

Broads Authority

Financial Scrutiny and Audit Committee

Minutes of the meeting held on 9 July 2013

Present:

Mr G McGregor – Chairman

Mr D Broad

Mr N Dixon

Mr P Durrant

Dr J S Johnson

In Attendance:

Dr J Packman – Chief Executive

Mr T Adam – Head of Finance

Ms H Ayers – Administrative Officer (Governance)

Mr J W Organ – Head of Governance and Executive Assistant

Also Present:

Mr D Riglar – Audit Manager, Ernst and Young

Mrs S King – Internal Audit Consortium Manager

Ms J Penn – Treasurer and Financial Adviser

4/1 Apologies for Absence

All members were present.

4/2 Matters of Urgent Business

There were no matters of urgent business.

4/3 Declarations of Interests

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

4/4 Minutes of the Financial Scrutiny and Audit Committee Meeting held on 12 February 2013

The minutes of the meeting held on 12 February 2013 were approved as a correct record and signed by the Chairman.

4/5 Public Question Time

No questions were raised by members of the public.

4/6 Statement of Accounts 2012/13

The Committee received a report summarising the Broads Authority's Statement of Accounts for the year ended 31 March 2013. Members noted that the Treasurer and Financial Adviser authorised the unaudited Statement of Accounts for issue on the 27 June 2013.

The Head of Finance summarised the general and navigation fund income and expenditure for the year. The original general fund budget provided for £272,434 to come from reserves. After accounting for £11,696 of interest transferred to earmarked reserves, the year end saw a net overspend of £12,340 (and it was proposed that £109,875 be carried forward as additional expenditure into 2013/14). The outcome was therefore a drawdown of £284,774 from the general reserve, reducing the general reserve to £648,055 as at 31 March 2013.

The navigation fund revised budget provided for a contribution of £197,886 to come from reserves. After accounting for £15,929 of interest transferred to earmarked reserves, the year-end saw a net overspend of £363,786 (and it was proposed that a further £162,576 be carried forward as additional expenditure into 2013/14). The outcome was therefore a draw-down of £561,672 from the navigation reserve, reducing the navigation reserve to £364,800 as at 31 March 2013.

The report set out proposals to the Authority for expenditure totalling £272,452 to be carried forward into the 2013/14 budget as slippage/deferred expenditure, which would effectively increase the net deficit for 2012/13 to £1,118,898.

Approval of these carry forward amounts would result in a general reserve balance of £538,180 and navigation reserve balance £202,224. This represents 15.5% and 6.9% of net expenditure for 2013/14 respectively and in the case of the navigation reserve is below the minimum recommended level of 10% of net expenditure.

A member enquired where the carry forward requests would appear in the Management Statements. The Head of Finance confirmed they would appear as an adjustment to the 2013/14 budget. Another member queried whether Navigation Committee members had agreed the carry forward item requests. It was confirmed that this was not additional expenditure and the Navigation Committee had previously approved the expenditure set out. It was noted that the carry forward process essentially represents an accounting process to report works which have slipped into the new financial year.

A member recommended that the consolidated earmarked reserves table in section 4.2 (page 6-7) would be clearer if this displayed some distinctions between National Park and Navigation earmarked reserves as per the notes on page 45. It was agreed that future reports should disclose as a note the total balance of Navigation earmarked reserves held within the overall earmarked reserve balances reported.

The position of the Authority's pension deficit, the 2013 valuation exercise and the likely impact of changes to accounting standards in 2013/14 were discussed. Members considered it would be prudent to consider the Authority's pension deficit position at an appropriate point.

Members agreed it would be helpful to schedule a member development tutorial on the Statement of Accounts prior to the September Broads Authority meeting. Members also agreed that it would be helpful to have a short tutorial for FSAC members in advance of the Committee receiving the Statement of Accounts in future years.

RESOLVED

that, subject to the amendments suggested by the committee, the Statement of Accounts for 2012/13 be recommended to the Broads Authority for approval.

4/7 Investment Strategy and Performance Annual Report 2012/13

The Treasurer and Financial Adviser reported that the forecast interest income from balances invested with Broadland might not be achievable going forward due to a combination of the lower rates currently available in the market, and the lower balance of reserves which the Authority had to invest following the drawdown of reserves in 2012/13.

RESOLVED

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

4/8 Proposed Revised Monitoring Format for 2013/14

The Committee received a report which set out the Broads Authority's Proposed Revised monitoring Format for 2013/14.

The proposed format should provide a stronger focus on the forecast outturn position (rather than potentially outdated actuals) for the Authority with the intention to afford members a better picture of the Authority's overall position and support them more effectively in their long-term, strategic decision-making role. It was also proposed that this format of reporting is similarly

applied to navigation income and expenditure reporting, providing consistency in financial reporting to all members and committees.

Amongst the key benefits would be better visibility of budgets, providing members with clearer information about approved changes to the original budget and minimizing the risk of distortions arising from approved in-year changes to the budget not being accurately reflected in variance figures through the use of the latest approved budget. This would result in a rounder picture.

Members' views were also sought on Appendix 2 which provided a sample of the proposed 'at a glance' view of consolidated actual and expenditure core and net charts.

One member commented that the formatting of monitoring reporting changes every year, but welcomed the current proposals by stating that they were exactly what members wanted to see. The same member was less comfortable with the graphs, stating that he found them "busy looking", but was happy to trial them. Another member stated that they liked the new tables and found them quite easy to interpret but highlighted that this format would require members to have a high level of confidence in the data, especially forecast outturn which can differ from actual and asserted that the main thing was that budgets set at the beginning of the year will be delivered.

The Chairman stated that early warning signs were needed via actuals (to illustrate any under or over spend) or similar to highlight, for example, if the Director of Operations was unable to deliver something. Recognition of this requirement was supported by a member who also confirmed that the Authority's profiling was improving. The Head of Finance confirmed that a summary of significant actual variances could be included in reporting.

RESOLVED

that the proposed revised monitoring format was accepted by members for recommendation to the Authority, subject to the above recommendations.

4/9 Standing Orders Relating to Contracts

The Committee received a report setting out changes to the Authority's Standing Orders Relating to Contracts and also appended, for views, was the proposed process to be applied in the procurement of a second new wherry which invited members to consider whether a waiver of Standing Orders or a new tender exercise was appropriate.

Following the February Financial Scrutiny and Audit Committee, the changes agreed to Standing Orders were made as follows:

- Paragraph added at 6.(i) to allow a specific exemption to Standing Orders where expenditure is to be undertaken which is funded 50% or more by a partner organisation, where that organisation has previously completed a procurement process that is sufficiently robust that the Authority can be confident the expenditure represents good value for money.
- Paragraph added at 8(d) to clarify the procedure to be applied where an initial contract estimate was significantly different to the actual quotations received, to the extent that an alternative procurement process should have been followed.

Further proposed amendments were reported to be made to paragraphs 17(c) and 19(f) to provide clarity about the procedure for the receipt and handling of electronic tender submissions. Following consultation at the February meeting and the Authority's Management Team and Forum, the threshold of £25,000 at which tenders were deemed necessary to be sought was viewed as appropriate with no requirement to increase at this time.

In 2012 the Authority completed a tendering process for a new wherry following an open advertisement and as part of the tender, tenderers were asked to supply an optional price for the supply of a second wherry. A need for a further wherry has been identified as part of the Authority's Asset Management Plan which has been costed by the successful tenderer of the first wherry (i.e. John Kearney Ltd) at £107,000. This was considered to be competitive and officers were minded to procure the new wherry via a waiver of standing orders. However, given the value of the order, the committee was asked for their views on whether this was acceptable or whether a new tender should be advertised.

The committee Chairman enquired whether the first wherry supplied by John Kearney Ltd was entirely satisfactory which the Director of Operations confirmed that it was indeed. Another member queried whether re-advertising the tender (and hence a lag in confirming another order with Kearney) would impact their costing for the second vessel. Similarly, another member raised a concern that Kearney could increase the price if the Authority went back out to market as the revised cost is already £12,000 greater than the original cost. The Director of Operations assured members that the £12,000 increase was primarily due to design factors and that Kearney would be invited to re-tender if re-advertised and reminded members that the first tender process was very robust and following a £2,500 national advertisement, John Kearney Ltd quoted lower than the next lowest bid and also scored most highly on other factors such as build quality and health and safety. Further, that the first round of tendering indicated no differences in terms of economies of scale. The Director of Operations stated that it could be valid to go to tender and time-wise the Authority could afford to wait approximately two months before placing an order but any further delay was likely to impact operations as one of the wheries was currently being broken up for scrap. Another member asked whether the Director of Operations could report on

the procurement of a new wherry to the next meeting of the Navigation Committee.

Members considered that the most appropriate route would be to issue a waiver to standing orders relating to contracts, given the difference between the original tenders and the potential cost of re-advertising.

RESOLVED

- (i) that the proposed amendments to the Standing Orders Relating to Contracts be approved; and
- (ii) that a waiver of standing orders relating to contracts be raised to facilitate the procurement of a second new wherry from the original contractor.

4/10 Review of the Effectiveness of Internal Audit

The Committee reviewed a report from the Internal Audit Consortium Manager concerning the annual review of the effectiveness of Internal Audit for 2012/13. Members noted that this review was required to be conducted annually in accordance with the Accounts and Audit Regulations 2011. The report sought to confirm that proper arrangements had been made to comply with these statutory requirements and presented evidence to members that the critical assurances provided were reliable and based upon a firm foundation, and that the service itself was operating effectively such that reliance could be placed on the annual audit opinion given subsequently. Members noted that the Internal Audit service was benchmarked against a range of eight measures.

Members noted that all performance targets have been met or exceeded during 2012/13. Internal Audit assessed that the standards of internal control had remained satisfactory over the previous 12 months, meriting an adequate (positive) audit opinion. The year end audit recommendations had indicated that there continued to be a good level of audit recommendations being progressed, with 83.3% being recorded as implemented. Members also noted that no significant weaknesses in fundamental systems were identified during Internal Audit's assessment of internal controls.

A member queried how the performance percentages for the Internal Audit Service were determined, to which the Internal Audit Consortium Manager advised that the performance of one audit could skew the overall percentage.

A member questioned whether any assessments were performed on the committee members to which the Internal Audit Consortium Manager confirmed that although to date, specific work had not been carried out in this area, there was potentially scope in the future to do so. The new Public Sector Internal Audit Standards indicate a need to perform some scrutiny of

ethical governance arrangements which would impact on members. It was agreed that a wider discussion on the subject was required.

RESOLVED

that the findings of the report and the evidence given in support of the effectiveness of the Internal Audit Service be noted and taken into consideration when receiving the Internal Audit Consortium Manager's Annual Report and Opinion, and the Authority's Annual Governance Statement.

4/11 Internal Audit Annual Report and Opinion 2012/13

The Committee received a report summarising the outcomes of Internal Audit work undertaken in 2012/13, including an annual opinion to inform the Authority's Annual Governance Statement.

Members noted that the cost of Internal Audit had fallen in 2012/13, due to the completion of a reduced Audit Plan compared with the previous year as a result of work pressures facing the organisation's IT infrastructure and staffing resources, caused partly by the relocation of the organisation to new offices in Q3.

The report concluded that the internal control environment at the Broads Authority was "adequate" during 2012/13 for the overall adequacy and effectiveness of the organisation's governance, risk and control framework. Further, Corporate Governance and Risk Management arrangements for the year ended 31 March 2013 received a "good" assurance. As at 31 March 2013, there were no outstanding high priority recommendations, and in terms of the overall implementation of agreed recommendations, of 18 requiring action in year, 83.3% had been fully completed whilst 16.7% were outstanding. Members also noted that good progress had been made with regards to the implementation of recommendations from the previous audits, in terms of both key financial systems and other operational and governance related areas.

A member queried when the deferred IT audit would be conducted. Assurance was given to members that this was already planned in early 2013/14, with days already allocated in the Annual Audit Plan for the subsequent IT audit to be undertaken, thus ensuring continuity of computer audit coverage going forward. Another member highlighted the increase in South Norfolk District Council's management cost over the last period for internal audit, which rose from £3,360 to £4,410. Members expressed concern about this increase, and the Internal Audit Consortium Manager agreed to provide the Committee with further details explaining why costs had risen.

RESOLVED

that the annual report and audit opinion for 2012/13, and in particular the opinions on the internal control environment, Corporate Governance arrangements and systems of Risk Management be noted.

4/12 Annual Governance Statement

The Committee received a report providing the Annual Governance Statement for 2012/13, together with the 2013/14 Action Plan and a summary of progress against the 2012/13 Action Plan.

Members noted that the Treasurer and Financial Adviser and Monitoring Officer had provided an assurance that the Authority's governance arrangements were adequate and were operating effectively and that there had been no significant control issues that had required the need for formal action in their respective roles. Members also noted the Internal Audit opinion that there were no significant issues to be highlighted within the Authority's Annual Governance Statement. The Committee therefore concluded that proper arrangements had been put in place to comply with the statutory requirements relating to Internal Audit and that the system of internal control at the Authority was effective.

Members considered that it would be helpful to include further detail on the appointment of the two Independent Persons within paragraph 3.12 of the Annual Governance Statement and the detail of the number of complaints and their outcomes within paragraphs 3.19 and 4.4. Further minor amendments were also identified for incorporation.

RESOLVED

- (i) that the Annual Governance Statement for 2012/13 and Action Plan for 2013/14, following the incorporation of the amendments agreed by the Committee, be recommended to the Authority for approval; and
- (ii) that, subject to implementation of the improvements identified in the Action Plan, the Authority's internal control systems and governance arrangements were considered to be adequate and effective.

4/13 External Audit Plan for 2012/13

The Committee received a report concerning the External Auditor's Audit Plan for the 2012/13 audit. The Plan set out the work which Ernst & Young proposed to undertake for the audit of financial statements and the Value for Money conclusion for 2012/13.

Members noted that the audit fee reduced by 40% (to £13,943) when compared to 2011/12 which was in-line with the Audit Commission's

announcement on scale fees and that provision for the audit fee was included in the 2012/13 budget and had been charged to the accounts for the year.

RESOLVED

that the Audit Plan for the 2012/13 audit be noted.

4/14 External Audit Annual Audit Fee 2013/14

Members noted that the External Audit fee from Ernst & Young for 2013/14 would be £13,943, which represented no change when compared with the audit fee charged for 2012/13. The Audit Commission rebate for 2012/13 amounted to £1,200, with a similar rebate anticipated for 2013/14.

RESOLVED

that the Audit Annual Audit Fee for 2013/14 be noted.

4/15 Implementation of Internal Audit Recommendations: Summary of Progress

The Committee received a report providing an update on progress in implementing Internal Audit recommendations arising out of audits carried out since 2008/09.

Two further audits had been carried out since the previous meeting of the Committee. The audit on Key Controls had generated one Medium priority and resulted in an "Adequate" assurance. Members noted the Medium priority recommendation had already been implemented. The audit on Corporate Governance and Risk Management had generated one Low priority recommendation only, which had been implemented, and had overall received a "Good" assurance.

RESOLVED

that the report be noted.

4/16 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.

4/17 Formal Questions

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

4/18 Date of Next Meeting

The next meeting of the Committee would be held on Thursday 19 September 2013 at Yare House, 62-64 Thorpe Road, Norwich, commencing at 2:00pm.

4/19 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 following item on the grounds that it involved the likely disclosure of exempt information as defined by Paragraph 3, of Part 1 of Schedule 12A to the Act as amended, and that the public interest in maintaining the exemption outweighed the public benefit in disclosing the information.

4/20 To receive and confirm the exempt minutes of the meeting held on 12 February 2013

The exempt minutes of the meeting held on 12 February 2013 were approved as a correct record and signed by the Chairman.

The meeting concluded at 4.10pm

CHAIRMAN

APPENDIX 1

Declaration of Interests

Committee: Financial Scrutiny and Audit Committee

Date of Meeting: 9 July 2013

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 ✓
G McGregor		Member of Suffolk County Council	
D A Broad		Toll Payer, Member of Great Yarmouth Port Consultative Committee	