
Northampton Borough Council

Terms of reference – Review of policies and procedures relating to the provision of loan finance to Northampton Town Football Club

**To: Francis Fernandes, Borough Secretary and Monitoring Officer
Glenn Hammons, Chief Finance Officer and Section 151 Officer**

Cc: David Kennedy, Chief Executive

From: Chris Dickens, Internal audit senior manager

This review is being undertaken outside of the 2015/2016 internal audit plan approved by the Audit Committee although the review will be conducted as part of the internal audit service to the council and under the terms of our engagement with the Council.

Background

In July 2013, the Cabinet of Northampton Borough Council ('NBC' or 'the Council') approved a decision to loan monies to Northampton Town Football Club (NTFC) to pay for improvements to its Sixfields Football Stadium and to build a hotel. A loan agreement was prepared and funding was passed to the football club between September 2013 and August 2014. In addition, the Council also entered into an agreement to develop land around Sixfields. The receipts from this development and additional revenues arising from the improved facilities at the Stadium would repay the loan.

In late 2014 the works to improve the east stand at the stadium ceased following a dispute between the Football Club, the developers and the building contractors. These parties resolved their dispute and works recommenced on the stadium in early 2015. However, in the spring of 2015 works ceased on the stadium again when the contractor was not paid. At this time loan repayments to the Council started to be late or were missed but still eventually paid until early autumn 2015 when payments stopped. Consequently, the loan agreement was cancelled and the development company put into liquidation by the contractor.

The Council continued to try and find a solution to the situation, including ensuring a financially sustainable Football Club. During this period the Football Club was placed under the threat of a winding up petition from HMRC which would have led to the Football Club going into liquidation. This prompted more serious action by the Council.

The Football Club has now been sold to a new buyer and a legally binding memorandum of understanding is in place with the new owner. The Council has informed the police of the situation and has initiated a series of workstreams to investigate the details of the loan agreement and whether there has been any fraudulent action.

The Audit Committee has asked Internal Audit to conduct a review into the circumstances surrounding the loan to the Football Club and in particular to consider the relevant policies and procedures that are applicable to a transaction of this nature. This review will focus on whether the current policies and procedures are adequate and whether they were adhered to in this instance.

We will produce a report for the Audit Committee on the adequacy and effectiveness of the existing policies and procedures and any that were in place at the time of this agreement. We will also consider lessons learned that should be incorporated into policies and procedures going forward.

Scope

The objectives included in this review are as follows:

Objective**Work to be completed**

Business case and decision making process

A suitably detailed and costed business case was produced to support the decision to make financing available to the Football Club.

We will review the report submitted to the Cabinet to ensure that the decision was based on sound information in accordance with council policies.

We will ensure that the supporting paper / business case contains sufficient detail on costs and payment mechanisms in order to understand the financial obligations on the Council

Decisions are based on adequate, accurate information and are in accordance with council financial regulations

We will review the minutes of Council meetings where decisions were taken relating to this transaction to ensure that there was sufficient information provided and debate undertaken.

We will review Council policies and financial regulations to ensure that decisions were taken in accordance with these regulations.

Loan agreement

Decision taken by the Council is translated into a formal loan agreement

We will review the agreement in place to ensure that it reflects the decision taken by the Council

Appropriate professional advice has been obtained in producing the agreement

We will review the way in which the agreement was produced to ensure that appropriate professional advice was obtained and that the agreement was produced in accordance with council regulations.

Governance

Adequate governance arrangements were established to oversee the agreement.

We will review the governance processes established against best practice to ensure that adequate oversight was in place for the agreement.

We will understand the reporting arrangements to the executive and members to ensure that appropriate oversight and governance was in place.

Risk management

A formal risk assessment was undertaken as part of the decision making process. Risks were identified, assessed and appropriate mitigations put in place to manage identified risks.

We will ascertain what actions were taken to identify and manage risks associated with this decision.

Risks associated with the agreement were reviewed on a regular basis and necessary actions undertaken to protect the council's

We will review the arrangements to manage risk on an ongoing basis and to understand arrangements for

Objective	Work to be completed
interests.	reporting on risk and issues management.
<i>Performance management</i>	
Arrangements were established to monitor and manage performance of the agreement.	<p>We will review what arrangements were made to review performance including performance reporting arrangements</p> <p>We will review performance reporting arrangements and ensure that those charged with governance were kept informed of any performance issues.</p>
<i>Management information</i>	
Format and content of management information is adequate for effective governance and performance management.	<p>We will review management information arrangements and ensure that these are appropriate for an agreement of this nature.</p> <p>We will review actions taken where management information identified performance issues or increased risk.</p>
<i>Financial controls</i>	
The agreement contains adequate information to ensure that all parties understand the financial obligations and payment mechanisms.	We will review the agreement to ensure that there is sufficient information around financial controls and payment arrangements.
Any financial exposure is identified and reported at an early stage in order to protect the council's interests	We will ascertain the escalation procedures established in the event of any payment problems to ensure that the Council's financial exposure is limited.
<i>Project management</i>	
Arrangements were established to project manage the agreement and financial arrangements.	We will understand the project management arrangements put in place to oversee this agreement.
Regular reviews were undertaken of the project management arrangements to ensure that the Council's interests were protected and any risks mitigated.	We will review project reporting including risk and issue management

Limitations of scope

The scope of our work will be limited to those areas outlined above and is focused on internal arrangements within Northampton Borough Council. We will liaise with other parties involved in investigating the circumstances surrounding this agreement in order to avoid any duplication of effort and to ensure that our

review does not compromise other reviews being undertaken, particularly the police investigation. Our review will not consider the conduct of council members.

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Audit approach

Our audit approach is as follows:

- Review Council minutes and documents to understand the rationale behind the agreement;
- Review all relevant documentation including (but not limited to) the loan agreement;
- Review relevant council policies and procedures including Financial Regulations;
- Consider the control objectives detailed previously and consider adherence to Council policies and procedures for each of these objectives;
- Identify any gaps and weaknesses in the processes, including any examples of non-compliance, and work with key personnel to produce agreed actions for improvement;
- Consider 'lessons learnt' to improve processes for future agreements of a similar nature;

Internal audit team

Name	Role
Chris Dickens	Senior Audit Manager
Matthew Plummer	Forensics Senior Manager
Jodie Stead	Audit Manager

Key contacts – Northampton Borough Council

Name	Title	Role
Francis Fernandes	Borough Secretary and Monitoring Officer	Audit sponsor of review. Approve terms of reference and receive draft and final reports.
Glenn Hammons	Chief Finance Officer and Section 151 Officer	Key contact for review. Receive terms of reference and draft/final reports.
David Kennedy	Chief Executive	Approve scope of review and receive final report
Audit Committee		Approve scope of review and receive final report

Timetable

Fieldwork start	20 th January 2016
Fieldwork completed	TBC
Draft report to client	TBC – 2 weeks from clearance meeting
Response from client	TBC – 1 week from issue of draft report
Final report to client	TBC – 1 week from receipt of response from client

Agreed timescales are subject to the following assumptions:

- all relevant documentation, including source data, reports and procedures, will be made available to us promptly on request; and
- staff and management will make reasonable time available for interviews and will respond promptly to follow-up questions or requests for documentation.

Information request

- Access to a copy of the loan agreement and other relevant documentation;
- Access to relevant personnel involved in, or with knowledge of, the loan agreement.

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