the Council. The plan covered all core financial systems and other operational systems according to risk profile. Internal Audit work is designed to review compliance with policies, procedures, laws and regulations
- Council procedures are reviewed as appropriate (usually annually) to ensure ongoing compliance with policies, procedures, laws and regulations. Control arrangements during 2006/07 identified other policies that would benefit from review. Examples of procedures/policies already reviewed and improved include the mobile phone policy, the internet and acceptable use of IT policy,

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disciplinary policy, probation policy sickness and absence controls and allocation of training budget / post entry training.

- Monitoring compliance and briefing notes are produced as appropriate.
- The Council is audited by appointed external auditors (KPMG LLP) on behalf of the Audit Commission, which specifically reviews the adequacy of Corporate Governance arrangements. The Council has agreed all the recommendations and has implemented or has action plans in place to implement all recommendations made.
- The Council is subject to formal inspection in many areas by external bodies. These include Housing Inspectorate and Benefits Fraud Inspectorate (BFI). Such inspections are reported to Cabinet and Overview as appropriate.
- The Audit Commission has the power to inspect any or all of our activity. Planned inspections over the next twelve months include the Use of Resources assessment, the Direction of Travel assessment, Housing progress assessment and Streetscene and Waste Management inspection.
- The Council also operates a formal training programme to support staff in ensuring that the Council's services comply with controls and regulations. Where specific specialist service knowledge is required relevant training is available. For example all fraud investigation officers are fully trained in PINS, with the exception of a new trainee who is working towards that qualification. Financial training and governance training and support are also available.

### 4.3 Risk Management

Risk Management is addressed in a number of ways:

- Strategic Risk Register  
The Council has maintained a corporate strategic risk register since 2000. After wide-ranging changes in senior management, a new register was compiled through a two-day risk workshop in January 2006 involving Corporate Managers, Directors and Members.
- Service Level Risk Registers  
Corporate Managers maintain a risk register for their service areas. These were originally produced through workshop sessions with the respective management teams and, in some cases, portfolio holders. These registers are owned by, and the responsibility of, each Corporate Manager. In addition Legal Services have implemented a comprehensive and enhanced Risk Management System that follows LEXCEL standards.

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- Risk Co-ordinator  
Each area has a risk co-ordinator whose main purpose is to ensure that registers are reviewed and updated monthly by the Corporate Manager(s) and their team. Some registers are also held for specific projects.
- Reporting Arrangements  
Risk Management is a standing Audit Committee agenda item. The Risk Manager reports to each committee and Corporate Managers are invited to explain how they were managing significant risks in their service areas.

The Risk Manager reported quarterly to the Senior Corporate Management Team (Chief Executive, Directors and Corporate Managers)

The Chief Executive reviews Corporate Manager registers as part of the Quarterly Performance Review process (now bi-monthly from May 2007).

Quarterly reports are issued to each portfolio holder showing the significant risks relevant to their service areas.

The registers were quality reviewed by Pricewaterhouse Coopers (PWC) in December 2006.

- Risk Management Group  
A Corporate Risk Management Group, chaired by the Corporate Manager Performance and Improvement was recently formed to review and improve risk processes within the Council. An outcome from the group is the intention to strengthen the reporting and monitoring processes in this area.
- Risk Management Software  
All risk registers are maintained on Risgen – a dedicated risk management software system. This is networked across the Council and enables registers to be monitored and updated locally and centrally. Over sixty managers have been trained in its use.

All risks and actions are allocated to a responsible manager. Automatic e-mail notifications are sent to managers when they are given responsibility for specific risks or actions, and when completion dates are imminent. The system enables reports to be produced across any or all registers in the system.

- Business Continuity  
The Council's Business Continuity Group is chaired by the Corporate Manager Community Safety, Leisure and Town Centre Operations. It is currently reviewing and rewriting the Council's Business Continuity Plan.

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### **4.4 The processes to ensure value for money and continuous improvement are achieved including Best Value**

We recognise our obligations under the Local Government Act 1999 to implement arrangements to achieve continuous improvement and to secure effective use of resources.

There is a clear line of sight from service plan objectives to the Corporate Plan and Local Area Agreement (LAA) priorities. We focus service delivery on achieving high-level priorities and all front line service plans contain Value for Money (VFM) Cost/Performance profiles as well as recording proposed Gershon efficiencies.

We have established a corporate cost/performance matrix that positions all the Council's front line services for VFM and this approach is to be extended to central support functions. In this way, we are able to target higher cost/lower performance services for improvement action. We have implemented corporate moderation to ensure the VFM profiling by services is to a consistently high standard.

A Strategic VFM framework is being adopted from 2007/08 onwards that will communicate our VFM workstreams and establish the mechanism by which we will evidence and report VFM achievements. This will also lead to a revised medium term VFM review timetable that will cover both service and cross cutting areas. We will also consider more innovative techniques for improving VFM such as the systems thinking approach.

The Medium Term Planning process is currently being revised to mainstream VFM and efficiency planning and integrate service-planning cycle with the budget cycle. This will also include an annual update of Value for Money Cost/Performance profiles and an assessment of the significance of each service to achievement of our Corporate Priorities. This approach will help us shift resources to the highest priority areas to address customer needs as identified in our annual budget consultation.

Specific examples of improved VFM in 2006/07 include:

- Street Cleansing, Sports & Recreation, Environmental Health, Waste Collection, Culture & Heritage, and Parks & Open Spaces have all been projected to achieve top quartile overall performance in 2006/07. This has been achieved at middle quartile costs for many of the services.
- We have targeted resource and improvement action on our 4 lowest performing services and there is already significant trend improvement in a number of key PI's e.g. Housing Benefits

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- Entered into a three-year partnership with Kendrick Ash to improve revenue and benefits and attain long term sustainability within the service
- Leisure and Sports Development have achieved a range of Quality Accreditations and award nominations over the past three years, including Charter Mark Accreditation for all three Leisure Centres with best practice rating in several categories including Partnership Working and making changes to help minority groups to access facilities. The entire service block is currently undertaking TAES (Towards an Excellent Service) for the whole of Cultural Services with validation taking place 5/6 June 2007
- Customer services are entering into an Institute of Customer Services (ICS) partnership with five other authorities
- Ongoing discussions with NCC and other local authorities to develop a partnership approach to mystery shopping, citizens panel, customer service standards and customer service academy.
- A fundamental review of the DSO, with particular focus on housing repairs, will be undertaken in 2007/08 utilising APSE benchmarking

### **4.5 The proper financial management and reporting of the Council's affairs**

There have been significant changes in the senior management board during 2006/07. This included the departure of the Chief Executive, the appointment of a Director of Finance and interim Chief Executive. The Management Board, as it is now known meets weekly and comprises of the Interim Chief Executive, Director of Customer Service and Delivery, Director of People, Planning and Regeneration and the Director of Finance. The Monitoring Officer and Head of Human Resources support the board at all meetings.

### **4.6 The performance management arrangements**

The Council has in place a clear framework for managing performance. This framework includes:

- Weekly and monthly collection and publication of Best Value Performance Indicators and local performance indicators
- Four-tier reporting each month of key issues and performance matters within services
- Performance Reviews, chaired by the Chief Executive and comprise Senior Councillors and Directors. These reviews use a balanced scorecard to undertake high-level assessment of performance across service areas. In place since April 2006 on a

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quarterly basis, these have now been increased in frequency to bi-monthly.

- The development of a schema, which sets out, the golden thread of the Council's corporate objectives through to service plans and the review and assessment process.
- Our Appraisal and Personal Development process
- Service Plans – the Council has implemented a new approach to service planning, incorporating use of resources and specifically, value for money profiles. The service plan sets out the key corporate objectives and priorities and how departments deliver these.
- Political Governance – two Cabinet members have specific responsibility for performance management and the improvement agenda for the Council. The portfolio holder for performance meets weekly with the Corporate Manager for Performance and Improvement, the purpose of which is to assess progress, identify risks and plan for the continued strengthening of the performance across the Council. The Leader of the Council has responsibility for leading the overall Improvement agenda, meeting regularly with the Chief Executive and portfolio holders to ensure the improvement programme is delivered.
- As part of the new arrangements for significantly strengthening our performance management arrangements, Management Board now has performance as a regular item on their agenda. Cabinet will also receive regular reports on performance and finance.

### 5 REVIEW OF EFFECTIVENESS

**5.1** The Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. That review is informed by the work of Internal Audit, External Audit and other review agencies, specifically:

- The Council maintains the strategic systems of control through the formal review and adoption of the Council's Constitution. The Council, in accordance with the Local Government Act 2000 has a formal scheme of delegation in place for all decisions.
- The Cabinet is the key decision making body at member level. The Cabinet takes all executive decisions except those properly delegated in accordance with the Constitution or those decisions reserved by legislation for others, for example Development Control.

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- Revised overview and scrutiny arrangements were implemented in 2006/07 to reflect more effective and robust arrangements in scrutinising corporate governance arrangements, services and decisions made throughout the Council.
  - The Council has adopted an Audit Committee. The Terms of Reference for that function is a formal part of the Council's Constitution.
- 5.2** Internal Audit is provided through an external contract with Pricewaterhouse Coopers (PWC) and Risk Management internally with the Risk Manager Post located in Finance.
- 5.3** The Council's Financial Regulations set out the powers and responsibilities of the Internal Audit service in line with best practice.
- 5.4** Audit strategy, plans and resourcing are reported to the Audit Committee as well as regular reports highlighting progress by management in implementing agreed recommendations and matters of serious concern. This includes:
- An Annual Audit Plan for each financial year that is prepared in consultation with the Chief Executive, Director of Finance and other Corporate Directors and Managers
  - A progress report to each audit committee summarising the results of internal audit work and actions agreed by management in response to issues raised, and
  - An annual report for consideration by the Council's Audit Committee. This provides PWC's professional and formal opinion on the adequacy of the Council's systems of internal control.
  - From 2007/08 an audit-tracking tool will be used to ensure that all internal audit recommendations are implemented.

### **5.5 The Prevention of Fraud and Corruption**

The Council maintains an Anti-Fraud and Corruption Policy together with a formal Whistleblowing Policy. The Director of Finance is responsible for ensuring that suspected benefit and the Anti-fraud unit investigates other fraud. As well as re-active fraud work the authority undertook a number of fraud initiatives including:

- Mrs Barker project looking at sharing of fraud services within Northamptonshire.
- Work with internal audit in relation to the National Fraud Initiative
- No "ifs" no "buts" poster campaign.

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- HBMS benefits matching service through central government
- Joint working with FIS, DWP fraud section.
- Local working with the media to ensure reporting of all successful prosecutions, national initiatives etc.
- DWP Mail Shot.
- Maintaining effective liaison with other bodies such as Police and DWP.

The Council has investigated all allegations of fraud and corruption and these have resulted in appropriate action being taken to protect the Council's interests, including the successful prosecution of a number of cases through criminal proceedings.

### **5.6 Conclusion from our review**

The system of internal control has been in place for the year ended 31st March 2007 and up to the date of approval of the annual accounts. With the exception of those significant internal control issues referred to in section 6, the system of internal control has operated as intended. Action plans are in place to address internal control weaknesses identified through our comprehensive performance assessment, internal audit and external audit reviews.

## **6 SIGNIFICANT INTERNAL CONTROL ISSUES**

**6.1** Northampton Borough Council has implemented risk management arrangements to identify and manage risk. An annual risk management report is presented to the Audit Committee representing those areas with the highest residual risks. The report provides assurance that the Council's services and their control are kept under constant review and all areas are subject to continual improvements wherever possible.

**6.2** Given the nature of the Council's services it must be recognised that the Council cannot control or eliminate all risk. The Risk Register provides evidence across the Council of how Risk Management is being embedded throughout services including:

- Risk reports to members and senior managers
- Risk Management workshops and training
- Reviews of Risk Registers by Internal Audit
- Networked risk management system.

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- 6.3** A number of significant control issues have been identified during the course of the year ended 31<sup>st</sup> March 2007.

Internal audit concluded in their Annual Internal Audit Report that they could only provide limited assurance on the effectiveness of our system of internal control. They identified significant control issues within the core financial systems, with regard to the implementation of single status pay and procurement of goods and services.

External audit raised the following concerns:

- DSO Trading with WS Atkins
- Far Cotton community centre, and
- Ecton Lane refurbishment.

Our Comprehensive Performance Assessment (CPA) rating continues to be “poor” and the audit commission expressed concern that overall the Council is not consistently and sustainably improving its most poorly performing services, namely finance, housing and planning.

- 6.4** The Council has plans to address these weaknesses:

- Core financial systems – A new Finance Director has been appointed and work has begun to restructure the finance team, with several senior financial posts already appointed to. There will be an increase in the proportion of qualified accountants within the team. Action plans are in place to address the weaknesses identified which will be monitored by the Finance Director and the Audit Committee
- Implementation of single status pay – the Council has plans to implement single status pay by 1<sup>st</sup> April 2008. The key issue has been affordability, which will be addressed through a number of measures, strict budgetary control, implementation of a new pay scheme and an application to Communities & Local Government (CLG) to capitalise back pay. A panel, chaired by the Director of Finance is currently being formed to address these issues.
- Procurement of goods and services – the Council is in the process of appointing a Director of Purchasing who will manage the consortium arrangement that the Council has with neighbouring boroughs. The consortium will be utilised to improve value obtained from purchasing going forward across all services of the Council and their partners.
- Housing - Our Housing Services Improvement Plan has been developed and ratified via the Government Monitoring Board (GMB) sub groups and encompasses wide-ranging structural improvements across all elements of the Housing services. Clear evidence of improvements in housing standards, voids

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performance, gas servicing for example have been delivered. In Revenues & Benefits the rate of improvement is ahead of other services in terms of sustainable service delivery. The service was assessed as “fair” in the autumn of 2006 and the current GMB sub group is now discussing disengagement criteria.

### 7 CONCLUSION

- 7.1 We have been advised on the implications of the review of the effectiveness of the system of internal control and a plan to address weaknesses and ensure continuous improvement of the system is in place.
- 7.2 The Council is committed to delivering high quality services, which focus on the needs of individuals in Northampton Borough. It welcomes feedback on how it is achieving against that aim and wishes to involve people in improving services further.

### 8 DECLARATIONS

I confirm that the information contained within this Statement of Internal Control is a true and fair reflection for Northampton Borough Council for the Financial Year 2006/07.

Name	Position	Signature	Date
Councillor Anthony Woods	Leader of the Council		
John Edwards	Interim Chief Executive		
Isabell Procter	Director of Finance		