



AUDIT COMMITTEE REPORT

Report Title	Governance Action Plan
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AGENDA STATUS: PUBLIC

Audit Committee Meeting Date	5 th December 2016
Policy Document:	No
Report of:	Chief Executive, Borough Secretary, Chief Finance Officer
Accountable Cabinet Member:	Leader of the Council

1. Purpose

- 1.1 To outline the Governance improvements the Council has already implemented, and is planning to implement through a Governance Action Plan, to address the specific issues raised in the Internal Audit report on loans to Northampton Town Football Club commissioned by this Committee, and broader governance and financial management issues identified by officers and external audit.

2. Recommendations

- 2.1 That the Committee note that all 11 recommendations in the PwC report are accepted by officers and will be implemented and enforced with immediate effect.
- 2.2 That the Committee note that officers are totally committed to acting to ensure that a situation like this cannot 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 should 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.

3. Issues and Choices

3.1 Report Background

- 3.1.1 In the course of 2015/16 Northampton Town Football Club Limited defaulted on loans made to them by the Council in 2013 and 2014. In light of this, the Audit Committee asked Internal Audit to conduct a review into the provision of loan finance to Northampton Town Football Club. The review focus was to provide the Audit Committee with an assessment as to whether the relevant Council policies and procedures to support the loan finance were adequate and whether the policies were followed in these transactions.
- 3.1.2 The Internal Audit report following this review is on the agenda of this meeting of the Audit Committee. The findings of the Internal Audit review are fully acknowledged and accepted by officers.
- 3.1.3 Since problems with delivering the development that was funded by these loans came to light and the subsequent defaults by Northampton Town FC, officers have taken action to
- ensure that no transfer of assets took place under the conditional land transfer agreement as the necessary conditions were not met,
 - seek to recover value for the Council over time from the development land
 - seek to recover funds from those responsible for the default of the loan
 - seek to identify weaknesses and take action to remedy these
 - respond to the requirements of the reviews currently underway by Internal Audit and External Audit
- 3.1.4 Officers have also worked closely with the Police and formally complained about the actions of other parties involved in the disbursement of loan funds once loaned by the Council
- 3.1.5 A key focus for officers and indeed the whole Council is to apply clear learning from the whole of this situation and specifically at this stage in relation to the Internal Audit report. Other primary contributions to the Governance Action Plan have been the ISA 260 from External Audit which gave an adverse value for money assessment, internal review by officers, and professional advice taken by officers and members on good practice in relation to governance and internal processes. Every avenue has been explored in this work.
- 3.1.6 The absolute priority moving forwards is to improve the main areas of governance and delivery and to provide assurance to the Audit Committee and Council that policies and practices are in place and implemented in a way that protect the public interest. In order to ensure that this is subject to ongoing scrutiny and review it is proposed that this Committee receives reports on progress at every meeting from the Statutory Officers (Chief Executive, Borough Secretary, and Chief Finance Officer). The Action Plan also includes

that progress in improving the governance position of the Council be reviewed against the CIPFA/Solace Corporate Governance Standard after the initial phases of implementation of the Plan, in mid-2017

3.1.7 This report outlines the actions already implemented, the ones that are ongoing and the ones to be implemented as soon as possible.

3.1.8 Attached at **Appendix 1** is the Governance Action Plan outlining the key actions in each area of focus. These areas are further explained and illuminated below after an initial overview of the Action Plan

3.2 Overview of the Governance Action Plan

3.2.1 The Governance Action Plan is a fundamental document for the Council. It seeks to get to the core of how the governance arrangements and processes of the Council must work and the arrangements that need to be in place, or need to be reinforced, to ensure that proper and effective governance happens in practice on a par of importance with the Budget Book or the Constitution all the time.

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

- Revised governance structures for the Council to enhance deliberation and assessment of all recommendations, decisions, programmes and projects before approval, during implementation and on completion.
- Renewed and greatly enhanced focus on compliance with policies, procedures and best practice in all aspects of governance, backed by enhanced central capacity to provide support, training, development and enforcement to ensure compliance
- Enhancements to the role of the Audit Committee in overseeing compliance with policies, procedures, and agreed audit recommendations within the Council

3.2.3 Implementation of this Plan will be overseen by this Committee, by the Leader of the Council, the Chief Executive and the Statutory Officers, by Management Board and the Governance and Support Programme Board led by the Borough Secretary.

3.2.4 The following are the key action areas in the Governance Action Plan.

3.3 Corporate Governance - Project and Programme Management

3.3.1 Comprehensive Corporate Project and Programme management arrangements are and have been in place for some time. However it is acknowledged that the system did not work in relation to the NTFC loan transactions.

3.3.2 Having reviewed the matter with advice on best practice, Management Board will adopt a more robust Corporate Governance framework for executive decision making and for developing, implementing and reviewing decisions, programmes and projects. The core to this framework will be clear standards,

reporting requirements and accountabilities, structured senior leadership, and tight control over procedural and policy compliance. All programmes and projects being undertaken by the Council will fall within one of the 3 identified streams led by a Management Board officer. The framework is attached at **Appendix 2** of this report.

- 3.3.3 In order to strengthen corporate standards and compliance, it has been agreed that all relevant projects will go through a “gateway” process which will categorise and apply rigorous but proportionate methodologies and documentation to structure and support relevant transactions. There will be a requirement for a Project Initiation Document (PID), minuted project /programme meetings and a full risk assessment. Programmes/projects will be required to be maintained on central paper records, with clear documented minutes of meetings and professional advice received. Each project/programme will require the completion of a declaration of interests form by each participant.
- 3.3.4 A corporate programme of training and development of officers to ensure that officers all understand their responsibilities, have the necessary skills and abilities to do so, will be implemented. After the initial phases of this programme no officer will be allowed to perform any key role in a project or programme without having demonstrated that they understand and can use and comply with the necessary policies and procedures.
- 3.3.5 To achieve this much higher standard of project and programme governance, the Council needs much stronger central capacity to help drive the changes, establish and assure compliance standards, support training, development and assessment, and administer the additional workloads. The following dedicated posts will be established:
- **Corporate Governance and Risk Manager.** This post will be the key person to support the Governance and Support Programme Board and Management Board in implementing necessary changes in governance, and will lead on implementing new standards of programme and project management, risk management, and on ensuring compliance and skills and capacity development. This post will address the issues identified by the External Audit ISA 260 report, the PwC report on Governance and Risk and related issues identified. The job role and structure is in the process of receiving input from external experts. The seniority of the post will reflect the importance the Council places on this role.
 - **Programme/Project Manager.** This role will support and provide corporate co-ordination to the programme and project management across the Council and work with those responsible for the administration and control of each project. Guided by the Governance and Support Board, the post holder will develop and ensure implementation and compliance with corporate standards. NBC currently receives project support from LGSS but this arrangement is currently being terminated by mutual agreement to enable the Council to take a new and re-energised approach.
 - **Project Support Officer.** This will be a new post and will support the administrative requirements from the additional work.

3.3.6 Enhanced project and programme management will also require additional, or redirected, support capacity within services responsible for programmes and projects. Each department's capacity will be reviewed as part of the first stages of implementing the Action Plan.

3.4 Due Diligence (including loans to third parties)

3.4.1 The 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. Lack of structure around the due diligence process has also been identified as a key factor in the Internal Audit report on the loan to Sixfields. The Council fully accepts the advice of both the external and internal auditors.

3.4.2 Officers have put a hold on the issuing of any loans pending a review of due diligence processes. Any loan finance application will only be allowed to continue if the Chief Executive, Borough Secretary and Chief Finance Officer are each are satisfied that full due diligence has been conducted, has been evidenced and is compliant with guidance from our internal and external auditors. Independent professional advice will be taken in advance of any loan decision to support forming the judgement as to whether due diligence has been adequately carried out.

3.4.3 In addition to the above the following actions have been taken:

Loans:

- A summary of existing loans and key documentation have been compiled and centralised in one place.
- An extensive loans compliance checklist has been developed, and reviewed by the Council's banker Barclays. The use of the checklist is mandatory.
- A due diligence and compliance manual is in the process of being prepared and will cover broader due diligence issues including loans and will be implemented shortly. The manual will raise key due diligence issues requiring consideration including the requirement for Cabinet decisions to be informed by fully informed business cases, and external advice. The toolkit will also provide support to the need for implementation decisions to be given the time needed to protect the Council and the public interest. The broader governance changes outlined earlier in this report will support a separation of roles from those driving the project to those reviewing actions.

Financial Governance:

- The Purchase Order process has been reviewed and the process improved, which has led to compliance increasing in this area but there is clearly more to do to meet the expressed audit concern in full.
- The reserves drawdown process has been reviewed, improved and is operational. This includes reporting all reserves drawdowns in corporate

financial monitoring reports to Management Board and Cabinet, where they are on the public agenda.

- Better controls over supplementary estimates have been put in place and tighter approval rules established and implemented.
- Renewed and refreshed financial awareness training reflecting the issues which have been raised in audit reports is being developed prior to being rolled out to all staff. In future, as with programme and project management, officers will not be able to make use of any delegations under financial or contract standing orders without having first completed the relevant training and having evidenced their learning,
- Specialist financial training is being developed and will be targeted at those staff involved in specific aspects of financial management (including in particular the production of business cases and plans)

ISA260 Recommendations:

- An action plan has been developed by officers and agreed by Audit Committee. The Committee will receive regular reports on progress in response to the ISA 260 recommendations, which has been accepted entirely by the Council.
- The ISA260 Action Plan has been reported to Management Board and is a core element of the Governance Action Plan. Progress reports on it will also be seen and considered by Management Board.

Reporting to Audit Committee:

- A review of the reports being presented to Audit Committee has been undertaken and enhanced reporting implemented, including on Debt recovery and internal audit. Enhancements will include more detail, greater frequency and more transparency.

Internal Audit:

- As 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.
- 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 or 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 CIPFA/SOLACE Delivering Good Governance

3.5.1 In framing the Governance Action Plan, officers have had regard to best practice and in particular the CIPFA/Solace Governance Framework. Advice

has been taken in relation to this standard and its application in framing the actions most urgently needed.

- 3.5.2 The CIPFA/Solace Framework is accepted as the local government best practice standard for good governance. Regulations require Councils to conduct a review at least once a year of the effectiveness of their system of internal control and include a statement reporting on the review with its statement of accounts. This statement from the 2016/17 financial year needs to comply with the newly established 2016 standard.
- 3.5.3 Whilst the Council does have a local code which had regard to this Framework when last reviewed, there is a need to refresh this against the new CIPFA/SOLACE 2016 standard and to consider how we can further apply and test ourselves against this framework particularly given the issues identified by Internal and External Audit.
- 3.5.4 The updated CIPFA/Solace Framework provides structure, a clear framework and a good opportunity to revisit and develop good governance in all the Council's activities. Whilst this has been borne in mind in framing the Governance Action Plan, the adoption of best practice requires more detailed consideration of the Framework. To this end, the Council will conduct a more in-depth self-assessment of its current position against the new standard as an early priority in the Governance Action Plan. This will include a further gap analysis and action plan to address weaknesses/non-compliance with the standard. The Council will update the local code and will report against the Code to Audit Committee on a regular basis. It is also the intention to obtain external validation of achievement against the standard by an accredited assessor.
- 3.5.5 In order to ensure delivery against this important objective, the new Management Board as a whole are charged with delivering the standard, with the Governance and Support Programme Board leading the work, supported by the Governance and Risk Manager. The Council is committed that good governance must be part of the culture required of members and officers. Achieving this standard will be a key performance objective of all senior managers.

3.6 Audit Recommendations

- 3.6.1 One further area of identified weakness for the Authority is the monitoring and reporting of delivery against audit recommendations, both internal and external. The Council has now implemented a specialist, proprietary software programme developed by Price Waterhouse Coopers. This software has already been implemented and is being used to track the status and progress of audit recommendations and reports from it will form part of the Council's performance management system.
- 3.6.2 With immediate effect, all audit recommendations will be reported to Audit Committee and at each meeting the Committee will be updated as to progress against every audit recommendation. To ensure that this is thorough, monitoring will be initially retrospective so that the Committee can be aware of

all progress on reports issued in the last two financial years and monitor progress against recommendations in those reports.

3.7 Risk Management

- 3.7.1 Risk management is a key priority in the Governance Action Plan. Officers have been working with Internal Audit support to address weaknesses in risk management and this work needs to have additional capacity and impetus behind it. The additional capacity mentioned earlier in this report is critical to ensuring that this happens.
- 3.7.2 The Council is in the process of reviewing its risk management policy with external experts and will be in a position to report the changes to the next available Audit Committee.
- 3.7.3 Critical to the development of better risk management is the development of a tighter culture of risk identification, assessment and mitigation, with proper and regular updates to assessments of risk. Significant progress has been made in this but again it needs further focus and impetus. Once again, update training and skills development in risk management is required and officers who are involved in any activity involved the identification, assessment or mitigation of risk will be required to have undertaken that development as part of their eligibility to under those roles.
- 3.7.4 Price Waterhouse Coopers, the Council's Internal Auditors, have been working with officers to support Management Board in refreshing and updating the strategic risk register. The focus of the risk work in the Governance Action Plan is on embedding and creating a stronger risk management culture and to ensure compliance with the need to manage risks properly.
- 3.7.5 In addition to the above the Council has implemented the following specific steps to address some of the identified risk management issues:
- Expert resource has been commissioned and has started work on reviewing the adequacy of all risk registers for all current projects against a predetermined checklist.
 - Project support through the LGSS contract has been focussed on reviewing and addressing risk management policies and practices. This support will shortly transfer back to NBC by mutual agreement with LGSS.
 - Specialist expert support has been commissioned to address risk issues and due diligence issues identified specifically in Internal Audit and external Audit reports.

3.8 Cabinet Clearance Processes

- 3.8.1 One area of weakness identified by Internal Audit in their report on Sixfields was the level of detail that was available to Cabinet when the in-principle loan decision was made in 2013.
- 3.8.2 Whilst not challenging the legality of the decision-making the report makes clear the need for the Council to have developed its own Business Case to support the decision to make the loans and that this was presented to Cabinet at the time the decision was made. Officers fully accept this guidance from its

Internal Auditors and the requirements for fully developed and supported reports to Cabinet will be enforced through the Officer Cabinet clearance and call over processes, with immediate effect.

3.8.3 In addition, changes have been made by officers to the processes used to review and clear any Cabinet reports. These include that reports need to be assessed and cleared at Management Board at two stages of their preparation, and that more time needs to be given in the process to consideration by the statutory officers.

3.8.4 Tighter monitoring of Cabinet decisions, their implementation and compliance with the agreed recommendations of Cabinet is also being 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 to any decision that was delegated by Cabinet. Monitoring will be reported to the Leader of the Council and Audit Committee.

4. Implications (including financial implications)

4.1 Policy

4.1.1 There will be various impacts on current policy. The Governance Action Plan will ensure that all policies that are relevant are tightened and compliance against these monitored 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 will be put in place through normal decision-making processes. Financial implications will be reported through the budget process.

4.3 Legal

4.3.1 The Council has various legal duties and obligations to ensure best value and continuous improvement. The actions in the Governance Action Plan directly address identified weaknesses and will assist in enabling the Council to demonstrate that it is complying with its legal duties.

4.4 Equality

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

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 External Audit ISA260 for 2015/16

5.2 Internal Audit report on Loan made to Northampton Town Football Club

David Kennedy, Chief Executive
Francis Fernandes, Borough Secretary
Glenn Hammons, Chief Finance Officer