

## **Broads Authority**

### **Financial Scrutiny and Audit Committee**

Minutes of the meeting held on 11 February 2014

#### **Present:**

Mr G McGregor – Chairman

Mr N Dixon  
Mr P Durrant  
Prof J A Burgess  
Dr J S Johnson

#### **Other Members Present:**

Mr P Ollier

#### **In Attendance:**

Mr T Adam – Head of Finance  
Ms L Marsh – Administrative Officer  
Mr J W Organ – Head of Governance and Executive Assistant  
Dr J Packman – Chief Executive  
Ms T Wakelin – Director of Operations

#### **Also in Attendance:**

Mr N Harris – Director, Ernst & Young  
Ms S King – Head of Internal Audit  
Ms J Penn – Treasurer and Financial Adviser  
Mr D Riglar – Audit Manager, Ernst & Young

#### **2/1 Apologies for Absence**

Apologies for absence were received from Mr D Broad.

#### **2/2 Matters of Urgent Business**

There were no matters of urgent business.

#### **2/3 Declarations of Interests**

Members expressed declarations of interests as set out in Appendix 1 to these minutes.

**2/4 Minutes of the Financial Scrutiny and Audit Committee Meeting held on 19 September 2013**

The minutes of the meeting held on 19 September 2013 were approved as a correct record and signed by the Chairman.

**2/5 Public Question Time**

No questions were raised by members of the public.

**2/6 Consolidated Income and Expenditure: 1 April to 30 November 2013 Actual and 2013/14 Forecast Outturn**

The Committee received a report summarising the actual income and expenditure for the eight-month period to 30 November 2013 and also providing a forecast of the projected expenditure at the end of the financial year (31 March 2014).

Members noted that the overall actual position, as detailed in table one in the report, was broadly in line with the profiled latest available budget (LAB) and significant variances explained in paragraphs 2.4 and 2.5 were mostly offset by the use of reserves. The Head of Finance reported that the draft December figures showed a reduced variance of £9,508.

The LAB had moved little since the last meeting and forecast outturn had halved for the reasons set out in table three, anticipating a deficit of £32,416 at year end. The Chairman wished to emphasise that this deficit was made up of a £75,868 National Park surplus and a £108,284 Navigation deficit.

The committee reviewed the earmarked reserve balances as at the end of November 2013, detailed in table four, and the forecast of year end general reserve balances at £681,000 for National Park reserves and £246,000 for Navigation reserves. The Chairman noted that the £563,174 Property reserve included the fund for Mutford Lock repairs and did not impact on revenue spending in the current year.

A net overall decrease in forecast yacht station and visitor information centre income was noted as being largely due to amendments to the originally budgeted income targets, although the Authority was reviewing ways to increase income tailored to each of the three centres.

In response to the Head of Finance's question over whether the new report format was helpful the Chairman suggested that members review it at a later date after they are more accustomed to it.

Members' approval was sought for two proposals relating to reserves as detailed in paragraphs 5.3 and 5.4, namely to transfer income from the sale of scrap and obsolete equipment into the premises reserve and for returning the closing balance of the STEP project to the general National Parks reserve.

## RESOLVED

- (i) that the report be noted;
- (ii) that the proposed transfer of income to the earmarked premises reserve to fund Dockyard developments in 2014/15 as set out in paragraph 5.3 be approved; and
- (iii) that the proposed transfer of any closing surplus within the STEP reserve to the general National Park reserve as set out in paragraph 5.4 be approved.

### **2/7 Draft 2013 Pension Valuation Results**

The Committee received a report produced in response to members' concerns about the pension deficit position. It set out the requirements for the Authority to offer Local Government Pension Scheme (LGPS) membership and provided the draft valuation results, detailed in full in appendix 2. It was noted that the final results would be published by 31 March 2014 (not 2013 as stated in the report) but these were not expected to change from the draft.

Results were in line with expectations with the employer contribution unchanged and, although the lump sum was increasing, the rise was controlled and incorporated in the budgeting. It was noted that the impact of national changes in the scheme were hard to accurately predict with a possibility of increased short term cost depending on the profile of the scheme membership.

External auditors emphasised that their primary responsibility was to ensure any impact on the Authority's financial statements in the medium term was adequately reflected although closer scrutiny of this area was planned for the future.

It was noted that the increase in benefits paid in 2011/12 coincided with redundancies and early retirements although this position would be checked and information brought back to members.

In response to questioning the Head of Finance advised that the target annual lump sum payment referred to in paragraph 2.5 would ultimately need to be achieved as the annual payment the Authority needed to make in the long-term, but that this target could be significantly impacted by the valuation of the pension fund. As a result it could come down subject to the performance of investments and various other influencing factors. It was noted that the currently budgeted lump sum payment was approaching the target level of circa £140,000 proposed by the 2010 valuation, and the Pension Fund were comfortable with the Authority's levels of contribution.

The Head of Finance highlighted that, subject to the results of the Authority's IAS19 report for 2013/14, there was a possibility that the Authority's balance sheet could become negative in the 2013/14 Statement of Accounts because

of the pension fund deficit position. In response to a question of whether the deficit and a negative balance sheet would have an effect on the Authority's ability to secure external funding, the Chairman of the Committee advised that European partners might not appreciate the subtleties. Members were also told that the Authority was a government supported body.

The Head of Finance commented that Local Authorities are not statutorily required to maintain a positive balance sheet, a number of other Local Authorities and some National Parks were in a negative balance sheet position already, and that the Authority was in a good position comparatively.

Members felt the report was useful in putting the deficit into context and that the position should be kept under review.

RESOLVED

that the report be noted.

## **2/8 Investment Strategy and Performance Six Month Report 2013/14**

The Committee received a report detailing the Authority's investment of surplus cash, including the principles adopted and performance during the six months to 30 September 2013 and a review of performance in 2012/13.

Members noted that the total investment was £3.5m but that interest rates were very low although it was hoped that may change as rates start to recover. The Authority was not proposing to make any direct investments because of the need for cash flow flexibility.

Members were advised that as well as not investing in any Icelandic banks the Authority had also not invested with the Co-op.

RESOLVED

that the current arrangements regarding the investment of surplus cash be noted.

## **2/9 Internal Audit's Audit Charter, Code of Ethics, Strategic and Annual Audit Plans and Summary of Internal Audit Coverage for 2014/15**

The Committee was presented with a report on the formulation of the Strategic Audit Plan for 2014/15 to 2016/17 and the Annual Audit Plan for 2014/15. Members noted that this was the first time an Audit Charter had been presented in place of the Terms of Reference to reflect how the Internal Audit Service will operate in accordance with new mandatory standards. The foundations of the standards were not fundamentally different but the structure of the annual Charter had to follow a prescribed format and provided greater clarification over Internal Audit functions and purpose and the roles and responsibilities of the Authority.

Members noted the Annual Plan was reduced by one audit day compared to 2013/14 and that there were four assignments a year in relation to the Strategic Plan to mitigate peaks and troughs. The Audit Strategy had originally envisaged that the audit of Corporate Governance and Risk Management could be moved from an annual to a two-yearly cycle, however the new Standards required this to be reinstated as an annual audit. The only revision in the Code of Ethics was to mark the changeover of the contractor from Deloitte auditors to Mazars.

It was explained that a Hold Harmless letter referred to in paragraph 4.6.2 pertained to an arrangement to manage the scope of liabilities when services were extended to a third party.

It was confirmed that the precise focus of the audits of partnership provisions and consultation activities referred to in paragraph 5.3 would be developed in greater detail at the planning stage of each specific audit.

Members were informed that more days were allocated to certain areas during 2014/15 to balance the focus over the longer term when some areas had been deferred while others had just been completed, although the allocation was flexible to allow for changing priorities.

Members were informed that the Annual Charter and Code of Ethics could not be revised less frequently than on the current annual basis due to statutory requirements. Members did ask if tracked changes could be applied to future annual revisions however to aid reading of the revisions.

The Chairman recorded the Committee's thanks to the Head of Internal Audit Sandra King for her hard work and support during her time with the Authority.

## RESOLVED

that the

- (i) Internal Audit's Charter for 2014/15;
- (ii) Internal Audit's Code of Ethics for 2013/14;
- (iii) Internal Audit's Strategy for 2014/15;
- (iv) The Strategic Plan for 2014/15 to 2016/17;
- (v) The Annual Audit for 2014/15;
- (vi) The Summary of Internal Audit coverage for 2014/15; and
- (vii) Performance Indicators for 2014/15

be approved.

## **2/10 Working Protocol between Internal and External Audit for 2013/14 and 2014/15**

Members received a report on the Audit Joint Working Protocol developed between Internal Audit and Ernst & Young, the Authority's External Auditors, to establish working relationships, clarify each bodies' responsibilities, avoid any potential duplication of work and determine the assurance that can be placed on each parties' work, while ensuring External Audit can place maximum reliance on the work of Internal Audit wherever possible. The Committee was informed of the necessity to include details contained in Appendix D of the report in order to fulfil public sector External Audit standards.

RESOLVED

that the Audit Protocol be approved and the level of interaction, which will be adopted by Internal and External Audit throughout the remaining quarter of 2013/14 and the financial year 2014/15, be endorsed.

## **2/11 External Audit Plan 2013/14**

The Committee received a report, appending the Audit Plan for 2013/14 by Ernst & Young, which identified three key risk areas for the audit of the Statement of Accounts. This included the risk of misstatement due to fraud and error. Members were reassured that this was not a reflection on the Authority but was targeted for focus as a common risk across all Authorities. The report also identified property, plant and equipment as an area for audit focus. Members queried this emphasis in light of the extensive work undertaken by the Authority on its Asset Management Plan. Members were informed that the two areas were slightly distinct as the audit focus related to the specific valuations undertaken for, and incorporated within, the Statement of Accounts.

The report recognised, in section 3, the reductions to the Authority's National Park grant, what measures the Authority was taking in response to this and that this situation would be monitored.

Members were informed that the External Audit fees could only be changed if there was a significant change in risks.

RESOLVED

that the Audit Plan for the 2013/14 audit be noted.

## **2/12 Internal Audit Procurement Process**

Members received a report providing an overview of the procurement process being managed by South Norfolk Council to deliver a new internal audit provider to the Internal Audit Consortium. The consortium's current contract with the external provider ends on 30 September 2014.

RESOLVED

that the report be noted.

## **2/13 Implementation of Internal Audit Recommendations – Summary of Progress**

The Committee received a report concerning the implementation of Internal Audit recommendations arising out of audits carried out since 2011/12 as part of a regular update of progress made. Members noted that seven of the 18 new recommendations had already been implemented and several of the new recommendations involved some overlap.

The Head of Finance reported that the Network Security audit, which had received “limited” assurance, had focussed on internal security issues such as staff network access and internal passwords rather than external hacking. The Head of Finance also highlighted that the computer audit tool used as part of this audit had identified network security as “about average” when compared with the Government sector comparator group. All three high priority recommendations resulting from the audit had already been completed.

Members expressed that they were grateful for this rapid progress.

RESOLVED

that the report be noted.

## **2/14 Review of Financial Regulations**

The Committee was presented with a report explaining and recommending proposed changes to the Authority’s Financial Regulations. Members noted that no significant amendments were proposed but there were a number of updates in line with other policies and strategies and to reflect changes in legislation and best practice.

Key changes related to the reporting of Navigation income and expenditure, External Auditor appointments, International Financial Reporting Standards, the Counter Fraud, Corruption and Bribery Strategy, virement policy, disposal of assets, Related Party Transactions, late payment legislation and debt write-off thresholds.

The credit card request form process was clarified in response to a question from a member.

RESOLVED

- (i) that the proposed amendments to Financial Regulations, as appended in the report, be approved with immediate effect; and
- (ii) that these arrangements be further reviewed after three years.

## **2/15 Other Items of Business**

There were no further items of business which the Chairman decided should be considered as a matter of urgency pursuant to Section 100B (4) (b) of the Local Government Act.

## **2/16 Formal Questions**

There were no formal questions of which due notice had been given.

## **2/17 Exclusion of the Public**

RESOLVED

that the public be excluded from the meeting under section 100A of the Local Government Act 1972 for consideration of the items below on the grounds that they involve the likely disclosure of exempt information as defined by Paragraphs 1 to 3 of Part 1 of Schedule 12A to the Act as amended, and that the public interest in maintaining the exemption outweighs the public benefit in disclosing the information.

### **Summary of Exempt Minute**

## **2/18 Strategic Response to National Park Grant Reductions Budget Options for 2014/15 Budget and Financial Strategy for 2016/17**

The Committee received a report providing an overview of the implications of the recently announced changes in National Park Grant for 2014/15 and 2015/16 and setting out details of proposed changes to accommodate the reductions without impacting too heavily on staff or front line services.

The Head of Finance informed the Committee that some of the transfers out of the earmarked reserves detailed for 2014/15 in appendix 4 of the report might be made in 2013/14, particularly works to Mutford Lock.

In response to questions from members the Director of Operations confirmed that while the overall dredging budget had decreased, the volume to be dredged remained the same. The reduction in the budget reflected a planned change in strategy regarding landowner payments and methods for the disposal of dredged materials. The Committee agreed that it was important to clarify this in future reports.

Members considered the matter of tendering for a contractor and joining up with other NPAs to carry out benchmarking and / or identify potential income generation and further efficiencies. The possible utilisation of Internal Audit for this purpose was also considered. External Audit advised members that they needed to be clear about what they wanted from any exercise as the review carried out already had been very thorough. It was recommended that the potential of working with other NPAs was investigated by the Chief Executive.



RESOLVED

- (i) that, on condition that the element of proposal 3 dealing with legal services received further scrutiny, the Committee recommended that the Authority adopts the five key proposals set out in the report to bring the Authority's Budget back into balance to reflect the reductions in National Park Grant;
- (ii) that the additional proposed changes in Sections 6.3, 6.4 and 6.5 be noted; and
- (iii) that the assumptions applied in the preparation of the Budget be endorsed.

**2/19 Date of Next Meeting**

The next meeting of the Committee would be held on Tuesday 8 July 2014 at Yare House, 62-64 Thorpe Road, Norwich, commencing at 2:00pm.

The meeting concluded at 5.10pm

CHAIRMAN

## APPENDIX 1

### Declaration of Interests

Committee: Financial Scrutiny and Audit Committee

Date of Meeting: 11 February 2014

<b>Name</b> <b>Please Print</b>	Agenda/ Minute No(s)	<b>Nature of Interest</b> (Please describe the nature of the interest)	Please tick here if the interest is a Pecuniary Interest ✓
G McGregor	General	Member of Suffolk County Council	