

Broads Authority

Financial Scrutiny and Audit Committee

Minutes of the meeting held on 10 February 2015

Present:

Mr G McGregor – Chair
Mr D Broad
Prof J A Burgess
Mr P Durrant

In Attendance:

Ms E Guds – Administrative Officer
Ms E Krelle – Head of Finance
Mr J W Organ – Head of Governance and Executive Assistant
Dr J Packman – Chief Executive

Also in Attendance:

Mr N Harris – Director, Ernst & Young
Ms E Hodds – Internal Audit Consortium Manager
Ms J Penn – Treasurer and Financial Adviser
Mr M Russell – Executive, Ernst & Young

2/1 Apologies for Absence

Apologies for absence were received from Mr N Dixon and Dr S Johnson

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 23 September & 21 November 2014

In relation to *Minute 2/10 Annual Review of Strategic Risk Register*, some members were considering whether a new risk might need to be defined or an existing one strengthened to include an item concerning the adoption of the National Parks style, while others believed this to be unnecessary as the risk register would deal with risks at a strategic level and not at the level of individual proposals or decisions.

Head of Governance and Executive Assistant confirmed that issues such as communication, reputational risk and corporate risk arising from rebranding were fully covered by 'Ineffective Engagement with Key Partners/Stakeholders' and 'Failure to comply with Legal Requirements' risks.

After a short discussion and clarification the minutes of the meeting held on 23 September 2014 and 21 November 2014 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 Investment Strategy Performance Six Monthly Report 2014/15

Members received a report which set out details of the Authority's investment of surplus cash, including the investment principles adopted and performance during the six months to 30 September 2014 and included a review of the performance in 2013/14.

The Committee was reminded that the investment of surplus cash was governed by a Service Level Agreement between the Broads Authority and Broadland District Council and that the closing balance for 2013/14 was £2.750 million. As at the end of September this balance had increased to £3.750 million.

As the Authority had a greater need for cash flow flexibility, having drawn down reserves in 2013/14, it was proposed not to make any direct investments at present so currently a larger balance would continue to be invested with the Council. Any losses would be shared pro-rata between the two organisations.

Members noted the report.

2/7 Consolidated Income and Expenditure: 1 April to 30 November 2014 Actual and 2014/15 Forecast Outturn

Members received a report that provided the Committee with details of the actual income and expenditure for the eight month period to 30 November 2014, and provided a forecast of the projected expenditure at the end of the financial year (31 March 2015).

The current forecast outturn position for the year suggests a deficit of £91,977 for the national park side and a deficit of £19,006 on navigation resulting in an overall deficit of £110,984 within the consolidated budget, which would indicate a general fund reserve balance of approximately £707,000 and a navigation reserve balance of approximately £271,000 at the end of 2014/15. This will mean that the navigation reserve will fall slightly below the recommended level of 10% of net expenditure during 2014/15. The impact of

both the national park and navigation reserve balances has been taken into account when preparing the budget and medium term financial strategy.

Members were of the opinion that the use and convention of figures in red and in brackets was confusing and suggested that an adverse variance would be demonstrated as a minus and a surplus with a positive. It was therefore decided that as from the 1st April 2015 figures would be illustrated in black using minus and positives to demonstrate a variance.

The Chief Executive updated the members that the Secretary of State had confirmed that the levels of National Park Grant for 2015/16 would be in line with that previously announced, a 1.74% reduction, which was in line with the budget already approved by the Authority.

Furthermore the members were informed that The Broads Authority in partnership with Norfolk County Council had been successful in securing a bid for the first stage of the 3 Rivers Way cycle route and Norfolk County Council would be receiving 715K from the Department of Transport. The funding will be used to construct a shared cycleway footway connecting Wroxham to Horning. The Authority would be contributing £65,000 of matched funding which would be funded from the Planning Delivery Grant Reserve.

To a question as to whether the Authority was looking at scenarios how to respond to the prospect of further cuts, the Chief Executive responded that officers were working with the other national park authorities in preparing for discussions with Defra officials on the future of National Park Grant. In the meantime it was important that the Authority demonstrated its ability to deliver on important projects such as the Landscape Partnership Bid.

Members noted the report.

2/8 Internal Audit Strategic and Annual Audit Plans 2015/16

Members received a report which delivered an overview of the stages followed prior to the formulation of the Strategic Internal Audit Plan for 2015/16 to 2017/18 and the Annual Internal Audit Plan for 2015/16.

The resulting Annual Internal Audit Plan would then serve as the work programme and initial terms of reference for the Authority's Internal Audit Services Contractor, TIAA Ltd, and provided the basis upon which the Internal Audit Consortium Manager would subsequently give an Annual Audit Opinion for 2015/16.

The Internal Audit Consortium Manager mentioned that the Audit Charter, , will be presented to the Finance and Scrutiny Audit Committee every two years from now on for review. The Code of Ethics that was previously brought to The Committee would be reviewed by the Internal Audit Consortium Manager as part of the Audit Charter review.

The details of the IT audits would be determined once the new contractor (TIAA) was in place from 1 April 2015. The Internal Audit Consortium Manager would determine the exact requirements in conjunction with the Head of IT and Collection of Tolls.

The audit of the Asset Management database would be undertaken in 2016/17 to make sure its contents are accurate and reflected the current Fixed Asset Register,

RESOLVED

that the Committee approved:

- (i) the minor amendments to the Internal Audit Charter as noted with the report;
- (ii) the Internal Audit Strategy for 2015/16;
- (iii) the Strategic Internal Audit Plan for 2015/16 to 2017/18;
- (iv) the Annual Internal Audit Plan for 2015/16.

The Committee noted:

- (v) the Performance Management measures for the new Internal Audit Contractor.

2/9 Audit Procurement

This report provides an overview of the stages followed, and the outcomes of, the recent procurement exercise for Internal Audit Services across the Norfolk Internal Audit Consortium. The Consortium consists of Breckland, Broadland, North Norfolk and South Norfolk district councils, Great Yarmouth Borough Council and the Broads Authority.

The role of the Head of Internal Audit and contract management is currently provided by South Norfolk Council via a group agreement, and the current contract for the provision of Internal Audit Services expires on 31 March 2015. An OJEU tender was undertaken due to the value of the work to be contracted, with three suppliers submitting final bids. The contract was awarded on a quality (60%) / price (40%) split and has now been awarded to TIAA Ltd, one of the largest specialist internal audit providers in the UK, and an employee-centred organisation with staff being the majority shareholders.

In addition all members of the Consortium have confirmed they are staying with the role of the Head of Internal Audit and Contract Manager provided by South Norfolk Council.

Members noted the report

2/10 External Audit

Members received a report which appended the Annual Audit Letter for 2013/14, the Audit Plan for the 2014/15 audit and the Local Government Audit Committee Briefing by Ernst & Young.

The Committee was informed by Ernst & Young that no significant matters were identified from their 2013/14 audit when they had issued an unqualified value for money conclusion on 26 Sep 2014 and that there were no significant accounts, or control issues they needed to draw the Authority's attention. Moving on to the 2014/15 Audit Plan, they highlighted that the main audit risk was one of management override, when there is an incentive for manipulation, and that they would work with The Authority to validate this risk and see what measurements The Broads Authority was ready to put in place to prevent risks like this from taking place.

Members agreed that the auditors and the finance department are doing a good job and recognised that the accounts have improved greatly over the last few years to the effect that the Authority is now able to forecast income and expenditure very accurately.

One member was interested to know that now the Broads Authority was less of an audit risk, this would mean a reduction in the auditor's fees, to which the Director of Ernst & Young responded that the fee could be reviewed and that they would consider an amendment in the future if this was considered appropriate.

RESOLVED

That the Committee:

- (i) noted the Annual Audit Letter for 2013/14.
- (ii) noted the Audit Plan for the 2014/15 audit.
- (iii) Noted the briefing, including the key questions for Audit Committees as set out on page 8

2/11 Implementation of Internal Audit Recommendation and Summary of Progress

Members received a report which updated them on progress in implementing Internal Audit recommendations arising out of audits carried out since 2013/14.

It was highlighted that an audit of End User Controls was completed in December, receiving an 'adequate' audit opinion with three medium and five low priority recommendations being raised.

The Head of Finance informed members that the Authority was aware of the identified areas of weakness, but as the IT department had not yet been

successful in replacing their IT support worker, they had been short staffed and were therefore struggling with taking actions forward.

The Chief Executive explained that the difficulty with recruiting a suitable applicant was that although the demands of the job required a wide and specific skill set, the Authority was not in a position to offer a salary commensurate with the market rate that matches that skill set.

Members suggested recruiting through agencies, outsourcing the IT department or using students as an internship from the University of East Anglia.

The Chief Executive's response was that the problem with these options was that recruiting someone through an agency could create a situation where someone in a junior position would end up earning more than his senior. The issue with an apprenticeship would be that it's temporary whereas the IT position requires a full-time permanent position to allow the appointee the appropriate time to familiarise him/herself with the wide stretch of responsibilities involved.

Members noted the report.

2/12 National Parks UK Commercial Sponsorship Proposal

Members received a report which sought the views of the Financial Scrutiny and Audit Committee on the establishment of a new company called National Park Partnerships Limited, a Company Ltd by Guarantee (CLG), to take forward the joint commercial sponsorship initiative for the fifteen National Parks in the UK.

It was recommended that to allow a small contingency, each National Park Authority would contribute £10,000 in Year 1 and allocate a further £10,000 within their medium term budget plan to allow for further investment in the project to facilitate the future success of the proposal should delays occur in the early years.

Members were informed that the new company, whilst being owned by NPAs, should be able to work quickly and be business like. It should therefore have the autonomy to make decisions to deliver its business plan, whilst still delivering within the context set by NPAs.

It was explained that membership of the Board would be by appointment by the wider membership (i.e. the NPAs, the fourteen UK National Park Authorities and the Broads Authority) and that it was proposed that NPA representatives should always be in the majority on the Board and that initially the Board would comprise of seven Members with four NPA and three external members.

It was then highlighted that agreeing to the national level sponsorship proposals would not hinder the right of individual National Park Authorities to

undertake local sponsorships, giving, joint-ventures or any commercial activity of a local nature.

As National Parks face an extremely challenging period of sustained budget decline which is severely impacting on the Authority's ability to deliver their core purposes members were made aware that after having reviewed and evaluated the potential opportunities for commercial sponsorship of National Parks at a UK level, The Authority considered it appropriate to support this initiative.

However, some members were concerned that the risk of the costs attached to the Commercial Sponsorship Proposal would escalate to the extent that the net return would be greatly diminished and doesn't justify the effort. There was a further concern whether all the partners would be equal and control the salary and administration on-costs so that they were proportionate and reasonable.

The Chief Executive responded that Members of the Company would be the 15 National Park Authorities (as defined this would include the Broads Authority), that the remuneration of the Directors would be decided by the Members as would be the oversight of expenditure and that the recruitment of the Directors had been delegated to four National Park Chairs.

He continued that the National Park Authorities would extract value from the Company via the Intellectual Property Licence Agreement which would be the route to limit the amount of other expenditure by the Company. The Chief Executive explained that the intention was that the majority of any income would be distributed equally to the Members, the National Park Authorities, and that the safeguard was that the ultimate authority rests with the 15 Members.

It was made clear to the Committee that the accounts for National Parks UK and the new company National Park Partnerships Ltd would be scrutinised by the National Park Chairs who represent the Members and that the purpose of the new company would be to facilitate corporate sponsorship for the 15 National Parks. The bulk of any money raised would be divided equally between the Parks, the 15 Park Authorities are equal in this endeavour and 4 had volunteered to do the work of appointing the Directors.

A member suggested it might be a good idea to restrict the administration cost to a certain percentage similar as the Authority did for the Sustainable Development Fund to which the Head of Governance and Executive Assistant responded that this would be a good idea but that it would be better for the directors to put a policy in place for this rather than put it in the Articles of Association.

The Chief Executive added that the Authority had already made provision in this year's budget for the payment of the initial £10,000 contribution and was of the view that the potential benefits of working with the 14 National Park Authorities on this endeavor outweighed the risk of losing the investment.

The Chief Executive's thoughts were shared by other members and it was mentioned that this would demonstrate to Ministers and the Government that the Broads Authority and National Park Authorities were actively looking for other sources of income.

RESOLVED

that the Committee confirmed the in principle decision by the Broads Authority:

- (i) that the establishment of a new Company Ltd by Guarantee, the 'National Park Partnerships Limited' to oversee the development of commercial sponsorship on behalf of the National Park Authorities and the Broads Authority be endorsed;
- (ii) that the Authority should become a signatory to the Members Agreement which binds all 15 UK National Park Authorities; and
- (iii) that a budget provision be made in 2015/16 for the potential second payment of £10,000

2/13 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.

2/14 Formal Questions

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

2/15 Date of the next meeting

Members noted that the date of the next Committee meeting would be held on Tuesday 7 July 2015 at Yare House, 62-64 Thorpe Road, Norwich, commencing at 2:00pm.

2/16 Exclusion of the Public

The Committee was asked to consider excluding the public from the meeting under section 100A of the Local Government Act 1972 for consideration of the item below on the grounds that it involves the likely disclosure of exempt information as defined by Paragraphs 1 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.

2/17 To receive and confirm the exempt minutes of the meeting held on 21 November 2014 (herewith)

The minutes of the meeting held on 21 November 2014 were approved as a correct record and signed by the Chairman.

The meeting concluded at 3.20 pm

CHAIRMAN

APPENDIX 1

Declaration of Interests

Committee: Financial Scrutiny and Audit Committee

Date of Meeting: 10 February 2015

Name Please Print	Agenda/ Minute No(s)	Nature of Interest (Please describe the nature of the interest)	Please tick here if the interest is a Pecuniary Interest ✓
D Broad	11	In receipt of pre-pay application advice at the moment	