

NORTHAMPTON BOROUGH COUNCIL

AUDIT COMMITTEE

Monday, 5 December 2016

PRESENT: Councillor Golby (Deputy Chair); Councillors, Chunga, J Hill, Marriott, Stone and Parekh

1. APOLOGIES

Apologies were received from Councillor Bottwood, who was substituted by Councillor Oldham.

2. DEPUTATIONS / PUBLIC ADDRESSES

Mr Brendan Glynane addressed the Committee and thanked the Internal Auditors (PwC) for their report which he considered to be very decisive. He stated that he detail within the report was worrying and voiced his concerns; he noted that at the Cabinet meeting on the 17th July 2013 he, alongside another Liberal Democrat Councillor and Labour Councillor had expressed concerns about due diligence and had urged Cabinet to pass their recommendations on to the Overview and Scrutiny Committee. He further commented that the minutes to the Cabinet meeting stated that the Leader of the Council had commented that *'the decision was transparent and had been scrutinised by officers'* and called on Cabinet members at the time to seriously consider their current positions.

3. DECLARATIONS OF INTEREST

There were none.

4. MATTERS OF URGENCY WHICH BY REASON OF SPECIAL CIRCUMSTANCES THE CHAIR IS OF THE OPINION SHOULD BE CONSIDERED

There were none.

5. INTERNAL AUDIT REPORT ON LOAN POLICIES AND PROCEDURES RELATING TO LOAN FINANCE TO NORTHAMPTON TOWN FOOTBALL CLUB

Councillor Beardsworth thanked the Internal Auditors for the informative report. She stated that reference had been made to the loss of £10.25 million, but stated that the total cost was considerably higher as it included interest on the loan, professional fees and relocation of the Athletics Track and asked that the Council pursue the recovery of all of the money. She stated that the previous Liberal Democrat Portfolio Holder for Finance had been approached by the football club for a loan and having undertaken due diligence had refused. She stated that she had not witnessed a major project loan being rushed through as quickly as this was and stated that there had been insufficient investigations into the Club finances.

In response to questions asked by the Committee, Councillor Beardsworth commented that she considered that the decision was made in haste due to the ambitions of a former Councillor.

The Internal Auditors submitted a report and elaborated thereon explaining the scope of the report had been defined by the Audit Committee and had followed normal internal audit report proceedings. It was explained that the report had been fully accepted by the Council and that the internal auditors had worked very closely with colleagues in the Police and External Audit. The terms of reference were elaborated on including the scope of the work,

key findings and lessons learnt.

In response to questions asked by the Committee, the Internal Auditor explained that the decision regarding the loan of monies to the Football Club had been identified and displayed as a key decision, in accordance with the Constitution. He noted that the decision had been collectively taken by Cabinet and that the approval for an extra £1.5 million had not been taken by Cabinet, but had been taken under delegated authority, as legal advice had indicated that it was not necessary for the further loan to be taken by Cabinet. The internal auditor commented that in the interest of openness and transparency, the decision to increase the loan should have gone back to cabinet even though there was no legal requirement to do so. It was further explained that no formal risk assessment had been undertaken and the lack of progress on the stadium site had not been identified.

Replying to further questions, the Internal Auditor elaborated on the fact that an extensive number of emails had been identified which clearly indicated significant time pressure and emphasised the haste in getting the loan in place. It was also explained that the report presented was a review of the circumstances and procedures leading to the decision being made and it was not within the remit to interview individuals, as stated in the terms of reference. It was explained that there was no evidence that Officers were attempting to reduce the speed of the deal and that there should have been more formality in the structure and the framework of decision making; there was evidence that the deal was progressing but very little to indicate that it was being properly managed. He further noted that the risks should have been identified through the risk management strategy and should have been monitored from the start but that this had not happened.

The Internal Auditor explained that a number of emails raised concerns about the short timescales and pressure from management and politicians to conclude arrangements. Had there been good governance in place the consequences would have had less of an impact and good practice would have been to have more independent involvement as the senior officer involvement resulted in independent perspective being lost.

Responding to further questions as to whether other Council loans had been similarly rushed, it was explained that it was entirely possible to put a loan in place in a very quick timeframe, should proper governance be put in place and risks well considered. The more information available upfront the less risks are likely to arise prior to any decision making process.

RESOLVED:

That the Audit Committee noted the findings and lessons learnt outlined in the report from the Council's Internal Auditor attached at Appendix 1 of the report.

6. GOVERNANCE ACTION PLAN

Councillor Beardsworth commented that she was surprised to learn that when Northampton Town Football Club (NTFC) had requested an extra £1.5 million the decision had not been referred back to Cabinet but had been undertaken through a delegated decision. She further questioned whether the processes that were being put in place would be adhered to as there had been a lack of compliance with the guidance set out in the Constitution. Councillor Beardsworth asked that assurance be given that the new processes would be followed and that future transactions be open and transparent and strict guidance followed. In response to questions asked by the Committee, Councillor Beardsworth explained that the Liberal Democrat Group had not called-in the decision as she had already asked that it be reviewed by the Overview and Scrutiny Committee and was assured by the previous leader that there

had been significant consultation and the decision “*was transparent and had been scrutinised by officers*”.

David Kennedy, the Chief Executive, submitted a report and offered an unreserved apology for the failings that were identified within the report. He stated that the Council did seek to set high standards but that they had not been met. He stated that the 11 recommendations within the Internal Auditors report had been accepted in their entirety and that he had been fully supportive of the work also being undertaken by the external auditors and the Police. He reported that a Governance Action Plan was now in place alongside renewed governance arrangements by statutory officers. It was noted that as part of the new decision making process, no significant decisions would be made unless they went through the new structure. Recruitment for the role of Governance and Risk Manager was progressing as well as a number of other supportive roles.

It was explained that there was little structure around the Sixfields project and that a formal structure was now being put in place. It was explained that a Corporate Governance and support officer programme board had been established and the terms of reference had been agreed and a number of key priorities had been set. It was noted that a lack of structure around the due diligence process had been identified as a key factor in the report on the loan to Sixfields and noted that explained that a number of actions had been taken including an extensive loans compliance checklist, reviewed by the Council’s banker Barclays, which would be mandatory. It was reported that the Audit Committee would receive regular reports on progress to the ISA 260 recommendations and progress reports would be made to Management Board.

It was noted that all audit recommendations would be reported to Audit Committees and members would be updated on the progress. Software, developed by PwC to track status and progress of the aforementioned recommendations had been implemented.

The Chief Executive explained that more information would be made available with regards to delegated decisions and the Cabinet clearance process would be modified to ensure that more time would be given to allow statutory officers to review and consider Cabinet reports. It was explained that a two stage approach would be implemented to review and clear Cabinet reports and that there would be tighter consideration of the circumstances in which delegated decisions would be referred back to Cabinet should there have been changes in the context which would also be monitored and reported to the Leader of the Council and the Audit Committee.

In response to questions asked by the Committee, the Chief Executive gave reassurance that every effort would be made to ensure that the Council would not find itself in a similar predicament and that the reporting back of the Governance Action Plan to the Committee would allow members to pick up on certain issues they would like to give further consideration to. The Chief Executive answered further questions by explaining that PwC had identified some good procedures and processes being in place, they had not always been adhered to and that there would be a drive to ensure compliance and spot checks would be carried out on major projects. He further reported that decisions taken needed to be owned by the collective and that they would be subject to extensive discussions and assured Members that all decisions would need to be made based on a full and comprehensive amount of information.

In response to questions regarding political pressures, it was explained that the Constitution clearly states that Officers were to work with all political parties, regardless of political persuasion. There was mounting pressure from various sources as at the time the Council were carrying out other major projects such as the Decent Homes Programme and a contract with LGSS.

It was explained, in response to questions, that all 3rd party loans would have to be put through a review process and a loan that had been approved to the Cricket Club had never been given and there were currently no new loans with 3rd parties. In the future, all further loans would be looked at by PwC.

Asked whether the processes put in place could potentially stall progress on projects, the Chief Executive confirmed that assessments would have to be carried out on a case by case basis and that major decision would go through the necessary processes and reported back to Cabinet. It was noted that there would be financial implications of implementing the changes in process and the recruitment of staff to improve governance but that additional costs would be put through a proper governance process.

The Committee agreed that the Deputy Chair report back to Council the recommendations and actions of the report.

RESOLVED:

- 2.1 That the Committee noted that all 11 recommendations in the PwC report be accepted by officers and be implemented and enforced with immediate effect.
- 2.2 That the Committee noted that officers were totally committed to acting to ensure that a situation like that couldn't be allowed to happen again.
- 2.3 That the Committee make comment on the Governance Action Plan to inform further work on its development and implementation.
- 2.4 That the Committee receive update reports on the implementation of the Governance Action Plan from the Chief Executive, Borough Secretary and Chief Finance Officer at every future meeting until it determines otherwise.

The meeting concluded at 7.54pm