

## **Broads Authority**

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

Minutes of the meeting held on 22 September 2015

#### **Present:**

Mr G McGregor - Chair  
Mr Louis Baugh  
Prof J A Burgess  
Mr M Whitaker

#### **In Attendance:**

Ms E Guds – Administrative Officer  
Miss E Krelle – Head of Finance  
Ms A Long – Director of Planning and Resources  
Mr P Ionta – Solicitor and Monitoring Officer  
Mr J Packman – Chief Executive

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

Ms J Penn – Treasurer and Financial Adviser  
Mr D Riglar – External Audit Ernst Young LLP  
Mr M Russell - External Audit Ernst Young LLP

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

Apologies for absence were received from Nigel Dixon and Peter Dixon.

#### **1/2 Appointment of Chair**

The Chief Executive invited nominations for the position of Chairman for the forthcoming year.

It was proposed and duly seconded that Mr McGregor be appointed as Chairman.

There being no other nominations, it was

RESOLVED

that Mr McGregor be appointed as Chairman of the Financial Scrutiny and Audit Committee for the forthcoming year.

**Mr Guy McGregor in the Chair**

### **1/3 Appointment of Vice Chair**

Nominations for Vice Chair were postponed to next committee meeting in February 2016 as Vice Chair was not present.

### **1/4 Matters of Urgent Business**

There were no items being proposed as matters of urgent business.

### **1/5 Declarations of Interests**

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

### **1/6 To receive and confirm the minutes of the Financial Scrutiny and Audit Committee meeting held on 7 July 2015 (herewith)**

The minutes of the meeting held on 7 July 2015 were approved as a correct record and signed by the Chairman.

### **1/7 Terms of Reference of the Financial Scrutiny and Audit Committee**

Members noted the report.

### **1/8 Public Question Time**

No questions were raised by members of the public.

### **1/9 Annual Governance Report 2014/15**

Members received a report which appends the Annual Governance Report for 2014/15 prepared by the External Auditors, Ernst & Young.

The External Auditor from Ernst & Young informed members that the audit was completed and thanked the Head of Finance and her team for the satisfying outcome. He explained that the key audit risk faced by the Authority was Management Override, the ability to manipulate the accounts. Their testing had revealed that there was no evidence of this.

The Chair said that he was happy the Authority had received a clean bill of accounts and mentioned last year it was suggested the auditors would start earlier so there would be less pressure for Authority staff to meet their deadline.

The External Auditor responded he agreed that starting earlier would be favourable but would mean starting their audit much earlier, before their obligations/commitments to other Local Authorities. He added that as from 2017/18 the audit would be earlier in line with the new regulations.

The Head of Finance informed members there would be a slight change to the letter of representation and that section J would be removed in the final copy. The letter would also be dated Friday 25 September when the accounts would be signed at the full Authority.

## RESOLVED

Members noted the report and resolved that the Letter of Representation in connection with the Audit of the Financial Statements for 2014/15 be signed by the Treasurer and Financial Adviser and the Chairman of the FSAC.

### **1/10 External Audit Committee Briefing: September 2015**

Members received a report which appended two briefings, Accelerating Your Financial Close Arrangements and a Local Government Audit Committee Briefing issued by the Authority's External Auditors, Ernst & Young.

The Head of Finance informed members that it was necessary to consider a new Stock Policy and that would help with the year-end valuation process. It would tighten up on what was counted and would look to exclude items such as offcuts, recycled parts and consumables. She continued that they would start to look at using the accounts package purchase order system. This would help budget holders with understanding their committed expenditure and calculate their accruals at year end. There would not be at any extra cost as this was already included as part of the accounts package.

The Chair enquired how important Stock Valuation was to which the External Auditor responded that this was always border line material each year which was why the stock take was attended by audit. A policy would help the accounts team not to spend all their time on it at year-end.

A member mentioned an Obsolesce Policy and the Head of Finance confirmed that this was the case. As part of the stock process staff are asked to identify any obsolete stock in order for it to be written off.

The Treasurer and Financial Adviser recognised that having to manage the accounts as a small financial team was challenging and said that the Head of Finance and her team had proven that they were able to provide accounts to a very high standard.

A member added that, in the hope to try and help the Finance Team to prepare the accounts, the Authority had provided training for budget holders to clarify expenditure and plans and for stakeholders to recognise to identify budgets.

Members noted both appended briefings including the questions for Audit Committees set out on page 7 in the first briefing and page 9 in the second.

## 1/11 Annual Governance Statement 2014/15

Members received a report which explained the purpose of the Annual Governance Statement, and the requirement to carry out an annual review of the Authority's systems of internal control and governance arrangements.

The Solicitor and Monitoring Officer highlighted that the overall opinion of the Head of Internal Audit for 2014/15 was that the framework of governance, risk management and control at the Broads Authority was deemed to be adequate and represented a stable control environment. He added that the Authority had also received two good assurance levels in respect of Corporate Governance and Risk Management and Key Controls and Assurance.

In relation to Consultation Activities and Partnership Provision, the Chair enquired about the adequate assurance opinion which was awarded. The Director of Planning and Resources responded that this was in relation to the stakeholders review and the Parish Forums. She explained that as the result of that review the Authority had come up with an action plan and that the next stage would be looking at the effectiveness of the measures put in place.

In relation to Strategic Partnerships, The Solicitor and Monitoring Officer highlighted that it had been decided to delay this annual review until November rather than September, as stated in the Annual Governance Statement, due to the busy agenda for members at the September meeting.

One member enquired how an adequate rating would differ from a good rating as she found it difficult to establish how one would improve from an adequate to a good rating.

The Treasurer and Financial Adviser explained that an adequate rating was good enough and appropriate for the size of an organization like the Authority. She continued that the fact that the Authority was awarded two good ratings was very positive and that an adequate rating demonstrated that no risks to the controls existed. However, if the Authority would want to improve their rating, it would involve having more controls put in place.

One member said that it was important how the Authority was portrayed by others and that it was being judged about what it put in place. Therefore he believed the importance was for the Authority to prioritize what was achievable and concentrate on quality rather than quantity.

Members recognised that none of the recommendations in the action plan were high priority which was very positive considering the Authority was under staffed and was challenged finding appropriate staff for the correct pay.

The Chief Executive agreed that the Authority was trying to keep the day to day issues going and that the core service had fallen back. Also he admitted that recruiting had been a challenge as the Norfolk market was limited

compared to London, however that the Authority had managed to find some very capable staff.

## RESOLVED

- (i) Members recommended the Annual Governance Statement for 2014/15 and Action Plan for 2015/16 to the Broads Authority for approval on 25 September 2015.
- (ii) Members confirmed that, subject to implementation of the improvements identified in the Action Plan, the Authority's internal control systems and governance arrangements are considered to be adequate and effective.

### **1/12 Implementation of Internal Audit Recommendations – Summary of Progress**

Members received a report which updated them on progress in implementing Internal Audit recommendations arising out of audits carried out since 2014/15 and 2015/16.

The Head of Finance informed members that the Authority had received a good rating for the Corporate Governance and Risk Management audit. She said that the Planning Audit had been undertaken and that although the final reports have not been received yet, as this stage they didn't expect to find any issues.

She further informed members that in regards to responses to recommendations relating to IT issues, actions 5 and 7 had now been completed and explained that the delay was due to staff recruitment issues.

She recognized that regards to Consultation Activities and Partnership Provisions there were still some actions outstanding but said that the target date didn't fall until later on within this financial year.

Members noted the report.

### **1/13 Consolidated Income and Expenditure 1 April to 31 July 2015 Actual and 2015/16 Forecast Outturn**

Members received a report which provided them with details of the actual income and expenditure for the four month period to 31 July 2015, and gave a forecast of the projected expenditure at the end of the financial year (31 March 2016).

The Chief Executive reminded Members that there would be a request for extra budget for Hickling. This would make the finances extremely tight following the decision to increase tolls by 1.7% in 2015/16. However, in order to continue with the Hickling Broad Project the Authority would need an

additional £21K which would have a negative effect on the reserves which would drop below the recommended level of 10%.

Mutford Lock would need an additional £87K from a separate reserve set aside for Mutford Lock.

Members were informed by the Chair of the Navigation Committee that the Navigation Committee supported both the Hickling Project and the Mutford Lock repairs.

Members recognised that a decrease in the number of hire boats because the industry was selling some of its older craft to help pay for new investment, had a significant negative effect on navigation income. This pattern was likely to continue into next year but it was very difficult to predict how much and how fast this decline would carry on. Many hire boats were sold to private buyers, which meant that the vessels would stay on the Broads but the Authority would lose the benefit of the additional income from the multiplier effect on tolls.

The Chief Executive concluded that the Authority was in a reasonable financial position. The organisation had reasonable reserves without any big demands on expenditure and was looking hard how to continue to save money.

#### RESOLVED

- (i) members noted the position in respect of Hickling and Mutford Lock in regards to 2015/16; and
- (ii) members supported the additional budget request for referral to the Authority as set out in paragraph 6.2 and 7.1.

#### **1/14 Annual Review of Strategic Risk Register**

Members received a report which appended the Authority's updated Strategic Risk Register for their comments. The Solicitor and Monitoring Officer highlighted that the Register currently incorporated 18 key risks and that no new risks had been registered since the Committee's previous review in September 2014.

He continued that currently the Risk Register was reviewed once a year but it was a recommendation from the Auditors that this was done more frequently and that it had been recommended by the Internal Auditor and accepted by Management Team to add the Risk Register to the Agenda of this Committee as a standard Item as from the next meeting in February 2016.

The Treasurer and Financial Adviser supported this idea and said that this would provide evidence that the risk had been highlighted and would encourage members to establish and consider what the key risks for the Authority are.

The Solicitor and Monitoring Officer added that, should a risk exceed the tolerance level, the Chair of the Authority and Chair of the Financial Scrutiny and Audit Committee will be engaged immediately to determine appropriate action to be taken. A member commented that reviewing the Risk Register more frequently would be beneficial as it would add to the decision making process.

## RESOLVED

that members noted the updated Strategic Risk Register and invited officers to produce a report for the next meeting with proposals for the amendment of policy reports to incorporate a specific section addressing the issue of risk.

### **1/15 Review of Policy on Reserves**

Members were shown a presentation which illustrated the effect an increase or decrease in tolls would have on the budget and also how much income would need to increase to keep the Reserves at 10% of expenditure.

From the presentation it became clear that in order to be able to carry out both the Hickling Project and the repairs to Mutford Lock, compromises needed to be made. The Chief Executive said that if Hickling was a priority maybe members could suggest what compromises/sacrifices could be made.

Members agreed that there should be a cutoff point when it comes to trying to keep Mutford Lock operational as it is becoming beyond the Authority's ability to repair, especially as the North Sea could be reached via an alternative route.

One member believed that a 5.5% rise in toll was going to be challenging as it was not in line with the rise in inflation and suggested whether savings should be made by preventing purchases which were excessive, ie. purchase of land for disposal of dredge material. The Chairman commented that being able to dump dredging material was essential to keep the navigation channels clear.

Another Member believed that the presentation demonstrating the sensitivity of the reserves was informative however was concerned it was only betraying a partial picture and would be interested to know how the calculations would compare to the National Park Grant Reserves.

The Chief Executive responded that compared to the Navigation side which had many assets to maintain, the National Park side's biggest asset were people. He said that an example of a major emergency on the National Park side would be a major flood or a Food and Mouth outbreak, which were issues the Authority wouldn't have much control over.

The Member requested that the reserve position of the National Park side be illustrated in the Reserve Policy when it was brought to the Full Authority.

The Chief Executive highlighted that organisations like Canal River Trust and the Environment Agency receive public funding for the maintenance of the navigation while the Broads Authority was unique in the sense that its Navigation was entirely funded by toll payers.

He supported the implementation of the Hickling Project but suggested that the financial implications needed to be looked at carefully as to how this would be managed over the next 20 years.

The Head of Finance highlighted that a great deal of equipment was passed on from May Gurney and would all need replacing soon. The replacements would be funded from the earmarked reserves as long as they continued to have sufficient balances.

The Chief Executive said that the Authority believed that having reserves at 10% of Navigation Expenditure seemed to be a sensible provision to cope with risk, however they would need to establish how much was needed for demands on assets, how much was needed to respond to opportunities like buying land for dredging disposal and how much should be made available for match funding bids for external funding.

Members considered reserves being made available for match funding was very important as they believed match funding presented the Authority with the only realistic prospect of bringing in substantial sums of income, needed to realize many of the projects.

Members noted the report.

**1/16 To consider any other items of business which the Chairman decides should be considered as a matter of urgency pursuant to Section 100B (4) (b) of the Local Government Act 1972**

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.

**1/17 Formal Questions**

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

**1/18 Date of the next meeting**

Members noted that date of the next Committee meeting would be held on Tuesday 9 February 2016 at Yare House, 62-64 Thorpe Road, Norwich, commencing at 2:00pm.

The meeting concluded at 4.05 pm

CHAIRMAN



**APPENDIX 1**

**Declaration of Interests**

Committee: Financial Scrutiny and Audit Committee

Date of Meeting: 22 September 2015

| <b>Name</b><br><b>Please Print</b> | Agenda/<br>Minute<br>No(s) | <b>Nature of Interest</b><br>(Please describe the nature of the<br>interest) | Please tick<br>here if the<br>interest is a<br>Pecuniary<br>Interest<br>✓ |
|------------------------------------|----------------------------|--|---|
| Michael Whitaker                   |                            | Toll payer, Hire Boat Operator, BABF<br>Chair                                |   |
| Louis Baugh                        |                            |  |   |
| Jacquie Burgess                    |                            |  |   |