Audit and Risk Committee

Agenda 03 March 2020

2.00pm

Yare House, Thorpe Road, Norwich, NR1 1RY

Introduction

1. To receive apologies for absence

2. Introduction of members and declarations of interest

3. To note whether any items have been proposed as matters of urgent business

4. Public question time – to note whether any questions have been raised by members of the public

5. **To receive and confirm the minutes of the Audit and Risk Committee meeting held on 19 November 2019** (Pages 3-9)

Financial direction

6. **Investment strategy and performance report 2019/20 and draft capital, treasury and investment strategy 2020/21** (Pages 10-29)
   Report by Chief Financial Officer

7. **Consolidated income and expenditure – 1 April to 31 January 2020 actual and 2019/20 forecast outturn** (Pages 30-47)
   Report by Chief Financial Officer

Audit

8. **Internal audit strategy and annual plans 2020/21** (Pages 48-57)
   Report by Internal Audit Manager

9. **External audit** (Pages 58-145)
   Report by Chief Financial Officer / EY

10. **Implementation of internal audit recommendations: summary of progress** (Pages 146-166)
    Report by Chief Financial Officer

Other Matters

11. Other items of business
    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
12. To answer any formal questions of which due notice has been given
13. To note the date of the next meeting on **Tuesday 21 July 2020** – at 2.00pm at Yare House, 62/64 Thorpe Road, Norwich

Audit and Risk Committee

Minutes of the meeting held on 19 November 2019

Contents

Present

Louis Baugh, Bill Dickson, Lana Hempsall, Nicky Talbot, Fran Whymark.

In attendance

John Packman – Chief Executive, Esmeralda Guds – Administrative Officer (Governance), Emma Krelle – Chief Financial Officer, Mark Hodgson – Audit Partner from External Audit Ernst & Young.

1. Apologies and welcome

The Chairman welcomed everyone to the meeting, in particular the new Committee members Lana Hempsall and Fran Whymark, and Mark Hodgson from Ernst & Young.

Apologies were received from Greg Munford and Tristram Hilborn.

Openness of Local Government Bodies Regulations 2014

The Chairman reminded Members that the meeting would be recorded as a back-up for accuracy. The Broads Authority retained the copyright. If a Member or a member of the public wished to receive a copy of the recording, they should contact the Governance Team. No one else indicated that they would be recording or filming the meeting.

Committee papers and accessibility

The Chief Executive referred to the new format and style of the papers, which had been redesigned to comply with the accessibility regulations for public sector websites that came into effect in September 2018. He paid tribute to the Governance, Communications and IT teams in implementing this change, commenting that it had required a considerable amount of work and a radical change to the process of compiling the reports. Feedback from members would be welcomed.

2. Appointment of Chair

The Chief Executive reported that nominations for the Chair had been invited in line with the procedures set out in the Standing Orders adopted in November 2018 and following on from the decisions by the Authority in May 2018 as a result of the Peer Review.

Louis Baugh had been proposed by Bill Dickson, seconded by Nicky Talbot. As there were no further nominations, **it was resolved** that Louis Baugh was appointed as Chairman of the Audit and Risk Committee.

Louis Baugh in the Chair.

3. Appointment of Vice-Chair

Louis Baugh had proposed the nomination of Nicky Talbot as Vice-Chair seconded by Bill Dickson. As there were no further nominations, **it was resolved** that Nicky Talbot be appointed as Vice-Chair of the Audit and Risk Committee.

4. Introduction of members and declarations of interest

Members introduced themselves and indicated they had no further declarations of interest other than those already registered.

5. To note whether any items have been proposed as matters of urgent business

There were no items of urgent business.

6. Public question time - to note whether any questions have been raised by members of the public

No public questions had been received.

7. To receive and confirm the minutes of the Audit and Risk Committee meeting held on 23 July 2019

The minutes of the meeting held on 23 July 2019 were approved as a correct record and signed by the Chairman.

8. Statement of Accounts 2018/19

Members received a report updating them on the Authority's Statement of Accounts and its audit for the year ended 31 March 2019. The Chief Financial Officer (CFO) confirmed that the audit was completed on 15 November and gave a verbal update on the report.

The CFO reported that the Norfolk and Suffolk Broads Act 1988 requires that the Secretary of State lays the accounts and annual report before Parliament each year. Although this had not happened in the past, Defra is arranging for it to happen going forward. The guidance on laying papers requests that the Statement of Accounts is laid before Parliament and is not made publicly available. This is in conflict with the Accounts and Audit Regulations 2015, which require the Broads Authority to publish and share the accounts with the public in a timely manner.

A member asked about a potential early repayment of the Public Works Loan, which was due to be repaid in 2027. It was explained that paying off the loan early had not been financially viable because, when previously explored, the penalty attached to this had exceeded the benefit. However, this would be reassessed and brought to members at the next meeting.

A member asked about the Pension Fund Deficit and whether it was sustainable. It was explained that the fund was revalued every three years to assess its assets and liabilities and whether the current level of contributions was adequate. In addition, the Authority participates in a stabilisation mechanism to smooth the changes to contributions with the long-term aim of being 100% funded in 20 years. The Audit Partner commented that the Norfolk Pension Fund was one of the better funded Local Government Pension schemes and agreed with the CFO's comments.

It was confirmed that the Authority was still a member of the Local Government Association, and there were no plans to change this.

There was some discussion about how the accounts were presented. It was explained that the accounts follow the guidance set out by CIPFA. This meant the income and expenditure was analysed by directorate, as this was how the Authority received finance reports throughout the year. It was not practical to disclose more than the current year and previous year for comparison. However, further information could be obtained from the Authority's Finance Team.

Members recommended the Statement of Accounts for 2018/19 to the Broads Authority for approval.

9. Annual audit results 2018/19

The Committee received a report that appended the draft Annual Audit Results for 2018/19 prepared by the external auditors Ernst & Young (E&Y).

The Audit Partner of E&Y reported on the status of the audit and advised that there were no matters to report; all but one of the outstanding works on page 100 had been or would be completed after today's meeting, to be followed up by the Broads Authority's approval of the accounts on Friday.

The Audit Partner also reported that no matters were raised against any of the risks mentioned on pages 104-109, although he noted the impact on the pension disclosure around the Mcloud and Guaranteed Minimum Pension legal case.

The Audit Partner apologised for missing the ARC meeting in July. He acknowledged that the previous audit date in July had been missed, but said he had issued an audit opinion in the window made available to him. He continued that the CFO had been invited to a meeting in January to discuss 2019/20 close down and audit planning to review any issues that had occurred during the 2018/19 audit. Members were assured that the accounts had received an unqualified opinion, and noted the apology.

It was noted that Defra would receive the final version of the Statement of Accounts, but would not be able to lay them before Parliament until January.

Members noted the Annual Results 2018/19 and recommended that the Letter of Presentation in connection with the Audit of the Financial Statement for 2018/19 was signed by the Chief Financial Officer and the Chairman of the Audit and Risk Committee.

10. Preparation for the 2020/21 budget including 2019/20 actuals

The Committee received a strategic overview of key financial issues and items, and a presentation highlighting the budget timeline and 2020/21 issues and possible budget additions. The CFO said the suggested approach was to plan for a deficit budget for 2020/21, which would be balanced from reserves, and wait for final indication of the National Park Grant. The Authority would then undertake a full cost review in year for 2021/22 budget preparation.

The CEO confirmed that the Navigation Reserve could not be used to fund 50% of the proposed pontoons at Peto's Marsh. He explained that the navigation budget was sensitive to change and needed to be self-funding. The CFO added that it would be very difficult to bring reserves up to the recommended level if they were to fall below the 10% mark. The Chairman clarified that a reserve minimum of 10% had previously been agreed with the auditors and should not be used to fund revenue expenditure.

Members noted the budget process for 2020/21 and the income and expenditure figures.

11. Risk management register and policy: update

Lana Hempsall left the meeting at this point.

Following recommendation from the internal auditors, the Authority's Corporate Risk Register (previously called the Strategic Risk Register) and Risk Management Policy had been reviewed and updated. The corporate register now only contained high level strategic risks using a 5x5 matrix rather than a 3x3 matrix. More detailed Directorate registers sat under this register, covering operational, lower level risks.

The Committee was reassured that the risk around the fraud incident earlier this year was included in the Corporate Risk Register and that mitigating actions reducing this risk had been put in place.

The Audit Partner suggested including a clear definition of when a risk was classified as a corporate risk. He further suggested that, as well as having a mechanism to move risks up from the directorate registers to the corporate register, there should be a process that would move risks from corporate to directorate level.

The Audit Partner left the meeting at this point.

Members recommended the updated Corporate Risk Register and Risk Management Policy to the Broads Authority. Members also acknowledged the point made by the External Audit Manager with regards the risk trigger point at which risks moved from Corporate to Directorate risk. A paper from officers at the next meeting would inform any necessary amendment of the Risk Management Policy.

12. Corporate partnerships register

Members noted that the Authority's Corporate Partnerships Register had been updated.

It was suggested that the definition of a partnership in paragraph 1.3 should be strengthened by including the requirement of a financial relationship.

Members noted the updated Corporate Partnership Register.

13. External audit

The members received a report that appended The Local Government Audit Committee Briefing by Ernst & Young.

Members noted the report.

14. Implementation of internal audit recommendations: summary of progress

Members were updated on the progress in implementing Internal Audit recommendations arising out of audits carried out during 2017/18, 2018/19 and 2019/20.

The CFO outlined the outstanding recommendations for branding. Recommendation 1 on page 205 had been completed and the deadline for the remaining three had been extended until the end of December. Feedback would be provided at the March 2020 ARC meeting. The Head of Communications would make a presentation to the Authority soon, updating them on the branding strategy.

Members noted the report.

15. Other items of business

There were no items of urgent business for consideration pursuant to Section 100B (4) (b) of the Local Government Act 1972.

16. Formal questions

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

17. Date of the next meeting

Members noted that the date of the next Committee meeting would be held on Tuesday 3 March 2020 at Yare House, 62-64 Thorpe Road, Norwich, commencing at 2.00pm.

The meeting ended at 3.45pm

Signed by

Chairman

Appendix 1 - Declaration of interests - Audit and Risk Committee, 19 November 2019

Member	Agenda/minute	Nature of interest
Louis Baugh	-	None
Bill Dickson	-	None
Lana Hempsall	-	None
Nicky Talbot	-	None
Fran Whymark	-	None

Audit and Risk Committee

03 March 2020

Agenda item number 6

Investment strategy and performance report 2019/20 and draft capital treasury and investment strategy 2020/21

Report by Chief Financial Officer

Summary

This report contains two items:

i. Details of the Authority's investment of surplus cash, including the investment principles adopted and performance during the ten months to 31 January 2020.

ii. The Draft Capital, Treasury and Investment Strategy 2020/21.

Recommendation

i. That the current arrangements regarding the investment of surplus cash are noted.

ii. That the Draft Capital, Treasury and Investment Strategy is recommended to the Authority for approval.

1. Introduction

1.1. It has previously been agreed that a report on the performance of the Authority's investments will be presented to the Audit and Risk Committee, with a fuller 'year-end analysis' at the July meeting, and a mid-year progress report at the appropriate half year meeting.

2. Investment principles and performance

2.1. The investment of surplus cash is governed by the Authority's Treasury and Annual Investment Strategy 2019/20. Details of this strategy renewal can be found in paragraph 3.1.

2.2. As detailed in the strategy the Authority's primary concern is to safeguard its capital and the liquidity of its investments. Surplus cash sums are monitored on a weekly basis by the Authority's Finance staff and transferred as and when required to appropriate institutions listed in the Strategy. Cash flow requirements can result in transfers in both directions as the year progresses. The key facts for the ten months to 31 January 2020 were:

Table 1
Investment Holdings 2019/20

Type	Opening Balance £	Closing Balance £	Highest Sum £	Lowest Sum £
Two 1 year £1,000,000 Fixed Term	2,000,000	2,000,000	2,000,000	2,000,000
95 Day Notice Account	1,500,000	1,500,000	1,500,000	1,500,000
32 Day Notice Account	0	500,000	500,000	0
Instant Access	1,526,000	1,032,000	2,607,000	721,000

2.3. There has been one maturity in September of a Fixed Term investment which was reinvested for a further period of one year (£1 million). The Authority also invested additional amounts in its 32 days' notice account in August to reduce funds held in the Business Premium Account (instant access). The current portfolio has meant that interest income is forecast to beat previous budget predictions.

2.4. The figures for the previous year (2018/19) were:

Table 2
Investment Holdings 2018/19

Type	Opening Balance £	Closing Balance £	Highest Sum £	Lowest Sum £
Two 1 year £1,000,000 Fixed Term	2,000,000	2,000,000	2,000,000	2,000,000
95 Day Notice Account	500,000	1,500,000	1,500,000	500,000
Instant Access	1,530,000	1,140,000	2,670,000	661,000

2.5. It should be noted that the automatic transfer between the instant access and the current account seeks to maintain a current account balance of £1,000. This means that the balance within the instant access is not available in its entirety for investment. This is particular important for the Heritage Lottery Fund and CANAPE projects which are claimed either three or six months in arrears. Payment can then be a further three to six months after submission.

2.6. Interest earned to the end of January is £25,422.50 and is forecast to increase to £47,500 by the end of March. This is based on interest rates that range from 0.65% to 1.1%. There is a fixed term deposit maturing in March which is likely to be reinvested for a further one year. An update will be provided during the meeting.

2.7. The amount of interest received during 2018/19 was £37,052.60 based on interest rates ranging from 0.4% to 1.1%. Forecast interest for 2018/19 was £35,000.

3. Draft Capital, Treasury and Annual Investment Strategy 2020/21.

3.1. The Prudential Code requires local authorities to produce an Annual Investment and Capital Financing (borrowing) strategy. This must be approved before the start of each financial year, by the Broads Authority.

3.2. A draft can be found in Appendix 1 which incorporates the latest CIPFA guidance from its Capital Finance in Local Authorities Guidance Notes (2018). The capital strategy has can be found on pages three to six of the appendix. There have been no changes to the Treasury Strategy which can be found on pages seven to twelve of the appendix.

3.3. The annual investment strategy has been updated to reflect current holdings in paragraph 3.1. Paragraph 4.2 highlights the impact that the introduction of IFRS 16 Leases will have on the Authority. Where leases are included under the adoption of IFRS 16 it will increase the Authority's assets as well as its other long-term liabilities (borrowings). As a result, the authorised level of capital expenditure and debt may need to increase for 2020/21 and beyond. A detailed analysis of the effect will be produced as part of the Statement of Accounts. Where amounts need to be revised as part of this analysis these will be reported back to the Broads Authority at the earliest opportunity.

3.4. The Capital Receipts Reserve balance as set out in 4.3 is subject to consultation with the Navigation Committee and the Broads Authority regarding the early repayment of the Public Works Loan Board long term loan. The reserve can be used to fund capital expenditure or the repayment of debt. Whilst current indicative figures show that this is affordable, the potential to deliver new toilets and shower facilities at Acle would be difficult to deliver without additional debt or an increase in tolls. The budget for 2020/21 onwards makes ongoing provision for the repayment of the loan.

3.5. Members' views are sought on the draft prior to the full Authority on 20 March 2020.

Author: Emma Krelle

Date of report: 17 February 2020

Appendix 1 – Capital Treasury and Investment Strategy 2020-21 DRAFT

Capital, treasury and investment strategy 2020/2021

Contents

Capital Strategy

1. Introduction

1.1. The update of CIPFA's Prudential Code in December 2017 and Capital Finance guidance notes in September 2018 introduced the need for Local Authorities to have a Capital Strategy from 2019/20. It is intended to provide a high level overview of how capital expenditure, capital financing and treasury management contribute to the provision of services and how the risks of these activities is managed and what impact it may have for future financial sustainability.

1.2. The Capital Strategy will be renewed annually. Monitoring and approval of the strategy will remain with the Authority.

1.3. The Capital Strategy provides a link between The Broads Plan, Strategic Priorities, the Asset Management Strategy and the Financial Strategy.

1.4. The current Broads Plan covers the period of 2017-2022. It is a partnership strategy for the whole of the Broads and sets out guiding actions not just for the Authority but all partners. Its success very much depends on a common vision, strong partnership working and the best use of shared resources. The plan is available on the website including a six monthly newsletter which provides updates on progress.

1.5. The Authority's Strategic priorities are set annually by the members in line with objectives in the Broads Plan. Progress against the Strategic priorities is reported regularly to the Broads Authority and details can also be found on the website.

1.6. The Asset Management Strategy sets out the Authority's practices and procedures which have been established to ensure that the Authority's land, property and other assets are managed and maintained as effectively as possible. It also sets out a series of key principles which will be adhered to in the management of the asset base and guidance on the procurement and disposal of land and property. A copy is also available on the website.

1.7. The annual Budget and Financial Strategy includes capital expenditure for the forthcoming year and the following two financial years. The earmarked reserves appendix identifies what capital expenditure will be funded in each year. Although the later years are based on the replacement programmes the last two financial years should be seen as estimates. These estimates maybe updated as a result of refining the costings during budget setting for those years.

2. Core principles

2.1. All capital expenditure and investment decisions will be affordable, prudent and sustainable.

2.2. Decisions to invest or dispose of capital items will comply with the Authority's delegated powers, standing orders and financial regulations.

2.3. Capital expenditure will reflect the aspirations set out in the Broads Plan and the Strategic Priorities.

2.4. New areas of major capital expenditure (£250,000 plus) will be supported by a fully costed appraisal over the lifetime of the scheme and incorporated into the annual budget. Risks will be fully considered, not just during initiation but over the lifetime of the asset including its potential disposal.

3. Capital expenditure

3.1. Whilst other Local Authorities have large capital expenditure programmes to fund housing and regeneration projects the Authority's expenditure remains modest and focuses on operational need. Items of major capital expenditure are identified through the Asset Management Strategy replacement programme and as part of the budget setting process. Items of expenditure over £5,000 that have a useful economic life of more than one financial year are classified as capital expenditure.

3.2. Capital Expenditure can be funded via a number of methods. These include revenue budgets, earmarked reserves, finance leases, long term borrowing and capital receipts. All capital expenditure on physical assets is held on the Balance Sheet under Property, Plant and Equipment. At the end of 2018/19 the value of these items was £4.7m, of which £190k was funded by finance leases.

3.3. Traditionally revenue budgets tend to fund the smaller items such as tools and equipment. However larger Navigation items can be funded through revenue as a result of tolls setting. For 2018/19 the level of tolls was increased to facilitate the purchase of Tree Shears. In 2017/18 the moorings maintenance programme was rescheduled to enable the purchase of Acle Bridge moorings from revenue. The ongoing maintenance of assets is funded by revenue budgets and is not capitalised. Cost estimates are made on the basis of forecast maintenance required to keep assets in operational use.

3.4. Through identification of the Asset Management Strategy annual contributions are made from the revenue budget to the earmarked reserves to cover the cost of future replacements. Balances are built up and then drawn down in future years. Replacement costs are regularly monitored to ensure that the contributions remain appropriate to the earmarked reserves. Where adjustments are required this will be forward to the Authority as part of the annual budget setting process.

3.5. Although long term borrowing remains an option to the Authority it is not regularly utilised for capital expenditure. At the end of 2018/19 the balance sheet contained one long term loan which had an outstanding balance of £109k. Further details can be found in the Treasury Management Policy Statement on borrowing principles (section 2.3).

3.6. The Authority currently holds one capital receipt following the disposal of Ludham Fieldbase in August 2018. Capital receipts can be used to fund new capital expenditure or the repayment of debt. It is currently being held on the balance sheet. The option of repaying the long term borrowing is currently being explored. This will involve consulting Navigation committee followed by the Broads Authority, in April and May respectively. The use of the reserve to repay the loan will mean future capital projects such as new facilities, such as shower and toilet facilities at Acle Bridge moorings, will not be delivered in the short to medium term without additional borrowing or a large increase in tolls.

4. Short, medium and long term capital priorities

Short and medium term priorities (1-3 Years)

4.1. The Authority's short to medium term priorities is delivering the asset replacements detailed within the Asset Management Strategy and Earmarked reserves. The focus is on continued operations but with the potential to remain flexible as new opportunities for efficient working arise or if urgent items arise. Replacement items to be funded over the next three years include vehicles, excavators, wherries and Ranger launches. All of which will be funded from the Earmarked reserves.

4.2. It is expected that during the short to medium term that the potential options around Visitor Services and facilities will be explored following the loss of the information centre at Whitlingham Country Park. As options for new sites are developed these will be brought back to members with a business case. The key issue for new sites remains initial funding which will be explored through potential funding bids and partnership. As this progresses papers highlighting risks will be taken to the Authority for members to make the final decision.

4.3. The use of reserves other than earmarked reserves will require approval from the Authority. The impact of loss of investment income will need to be offset by the benefits of such a capital project.

Long term priorities (4 years plus)

4.4. The Authority's long term priorities will be shaped by future funding agreements received from DEFRA in the form of National Park Grant and potential toll increases. Reductions to either forms of income could impact the potential to replace assets as they near the end of their useful lives and ongoing maintenance programmes. Long term priorities, will need to ensure that they will generate income to fund their upkeep and any reduction in investment income.

4.5. Larger items of equipment such as the wherries and launches can be operational anywhere between 20 and 50 years. It is essential that their ongoing maintenance is incorporated into the revenue budget and the contributions to the earmarked reserves continue.

4.6. The moorings refurbishment programme remains a key area of maintenance to ensure that moorings remain safe to use by the public. Where the Authority is responsible for future piling and upkeep it will seek to own sites or minimise rental payments in recognition for this ongoing responsibility.

5. Risk appetite

5.1. The Authority's risk appetite towards capital expenditure remains low and will be based around the core principles. Funding of capital items will continue mainly through existing resources but on occasion finance leases or other borrowing maybe appropriate. Borrowing principles are set out in the Treasury Strategy (section 2.2) and the forecast of capital expenditure and borrowing limits is in the Investment Strategy (section 4).

5.2. The Authority recognises the importance of ensuring that all staff involved in the capital strategy are equipped to undertake the duties and responsibilities allocated to them. Recruitment of vacant posts will reflect this position and training opportunities will be identified through the annual Individual Performance Review (IPR).

5.3. It is recognised decisions surrounding land and buildings carry a higher degree of risk. Where opportunities arise of acquisition or disposal the Authority will make use of its property consultants and legal advisers to ensure these risks are fully understood.

Treasury strategy

1. Introduction

1.1. Both CIPFA's Treasury Management Code of Practice (2017 Edition) and the Prudential Code requires the Authority to produce a strategy which explains the Authority's borrowing and investment activities and the effective management and control of those risks. This strategy seeks to incorporate the best practice recommendations from this guidance whilst also bearing in mind the Guidance for Smaller Public Service Organisations (2014 Edition).

2. Treasury management policy statement

2.1. The Authority defines its treasury management activities as:

- The Management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; the pursuit of optimum performance consistent with those risks and any financial instruments entered into to manage these risks.

- The Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

- The Authority acknowledges that effective treasury management will provide support towards the achievement of its strategic objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance management techniques, within the context of effective risk management.

Borrowing principles

2.2. The Authority intends to fund all of its capital expenditure from either its earmarked reserves, capital receipts or from its revenue accounts. However if any of those accounts hold insufficient funds borrowing maybe considered.

2.3. The Authority currently has one long term loan from the Public Works Loan Board that was utilised to purchase the dredging operation from May Gurney in November 2007 for £290,000. This is to be paid over a 20 year period at a fixed interest rate of 4.82%. Repayments are incorporated into the revenue budget. However, the loan may be repaid during 2020/21 subject to member approval.

2.4. The Authority also has the option to enter into finance leases to purchase capital items. Typically this has included the purchase of large pieces of equipment such as the JCB, the Doosan excavator and the concrete pump. International Financial Reporting Standards include these types of leases as borrowing due to the risk and reward of the asset transferring to the Authority.

2.5. If additional borrowing was deemed necessary following committee consultation then the Authority would need to minimise the costs to the revenue budgets including future year repayments and undertake new borrowing at the cheapest cost.

Investment principles

2.6. The Authority's main objective is the prudent investment of its treasury balances. The main priorities are the security of capital and the liquidity of its investments. It will be only after these have been satisfied that it will aim to achieve optimum return on its investments. The Authority will not engage in borrowing purely to invest or to on-lend to make a return. Such activity is considered unlawful.

Treasury management practices

Risk management

2.7. The Authority adopts a low risk appetite to its treasury management but is not totally risk averse. It will invest with other institutions with appropriate credit ratings rather than just making use of government deposits. If additional borrowing should be required it will seek to borrow on a fixed rate basis to build in assurance for future year liabilities.

2.8. As part of the Authority's corporate and directorate risk registers risks are monitored and managed on a regular basis. This includes investment risks. Strategic risks are reported at least twice a year to the Audit and Risk Committee. Responsible Officers review these throughout the year and are discussed at Directorate meetings.

2.9. Risks specific to treasury management include:

- **Credit and Counterparty:** The main objective of the Authority is to secure the principal sum it invests and therefore takes a prudent approach as to whom it invests funds with. This is limited to organisations who meet minimum criteria and is covered in more detail within the investment strategy. The Authority also faces this risk through the default of its debtors. Payment terms are limited to 30 days or where appropriate payment is asked for in advance. Corrective action is taken as required to secure outstanding debts. Bad debts are kept to a minimum.

- **Liquidity:** The Authority will maintain adequate cash balances and borrowing arrangements to enable it to achieve its strategic objectives. The Authority will only borrow in advance of need where there is a clear business case to do so and will only do so for the current capital programme. Debt repayments are included in the annual revenue budget.

- **Interest rate:** The Authority will manage its exposure to fluctuations to interest rate risks in line with its budgets. It will achieve this through the prudent use of its approved instruments, methods and techniques to create stability and certainty of costs and revenues, whilst remaining sufficient flexibility to take advantage of unexpected changes to interest rates. The Authority will limit fixed term deposits to a period of no longer than one year to limit risks to liquidity.

- **Exchange rate:** The Authority will manage its exposure to fluctuations in exchange rates to minimise any impact on its budgeted income/expenditure levels. External advice will be sought to manage this in the most appropriate way as it could have a significant impact; this is particularly important in regards to EU grants.

- **Inflation:** The Authority will keep under review the sensitivity of its treasury assets and liabilities to inflation, and will seek to manage the risk accordingly in the context of the whole Authority's inflation exposures.

- **Re-financing:** If the Authority was in a position to re-finance its borrowing it will ensure that such arrangements are negotiated, structured and documented and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or re-financing. These will be competitive and as favourable to the organisation that can be reasonably achieved in the light of market conditions at the time. It will manage its relationships with its counterparties to secure this objective and will avoid the over reliance on any one source of funding if this might jeopardise achievement of the above.

- **Legal and regulatory:** The Authority will ensure all of its treasury management activities comply with its statutory powers and regulatory requirements. The Authority recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as reasonable to do so, will seek to minimise any adverse risks.

- **Fraud, error and corruption, and contingency management:** The Authority will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error or corruption. It will employ suitable systems and procedures to ensure segregation of duties, and will maintain effective contingency management arrangements to do so. In addition, the Authority holds

Fidelity Guarantee Insurance with Zurich Municipal as part of its overall insurance management arrangements.

- **Price:** The Authority will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from such fluctuations.

Performance measurement

2.10. Treasury management will be subject to regular review of its value for money and if other alternative methods of delivery will become more appropriate. The Audit and Risk Committee will receive reports twice a year detailing performance. It will also review the Treasury Strategy prior to the Authority meeting which remains responsible for its adoption. Further details of those performance measures are included within the Investment Strategy.

Decision making and analysis

2.11. The Authority will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps have been taken to ensure that all issues relevant to those decisions were taken into account at that time.

Approved instruments, methods and techniques

2.12. The Authority will undertake its treasury management activities by employing instruments, methods and techniques as detailed in the Investment Strategy.

Organisation, clarity & segregation of responsibilities, and dealing arrangements

2.13. In order for there to be effective control and risk management it is essential that there is clear segregation of duties. This will be subject to regular review by Internal Audit as part of its key control test. If at any time there is a lack of resources that does not allow this, it will be reported to the Audit and Risk Committee. Such duties are detailed in the Finance department’s job descriptions and are reviewed annually.

2.14. The Chief Financial Officer is responsible for the development of the strategy, whilst cash flow monitoring is undertaken by the Senior Finance Assistant and reviewed by the Chief Financial Officer. The Chief Financial Officer will remain responsible for identifying appropriate counter parties in line with agreed criteria. Funds to be transferred will be carried out by the Senior Finance Assistant and Financial Accountant following approval by the Chief Financial Officer. All funds will be automatically transferred back into the Authority’s main bank account.

Reporting requirements and management information

2.15. The Chief Financial Officer will prepare regular reports for consideration on the implementation of its policies, decisions taken and transactions executed. The reports will also consider the impact of any changes on the budget or other regulatory, economic and market factors.

2.16. The Broads Authority will receive an annual report on the strategy and the plan for the coming year. The Audit and Risk Committee will review this strategy and receive a mid-year review and an annual report on activity over the last year. Any impact on investment income will be reported throughout the year to the Broads Authority as part of its Finance Performance and Direction reports.

Budgeting, accounting and audit arrangements

2.17. The Chief Financial Officer will prepare the annual budget which will include the costs of the treasury function as well as the investment income as deemed by statute and regulation. The Chief Financial Officer will be responsible for exercising control over these items and will report any changes as required as detailed above.

Cash and cash flow management

2.18. The Chief Financial Officer will be responsible for all monies in the hands of the Authority and will be reviewed for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis to ensure that liquidity risk is monitored. This will be undertaken on a weekly basis by the Senior Finance Assistant and reviewed by the Chief Financial Officer. This weekly forecast will also look at predictions for the current month. Annual cash flow predictions will be prepared by the Chief Financial Officer following preparation of the annual budget.

Money laundering

2.19. The Authority is aware that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Further details can be found in the Authority's Counter Fraud, Bribery and Corruption policy and its Financial Regulations. Copies are available to all staff on the Intranet.

Training and qualifications

2.20. The Authority recognises the importance of ensuring that all staff involved in the treasury management are equipped to undertake the duties and responsibilities allocated to them. Recruitment of vacant posts will reflect this position and training opportunities will be identified through the annual Individual Performance Review (IPR).

2.21. The Chief Financial Officer will ensure that the Audit and Risk Committee who have treasury management/scrutiny responsibilities have access to training relevant to their needs and responsibilities.

Use of external providers

2.22. The Authority recognises that responsibility for treasury management decisions remain with the Authority at all times. It recognises that there may be value in employing external providers in order to access specialist skills and resources. However the use of external providers is not currently used based on the Authority's limited amount of surplus funds and the costs associated. If this position changed it would ensure a full evaluation had been undertaken as to the costs and benefits through the Authority's Standing Orders.

Corporate Governance

2.23. Treasury Management activities will be undertaken with openness and transparency, honesty, integrity and accountability. This together with the other arrangements detailed in the Investment Strategy are considered vital to the achievement of proper corporate governance in treasury management. The Chief Financial Officer will monitor and report upon the effectiveness of these arrangements.

Management practices for non-treasury investments

2.24. The Authority recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.

2.25. The Authority will ensure that all investments are covered in the investment strategy, and will set out, where relevant, the Authority's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management. Where the Authority holds non-treasury investments a schedule of these types of investments will be included.

Annual Investment Strategy 2020/21

This strategy builds on those principles and practices as laid out in the Treasury Management Strategy. It continues to give priority to the security of capital and liquidity before returns are considered.

The Authority will continue to invest in Sterling.

1. Specified investment

1.1. These investments are made in Sterling and have a duration of 1 year or less. Typically, these are low risk investments due to being made with high credit rating bodies, examples include:

- UK government or local authorities;
- UK/European banks and building societies
- Money Market funds (AAA rated by credit rating agency)
- Debt Management Agency deposit facility

1.2. This list is not exhaustive but highlights where the Authority is most likely to place its funds.

1.3. To mitigate against the risks of credit and counterparty the Authority will only seek investments with bodies that have at least a short term rating of F-1 as stated by Fitch credit ratings.

1.4. The Authority will monitor these ratings monthly through online credit watches and use these to determine any new investments. This may mean those failing to meet the criteria will be removed from the list, whilst those new counterparties who do may be added. Other market information including the financial press will be monitored.

2. Non-specified investments

2.1. These investments tend to be any other type of permitted investment which have durations of more than a year. This also includes equity-type investments. At this point the Authority does not consider these types of investments as appropriate but may do so in the future if surplus funds permit.

2.2. Longer term investments will only be considered with those institutions that have a Fitch credit rating of A (+/-).

2.3. The Authority will seek proper advice and will consider that advice when entering into arrangements on derivatives to ensure that it fully understands those products.

3. Liquidity

3.1. The Authority will seek to spread its investments to avoid over reliance on one institution. This is currently split between the Authority's current account provider (Barclays) and fixed term deposits with Lloyds. Funds held at Barclays are automatically swept each day into its Business Premium Account that pays a small amount of interest. This facility is instant access. Based on its cash flow forecasts the Authority anticipates that its cash balances will range between £4m and £6.9m.

Current Holdings as at 31/01/20

Counterparty	Holding/ Investment	Interest rate	Investment date	Maturity date
Lloyds Fixed Term	1,000,000	1.1%	04/03/19	03/03/20
Lloyds Fixed Term	1,000,000	1.1%	05/09/19	04/09/20
Barclays Notice Account	1,500,000	Base rate + 0.25%	n/a	95 days' notice
Barclays Notice Account	500,000	Base rate +	n/a	32 days' notice
Barclays Premium Account	864,000	0.65%	n/a	Instant access

4. Capital financing (borrowing) principles

4.1. The following table shows the current forecast for capital expenditure for the next three years. Commentary is also provided below.

Prudential indicator 2020-2023

Prudential indicator	2020/21	2021/22	2022/23
Estimate of capital expenditure	£430,000	£325,000	£260,000
Authorised limit for external debt	£500,000	£500,000	£500,000
Operational Boundary	£400,000	£400,000	£400,000

4.2. Although the Authority's forecast level of debt is set to reduce over the next 3 years it is considered prudent to maintain the existing limits due to the introduction of IFRS 16. This new accounting standard will be adopted from 2020/21 and will impact on leases held by the Authority. The introduction will also increase the Capital

Financing Requirement (CFR). Currently only Finance Lease liabilities (where the risk and reward are transferred to the Authority) are held on the balance sheet. Operating leases (where the risk and reward does not transfer to the Authority) are currently not included. The introduction of IFRS 16 removes the distinction between the two and is based on right of use. The most significant Operating Lease for the Authority is Yare House.

4.3. The use of reserves to finance capital expenditure will have an impact on level of investments. However budgeted contributions to earmarked reserves should mitigate this as well as the sale of assets. The table below shows estimates of year end balances for each resource.

Estimated year end reserves 2020-2023

Estimated Year-End reserves	2020/21	2021/22	2022/23
General and Navigation Reserves	£1,269,000	£1,077,000	£921,000
Earmarked Reserves	£2,107,000	£2,180,000	£2,212,000
Capital Receipts Reserve (if PWLB loan not repaid during 2020/21)	£405,000	£405,000	£405,000
Total Investments 31 March	£3,781,000	£3,662,000	£3,538,000

Affordability

4.4. The prudential code indicator for affordability asks the Authority to estimate the ratio of financing costs to net revenue stream. The Authority's current borrowing consists of the Public Works Loan Board (PWLB) loan and Finance leases. The PWLB Loan was to finance the acquisition of the dredging operation from May Gurney, the financing costs have a zero effect on the bottom line of navigation income and expenditure as the dredging operation (financing costs and ongoing running cost including any additional capital expenditure) are less than or equal to the cost paid to contract out to May Gurney in the past. Finance lease repayments are also charged directly to the revenue budget. Whilst both of these remain less than 0.25% of National Park Grant and Navigation income it is felt that this indicator is not appropriate for use by the Authority in this instance. Any increases to debt will require this indicator to be reviewed.

External debt

4.5. Prudential indicators in respect of external debt must be set and revised taking into account their affordability. It is through this means that the objective of ensuring that external debt is kept within sustainable, prudent limits is addressed year on year.

4.6. Therefore, the Authority will at this time only borrow to finance the capital expenditure incurred on the acquisition of the dredging operation from May Gurney.

Authorised limit

4.7. The Authority will set for the forthcoming financial year and the following two financial years an authorised limit for its total external debt, separately identifying borrowing from other long-term liabilities (excluding pension liability and government grants deferred). It should be noted that the Authority does not have any other long-term liabilities at present or plans to have any in the future. This prudential indicator is referred to as the authorised limit and is shown in the table above.

Operational Boundary

4.8. The authority will set for the forthcoming financial year and the following two financial years an operational boundary for its total external debt. This Prudential indicator is referred to as the operational boundary and is shown in the table above. The operational boundary is based on the Authority's estimate of most likely, i.e. prudent, but not worst case, scenario.

Capital expenditure

4.9. The Authority will make reasonable estimates of the total of capital expenditure that it plans to incur during the forthcoming financial year and at least the following two financial years. This Prudential indicator will be referred to as estimate of capital expenditure and is included in the table above.

Treasury management

4.10. The Prudential Code requires authorities to set upper limits for its exposure to the effects of changes in interest rates. However, as explained above under paragraph 4.4, the current borrowing costs will be not be an additional cost to the Authority. The Authority has borrowed at a fixed interest rate, thus reducing its exposure to changes in interest rates. This Prudential indicator is therefore not considered necessary in this instance.

4.11. There remains a small risk to the Authority in using fixed term deposits that interest rates may increase in the short term. However, given the historic low interest rates on offer following the financial crisis any increase in rates is likely to be slow. By minimising fixed term deposits to a minimum of 1 year and staggering them it will allow the Authority to take advantage of any increase as funds become available for re-investment. Funds in instant access will be able to take advantage of any increase in rates.

Maturity structure of borrowing

4.12. The Prudential Code requires authorities to set upper and lower limits with respect to the maturity structure of its borrowing. However, as the Authority only has a single loan this indicator is not considered relevant.

5. Non-treasury investments

5.1. Previously the Authority held one non-treasury investment in the form of an Investment Property (Ludham Fieldbase). This was disposed of in August 2018, the proceeds of which are currently held in the Capital Receipts Reserve. There are currently no plans for additional non-treasury investments.

6. End of year investment and capital financing report

6.1. The Authority will provide a report on its investments and capital financing activity at the end of the financial year, as part of its final accounts reporting procedure.

Audit and Risk Committee

03 March 2020

Agenda item number 7

Consolidated income and expenditure 1 April to 31 January 2020 actual and 2019/20 forecast outturn

Report by Chief Financial Officer

Summary

This report provides the Committee with the details of actual income and expenditure for the ten month period to 31 January 2020, and provides a forecast of the projected expenditure at the end of the financial year (31 March 2020).

Recommendation

The income and expenditure figures be noted.

Contents

1. Introduction

1.1. This financial monitoring report summarises details of the forecast outturn and actual expenditure for both National Park and Navigation.

2. Overview of Actual Income and Expenditure

Table 1

Actual Consolidated Income and Expenditure by Directorate to 31 January 2020

Directorate	Profiled Latest Available Budget £	Actual income and expenditure £	Actual variance £
Income	(6,847,511)	(6,861,405)	+ 13,894
Operations	3,337,024	3,093,795	+ 243,229
Strategic Services	1,358,197	1,291,758	+ 66,439
Chief Executive	1,271,888	1,159,085	+ 112,804
Projects, Corporate items and Contributions from earmarked reserves	(117,102)	(63,442)	- 53,660
Net (Surplus) / Deficit	**(997,505)**	**(1,380,210)**	**+ 382,705**

2.1. Core navigation income is above the profiled budget at the end of month ten. The overall position as at 31 January 2020 is a favourable variance of £382,705 or a 38.37% difference from the profiled LAB. This is principally due to:

- An overall favourable variance of £13,894 within income:
  - Hire Craft Tolls is £9,049 behind the profiled budget.
  - Private Craft Tolls is £19,392 above the profiled budget.
  - Interest is £9,089 above the profiled budget.
- An underspend within Operations relating to:
  - Construction and Maintenance Salaries is under the profiled budget by £17,358 due to vacancies that have arisen throughout the year which have taken some time to replace.
  - Land Management is under the profiled budget by £92,068 due to the uncertain nature of when income from the Rural Payments Agency will be received.
  - Practical Maintenance is under the profiled budget by £37,428 due to timing difference of delayed projects. These will be completed by contractors before the end of the financial year.
  - Waterways and Recreation Strategy is under the profiled budget by £21,288 due to a vacancy.
  - Safety is under the profiled budget by £30,540 due to a vacancy and the delayed purchased of the electric vehicles. The purchase of these vehicles

has been transferred to 2020/21 expenditure and is offset by the Plant, Vessels and Equipment reserve variance.

  - Operational Premises is under the profiled budget by £38,124 due to a timing difference on the concrete pad work at the dockyard being completed. This is offset by the corresponding Premises reserve variance.
  - Project Funding is under the profiled budget by £11,407 due to timing differences and the uncertain nature of when projects will be submitted.

- An underspend within Strategic Services relating to:
  - Development Management is over the profiled budget by £18,198 due to Section 106 monies being paid out. This is offset by the corresponding Planning Delivery Grant and Section 106 reserve variance. It should be noted that income from Planning fees is under budget and the Local Plan Inspection coming in less than expected has reduced the overall variance.
  - Strategy and Projects is under the profiled budget by £43,448 due to salary savings following a vacancy and a delayed Catchment projects. This is offset by the corresponding Catchment reserve variance.
  - Biodiversity Strategy is over the profiled budget by £21,755 due to the grant claims for the Water Environment Grant (WEG) and Test and Trials being submitted quarterly in arrears.
  - Volunteers is under the profiled budget by £16,770 due to timing differences and salary savings following a vacancy.
  - Communications is under the profiled budget by £40,282 due to a number of variances within all budgets which are timing differences.
- An underspend within Chief Executive relating to:
  - Legal is under the profiled budget by £55,497 due to salary savings and consultancy timing differences.
  - Asset Management is under the profiled budget by £13,763 due to timing differences on lease payments and consultancy.
  - Finance and Insurance is under profiled budget by £27,095 due to salary savings following a vacancy and savings on insurance premiums.
- An adverse variance within reserves relating to the Premises, Plant, Vessels and Equipment, Planning Delivery Grant, Section 106 and Catchment reserves. These offset the favourable variances detailed above.

2.2. The charts at Appendix 1 provide a visual overview of actual income and expenditure compared with both the original budget and the LAB.

3. Latest available budget

3.1. The Authority's income and expenditure is monitored against the latest available budget (LAB) for 2019/20. The LAB is based on the original budget for the year, with adjustments for known and approved budget changes such as carry-forwards and budget virements. Full details of movements from the original budget are set out in Appendix 2.

Table 2
Adjustments to LAB

Item	Authorisation reference	Amount £
Original budget 2019/20 (deficit)	Broads Authority 01/02/19 Agenda item number 12	44,381
Approved carry-forwards from 2018/19	Broads Authority 17/05/19 Agenda items number 12	15,094
Cybercrime	Broads Authority 17/05/19 Agenda items number 25	36,000
Water Resources East membership	Broads Authority 27/06/19 Agenda item number 13	15,000
LAB as at 31 January 2020	**n/a**	**110,475**

4. Overview of forecast outturn 2019/20

4.1. Budget holders have been asked to comment on the expected income and expenditure at the end of the financial year in respect of all budget lines for which they are responsible. The forecast outturn reflects the following changes from the LAB as shown in Table 3.

Table 3
Adjustments to Forecast Outturn

Item	Amount £
Forecast outturn deficit per LAB	110,475
Adjustments reported 19 November 2019	(63,550)
Decrease to Construction & Maintenance salaries following a vacancy	(13,900)
Decrease to Planning Fee income	31,500
Decrease to Development Management Salaries	(8,400)
Decrease to Strategy & Projects salaries following a vacancy	(13,100)
Decrease to Volunteer Services salaries following a vacancy	(5,300)

Item	Amount £
Decrease to Strategic Services Management & Admin salaries following a vacancy	(9,000)
Decrease to Finance salaries following a vacancy	(6,000)
Forecast outturn deficit as at 31 January 2020	**22,725**

5. Reserves

Table 4

Consolidated Earmarked Reserves

Reserve name	Balance as at 1 April 2019 £	In-year movements £	Current reserve balance £
Property	(569,750)	(72,795)	(642,546)
Plant, Vessels and Equipment	(275,190)	(69,372)	(344,562)
Premises	(195,326)	(75,175)	(270,501)
Planning Delivery Grant	(269,293)	69,311	(199,982)
Upper Thurne Enhancement	(120,409)	(21,000)	(141,409)
Section 106	(103,392)	60,419	(42,973)
Heritage Lottery Fund	(89,706)	270,407	180,701
Catchment Partnership	(88,988)	1,369	(87,619)
CANAPE	(80,476)	(27,263)	(107,739)
Computer Software	(11,476)	(10,000)	(21,476)
Total	**(1,804,006)**	**125,901**	**(1,678,105)**

5.1. £862,675 of the current reserve balance above relates to Navigation reserves.

6. Summary

6.1. The current forecast position for the year suggests a deficit of £40,272 for the national park side and a surplus of £17,547 on navigation, resulting in an overall deficit of £22,725 within the consolidated budget. This would indicate a general fund balance of £1,023,504 and a navigation reserve balance of £443,395 at the end of 2019/20 before any transfer of interest. This will mean both reserves will remain above the minimum level of net expenditure.

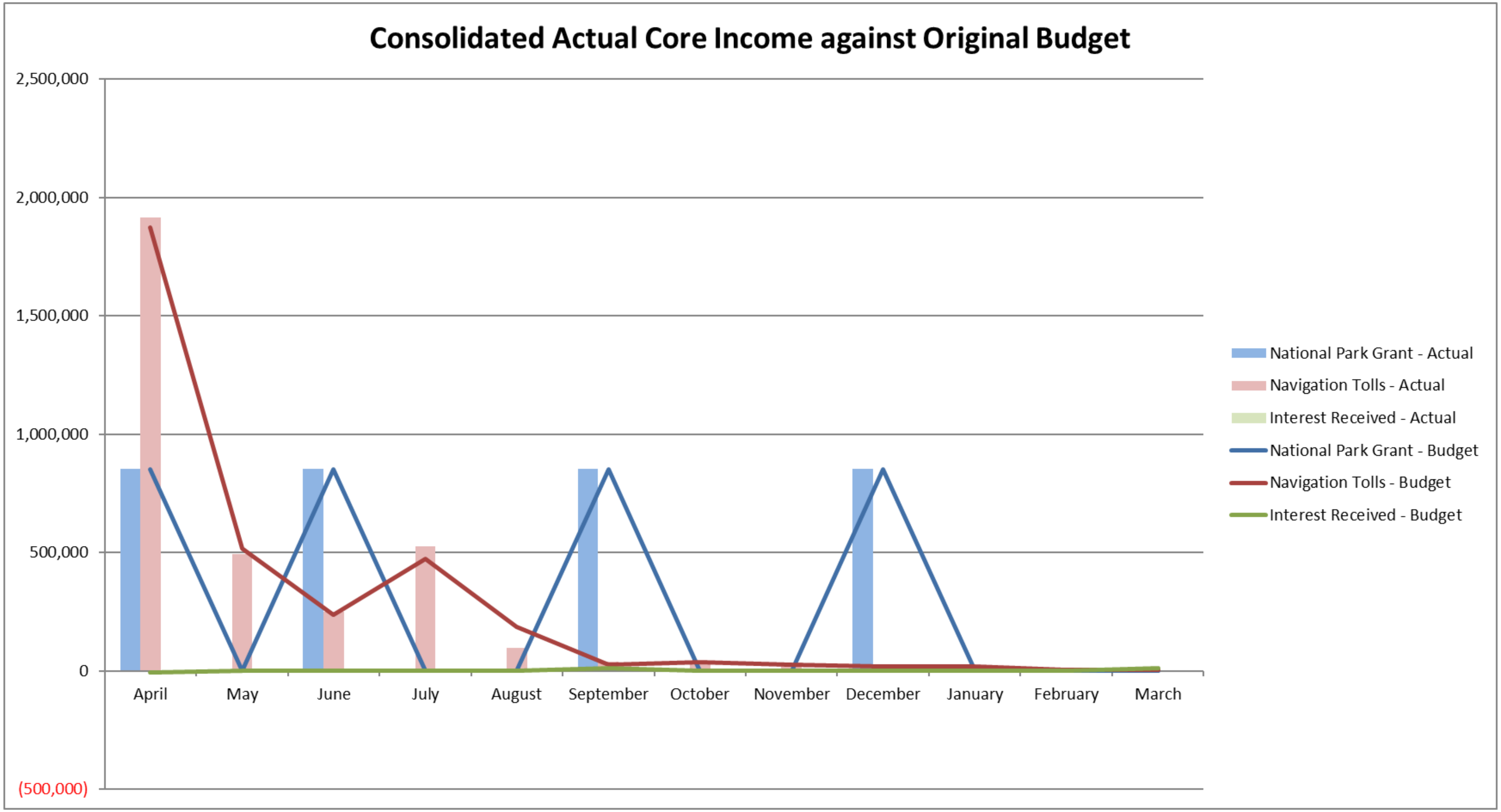
Author: Emma Krelle

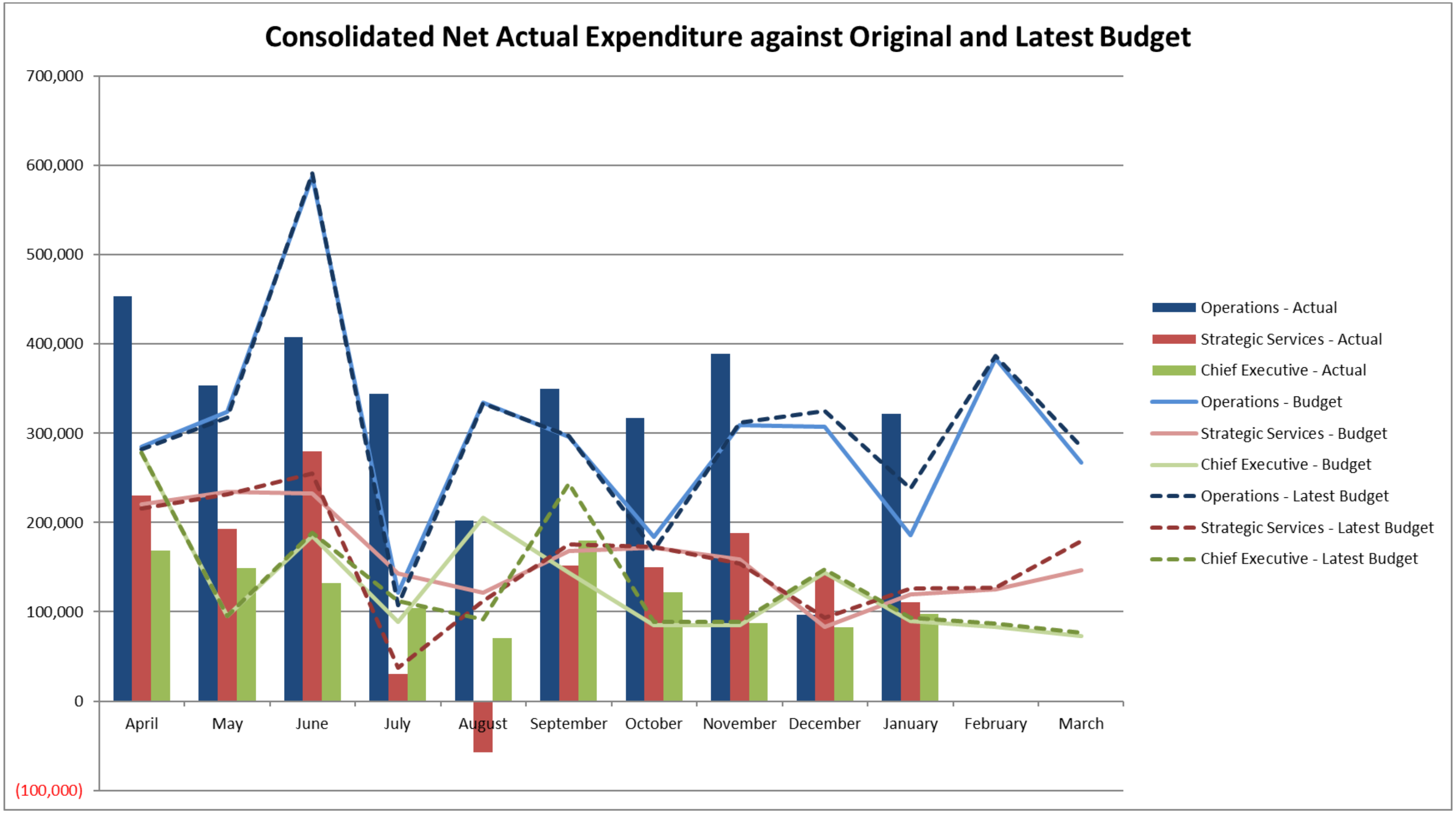
Date of report: 14 February 2020

Appendix 1 – Consolidated Actual Income and Expenditure Charts to 31 January 2020

Appendix 2 – Financial Monitor: Consolidated Income and Expenditure 2019/20

Appendix 1 – Consolidated actual income and expenditure charts to 31 January 2020




Consolidated Net Actual Expenditure against Original and Latest Budget
700,000
600,000
500,000
400,000
300,000
200,000
100,000
0
(100,000)
April
May
June
July
August
September
October
November
December
January
February
March
Operations - Actual
Strategic Services - Actual
Chief Executive - Actual
Operations - Budget
Strategic Services - Budget
Chief Executive - Budget
Operations - Latest Budget
Strategic Services - Latest Budget
Chief Executive - Latest Budget

Appendix 2 – Financial Monitor: Consolidated income and expenditure 2019/20

Table 1
Income

Row Labels	Original budget (Consolidated) £	Budget adjustments (Consolidated) £	Latest Available Budget (Consolidated) £	Forecast outturn (Consolidated) £	Forecast outturn variance (Consolidated) £
Total Income	**(6,869,078)**	**0**	**(6,869,078)**	**(6,886,578)**	**17,500**
National Park Grant	(3,414,078)	0	(3,414,078)	(3,414,078)	0
Hire Craft Tolls	(1,189,000)	0	(1,189,000)	(1,179,000)	-10,000
Private Craft Tolls	(2,175,000)	0	(2,175,000)	(2,185,000)	10,000
Short Visit Tolls	(42,000)	0	(42,000)	(42,000)	0
Other Toll Income	(19,000)	0	(19,000)	(19,000)	0
Interest	(30,000)	0	(30,000)	(47,500)	17,500

Table 2
Operations

Row Labels	Original budget (Consolidated) £	Budget adjustments (Consolidated) £	Latest Available Budget (Consolidated) £	Forecast outturn (Consolidated) £	Forecast outturn variance (Consolidated) £
Total Operations	**3,945,630**	**57,342**	**4,002,972**	**3,965,512**	**37,460**
Construction and Maintenance Salaries	1,225,520	28,167	1,253,687	1,239,787	13,900
Salaries	1,231,130	28,167	1,259,297	1,245,397	13,900
Expenditure	(5,610)	0	(5,610)	(5,610)	0
Equipment, Vehicles & Vessels	454,000	5,550	459,550	459,550	0
Income	0	0	0	0	0
Expenditure	454,000	5,550	459,550	459,550	0
Water Management	125,970	(5,000)	120,970	120,970	0
Income	0	0	0	0	0
Expenditure	125,970	(5,000)	120,970	120,970	0
Land Management	(48,440)	0	(48,440)	(48,440)	0
Income	(102,600)	0	(102,600)	(102,600)	0
Expenditure	54,160	0	54,160	54,160	0
Practical Maintenance	485,500	5,000	490,500	490,500	0
Income	(10,700)	0	(10,700)	(10,700)	0
Expenditure	496,200	5,000	501,200	501,200	0

Row Labels	Original budget (Consolidated) £	Budget adjustments (Consolidated) £	Latest Available Budget (Consolidated) £	Forecast outturn (Consolidated) £	Forecast outturn variance (Consolidated) £
Waterways and Recreation Strategy	89,460	(3,500)	85,960	62,400	23,560
Salaries	79,960	(3,500)	76,460	52,900	23,560
Expenditure	9,500	0	9,500	9,500	0
Ranger Services	779,740	0	779,740	779,740	0
Income	(100,000)	0	(100,000)	(100,000)	0
Salaries	701,260	0	701,260	701,260	0
Expenditure	176,880	0	176,880	176,880	0
Pension Payments	1,600	0	1,600	1,600	0
Safety	130,000	27,125	157,125	157,125	0
Income	(3,300)	0	(3,300)	(3,300)	0
Salaries	62,600	0	62,600	62,600	0
Expenditure	70,700	27,125	97,825	97,825	0
Premises	232,910	0	232,910	232,910	0
Income	(1,000)	0	(1,000)	(1,000)	0
Expenditure	233,910	0	233,910	233,910	0
Premises - Head Office	250,640	0	250,640	250,640	0
Income	(240)	0	(240)	(240)	0
Expenditure	250,880	0	250,880	250,880	0

Row Labels	Original budget (Consolidated) £	Budget adjustments (Consolidated) £	Latest Available Budget (Consolidated) £	Forecast outturn (Consolidated) £	Forecast outturn variance (Consolidated) £
Project Funding	100,000	0	100,000	100,000	0
Expenditure	100,000	0	100,000	100,000	0
Pension Payments	0	0	0	0	0
Operations Management and Administration	120,330	0	120,330	120,330	0
Salaries	115,620	0	115,620	115,620	0
Expenditure	4,710	0	4,710	4,710	0

Table 3
Strategic Services

Row Labels	Original budget (Consolidated) £	Budget adjustments (Consolidated) £	Latest Available Budget (Consolidated) £	Forecast outturn (Consolidated) £	Forecast outturn variance (Consolidated) £
Total Strategic Services	**1,679,765**	**(41,707)**	**1,638,058**	**1,589,948**	**48,110**
Development Management	425,615	23,335	448,950	443,975	4,975
Income	(100,000)	0	(100,000)	(68,500)	-31,500
Salaries	403,790	0	403,790	395,390	8,400
Expenditure	117,425	23,335	140,760	112,685	28,075
Pension Payments	4,400	0	4,400	4,400	0
Strategy and Projects Salaries	355,035	(78,801)	276,234	247,399	28,835
Income	(20,470)	0	(20,470)	(20,470)	0
Salaries	247,290	(60,301)	186,989	183,154	3,835
Expenditure	128,215	(18,500)	109,715	84,715	25,000
Pension Payments	0	0	0	0	0
Biodiversity Strategy	7,670	0	7,670	7,670	0
Expenditure	7,670	0	7,670	7,670	0
Human Resources	134,720	15,094	149,814	149,814	0
Income	0	0	0	0	0
Salaries	76,420	0	76,420	76,420	0

Row Labels	Original budget (Consolidated) £	Budget adjustments (Consolidated) £	Latest Available Budget (Consolidated) £	Forecast outturn (Consolidated) £	Forecast outturn variance (Consolidated) £
Expenditure	58,300	15,094	73,394	73,394	0
Volunteers	77,340	0	77,340	72,040	5,300
Salaries	51,740	0	51,740	46,440	5,300
Expenditure	25,600	0	25,600	25,600	0
Communications	324,245	0	324,245	324,245	0
Income	0	(99,600)	(99,600)	(99,600)	0
Salaries	240,530	52,250	292,780	292,780	0
Expenditure	83,715	47,350	131,065	131,065	0
Visitor Centres and Yacht Stations	244,260	0	244,260	244,260	0
Income	(245,100)	0	(245,100)	(245,100)	0
Salaries	351,260	0	351,260	351,260	0
Expenditure	138,100	0	138,100	138,100	0
Strategic Services Management and Administration	110,880	(1,335)	109,545	100,545	9,000
Salaries	107,270	0	107,270	98,270	9,000
Expenditure	3,610	(1,335)	2,275	2,275	0

Table 4

Chief Executive

Row Labels	Original budget (Consolidated) £	Budget adjustments (Consolidated) £	Latest Available Budget (Consolidated) £	Forecast outturn (Consolidated) £	Forecast outturn variance (Consolidated) £
Total Chief Executive	**1,415,254**	**35,634**	**1,450,888**	**1,413,133**	**37,755**
Legal	116,430	0	116,430	90,000	26,430
Income	0	0	0	0	0
Salaries	51,430	0	51,430	0	51,430
Expenditure	65,000	0	65,000	90,000	-25,000
Governance	233,445	35,634	269,079	269,079	0
Income	0	0	0	0	0
Salaries	113,480	35,634	149,114	149,114	0
Expenditure	119,965	0	119,965	119,965	0
Chief Executive	118,830	0	118,830	118,830	0
Salaries	114,330	0	114,330	114,330	0
Expenditure	4,500	0	4,500	4,500	0
Asset Management	113,944	0	113,944	113,944	0
Income	(25,540)	0	(25,540)	(25,540)	0
Salaries	46,890	0	46,890	46,890	0
Expenditure	92,594	0	92,594	92,594	0

Row Labels	Original budget (Consolidated) £	Budget adjustments (Consolidated) £	Latest Available Budget (Consolidated) £	Forecast outturn (Consolidated) £	Forecast outturn variance (Consolidated) £
Finance and Insurance	373,735	0	373,735	355,735	18,000
Income	0	0	0	0	0
Salaries	161,100	0	161,100	155,100	6,000
Expenditure	212,635	0	212,635	200,635	12,000
Collection of Tolls	135,860	0	135,860	142,535	-6,675
Salaries	123,360	0	123,360	130,035	-6,675
Expenditure	12,500	0	12,500	12,500	0
ICT	323,010	0	323,010	323,010	0
Salaries	192,660	0	192,660	192,660	0
Expenditure	130,350	0	130,350	130,350	0

Table 5

Projects and Corporate items

Row Labels	Original budget (Consolidated) £	Budget adjustments (Consolidated) £	Latest Available Budget (Consolidated) £	Forecast outturn (Consolidated) £	Forecast outturn variance (Consolidated) £
Total Projects and Corporate Items	**124,918**	**51,000**	**175,918**	**166,653**	**9,265**
Partnerships / HLF / CANAPE	28,718	0	28,718	19,453	9,265
Income	(754,629)	0	(754,629)	(754,629)	0
Salaries	180,250	0	180,250	170,985	9,265
Expenditure	603,097	0	603,097	603,097	0
Corporate Items	96,200	51,000	147,200	147,200	0
Expenditure	3,200	51,000	54,200	54,200	0
Pension Payments	93,000	0	93,000	93,000	0

Table 6

Contributions from earmarked reserves

Row Labels	Original budget (Consolidated) £	Budget adjustments (Consolidated) £	Latest Available Budget (Consolidated) £	Forecast outturn (Consolidated) £	Forecast outturn variance (Consolidated) £
Total contributions from Earmarked Reserves	**(252,108)**	**(36,175)**	**(288,283)**	**(225,943)**	**-62,340**
Earmarked Reserves	(252,108)	(36,175)	(288,283)	(225,943)	-62,340
Expenditure	(252,108)	(36,175)	(288,283)	(225,943)	-62,340

Table 7

Net (Surplus) / Deficit

Row Labels	Original budget (Consolidated) £	Budget adjustments (Consolidated) £	Latest Available Budget (Consolidated) £	Forecast outturn (Consolidated) £	Forecast outturn variance (Consolidated) £
Grand Total	**44,381**	**66,094**	**110,475**	**22,725**	**87,750**

Audit and Risk Committee

03 March 2020
Agenda item number 8

Internal audit strategy and annual plans 2020/21

Report by Head of Internal Audit

Purpose

The Annual Internal Audit Plan serves as the work programme and initial terms of reference for the Authority's Internal Audit Services Contractor, TIAA Ltd, and provides the basis upon which the Head of Internal Audit will subsequently give an Annual Audit Opinion for 2020/21. This report seeks the approval of the Committee for the Strategy and Plan.

Recommended Action

The Committee is requested to approve:

i. The Internal Audit Strategy for 2020/21; and

ii. The Annual Internal Audit Plan for 2020/21.

1. Introduction

1.1. The Authority is required by the Accounts and Audit Regulations 2015 to ensure "a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance".

1.2. Those standards are set out in the Public Sector Internal Audit Standards (PSIAS) which came into effect in April 2013.

1.3. The formulation of the Annual Internal Audit Plans for 2020/21 is described in the attached report, and the resulting plan contained therein.

Author: Emma Hodds

Date of report: 07 February 2020

Appendix 1 –Internal Audit Plans Report 2020-21

Eastern Internal Audit Services

BROADS AUTHORITY

Internal Audit Plans 2020/21

Responsible Officer: Head of Internal Audit

CONTENTS

1. INTRODUCTION

1.1 The Accounts and Audit Regulations 2015 require that “a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.

1.2 The Public Sector Internal Audit Standards (PSIAS) mandate a periodic preparation of a risk-based plan, which must incorporate or be linked to a strategic high-level statement on how the internal audit service will be delivered and developed in accordance with the charter and how it links to the organisational objectives and priorities, this is set out in the Internal Audit Strategy.

1.3 Risk is defined as 'the possibility of an event occurring that will have an impact on the achievement of objectives’. Risk can be a positive and negative aspect, so as well as managing things that could have an adverse impact (downside risk) it is also important to look at potential benefits (upside risk).

1.4 The development of a risk-based plan considers the organisation's risk management framework. The process identifies the assurance (and consulting) assignments for a specific period, by identifying and prioritising all those areas on which objective assurance is required. This is then also applied when carrying out individual risk-based assignments to provide assurance on part of the risk management framework, including the mitigation of individual or groups of risks.

1.5 The following factors are also taken into account when developing the internal audit plan:

- Any declarations of interest to avoid conflicts of interest;
- The requirements of the use of specialists e.g. IT auditors;
- Striking the right balance over the range of reviews needing to be delivered, for example systems and risk-based reviews, specific key controls testing, value for money and added value reviews;
- The relative risk maturity of the Authority;
- Allowing contingency time to undertake ad-hoc reviews or fraud investigations as necessary;
- The time required to carry out the audit planning process effectively as well as regular reporting to and attendance at Audit and Risk Committee, the development of the annual report and opinion and the Quality Assurance and Improvement Programme.

1.6 In accordance with best practice the Audit and Risk Committee should ‘*review and assess the annual internal audit work plan*’.

2. AUDIT CHARTER

2.1 There is an obligation under the PSIAS for the Charter to be periodically reviewed and presented. This Charter is therefore reviewed annually by the Head of Internal Audit to confirm its ongoing validity and completeness, and presented to the Section 17 Officer, the Management Team and the Audit and Risk Committee every two years, or as required for review. The Charter was approved by the Committee in 2019 and will therefore be reviewed and approved by the Committee March 2021 as no changes have been required for the year ahead.

2.3 As part of the review of the Audit Charter the Code of Ethics are also reviewed by the Head of Internal Audit, and it is ensured that the Internal Audit Services contractor staff, as well as the Head of Internal Audit adhere to these, specifically with regard to; integrity, objectivity, confidentiality and competency. Formal sign off to acceptance of the Code of Ethics is retained by the Head of Internal Audit.

3. INTERNAL AUDIT STRATEGY

3.1 The purpose of the Internal Audit Strategy (**see Appendix 1**) is to confirm:

- How internal audit services will be delivered;
- How internal audit services will be developed in accordance with the internal audit charter;
- How internal audit services links to organisational objectives and priorities; and
- How the internal audit resource requirements have been assessed.

4. ANNUAL INTERNAL AUDIT PLAN

4.1 As agreed in prior years the Broads Authority internal audit plan is revisited on an annual basis to ensure that this is both responsive and reflective of the developments, new risks, emerging issues and any other changes.

4.2 The annual internal audit plan is attached at **Appendix 2**, the first section highlights the areas being reviewed in the forthcoming financial year, with the number of days identified for each review, the quarter during which the audit will take place and a brief summary / purpose of the review.

4.3 The second section of the plan confirms the audits that have been undertaken in previous years and the assurance opinion awarded on conclusion of the review, alongside areas for consideration in future financial years, thus ensuring that awareness is maintained of the services provided by the Authority. This approach will also continue to ensure that sufficient coverage is provided to enable the Head of Internal Audit to provide an opinion at financial year end.

4.4 It is also worth noting that IT audit coverage is reviewed every two years, as due to the size of the audit plan this enables other service areas to be regularly reviewed. Through our discussions with management the focus for this year has been to provide assurance over key legislative and health and safety systems. The IT review of Cyber Security has therefore been postponed until next year to allow the team to recruit a new member of staff and work on the ‘Cyber Security Essentials’ certification.

4.5 The key controls & assurance audit and the corporate governance & risk management audits will continue to be undertaken on an annual basis due to the importance of these areas in determining the adequacy and effectiveness of the Authority’s framework of governance, risk management and control, which informs the Head of Internal Audit Annual Opinion.

4.6 The annual internal audit plan for 2020/21 totals 36 days, encompassing four assignments, with audit verification work concerning audit recommendations implemented to improve the Authority’s internal control environment carried out at year end.

4.7 In addition the Head of Internal Audit role and Audit Manager role will continue to be provided by South Norfolk Council, the key roles include; developing the annual internal audit plan, quality reviewing the outcomes of the work undertaken by the contractor (TIAA

Ltd) & ensuring that this meets the contract requirements, providing an annual report and opinion to the Authority, ensuring that the Committee continues to follow best practice through the self-assessment exercise and providing training as requested to new members of the Committee.

APPENDIX 1 – INTERNAL AUDIT STRATEGY

EASTERN INTERNAL AUDIT SERVICES
BROADS AUTHORITY

INTERNAL AUDIT STRATEGY FOR 2020/21

1. Introduction

1.1 The Internal Audit Strategy is a high-level statement of;

- how the internal audit service will be delivered;
- how internal audit services will be developed in accordance with the internal audit charter;
- how internal audit services links to the organisational objectives and priorities; and
- how the internal audit resource requirements have been assessed.

The provision of such a strategy is set out in the Public Sector Internal Audit Standards (the standards).

1.2 The purpose of the strategy is to provide a clear direction for internal audit services and creates a link between the Charter and the annual plan.

2. How the internal audit service will be delivered

2.1 The Role of the Head of Internal Audit and contract management is provided by South Norfolk Council to; Breckland, Broadland, North Norfolk, South Holland and South Norfolk District Councils, Great Yarmouth Borough Council and the Broads Authority. All Authorities are bound by a Partnership Agreement.

2.2 The delivery of the internal audit plans for each Authority is provided by an external audit contractor, who reports directly to the Head of Internal Audit. The current contract is with TIAA Ltd, and commenced on 1 April 2015, for an initial period of 5 years ending 31 March 2020. In line with the terms of this contract an extension has been agreed which will allow the contract to run for a further two years terminating on 31 March 2022.

3. How internal audit services will be developed in accordance with the internal audit charter

3.1 <u>Internal Audit objective and outcomes</u>

3.1.1 Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the Authority's operations. It helps the Authority accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

3.1.2 The outcomes of the internal audit service are detailed in the Internal Audit Charter and can be summarised as; delivering a risk-based audit plan in a professional, independent manner, to provide the Authority with an opinion on the level of assurance it can place upon the internal control environment, systems of risk management and corporate governance arrangements, and to make recommendations to improve these provisions, where further development would be beneficial.

3.1.3 The reporting of the outcomes from internal audit is through direct reports to senior management in respect of the areas reviewed under their remit, in the form of an audit report. The Audit and Risk Committee and the Section 17 Officer also receive:

- The Audit Plans Report, which is risk based and forms the next financial year's plan of work; and
- The Annual Report and Opinion on the overall adequacy and effectiveness of the Authority's framework of governance, risk management and control.

3.2 Internal Audit Planning

3.2.1 A risk-based internal audit plan (RBIA) is established in consultation with senior management that identifies where assurance and consultancy is required.

3.2.2 The audit plan establishes a link between the proposed audit areas and the priorities and risks of the Authority taking into account:

- Stakeholder expectations, and feedback from senior and operational managers;
- Objectives set in the strategic plan and business plans;
- Risk maturity in the organisation to provide an indication of the reliability of risk registers;
- Management's identification and response to risk, including risk mitigation strategies and levels of residual risk;
- Legal and regulatory requirements;
- The audit universe – all the audits that could be performed; and
- Previous Internal Audit plans and the results of audit engagements.

3.2.3 In order to ensure that the internal audit service adds value to the Authority, assurance should be provided that major business risks are being managed appropriately, along with providing assurance over the system of internal control, risk management and governance processes.

3.2.4 Risk based internal audit planning starts with the Authority's Business Plan, linking through to the priority areas and the related high-level objectives. The focus is then on the risks, and opportunities, that may hinder, or help, the achievement of the objectives. The approach also focuses on the upcoming projects and developments for the Authority.

3.2.5 The approach ensures; better and earlier identification of risks and increased ability to control them; greater coherence with the Authority's priorities; an opportunity to engage with stakeholders; the Committee and Senior Management better understand how the internal audit service helps to accomplish its objectives; and this ensures that best practice is followed.

3.2.6 The key distinction with establishing plans derived from a risk based internal audit approach is that the focus should be to understand and analyse management's assessment of risk and to base audit plans and efforts around that process.

3.2.7 Consultation with the Section 17 Officer and the Management Team takes place through specific meetings during which current and future developments, changes, risks and areas of concern are discussed and the plan amended accordingly to take these into account.

3.2.8 The outcome of this populates the annual internal audit plan, which is discussed with and approved by the Management Team prior to these being brought to the Audit and Risk Committee. In addition, External Audit is also provided with early sight of the plans.

3.3 Internal Audit Annual Opinion

3.3.1 The annual opinion provides the Management Team and the Audit and Risk Committee with an assessment of the overall adequacy and effectiveness of the Authority's framework of governance, risk management and control.

3.3.2 The opinion is based upon:

- The summary of the internal audit work carried out;
- The follow up of management action taken to ensure implementation of agreed action as at financial year end;
- Any reliance placed upon third party assurances;
- Any issues that are deemed particularly relevant to the Annual Governance Statement (AGS);
- The Annual Review of the Effectiveness of Internal Audit, which includes;
    - A statement on conformance with the standards and the results of any quality assurance and improvement programme,
    - the outcomes of the performance indicators and
    - the degree of compliance with CIPFA's Statement on the Role of the Head of Internal Audit.

3.3.3 In order to achieve the above internal audit operates within the standards and uses a risk-based approach to audit planning and to each audit assignment undertaken. The control environment for each audit area reviewed is assessed for its adequacy and effectiveness of the controls and an assurance rating applied.

4. How internal audit services links to the organisational objectives and priorities

4.1 In addition to the approach taken as outlined in section 3.2 (Internal Audit Planning), which ensures that the service links to the organisation's objectives and priorities and thereby through the risk-based approach adds value, internal audit also ensure an awareness is maintained of local and national issues and risks.

4.2 The annual audit planning process ensures that new or emerging risks are identified and considered at a local level. This strategy ensures that the planning process is all encompassing and reviews the records held by the Authority in respect of risks and issue logs and registers, reports that are taken through the Authority Committee meetings, and through extensive discussions with senior management.

4.3 Awareness of national issues is maintained through the contract in place with the external internal audit provider through regular "horizon scanning" updates, and annually a particular focus provided on issues to be considered during the planning process. Membership and subscription to professional bodies such as the Institute of Internal Auditors and the CIPFA on-line query service, liaison with External Audit, and networking, all help to ensure developments are noted and incorporated where appropriate.

5. How internal audit resource requirements have been assessed

5.1 Through utilising a contractor the risk based internal audit plan can be developed without having to take into account the existing resources, as you would with an in-house team, thus ensuring that audit coverage for the year is appropriate to the Authority's needs and not tied to a particular resource.

5.2 That said a core team of staff is provided to deliver the audit plan, and these staff bring with them considerable public sector knowledge and experience. These core staff can be supplemented with additional staff should the audit plan require it, and in addition specialists, e.g. computer auditors, contract auditor, fraud specialists, can be drafted in to assist in completing the internal audit plan and focusing on particular areas of specialism.

5.3 All audit professionals are encouraged to continually develop their skills and knowledge through various training routes; formal courses of study, in-house training, seminars and webinars. As part of the contract with TIAA Ltd the contractor needs to ensure that each member of staff completes a day's training per quarter.

APPENDIX 2 – ANNUAL INTENAL AUDIT PLAN 2020/21

Audit Area	No. of days	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Summary / purpose of audit
Service Area audits						
Port Marine Safety Code	8		8			This review is an independent audit of the Broads Authority Safety Management System (SMS). The Port Marine Safety Code (PMSC) requires that Harbour Authorities should include provision for a systematic review of performance based on information from monitoring of the whole system. An audit and review of the marine SMS takes place every three years, informing the three-yearly publication of the marine safety plan and the Authority's performance against the previous plan, as required by the PMSC.
Planning	8		8			An audit of Planning was last carried out in 2015/16 where a reasonable assurance grading was given. Our review will provide assurance that planning applications and enforcement action is being carried out in line with legislation and the Authorities agreed processes.
Total number of days	**36**	**0**	**16**	**15**	**5**	

Audits Previously undertaken		
Service area audits		
Partnership Working	2009/10	Limited
Fens Ecological Project	2009/10	Reasonable
Procurement	2019/20	Reasonable
Consultation Activities and partnership provisions	2014/15	Reasonable
Planning	2015/16	Reasonable
External Funding - HLF Bid and National Parks Partnership	2019/20	Reasonable
Port Marine Safety Code*	2017/18	Reasonable
Asset Management	2017/18	Reasonable
Branding	2018/19	Reasonable
IT Audits		
Disaster Recovery	2018/19	Reasonable
IT Governance and Strategy	2010/11	Reasonable
Toll Income Application Review	2011/12	Limited
Network Security	2013/14	Limited
End User Controls	2014/15	Reasonable
Anti-Virus, Malware, Backups & Firewall Administration	2016/17	Reasonable

Future areas for consideration for audit review
HR and Payroll 2021/22
Cyber Security 2021/22

* this is a 3 yearly review and is next due in 2020/21

Audit and Risk Committee

03 March 2020

Agenda item number 9

External audit

Report by Chief Financial Officer

Summary

This report appends:

i. The Annual Audit Letter for 2018/19;

ii. The Audit Plan for the 2019/20 audit; and

iii. The Local Government Audit Committee Briefing by Ernst and Young.

Recommendation

i. That the Annual Audit Letter for 2018/19 be noted.

ii. That the Audit Plan for 2019/20 audit be noted.

iii. That the briefing, including the key questions for Audit Committees as set out on page 13, be noted.

1. Introduction

1.1. The Annual Audit letter for 2018/19 summarises the key issues arising from the audit. These key findings are set out on page 9 of Appendix 1. The Audit results were considered at 19 November 2019 Audit and Risk committee. The final audit fee remained the same as detailed in the audit plan and was charged to the accounts for the year.

1.2. The Audit Plan for the 2019/20 audit by Ernst and Young is appended to this report (appendix 2). The plan sets out the work which the auditors propose to undertake for the audit of the financial statements and the value for money conclusion for 2019/20.

1.3. The Audit Manager, Vicky Chong, has been replaced by Jacob McHugh. The Audit Manager will be attending the meeting to introduce the Audit Plan and answer any questions.

1.4. In order to meet the July deadline, it is proposed to consider the audit results as part of the Broads Authority meeting on 24 July where they will also be approved.

2. Identification of Significant Risks

2.1. The Audit Plan takes a risk-based approach to audit planning and identifies significant risks in 2019/20, these relate to misstatements due to fraud or error. This includes the incorrect capitalisation of revenue expenditure. These risks are consistent to the risks presented for 2018/19.

2.2. Other risks identified are the valuation of land and buildings and the pension liability valuation. These are also consistent with last year's audit.

2.3. There is one new area of audit focus for 2019/20 which relates to the implementation of new accounting standard IFRS 16 Leases and Going Concern Compliance ISA 570. The audit will assess the Authority's implementation of these in the Statement of Accounts.

2.4. The audit approach to these risks, audit focus and value for money is set out in section two and three of the Audit Plan.

3. Financial Implications

3.1. Page 35 of Appendix 2 provides an overview of the scale fee chargeable (£10,736) which is consistent with the fee charged for 2018/19. This is what has been included in the 2019/20 budget. Members' attention is drawn to the factors which may result in additional work, therefore cost.

4. Briefing Key Issues

4.1. This briefing is presented to Members as a "for information" item.

4.2. The items of relevance to the Authority are:

- Public Works Loan Board (PWLB) Interest Rate Increase (page 6);
- Going Concern (page 8);
- Public Sector Audit Consultations (page 9);
- CIPFA Financial Management Code (page 9);
- Green Revolution (page 10); and
- EY audit quality and transparency reports (pages 10 to 12).

Author: Emma Krelle

Date of report: 12 February 2020

Appendix 1 – 2018-19 Broads Authority – Annual Audit Letter – 18 December 2019

Appendix 2 – External Audit Plan 2019-20

Appendix 3 – External Audit Committee Briefing Q4 2019

Broads Authority

Annual Audit Letter for the year ended 31 March 2019

18 December 2019

Building a better working world

Contents

Public Sector Audit Appointments Ltd (PSAA) have issued a ‘Statement of responsibilities of auditors and audited bodies’. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk).

This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment (updated April 2018)’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

01 Executive Summary

Executive Summary

We are required to issue an Annual Audit Letter to Broads Authority (the Authority) following completion of our audit procedures for the year ended 31 March 2019. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Authority's: ► Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended.
► Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Authority's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception: ► Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Authority.
► Public interest report	We had no matters to report in the public interest.
► Written recommendations to the Authority, which should be copied to the Secretary of State	We had no matters to report.
► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Authority's Whole of Government Accounts return (WGA).	The Authority is below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the consolidation pack.

Executive Summary (cont'd)

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Authority communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 7 November 2019.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 25 November 2019.

We would like to take this opportunity to thank the Authority's staff for their assistance during the course of our work.

MARK HODGSON

Mark Hodgson

Associate Partner

For and on behalf of Ernst & Young LLP

02 Purpose and Responsibilities

Purpose and Responsibilities

The Purpose of this Letter

The purpose of this Annual Audit Letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Authority.

We have already reported the detailed findings from our audit work in our 2018/19 Audit Results Report to the 19 November Audit & Risk Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Authority.

Responsibilities of the Appointed Auditor

Our 2018/19 audit work has been undertaken in accordance with the Audit Plan that we issued on 5 March 2019 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
  - On the 2018/19 financial statements; and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the Authority has to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the annual governance statement is misleading or not consistent with our understanding of the Authority;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the Authority, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on you Whole of Government Accounts return. The Authority is below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the Authority

The Authority is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Authority reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

03 Financial Statement Audit

Financial Statement Audit

The Authority's Statement of Accounts is an important tool for the Authority to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Authority's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 25 November 2019.

Our detailed findings were reported to the 19 November 2019 Audit & Risk Committee.

Risk of management override of control

What was the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

Linking to our risk of fraud we have considered the capitalisation of revenue expenditure on Property, Plant and Equipment (see next page).

What did we do and What judgements are we focused on?

We performed mandatory procedures, including:

- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- Reviewed accounting estimates for evidence of management bias; and;
- Evaluated the business rationale for significant unusual transactions.

ISA 240 mandates we perform procedures on: accounting estimates, significant unusual transactions and journal entries to ensure they are appropriate and in line with expectations of the business.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business.

Significant Risk

Significant risk

Misstatement due to fraud or error – the incorrect capitalisation of revenue spend

What was the risk?

Linking to our risk of misstatements due to fraud and error above, we have identified the incorrect capitalisation of revenue spend as a separate risk which could result in a misstatement of cost of services reported in the Comprehensive Income and Expenditure Statement. As the Authority is more focused on its financial position over medium term, we have considered the risk of management override to be more prevalent in the inappropriate capitalisation of revenue expenditure on Property, Plant and Equipment (PPE) given the extent of the Authority's capital programme.

Significant Risk

What did we do and What judgements are we focused on?

We have performed the following procedures:

- Reviewed the appropriateness of revenue and expenditure recognition accounting policies and tested that they have been applied correctly during our detailed testing;
- Performed sample testing on additions to PPE to ensure that they have been correctly classified as capital and included at the correct value to identify any revenue items that have been inappropriately capitalised;
- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

What are our conclusions?

We have not identified any instances of inappropriate capitalisation of revenue expenditure on Property, Plant and Equipment.

Other Areas of Audit Focus

Valuation of land and buildings – inherent risk

What was the risk?

The fair value of property, plant and equipment (PPE) represent significant balances in the Authority's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

What did we do and What judgements are we focused on?

We have performed the following procedures:

- Considered the work performed by the Authority's valuers (Concertus), including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Undertook the sample testing key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE. We also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Reviewed assets not subject to valuation in 2018/19 and confirmed that the remaining asset base is not materially misstated;
- Considered changes to useful economic lives as a result of the most recent valuation; and
- Tested accounting entries have been correctly processed in the financial statements.

What are our conclusions?

Following full consideration of their work, we have placed reliance on the Authority's valuation expert. We have not identified any instances of inappropriate judgements being applied.

We did not identify any significant issues in the assumptions used by the Authority in estimating the value of property, plant and equipment.

Other Areas of Audit Focus

Pension Liability Valuation – inherent risk

What was the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Norfolk County Council.

The Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Authority's balance sheet. At 31 March 2019 this totalled £10.480 million.

The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What did we do and What judgements are we focused on?

We have performed the following procedures:

- Liaised with the auditors of Norfolk Pension Fund, and obtain assurances over the information supplied to the actuary in relation to the Broads Authority;
- Assessed the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries
- commissioned by National Audit Office for all Local Government sector auditors, and considered any relevant reviews by the EY actuarial team;
- Reviewed and tested the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.

What are our conclusions?

We have reviewed the assessment of the pension fund actuary by PWC and EY pensions and have undertaken the work required.

The reporting from the Pension Fund auditors highlighted that the market value of the pension fund assets at 31 March 2019 was overstated by £20.5 million as a result of the Fund using incorrect spot rates for conversion of the Private Equity Investment. Management has obtained a revised IAS19 report from the actuary and has amended the accounts for the updated asset figures, increasing the post employment benefit charged to the Comprehensive Income and Expenditure Statement by £134,000.

The reporting from the Pension Fund auditors highlighted that the market value of the pension fund assets at 31 March 2019 was £3,825.2 million. When compared to the actuaries estimate of the fund assets at 31 March 2019 of £3,834.8 million this creates a difference of £9.6 million. The Authority's share of the assets equates to approximately 0.7% of the fund. The Authority's share of the difference is therefore approximately £67,000 which management chose not to adjust for.

A national issue resulted in a relatively late change to the pension fund accounts and IAS 19 fund liability disclosure. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling. Revised actuarial reports provided by the actuaries show an increase in the liability of £198,000 to the Authority's Pension Liabilities as a result of the adjustments, with further associated disclosure added to recognise this as a source of estimation uncertainty and an adjusted Post Balance sheet event.

Other Areas of Audit Focus

New Accounting Standards – IFRS 9

What was the risk?

IFRS 9 financial instruments

This new accounting standard is applicable for local authority accounts from the 2018/19 financial year and will change how financial assets are classified and measured, how the impairment of financial assets are calculated; and the disclosure requirements for financial assets.

There are transitional arrangements within the standard; and the 2018/19 CIPFA Code of practice on local authority accounting provides guidance on the application of IFRS 9. However, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty on the accounting treatment.

What did we do and What judgements are we focused on?

We have performed the following procedures:

- Assessed the Authority's implementation arrangements that included an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19;
- Considered the classification and valuation of financial instrument assets;
- Reviewed the new expected credit loss model impairment calculations for assets; and
- Checked additional disclosure requirements.

What are our conclusions?

We identified a disclosure error in relation to Financial Instruments in Note 35 where Financial Assets have been understated by £1.434 million due to 'Cash and Cash Equivalents' of £1.198 million and Short-Term Debtors of £0.236 million being incorrectly excluded from the balance. The error, and the prior year comparative were corrected by Management.

Other Areas of Audit Focus

New Accounting Standards – IFRS 15

What is the risk?

IFRS 15 Revenue from contracts with customers

This new accounting standard is applicable for local authority accounts from the 2018/19 financial year.

The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.

The 2018/19 CIPFA Code of practice on local authority accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of LG revenue and how they should be recognised.

The impact on local authority accounting is likely to be limited as large revenue streams like government grants and toll income will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue will change and new disclosure requirements introduced.

What did we do and What judgements are we focused on?

We have performed the following procedures:

- Assessed the Authority's implementation arrangements that included an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19;
- Considered the application to the Authority's revenue streams, and where the standard is relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and
- Checked additional disclosure requirements.

What are our conclusions?

From the work undertaken we have not identified any issues with the implementation of the new standard.

Financial Statement Audit (cont'd)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £171,900 (2018: £128,900), which is 2% of gross expenditure on provision of services reported in the accounts of £8.595 million adjusted for interest costs. We consider gross expenditure on provision of services to be one of the principal considerations for stakeholders in assessing the financial performance of the Authority.
Reporting threshold	We agreed with the Audit & Risk Committee that we would report to the Committee all audit differences in excess of £8,500 (2018: £7,800)

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits: reduced materiality level of £5,000 applied in line with bandings disclosed.
- Related party transactions and members allowances: reduced materiality level applied equal to the reporting threshold.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

04 Value for Money

Value for Money

We are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

We did not identify any significant risks in relation to these criteria.

We did not identify any significant weaknesses in the Authority's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We therefore issued an unqualified value for money conclusion on 25 November2019.

05 Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

The Authority is below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Authority's Annual Governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Authority or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2018/19 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Other Reporting Issues (cont'd)

Independence
We communicated our assessment of independence in our Audit Results Report to Audit & Risk Committee on 19 November 2019. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations
As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit. We have adopted a fully substantive approach and have therefore not tested the operation of controls. We did not identify any significant deficiencies in internal control during our audit.

07 Focused on your future

Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
IFRS 16 Leases	It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2020/21 financial year. Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet. There are transitional arrangements within the standard and although the 2020/21 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.	Until the 2020/21 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area. However what is clear is that the Authority will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Authority must therefore ensure that all lease arrangements are fully documented.
IASB Conceptual Framework	The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework) will be applicable for local authority accounts from the 2019/20 financial year. This introduces; – new definitions of assets, liabilities, income and expenses – updates for the inclusion of the recognition process and criteria and new provisions on derecognition – enhanced guidance on accounting measurement bases - enhanced objectives for financial reporting and the qualitative aspects of financial information. The conceptual frameworks is not in itself an accounting standard and as such it cannot be used to override or disapply the requirements of any applicable accounting standards. However, an understanding of concepts and principles can be helpful to preparers of local authority financial statements when considering the treatment of transactions or events where standards do not provide specific guidance, or where a choice of accounting policies is available.	It is not anticipated that this change to the Code will have a material impact on Local Authority financial statements. However, Authorities will need to undertake a review to determine whether current classifications and accounting remains valid under the revised definitions.

08 Audit Fees

Audit Fees

Our final fee for 2018/19 is as expected, at the scale fee set by the PSAA and as we reported in our 19 November 2019 Annual Results Report.

Description	Final Fee 2018/19 £'s	Planned Fee 2018/19 £'s	Scale Fee 2018/19 £'s	Final Fee 2017/18 £'s
Total Audit Fee – Code work	10,736	10,736	10,736	13,943

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ED None

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Broads Authority

Audit Plan

Year ended 31 March 2020

7 February 2020

The Members
Audit & Risk Committee
Broads Authority
Yare House
62-64 Thorpe Road
Norwich NR1 1RY

7 February 2020

Dear Committee Members

2019/20 Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit & Risk Committee with a basis to review our proposed audit approach and scope for the 2019/20 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This Provisional Audit Plan summarises our initial assessment of the key risks driving the development of an effective audit for the Authority and outlines our planned audit strategy in response to those risks. Our planning procedures remain ongoing; we will inform the Audit & Risk Committee if there any significant changes or revisions once we have completed these procedures and will provide an update to the next meeting of the committee.

This report is intended solely for the information and use of the Audit & Risk Committee Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 3 March 2020 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

MARK HODGSON

Associate Partner
For and on behalf of Ernst & Young LLP

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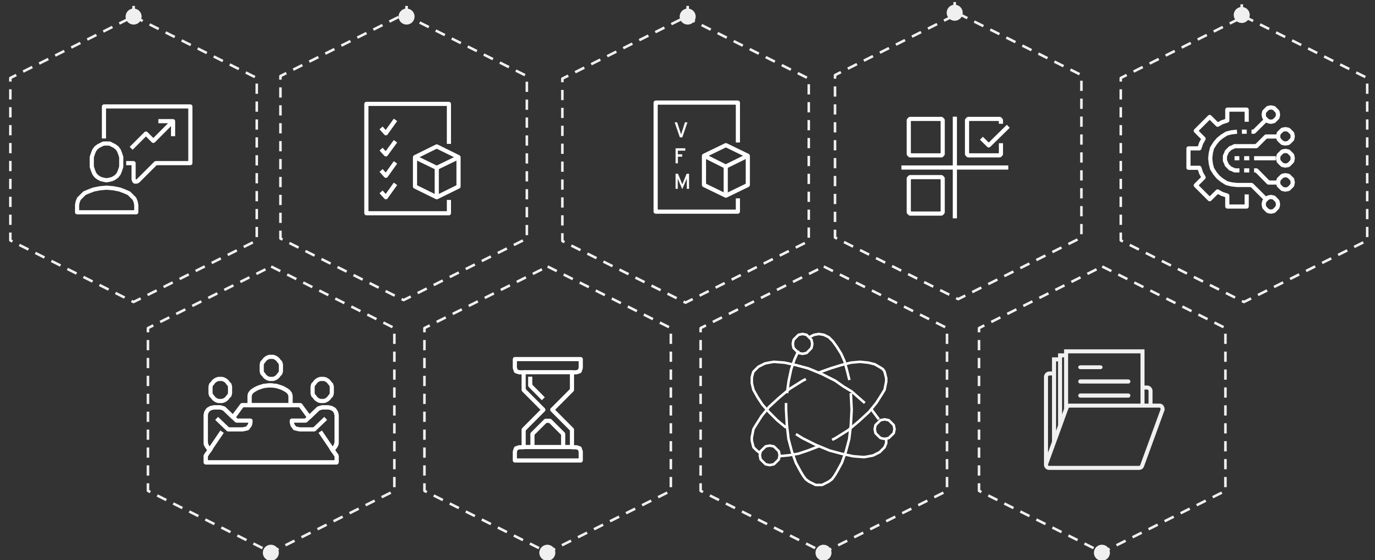
Contents



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit & Risk Committee Committee and management of the Broads Authority in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit & Risk Committee Committee, and management of the Broads Authority those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit & Risk Committee Committee, and management of the Broads Authority for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2019/20 audit strategy

Overview of our 2019/20 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Finance, Resources, Audit and Governance Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Incorrect capitalisation of revenue expenditure	Fraud risk	No change in risk or focus, but shown separately for clarity	Linking to the risk above we have considered the capitalisation of revenue expenditure on Property, Plant and Equipment (PPE) as a specific fraud risk, as this is one area where the management override risk could manifest itself, given the extent of the Authority's capital programme.
Valuation of Land and Buildings	Inherent risk	No change in risk or focus	The fair value of Property, Plant and Equipment (PPE) represent significant balances in the Authority's accounts and are estimates which are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. We note that Management have changed their external valuers for 2019/20 and will address this risk in our procedures.
Pension Liability Valuation	Inherent risk	No change in risk or focus	The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Norfolk County Authority. The Authority's pension fund liability (£10.812 million as at 31 March 2019) is a material estimate and the Code requires that the liability be disclosed on the Authority's balance sheet.

Overview of our 2019/20 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

In addition to the risks outlined above we have identified an area of audit focus.

Area of focus	Change from PY	Details
Implementation of new auditing and accounting standards	New area of focus	**IFRS 16 Leases:** Implementation of IFRS 16 will be included in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2020/21. This Code has yet to published, but in July 2019 CIPFA/LASAAC issued 'IFRS 16 leases and early guide for practitioners'. It is likely there will be some disclosure requirements for the 2019/20 statement of accounts. **Going Concern Compliance with ISA 570:** This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Authority will be the audit of the 2020/21 financial statements.

Overview of our 2019/20 audit strategy

Materiality

Planning materiality

£176,000

Materiality for the single entity has been set at £0.176 million, which represents 2% of the prior years gross expenditure on provision of services.

Performance materiality

£132,000

Performance materiality has been set at £0.132 million, which represents 75% of materiality. We have assessed a lower likelihood of misstatement this year based on the prior year audit.

Audit differences

£8,792

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement) greater than £8,792. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit & Risk Committee Committee.

Overview of our 2019/20 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of the Broads Authority give a true and fair view of the financial position as at 31 March 2020 and of the income and expenditure for the year then ended; and

- Our conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness (Value for Money).

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Authority's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Authority.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the value for money conclusion. Therefore to the extent any of these or any other risks are relevant in the context of the Broads Authority's audit, we will discuss these with management as to the impact on the scale fee.

02 Audit risks

Our response to significant risks

Misstatements due to fraud or error *	What is the risk?	What will we do?
	The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement. We identify and respond to this fraud risk on every audit engagement. Linking to our risk of fraud we have considered the capitalisation of revenue expenditure on Property, Plant and Equipment as a specific area where management override could manifest itself (see below).	In order to address this risk we will carry out a range of procedures including: ▶ Identifying fraud risks during the planning stages. ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks. ▶ Understanding the oversight given by those charged with governance of management's processes over fraud. ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud. ▶ Determining an appropriate strategy to address those identified risks of fraud. ▶ Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Our response to significant risks (continued)

Misstatements due to fraud or error – the incorrect capitalisation of revenue expenditure *

Financial statement impact

We have identified a risk of expenditure misstatements due to fraud or error that could affect the income and expenditure accounts.

We consider the risk applies to capitalisation of revenue expenditure and could result in a misstatement of cost of services reported in the Comprehensive Income and Expenditure statement.

What is the risk?

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively (see above).

As the Authority is more focused on its financial position over medium term, we have considered the risk of management override to be more prevalent in the inappropriate capitalisation of revenue expenditure on Property, Plant and Equipment (PPE) given the material extent of the Authority's capital programme.

What will we do?

In order to address this risk we will carry out a range of procedures including:

- Reviewing the appropriateness of revenue and expenditure recognition accounting policies and testing that they have been applied correctly during our detailed testing;
- Performing sample testing on additions to PPE to ensure that they have been correctly classified as capital and included at the correct value to identify any revenue items that have been inappropriately capitalised;
- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
<u>Valuation of Land and Buildings</u> The fair value of Property, Plant and Equipment (PPE) represent significant balances in the Authority's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. The Authority will engage an external expert valuer who will apply a number of complex assumptions to these assets. Annually assets are assessed to identify whether there is any indication of impairment. We note that the Authority has employed a new valuation firm for 2019/20. As the Authority's asset base is significant, and the outputs from the valuer are subject to estimation, there is a risk fixed assets may be under/overstated. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.	In order to address this risk we will carry out a range of procedures including: ▸ Consider the work performed by the Authority's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; ▸ Sample testing key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre); ▸ Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; ▸ Review assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated; ▸ Consider circumstances that require the use of EY valuation specialists to review any material specialist assets and the underlying assumptions used; ▸ Consider changes to useful economic lives as a result of the most recent valuation; and ▸ Test accounting entries have been correctly processed in the financial statements.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
<u>Pension Liability Valuation</u> The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Norfolk County Council. The Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Authority's balance sheet. At 31 March 2019 this totalled £10.812 million. The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	In order to address this risk we will carry out a range of procedures including: ▸ Liaise with the auditors of Norfolk Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Broads Authority; ▸ Assess the work of the Pension Fund actuary (Hymans) including the assumptions they have used by relying on the work of PwC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and ▸ Review and test the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.

Other areas of audit focus (continued)

What is the risk/area of focus?	What will we do?
IFRS16 – leases IFRS 16 Leases was issued by the IASB in 2016. Its main impact is to remove (for lessees) the traditional distinction between finance leases and operating leases. Finance leases have effectively been accounted for as acquisitions (with the asset on the balance sheet, together with a liability to pay for the asset acquired). In contrast, operating leases have been treated as "pay as you go" arrangements, with rentals expensed in the year they are paid. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset. Implementation of IFRS 16 will be included in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2020/21. This Code has yet to published, but in July 2019 CIPFA/LASAAC issued 'IFRS 16 leases and early guide for practitioners'. This early guidance provides comprehensive coverage of the requirements of the forthcoming provisions, including: ▸ the identification of leases ▸ the recognition of right-of-use assets and liabilities and their subsequent measurement ▸ treatment of gains and losses ▸ derecognition and presentation and disclosure in the financial statements, ▸ the management of leases within the Prudential Framework. The guidance also covers the transitional arrangements for moving to these new requirements, such as: ▸ the recognition of right-of-use assets and liabilities for leases previously accounted for as operating leases by lessees ▸ the mechanics of making the transition in the 2020/21 financial statements (including the application of transitional provisions and the preparation of relevant disclosure notes).	IFRS 16 – leases introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases. The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet. Although the new standard will not be included in the CIPFA Code of Practice until 2020/21, work will be necessary to secure information required to enable authorities to fully assess their leasing position and ensure compliance with the standard from 1 April 2020 and some narrative disclosures are likely to be required for 2019/20. In particular, full compliance with the revised standard for 2020/21 is likely to require a detailed review of existing lease and other contract documentation prior to 1 April 2020 in order to identify: ▸ all leases which need to be accounted for ▸ the costs and lease term which apply to the lease ▸ the value of the asset and liability to be recognised as at 1 April 2020 where a lease has previously been accounted for as an operating lease. We will discuss progress made in preparing for the implementation of IFRS 16 – leases with the finance team over the course of our 2019/20 audit.

Other areas of audit focus (continued)

What is the risk/area of focus?	What will we do?
Going Concern Compliance with ISA 570 This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Authority will be the audit of the 2020/21 financial statements. The revised standard increases the work we are required to perform when assessing whether the Authority is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Audit Committee. The CIPFA Guidance Notes for Practitioners 2019/20 accounts states 'The concept of a going concern assumes that an authority's functions and services will continue in operational existence for the foreseeable future. The provisions in the Code in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.' 'If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis.'	The revised standard requires: ▸ auditor's challenge of management's identification of events or conditions impacting going concern, more specific requirements to test management's resulting assessment of going concern, an evaluation of the supporting evidence obtained which includes consideration of the risk of management bias; ▸ greater work for us to challenge management's assessment of going concern, thoroughly test the adequacy of the supporting evidence we obtained and evaluate the risk of management bias. Our challenge will be made based on our knowledge of the Authority obtained through our audit, which will include additional specific risk assessment considerations which go beyond the current requirements; ▸ improved transparency with a new reporting requirement for public interest entities, listed and large private companies to provide a clear, positive conclusion on whether management's assessment is appropriate, and to set out the work we have done in this respect. While the Authority are not one of the three entity types listed, we will ensure compliance with any updated reporting requirements; ▸ a stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and ▸ necessary consideration regarding the appropriateness of financial statement disclosures around going concern. The revised standard extends requirements to report to regulators where we have concerns about going concern. We will discuss the detailed implications of the new standard with finance staff during 2019/20 ahead of its application for 2020/21.

03 Value for Money Risks

Value for Money

Background

We are required to consider whether the Authority has put in place ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2019/20 this is based on the overall evaluation criterion:

“In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people”

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

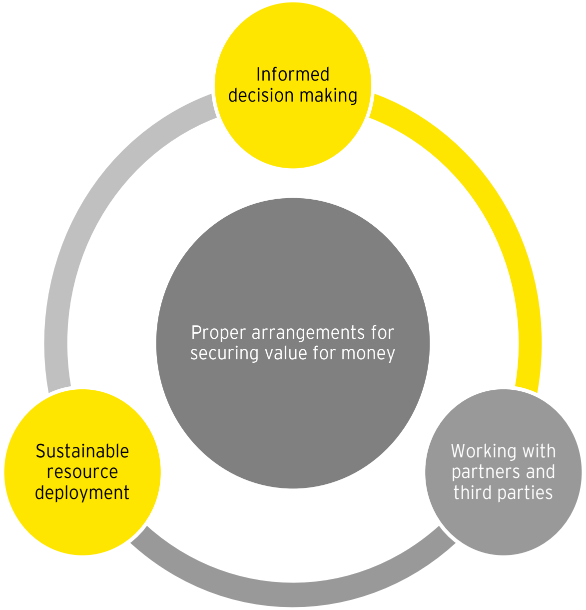
We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level.

We have not yet fully completed our value for money planning risk assessment for 2019/20. We will consider the steps taken by the Authority to consider the impact of Brexit on its future service provision, medium-term financing and investment values. Although the precise impact cannot yet be modelled, we would expect that Authorities will be carrying out scenario planning and that Brexit and its impact will feature on operational risk registers. Our risk assessment will consider both the potential financial impact of the issues we identify, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders.

We are aware that the Authority is also awaiting notification of its grant allocation for 2020/21. We will assess the impact of this on the Authority’s Medium Term Financial Plan and what impact this has on sustainable resource deployment.



04 Audit materiality

Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2019/20 has been set at £176,000. This represents 2% of the Authority's prior year gross expenditure on net cost of services plus financing and investment expenditure. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.

We request that the Audit & Risk Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £132,000 which represents 75% of planning materiality. We have considered a number of factors such as the number of errors in the prior year and any significant changes when determining the percentage of performance materiality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement and balance sheet that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Audit & Risk Committee, or are important from a qualitative perspective.

Specific materiality – We have set a lower materiality for Senior Officer's Remuneration, Members' Allowances and Exit Packages disclosures which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this.

05 Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Authority's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. **Financial statement audit**

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

Our intention is to carry out a fully substantive audit in 2019/20 as we believe this to be the most efficient audit approach. Although we are therefore not intending to rely on individual system controls in 2019/20, the overarching control arrangements form part of our assessment of your overall control environment and will form part of the evidence for your Annual Governance Statement.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Committee.

Internal audit:

As in prior years we will review internal audit plans and the results of the works. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

Our Audit Process and Strategy (continued)

Earlier deadline for production of the financial statements

The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the accounts by 31 July.

These changes provide risks for both the preparers and the auditors of the financial statements:

- The Authority now has less time to prepare the financial statements and supporting working papers. Risks to the Authority include slippage in delivering data for analytics work in format and to time required, late working papers, internal quality assurance arrangements, changes to finance team etc.
- As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Slippage at one client could potentially put delivery of others at risk.

To mitigate this risk we will require:

- good quality draft financial statements and supporting working papers by the agreed deadline;
- appropriate Authority staff to be available throughout the agreed audit period; and
- complete and prompt responses to audit questions using the EY Canvas Portal.

If you are unable to meet key dates within our agreed timetable, we will notify you of the impact on the timing of your audit, which may be that we postpone your audit until later in the year and redeploy the team to other work to meet deadlines elsewhere.

Where additional work is required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify you of the impact on the fee and the timing of the audit. Such circumstances may result in a delay to your audit while we complete other work elsewhere.

To support the Authority we will:

- Work with the Authority and officers to engage early to facilitate early substantive testing where appropriate.
- Provide an early review on the Authority's streamlining of the Statement of Accounts where non-material disclosure notes are removed.
- Facilitate a closedown workshop with Statutory Finance Officers to agree an approach to enable us all to achieve a successful closure of accounts for the 2019/20 financial year.
- Work with the Authority to implement/ embed/ improve the use of EY Client Portal, this will:
  - Streamline our audit requests through a reduction of emails and improved means of communication;
  - Provide on –demand visibility into the status of audit requests and the overall audit status;
  - Reduce risk of duplicate requests; and
  - Provide better security of sensitive data.
- Agree the team and timing of each element of our work with you.
- Agree the supporting working papers that we require to complete our audit.

06 Audit team

Overview of our 2019/20 audit strategy

Audit team changes

Key changes to our team.

Mark Hodgson
Lead Audit Partner

Jacob McHugh
Audit Manager

Charles Camano
Lead Senior

Working together with the Authority

We are working together with officers to identify continuing improvements in communication and processes for the 2019/20 audit.

We will continue to keep our audit approach under review to streamline it where possible.

Audit team

Mark Hodgson, Associate Partner

- Mark has significant public sector audit experience, with a portfolio of Local Authorities and Local Government Pension Funds and is a member of the Chartered Institute of Public Finance and Accountancy (CIPFA).
- Mark is supported by Jacob McHugh, Audit Manager, who is responsible for the day-to-day direction of audit work and is the key point of contact for the finance team.

Use of specialists

Our approach to the involvement of specialists, and the use of their work.

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	The Broads Authority's property valuers (NPS). We will also consider any valuation aspects that may require EY valuation specialists to review any material specialist assets and the underlying assumptions used.
Pensions disclosure	EY Actuaries, PwC (Consulting Actuary to PSAA) and Hymans Robertson (the Authority's actuary)
Fair Value Investment Measurement	The Authority's Treasury Advisor if relevant.

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Authority's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

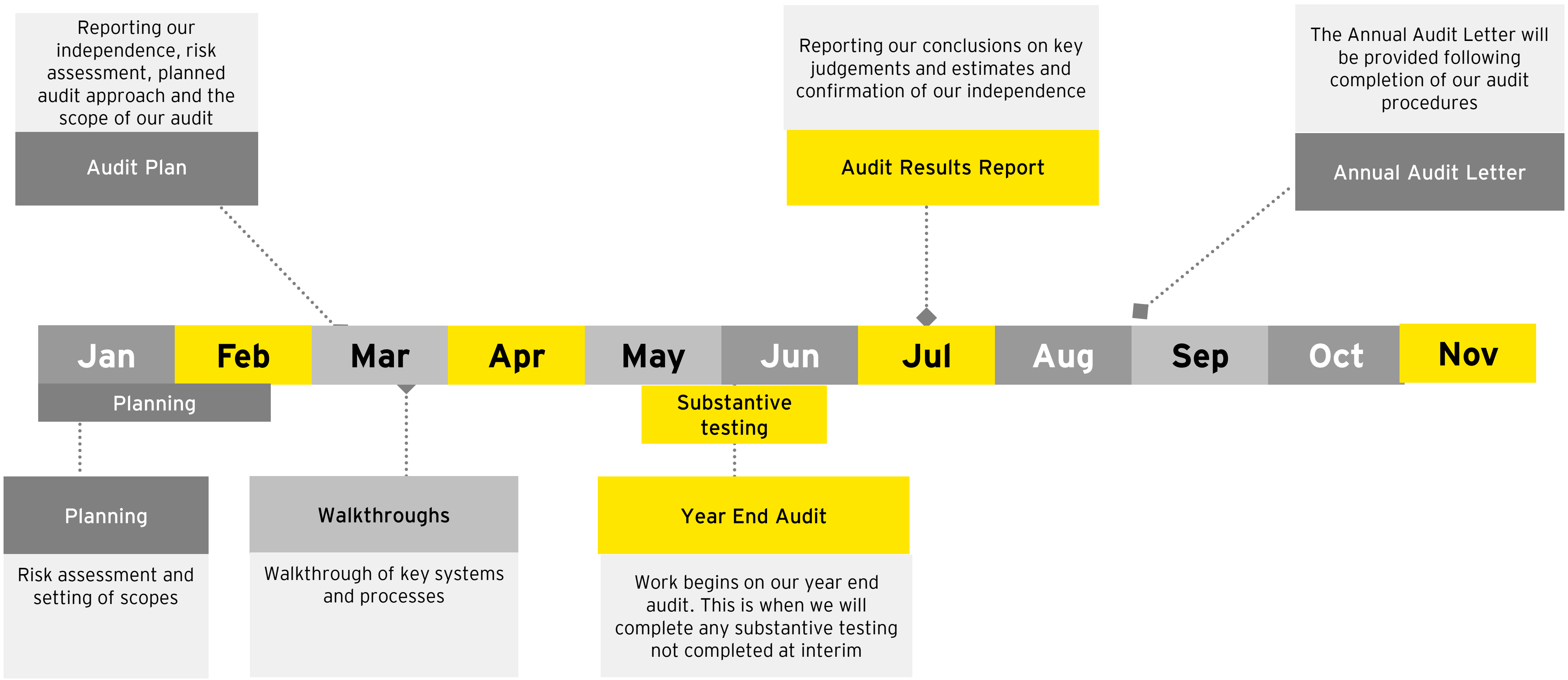
07 Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2019/20.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.



08 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
► The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ► The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ► The overall assessment of threats and safeguards; ► Information about the general policies and process within EY to maintain objectivity and independence. ► Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard.	► In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ► Details of non-audit services provided and the fees charged in relation thereto; ► Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ► Written confirmation that all covered persons are independent; ► Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ► Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ► An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements , the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Mark Hodgson, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Authority. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 0%.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4. There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Authority. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

New UK Independence Standards

The Financial Reporting Authority (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
    - Tax advocacy services
    - Remuneration advisory services
    - Internal audit services
    - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We do not provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2019
Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2019: https://www.ey.com/Publication/vwLUAssets/ey-uk-2019-transparency-report/$FILE/ey-uk-2019-transparency-report.pdf

09 Appendices

Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Scale fee 2019/20	Final Fee 2018/19
	£	£
Total Fee – Code work	10,736	10,736
Total audit	10,736	10,736
Total other non-audit services	0	0
Total fees	10,736	10,736

All fees exclude VAT

For 2019/20, the scale fee will be impacted by a range of factors (see page 8) which will result in additional work. We will continue to discuss the impact of these factors with management and the impact on the final fee.

The base scale fee presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Authority; and
- The Authority has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Authority in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Required communications with the Audit Committee

We have detailed the communications that we must provide to the Audit & Risk Committee Committee .

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Audit & Risk Committee Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit Plan – 3 March 2020
Significant findings from the audit	▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Significant difficulties, if any, encountered during the audit ▸ Significant matters, if any, arising from the audit that were discussed with management ▸ Written representations that we are seeking ▸ Expected modifications to the audit report ▸ Other matters if any, significant to the oversight of the financial reporting process	Audit Results Report – July 2020

Appendix B

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy of related disclosures in the financial statements	Audit Results Report – July 2020
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Corrected misstatements that are significant ▸ Material misstatements corrected by management	Audit Results Report – July 2020
Fraud	▸ Enquiries of the Audit & Risk Committee Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ A discussion of any other matters related to fraud	Audit Results Report – July 2020
Related parties	▸ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures ▸ Non-compliance with laws and regulations ▸ Difficulty in identifying the party that ultimately controls the entity	Audit Results Report – July 2020

Appendix B

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats ▸ Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards ▸ Information about the general policies and process within the firm to maintain objectivity and independence	Audit Results Report – July 2020 Audit Plan – 3 March 2020
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures	Audit Results Report – July 2020
Consideration of laws and regulations	▸ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▸ Enquiry of the Audit & Risk Committee Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of	Audit Results Report – July 2020
Internal controls	▸ Significant deficiencies in internal controls identified during the audit	Audit Results Report – July 2020

Appendix B

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Group audits	▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements	Audit Results Report - July 2020 Audit Plan - 3 March 2020
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report - July 2020
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report - July 2020
Auditors report	▶ Key audit matters that we will include in our auditor's report ▶ Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report - July 2020
Fee Reporting	▶ Breakdown of fee information when the audit plan is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work	Audit Results Report - July 2020 Audit Plan - 3 March 2020

Appendix C

Additional audit information

Other required procedures during the course of the audit	
In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.	
Our responsibilities required by auditing standards	▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting. ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Authority to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Audit & Risk Committee Committee reporting appropriately addresses matters communicated by us to the Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and ▶ Maintaining auditor independence.

Additional audit information (continued)

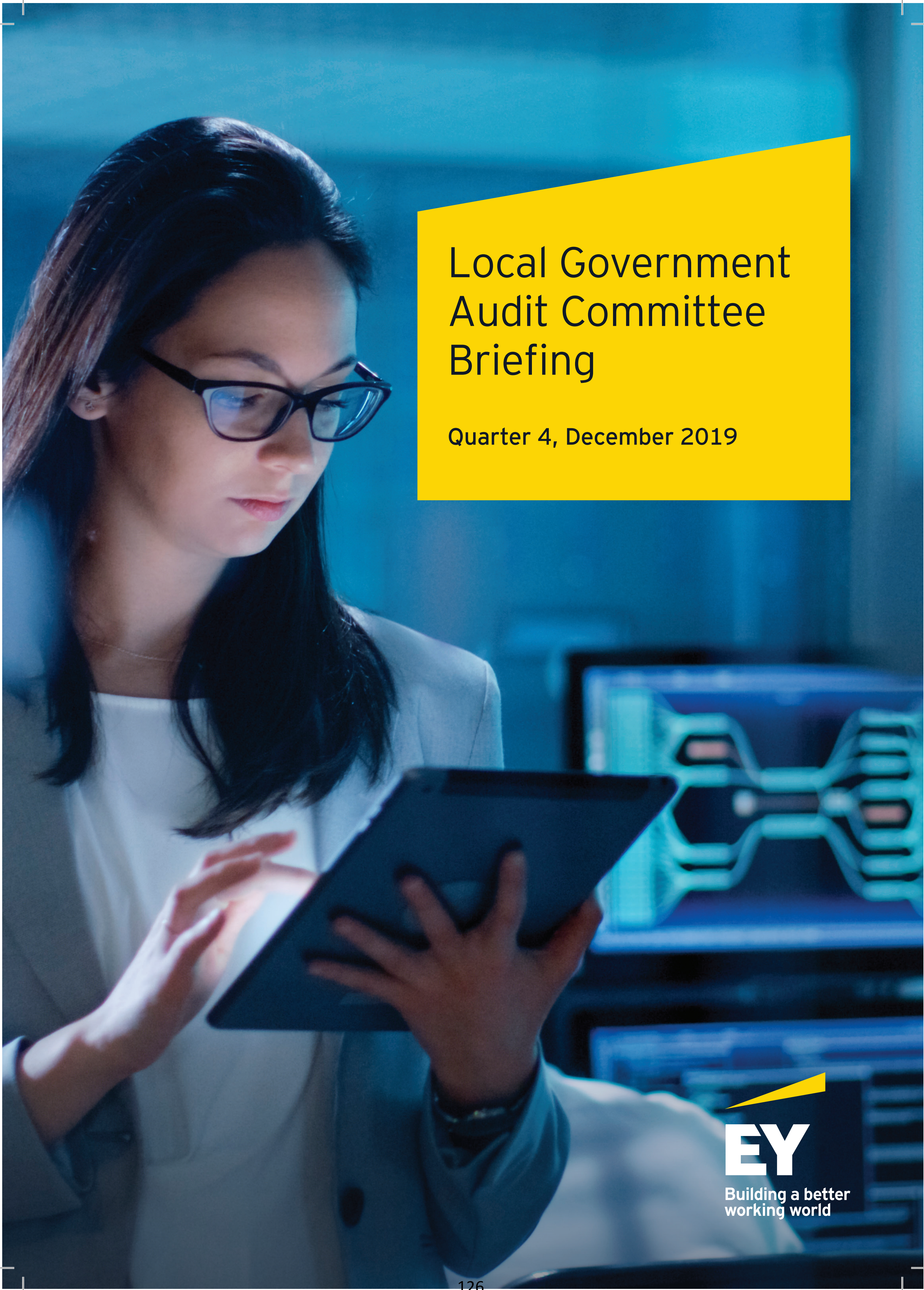
Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the Authority financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

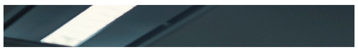
The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.



Local Government Audit Committee Briefing

Quarter 4, December 2019

EY
Building a better working world



Contents at a glance

This sector briefing is one of the ways that we support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation and the Local Government sector as a whole.

The briefings are produced by our national Government and Public Sector (GPS) team, using our public sector knowledge, and EY's wider expertise across UK and international business.

The briefings bring together not only technical issues relevant to the Local Government sector but also wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing.

We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please contact your local audit team.

Government and economic news

EY Club item

Economic forecast – EY Club item

The latest EY ITEM Club forecast highlights that continued uncertainties – including those surrounding Brexit – and the weak economic global environment continue to weigh on the UK economy post the General Election. Fiscal policy will be more supportive than previously planned, with the 2020/21 spending review indicating that public spending will rise by 4.1% in real terms. This briefing considers the prospects for social care funding and the housing crisis.

The EY ITEM Club anticipates that continued Brexit uncertainty will restrict UK economic growth in 2020

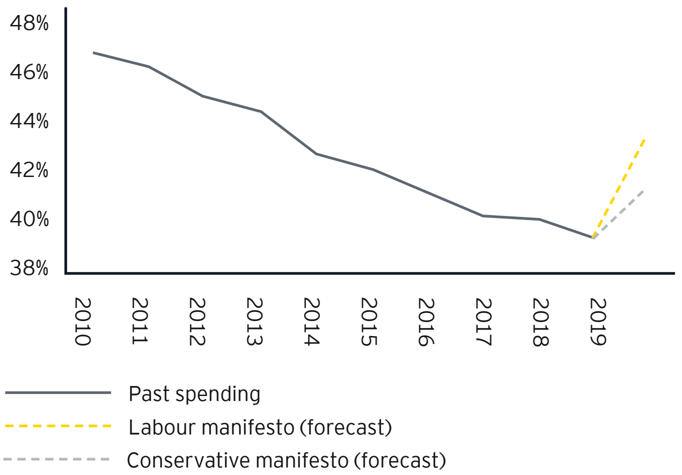
The EY ITEM Club's autumn forecast predicts relatively weak UK GDP growth of just 1.0% in 2020. This reflects an assumption that the UK will leave the EU at the end of January with Boris Johnson's withdrawal agreement, in addition to the fact that uncertainty around the UK's future relationship with the EU remains. This is likely to limit any recovery in business investment in the immediate future. Geopolitical and trade pressures weighing on the global economy are also likely to cause a drag on the UK economy.

UK GDP growth for 2019 remains on track to be 1.3% in 2019, in line with past EY ITEM Club forecasts and representing a slight decline on the 1.4% figure for 2018. By comparison, 1.0% in 2020 would be a significant decline, and this is likely to have important consequences for local government.

Local authorities will likely need to continue to be innovative to deliver high quality social care

Chancellor Sajid Javid has pledged public spending increases of 4.1% in real terms in the 2020/21 spending review – the fastest increase in 15 years – whilst it is anticipated that the Budget for 2020/21 will contain further fiscal loosening measures. Austerity to the extent of the past decade appears to be at an end.

Figure 1: UK public sector spending (% of GDP)



Sources: Office for Budget Responsibility; BBC

Despite this, the Conservative manifesto pledges maintaining the £1bn of grant funding announced in the last spending review for the duration of the next parliament as well as £500mn of funding for potholes (in contrast with an extra £13bn proposed by the Labour manifesto).

The Conservative manifesto is light on detail on social care reform that has been anticipated in the continuously delayed green paper. On top of the maintenance of the £1bn of grant funding, they refer to the need for more staff, better infrastructure and a new entitlement to an extra week of leave for people undertaking care on an unpaid basis. But this falls short of a long-term solution, which the Conservatives have stated needs to come from cross-party consensus. It also does not indicate how the manifesto commitment that 'no one needing care has to sell their home to pay for it' will be achieved.[1]

Until more clarity emerges in this regard, local authorities may continue to be financially and operationally squeezed in their delivery of social care. This is compounded by the fact that there were 136,000 job vacancies in the health and social work sector (17% of all UK vacancies),[2] whilst labour markets remain tight, with unemployment of 3.9% just one percentage point above the joint-lowest level since 1974. Despite this, continued funding constraints will mean that badly needed wage growth in the sector is unlikely to materialise to a great extent in the next year, even given recent strong economy-wide wage growth. Furthermore, UK wide productivity remains low, with Q2 2019 being the fourth consecutive quarter without growth.

The housing crisis remains a major pressure on local government

The latest RICS survey indicated that average housing stock levels on estate agents' books in September were close to the lowest level in the survey's history. Housing market activity is also forecast to remain below the 2016 peak until at least 2023. The Government's initiatives to boost house building will take time to have a significant effect, so are unlikely to markedly influence housing availability in the short term at least. In addition, the proportion of new houses that will be affordable must also be seen as a significant measure as to the effectiveness of central government policy dealing with the housing crisis.

Local authorities therefore continue to take up the mantle in combating the crisis, with 78% of councils having a housing or property company as of March 2019. Councils are finding different ways of delivering, developing their own land in some cases and making acquisitions in others, working with different types of partners and providers, and applying focus to affordable housing and various specific-need groups (such as the elderly).[3]

Certainty elusive as Brexit continues to dominate the political agenda

The Conservatives' primary election campaign promise to 'Get Brexit Done' only represents the beginning of a long process of trade deal negotiations, both with the EU and other third partners. The Government has stated its intention to negotiate a deal with the EU next year, not extending the implementation period beyond 2020. That said, the delays to the withdrawal agreement process suggest that it is difficult to guarantee this. Furthermore, the Government plans to agree new free trade agreements to cover 80% of UK trade over the next three years.[1] Economic and political uncertainty are therefore likely to remain prominent during this period, if not beyond.

[1] The Telegraph, 'Conservative Party manifesto 2019', 10 December 2019, [online]. Available at: https://www.telegraph.co.uk/politics/2019/12/10/conservative-manifesto-2019-nhs-election/

[2] Office for National Statistics, 'Vacancies and jobs in the UK', 12 November 2019, [online]. Available at: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/jobsandvacanciesintheuk/november2019

[3] Inside Housing, 'Councils are finding their building confidence', 15 March 2019, [online]. Available at: https://www.insidehousing.co.uk/sponsored/sponsored/councils-are-finding-their-building-confidence?

Central government is therefore likely to remain focused on international trade and relations over the next few years. It will become increasingly important for local government to continue to play a leading role in society, delivering vital services for local residents. There is little in the EY ITEM Club's forecasts to suggest that the economy will provide much support in meeting these challenges.

The need for innovation to improve the social care system's capacity

The lead up to the UK election saw all major political parties making proposed commitments to expand social care. The newly elected Conservative government has stated that the social care system needs to 'give every person the dignity and security they deserve'. Aside from a commitment to maintain the extra £1bn of grant funding, there has been little further detail about what social care reform may happen in the term of the Parliament.

This financial commitment contributes, albeit probably not sufficiently, to the proposed funding gap. However, funding in the social care system is not the only shortfall; recent research by the Nuffield Trust has suggested there are 165,000 over 65s with unmet care needs and providing these with just two hours of care a day would require 90,000 new home care workers. This doesn't consider any other forms of social care, such as adults with special or complex needs. Therefore, the shortfall of 90,000 care workers is likely to be a prudent figure.

Successful expansion of the social care system will be heavily influenced by macroeconomic conditions.

Any expansion of the social care system in the UK will need careful consideration of the existing conditions in the labour market. The current unemployment rate of 3.9% stands at near record low levels. However, despite nominal wage growth standing at its highest rate since 2008, real wage growth remains near zero. These conditions will make it challenging to expand the workforce of the social care system without significantly increasing spending or looking for alternative means of delivery.

It is possible to establish an economically sustainable social care system.

There are examples of successful social care system transformations from across the globe that provide insightful lessons for potential reform in the UK's social care system.

In 2013, the Australian Government introduced a universal social care system referred to as the National Disability Insurance Scheme (NDIS). The NDIS entitles people with a 'permanent and significant' disability (under the age of 65), to full funding for 'any reasonable and necessary' support needs relating to their disability (subject to certain restrictions). Funding is allocated to the individual, and the individual or their guardian chooses which providers supply the funded goods and services (subject to other restrictions). The scheme is entirely publicly funded.

Research commissioned by the Australian Government in 2011, found that by approximately 2025 the cost of maintaining the status quo in relation to the care of people with a disability would be greater than the cost of an NDIS. The status quo heavily relied on a fragmented funding system of grants that offered little long-term security for those with disabilities. A broken system was deemed to be constraining those with special needs' ability and the ability of their carers to participate in Australian society. Other downstream costs of the status quo included those seen in the criminal justice system, health system, homelessness and costs relating to social isolation.

Expanding social care requires innovation and careful consideration of labour supply and community needs.

There was a clear need to overhaul the social care system in Australia, however it meant the disability sector in Australia would need to double its workforce to meet the needs of the NDIS. Consultations on the NDIS to date have highlighted several key issues that would be of important consideration in the proposed expansion of social care in the UK:

- **Vulnerable clients:** the communities that some providers serve may have complex and more pressing needs, including isolation, complex disability support and challenges in self-determining their needs. These clients require more highly qualified staff to service their needs.

- **Higher operating costs:** low client numbers (or difficulty in finding connection with clients that are in a region), and/or highly dispersed clients result in high per-client costs under existing staff utilisation.
- **Workforce:** challenges in recruiting and retaining qualified workers as well as providing learning and development opportunities.
- **Temporary supply gaps during transition:** temporary supply gaps during transition to full implementation of the scheme, where some supports (such as certain specialist supports and Allied Health services) take time to reach levels required to meet demand.
- **Geographic isolation:** physical distance and travel time results in high costs for service delivery for isolated or highly dispersed communities.

Many of these challenges would likely impact any proposed expansion of the social care workforce in the UK too. Focus should therefore be applied to mitigating these during the formation of any associated policy. However, what else should be considered in the need to expand social care?

The need to improve capacity

The call to expand the social care system pertains to the current and growing challenge of lack of capacity in the system. Whilst expanding the workforce is one means to try and tackle this, so is improving productivity. Where significant workforce challenges exist, then focusing on technologically enabled productivity gains is likely to be crucial.

There are a range of opportunities through which technology has the potential to improve the productivity of the social care system:

- **Managing front-door demand**: predictive analytics can now be used to identify risk and vulnerable groups to proactively target interventions before demand materialises.
- **Making existing service delivery for staff more efficient:** Robotic Process Automation (RPA) and Artificial Intelligence (AI) applications provide improved productive capacity and flexibility for staff through streamlined processes and automated administration tasks, allowing staff to focus on supporting user needs.
- **Technology-enabled care**: assistive technology provides a vehicle to personalise and tailor support, reducing intrusion whilst providing a platform for connectivity and care, such as virtual reality empathy training, real time care monitoring and work flowed predictive analytics.
- **Procurement and commissioning**: data driven decision making through predictive analytics, digital care planning and eBrokerage now provides an effective platform for evidence-based outcome-focused commissioning.

It is vital that any proposed expansion of the social care system doesn't purely focus on increasing the number of social care workers. The system needs fundamental transformations in its digital infrastructure and it is through the productivity gains that can be yielded from those, that the system can best overcome its capacity challenges.

The EY ITEM Club forecast for the UK economy, autumn 2019

% changes on previous year

	GDP	Domestic demand	Consumer spending	Fixed investment	Exports	Imports
2017	1.9	1.2	2.2	1.6	6.1	3.5
2018	1.4	1.4	1.6	-0.1	-0.9	0.7
2019 (forecast)	1.3	2.3	1.2	-0.3	-0.1	4.3
2020 (forecast)	1	0.8	1.4	-0.4	1.1	0.3
2021 (forecast)	1.5	1.8	1.8	2.7	2.5	3.1
2022 (forecast)	1.7	2	1.9	2.3	3.2	3.8
2023 (forecast)	1.8	2	2	2.6	3.5	3.7

Future Funding for Vital Services

Research conducted by the Institute for Fiscal Studies (IFS) has predicted that council tax revenues will significantly fall short of the funding required to provide key services, including social care. If council tax revenues increase at their current rate in line with inflation at 2% then this would result in a shortfall of £4bn by 2024/25, rising to £18bn by the mid-2030s. An increase in council tax by 4% per year would still result in a shortfall of £1.6bn by 2024/25 and £8.7bn by 2034/35. There have been calls within the local authority sector to significantly reform and address the issue of long-term sustainable funding for social care.

The research has also concluded that councils have cut other services by up to 40% since 2010 in order to protect social care spending. Local authority budgets are under significant pressure due to a decade of funding cuts from central government and increased cost pressures from increased demand for services. The IFS has found that budgets of local authorities are increasingly focused on fulfilling statutory duties and focusing spending on those that need it the most, as opposed to providing equitable services to all. This has resulted in significant cuts to a range of services previously provided by local authorities that are not required under statute. For example, per-person spending on culture and recreation is 50% lower in 2019/20 compared to 2009/10.

Similar analysis conducted by the Trade Union Congress has found that funding for key local services related to social care, waste management and transport have fallen by, on average, 16% since 2010. There were significant regional variations with the North East and North West regions showing a fall of 20% compared to 2010 levels, whilst some metropolitan boroughs in London had a 30% decrease.

Local authorities have become increasingly more reliant on council tax and business rates income. Excluding educational spend, half of all spending is funded from council tax whilst 30% of spend is funded from business rates. With reform of business rate retention and Fair Funding reviews on the horizon, it is likely that councils will become even more reliant on council tax and business rate income. Consequently, authorities with a smaller tax base may find that their sources of revenue fall behind neighbouring authorities with a larger tax base.

Public Works Loan Board (PWLB) Interest Rate Increase

On 9 October 2019 HM Treasury announced a 1% interest rate increase for all new PWLB loans with immediate effect. The Secretary of State for Housing, Communities and Local Government noted that this was a necessary step to control the increase and dependency on PWLB borrowing. Total PWLB borrowing increased by 72% from 2017/18 to 2018/19 to £9.1bn new loans across all local authorities before this interest rate hike.

A spokesman from the Local Government Association (LGA) has commented that this PWLB rate increase could cost councils an extra £70mn a year. This may put at risk many vital capital schemes, including the construction of much needed council houses, which may now be delayed or cancelled due to unaffordability. The London Councils umbrella group have also indicated that the interest rate increase is likely to have a 'severe impact' on housing and regeneration schemes.

The credit rating agency Moody's has commented that the PWLB interest rate increase is overall 'credit negative' for the sector as the cost of capital for local authorities on new borrowing will increase in the short term. However, in the long term, the increase in interest rates should reduce the overall level of debt accumulated in the sector.

Moody's have also predicted that the rate hike will deter some councils from borrowing to invest in commercial property schemes with marginal returns. This comes as the chief executive of the Chartered Institute of Public Finance and Accountancy (CIPFA), Rob Whiteman, has commented that central government has concerns on the types of commercial property investments entered into by local authorities. Some of which are controversial due to the scale of borrowing and the increase in exposure to economic volatility for local authorities. He warned that 'the PWLB [interest rate] hike was a very blunt instrument' and does not help the sector as whole. However, if controversial commercial investments continue within the sector then it is likely that central government will impose greater regulation upon local authorities, or even sanctions if CIPFA's Prudential Code is not adhered to.

The initial impact of the interest rate increase on PWLB loan borrowing has suggested that the value of new loans drawn down in October 2019 has decreased by 71% compared to September 2019. In response to interest rate hike councillors and mayors from multiple London Boroughs have written to the Chancellor of the Exchequer calling on him to reverse the increase.

Accounting, auditing and governance

Going Concern

In response to recent well-publicised corporate failures, the Financial Reporting Council (FRC), the regulator of external auditors, has issued a revised standard on going concern, International Standard on Auditing ('ISA') (UK) 570. The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019 (e.g., the 2020/21 accounts), with early adoption possible.

The uncertain economic environment, risks arising from Brexit and weakness in the retail sector due to falling consumer spending mean increasing risks around going concern in the corporate sector. These risks are also prevalent, to a lesser extent, in local government. Public interest expectations around the work of auditors on going concern, and the FRC's expectations on how we robustly challenge management, have also never been higher.

The revised standard increases the work auditors are required to perform when assessing whether an entity is a going concern. As a starting point, the expectation of the regulator is that there are going concern uncertainties in every business which must be identified by the auditor, before a robust consideration of management's assessment is carried out. This requires auditors to perform:

- An enhanced risk assessment to inform the auditor's challenge of management's identification of events or conditions impacting going concern, more specific requirements to test management's resulting assessment of going concern, an evaluation of the supporting evidence obtained which includes consideration of the risk of management bias:
    - If we identify events or conditions that management did not, further procedures are required including consideration of control weaknesses and risk of fraud.
    - The testing of management's method of assessment, assumptions, the relevance and reliability of data, management's future actions and events since management's assessment are more explicitly described in the new standard, although many of the required steps will reflect current best practice.
    - The evaluation of evidence when we draw our conclusions on going concern includes a stand back requirement to consider all the evidence obtained (whether corroborative or contradictory) and consideration of management bias even if all judgements and assumptions are individually reasonable.
- Financial statement disclosures around going concern now need to be considered for 'appropriateness' not 'adequacy'.
- Extended requirements to report to regulators where we have concerns about going concern.

Your local audit team will provide further details later in 2020 on what these changes might mean for the work management must perform on going concern and the expectations of the audit team.

Public Sector Audit Consultations

There are two recent consultations which may change the shape of public sector financial reporting and auditing. These are:

- Independent review into the arrangements in place to support the transparency and quality of local authority financial reporting and external audit in England (Call for Views) led by Sir Tony Redmond; and
- Local audit in England — Code of Audit Practice — Draft Code Consultation led by the National Audit Office (NAO Code).

We believe reforms should be guided by the following principles:

- Reforms should enhance, or at least should not create risks to, the quality of financial reporting and external audit
- The importance of the multidisciplinary audit firm model, to enable local auditors to respond efficiently and effectively to the increased reporting complexity and risks facing public sector bodies
- There should not be a two-tier system of generally accepted accounting and auditing standards between the public and corporate sectors; and
- To be effective and sustainable, reforms need to focus on the public sector financial reporting and external audit ecosystem as a whole (e.g., public bodies governance, controls, reporting and auditing). This should include changes to how local auditors conduct and report on local public bodies' Value for Money arrangements.

We also believe that increased transparency of reporting to local taxpayers and other users of accounts is needed to improve the effectiveness of local public bodies' corporate governance, financial position, risk appetite and rationale for significant decisions.

The Call for Views and changes to the NAO Code comes at a time of significant scrutiny of the UK audit market and profession. We believe it is crucial that the outcomes from the Call for Views, and the finalisation of the NAO Code, is closely aligned with the outcome of these various reviews.

We have responded to both consultations and are committed to work with Sir Tony Redmond, the UK government and the NAO in support of improving the transparency and sustainability of public sector financial reporting and external audit. In our next briefing, we will share the key messages in our responses to both consultations. We encourage Audit Committees to be aware of and contribute its views to these important consultations and developments and your Engagement Lead will be happy to discuss these matters with you.

CIPFA Publications: Financial Management and Commercial Investments

On 11 October 2019 CIPFA launched its first financial management code in 15 years. The financial management Code (FM Code) is designed to help officers navigate the increasing complex issues of public sector finance, including financial sustainability. The FM Code requires all local authorities, including police, fire and other authorities, to demonstrate that the processes they have in place satisfy the principles of good financial management. The FM Code identifies risks to financial sustainability, introduces a framework of assurance and sets explicit standards of financial management. Complying with the standards set out in the FM Code is the collective responsibility of elected members, the chief finance officer and the leadership team. Ultimately the FM code aims at improving financial decision making.

The FM Code is built on elements of other CIPFA codes and applicability will be familiar to users of publications such as The Prudential Code for Capital Finance, Treasury Management in the Public Sector Code of Practice and Code of Practice on Local Authority Accounting in the United Kingdom.

CIPFA chief executive, Rob Whiteman, said that "CIPFA's ambition was to embed good financial management as an organisational responsibility … and move towards a sense of collective responsibility when it comes to finance." The National Audit Office Auditor General, Gareth Davies, welcomed the new financial management code as it will help local authorities to improve their standards of financial management and cope with the financial challenges they are facing.

CIPFA has also issued new guidance for local authorities on what is expected from them when commercial property investments are made. The institute has warned that authorities must not borrow more than, or in advance of, their needs purely in the interest of profit. The cornerstone of this new guidance, published on 15 November 2019, is that under the prudential framework local authorities should not put public money and services at risk to the extent that an investment bank or commercial investor may legitimately do with their shareholders' funds.

Other news

Green Revolution

Although 230 English councils have declared climate emergencies over the past year, there has been a slow rollout of industrial strategies and policies to implement clean growth development opportunities. Climate action groups are calling on a proportion of the UK Share Prosperity Fund to be ringfenced for climate projects that enable clean growth. This would assist the Government to achieve its net zero carbon target by 2050 through implementation of local schemes. The Green Alliance's head of policy has called on local policy makers to put clean growth at the heart of local industry strategies to attract industries of the future and to enable local resilience in a world affected by climate change.

The Friends of the Earth group have analysed and ranked each local authority based on their green credentials. The group is calling on all local authorities to do more to combat climate change, including improving the energy efficiency standards of new build homes. A poll by Unison and ComRes suggests that if councils were to receive increased funding, 39% of the public would like additional money to be spent on prioritising refuse and recycling.

The LGA's environmental spokesperson has suggested that a joint national task force led by councils should be set up to drive initiatives to make councils more climate friendly. The LGA has also indicated that national climate change targets are unlikely to be achieved unless councils are given long term funding and devolved powers to combat climate change. The chair of the County Council Network has called on the government to engage with local authorities to provide genuine devolution and sustainable funding framework.

EY audit quality and transparency reports

This year, for the first time, EY is publishing a UK Audit Quality Report alongside our UK Transparency Report and both reports are now available on ey.com.

As our profession continues to face scrutiny, we believe it is vital that we are as open and transparent as possible. Together these reports aim to achieve this by setting out how we're addressing our public interest responsibilities and delivering high quality audits.

Our Audit Quality Report sets out the actions we've taken over the last five years to improve audit quality and, importantly, those that we will focus on in the future. We hope that by sharing the details of our long-term and future investment plans with you, this will instil confidence in our commitment to quality.

Audit Quality

We understand our role in society is to serve the public interest. Delivering consistently high quality audits is how we play our part in restoring and sustaining confidence. A commitment to audit quality starts at the top of the organisation. EY leaders set a clear tone from the top by promoting, maintaining and demonstrating a culture based on a commitment to quality, integrity, and collaboration.

It is also critical that we create an environment where our teams are supported to deliver high-quality audits. We have established the Audit Quality Board ('AQB') to take a lead in setting this tone and we hold regular events and issue communications to reinforce a priority on audit quality.

The importance of setting the right expectations for all our audit teams is why 'tone at the top' is the first pillar of our Sustainable Audit Quality ('SAQ') programme.

We have already made significant investments to improve audit quality over the last five years through our SAQ programme. We began this programme in 2014 when we set up the UK AQB and our Audit Quality Support Team and launched annual Audit Quality Summits for our partners and senior staff. Since then, our approach to partner and staff remuneration has been focused on ensuring audit quality is reinforced as a critical factor in determining pay awards.

Our investment in audit quality is now £25mn a year higher than in 2014; however, we recognise that there remains more to do. We will continue to invest to meet the expectations of all our stakeholders and society as a whole.

Exceptional Talent

The competition for talented people with the right mindset to deliver high-quality audits has never been higher. As a result, the profession continues to face challenges with recruiting and retaining the right number of people with the right skills. This has been exacerbated by the increased demands and pressures that the profession is facing in the current environment. We are committed to attracting, developing, inspiring and retaining outstanding audit professionals and promoting an inclusive culture for them to be able to deliver to the best of their abilities. We have been recruiting, and continue to recruit, across our business and aim to deliver an exceptional experience for our people throughout the recruitment process their career.

Accountability

Society as a whole and our regulators rightly expect us to be accountable for the work we perform. Without this accountability being recognised and responded to at all levels in the audit process, we will not achieve the improvements we need to make in delivering consistently high quality audits. We believe that, as auditors, we are accountable not just to ourselves, but to our teams, our organisation, our stakeholders and the public interest. We have embedded a culture of accountability at all levels of the audit process, whilst also providing the support necessary for our people to take responsibility for their work. We are further reinforcing the importance of accountability through the SAQ programme, our quality ratings and our partners' performance evaluations. Monitoring our audit performance and the effectiveness of our actions to improve audit quality is a key part of our system of quality control and the activities of the AQB, ensuring that we hold ourselves fully accountable for the quality of work we do.

Audit Technology and Digital

The extent to which the entities we audit create and use data has increased significantly. This generates a unique opportunity to drive greater assurance and hence improve audit quality through the appropriate analysis of this data. During the past five years, we have been undergoing an unprecedented transformation in our capability to leverage and interrogate the data created by the entities we audit and in improving our own technology supporting the audit process. This allows us to increase audit quality not only through improved data analysis, but also through using technology to improve project management, timely review and resolution of issues identified in our audits.

To take advantage of the opportunities offered by innovative technologies in every EY audit, we have transformed EY's Global Audit Methodology (GAM) to put data at the heart of the audit. Known as EY Digital GAM, this new approach has been piloted in 2019 and will be phased in globally from 2020. Digital GAM is powered by our digital audit technology, using this to embed data analysis and automated techniques in all phases of the audit. It also simplifies certain tasks and improves linkage from one audit procedure to another.

This updated methodology will further enhance audit quality through:

- The standardising or automating of routine audit tasks, enabling teams to focus on identified anomalies or higher risk judgemental aspects of the audit; and
- Providing greater clarity on the risks inherent in an organisation, driving a more focused audit approach.

Simplification and innovation

A natural response to regulatory inspection findings and the pressures we face to deliver the highest quality audits is to do more and more work; however, if this is not targeted in the right areas or effectively performed, it can actually be counter-productive. The quality of our audits is improved where we can also deliver simplification and innovation in the way we perform and document our work. In a world of ever-increasing complexity and data availability, we have innovated our audit technologies and approach — not only to stay ahead of these changes, but also to use them to our advantage and improve audit quality. Where possible, we have also used this opportunity to simplify our work, giving our audit teams greater clarity on key risks and increased time to focus on these.

Enablement and Quality Support

The complexity of the organisations we audit continues to increase, making risk assessment and key audit judgements ever more difficult. At the same time, the expectations of all our stakeholders for us to perform high-quality audits and provide trust and confidence also increases. We have to ensure that we have the right support for our audit teams to help them address complexity, challenge management appropriately and document our judgements clearly. We have always provided, and continue to provide, technical accounting and risk management support to our audit teams as required. Since 2014 we have significantly increased the level of support provided to individual audit teams, particularly those on our most challenging and complex audits. This includes coaching programmes and coaching kits, as well as other processes designed to improve audit quality. Importantly, we also routinely monitor audit quality indicators and have in place processes to learn quickly from both positive and negative quality outcomes.

There is no doubt we are in challenging times and there is uncertainty ahead. Our main focus will continue to be on delivering high-quality audits and we have every confidence that the steps we have taken, and those we plan to make, to deliver audit quality are the right ones. We will continue to support our audit teams through the investment in technology, processes and, most of all, in our people. Our purpose must be to deliver audits of the highest quality and provide confidence to the capital markets and other stakeholders.

Our Transparency Report, meanwhile, sets out what we do as a firm, how we're structured and governed, how we manage risk and comply with regulation, and how we performed in FY19. During the year we established our Audit Risk Committee, to expand our risk-scanning processes on audits. The goal is to ensure that we appropriately identify high risk clients and sectors and tailor our approach to them. Looking ahead to 2020, we have a number of priority areas which include additional investment in people, increasing the scope of our Audit Quality Support Team, championing new ideas and innovation and enhancing our focus on promoting the desired culture and behaviours for audit quality.

We hope these reports offer a useful means to assess our policies and processes for maintaining independence and complying with relevant standards and regulations.

Key Questions for the Audit Committee

Future Funding for Vital Services

What is the largest cost pressure or funding gap for your authority? What actions are your authority taking to address future budget gaps in the medium to long term?

To what extent is your authority reliant on its tax based to fund services?

Public Works Loan Board (PWLB) Interest Rate Increase

What impact has the PWLB interest rate increase had on your authority? Has your authority reviewed the continuing financial viability of its commercial investments?

How does your authority intent to achieve its capital strategy objectives considering the PWLB interest rate increase?

Going Concern

Have you discussed with your auditors what impact the revised standard on going concern will have on your consideration of going concern and the changes to your audit?

Public Sector Audit Consultations

Did your authority participate in the public sector audit consultations?

What reforms do you believe are key to the future sustainability of public sector financial reporting and auditing?

CIPFA Publications: Financial Management and Commercial Investments

How has your authority adopted and implemented CIPFA's new Financial Management code?

What impact does CIPFA's guidance on commercial property investments have for your authority? Do the authority's commercial activities place the public's money at risk?

Green Revolution

How does your authority's local industrial strategy enable clean growth?

What action is your authority taking to combat climate change? How does your authority plan to achieve the net zero carbon target by 2050?

EY audit quality and transparency reports

Have you discussed with your auditors the benefits of a digital audit?

Find out more

Future Funding for Vital Services

https://www.publicfinance.co.uk/news/2019/11/major-gap-between-council-revenue-and-funding-needed-says-ifs

https://www.publicfinance.co.uk/2019/11/ifs-councils-sacrificing-other-services-protect-social-care

Public Works Loan Board (PWLB) Interest Rate Increase

https://www.publicfinance.co.uk/news/2019/10/increased-pwlb-interest-rate-rise-puts-capital-projects-jeopardy

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Going Concern

https://www.iaasb.org/publications-resources/international-standard-auditing-isa-570-revised-going-concern

Public Sector Audit Consultations

https://www.nao.org.uk/code-audit-practice/code-of-audit-practice-consultation/

https://www.gov.uk/government/news/call-for-views-for-independent-review-into-local-authority-audit

CIPFA Publications: Financial Management and Commercial Investments

https://www.cipfa.org/policy-and-guidance/publications/f/financial-management-code

https://www.publicfinance.co.uk/news/2019/10/cipfa-unveils-financial-management-code

https://www.cipfa.org/policy-and-guidance/publications/p/prudential-property-investment

Green Revolution

https://www.publicfinance.co.uk/news/2019/10/councils-need-funding-and-powers-create-greener-local-strategies

https://www.publicfinance.co.uk/news/2019/10/local-authorities-need-be-more-environmentally-friendly

EY Reports on audit quality and transparency

https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2019/ey-uk-2019-audit-quality-report.pdf

https://www.ey.com/Publication/vwLUAssets/ey-uk-2019-transparency-report/$FILE/ey-uk-2019-transparency-report.pdf

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ED None

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Audit and Risk Committee

03 March 2020

Agenda item number 10

Implementation of internal audit recommendations summary of progress

Report by Chief Financial Officer

Summary

This report updates members on the progress in implementing Internal Audit recommendations arising out of audits carried out during 2018/19 and 2019/20.

Recommendation

That the report be noted.

Contents

1. Introduction

1.1. It has previously been agreed that this Committee will receive regular updates of progress made in implementing Internal Audit report recommendations, focusing on outstanding recommendations and including timescales for completion of outstanding work.

1.2. The Appendices 1 to 2 provides details of the audits carried out in 2018/19 and 2019/20, in particular:

- Recommendations not yet implemented;
- Recommendations not implemented at the time of the last meeting which have since been implemented; and
- New recommendations since the last meeting.

2. Summary of progress

2.1. In the previous report to this Committee in November, the outstanding recommendation relating to the Corporate Governance and Risk Management have been completed. The outstanding recommendations regarding the Branding Audit have been delayed due to efforts being focused on a new visitor services location following the withdrawal from Whitlingham Country Park. The outstanding recommendation relating to the Disaster Recovery Audit and Water, Mills and Marshes are linked to the updating of the Business Continuity Plan which will be completed by the end of April.

3. Internal Audit Programme 2019/20

3.1. The second and third audit from the 2019/20 programme has now been completed, with further details below in sections 4 and 5. The final audit on Corporate Governance is due to start on 26 February 2020.

4. Procurement

4.1. The objective of this audit was to review the adequacy, effectiveness and efficiency of the systems and controls in place over the Procurement process. This resulted in a "reasonable" audit opinion with four "important" and three "needs attention" recommendations being raised. Details of these can be found in Appendix 2.

4.2. Good practice was noted relating to sound controls that are in place and operating consistently. Those relating to Procurement were:

- The Procurement Strategy is up to date and readily available to all members of staff on the Broad Authority's intranet. This provides the Broads Authority with clear direction enabling greater efficiencies including selecting the best procurement route and demonstrating value for money.

4.3. Those relating to Contract Management were:

- The contract register is reviewed and updated on a quarterly basis, the register being formatted to highlight contracts that are due to expire within six months; if a copy of contract is still outstanding; and contracts expired and urgent action required. This enables the Broads Authority to effectively manage progress with its contracts in a timely manner, reducing the risks that contracts are not uploaded and expire without required action taken.

4.4. One of the six recommendations have been completed with the remaining on target for completion.

5. Key controls

5.1. The objective of this audit was to looks at the fundamental systems that feed into the statement of accounts to provide assurance on the key controls. The areas reviewed as part of the audit were; Treasury Management/Investments, General Ledger, Asset Management, Budgetary Control, Accounts Receivable, Accounts Payable, Payroll, Toll Income, Control Accounts, and Follow Up of Internal Audit Recommendations. This resulted in a “substantial” audit opinion with no recommendations being raised.

5.2. Good practice was noted relating to sound controls that are in place and operating consistently. They were:

- The 2019/20 budget was approved by the Broads Authority Committee meeting on the 1 February 2019 and individual budget holders sign up to their allocated budgets, therefore ensuring budgets are clearly understood.
- Monthly 'Monitor' reports are shared with budget holders and there is a process requiring significant variances to be explained, helping to maintain budgetary control.
- Journals and virements are properly documented and authorised with a separation of duties demonstrated, thus helping to ensure approved journals are processed, accurate reporting and sound budgetary control.
- Capital asset additions and disposals are appropriately authorised. Annual asset reconciliations are undertaken, helping to ensure that assets are correctly recorded in the Authority's accounts.
- Investments are authorised and evidence is retained to confirm the terms of the investment, with reconciliations to the general ledger of the principal amount and interest thus ensuring that all expected returns are received.
- In respect of accounts receivable, testing found that invoices are promptly raised, credit notes are rarely needed, and aged debts are promptly reviewed and followed up. This helps to ensure that income is promptly received, as demonstrated that there are few aged debts. Testing of invoices paid confirmed that all were correctly authorised with a separation of duties being demonstrated, helping to ensure that invoices were correctly paid. This is further supported by checking and authorisation of weekly BACS payment runs.
- New suppliers and supplier amendments are listed on a report which is checked and signed off as part of each week's reconciliation payment run. Sample testing confirmed that bank details are verified with the supplier using contact details from Google or records independent to the notification, reducing the risk of fraudulent changes.

- Norfolk County Council (NCC) run the payroll on behalf of the Broads Authority, in accordance with a monthly timetable. Monthly pay runs are reviewed, including an investigation into any differences over £50 compared with the previous month and a review of any claims. Pay runs are reproduced and rechecked when any errors are corrected by NCC, and the final pay run is authorised prior to payment.
- Payroll starters, changes, and leavers are supported by fully completed and authorised forms, and are correctly processed as was confirmed from pay run data and removal of leavers from the pay runs. Claims for overtime, allowance, travel and subsistence are also correctly authorised and processed. This helps to reduce the risk of overpayments being made.
- The control accounts for sales ledger, purchase ledger and payroll, along with the bank accounts and the suspense account, are reconciled to the general ledger on a monthly basis. Documentation demonstrates these have been promptly undertaken and independently signed off, helping to provide assurance that all transactions have been processed correctly.
- Toll charges were approved by the Broads Authority, as per publicly available meeting minutes. Notifications of the new charges were made in advance of the financial year, helping to ensure awareness of the fees needing to be paid.
- There is a process of inspections in place to identify any vessels without permits, and audit testing of permits issued confirmed that payment had been received in all cases. Review of a contraventions report confirmed that unpaid tolls are promptly followed to ensure as much income as possible is received in a timely manner.
- The Tolls Management System (TMS) posting reports data is reconciled to the Dimensions financial system on a daily or weekly basis, depending on the time of year, in order to ensure data on the two systems matches.

Author: Emma Krelle

Date of report: 13 February 2020

Appendix 1 – Summary of Actions and Responses to Internal Audit Recommendations 2018/19.

Appendix 2 – Summary of Actions and Responses to Internal Audit Recommendations 2019/20.

Appendix 1 – Summary of actions and responses to internal audit recommendations 2018/19

Table 1

Corporate Governance and Risk Management February 2019

Recommendations	Priority rating	Responsible Officer(s)	BA response/action	Timetable
1. Risk Management The Risk Management Policy is reviewed and updated as required to reflect the current governance arrangements and responsibilities for risk, including those assigned to the Audit and Risk Committee (ARC) and the frequency of the reporting of risks to the ARC. This should include an explanation of what is classed as an operational risk as opposed to a strategic risk and how service risks should be managed and escalated to strategic level, if required. It should also define the risk appetite/tolerance level. The policy should be version controlled, approved by the Full Broads Authority and reported to the ARC. Following approval, the policy should be disseminated to all staff and placed on the authority's intranet. An up to date risk management policy mitigates the risk that out of date processes are being used leading to incorrect decision making and lack of corporate governance.	Important	Management Team (previously Solicitor & Monitoring Officer)	Agreed. The Risk Management Policy will be reviewed and updated to reflect the correct committee, lead officer and risk appetite (including colour coding). The updated policy will be taken to ARC for review prior to BA approval. Update: Following the departure of the Solicitor & Monitoring Officer, the Management Team agreed to take responsibility for the Risk Management Policy. This work is scheduled for the summer and will be reported to the November ARC and BA meetings. The updated Risk Management Policy was approved by ARC on 19/11/19 and by BA on 31/1/20. Action completed.	Originally agreed by 26/07/19 Updated to 29/11/19

Recommendations	Priority rating	Responsible Officer(s)	BA response/action	Timetable
2. Risk Management An exercise is undertaken to review the Strategic Risk Register (SRR) to identify which risks are strategic, i.e., risks to the achievement of the strategic objectives. This should conclude that the remaining risks are at an operational/service level and as such, should be managed at this level. The resulting SRR should score all risks which have been identified and include a column which states which strategic objective they relate to. In addition, the SRR should make it clear which risks are within and outside of the risk appetite by using colour coding. Clearly distinguishing between operational/service level risks and strategic risks helps to ensure that risks are identified on both a service and strategic level allowing for proper understanding of the authorities risk profile and allows for the appropriate prioritisation of mitigation actions.	Important	Management Team (previously Solicitor & Monitoring Officer)	Agreed. Review to be undertaken with Management Forum to distinguish between operational and strategic level risks and how they link with the BA's Strategic Priorities, in conjunction with the Risk Management Policy. Update: Following the departure of the Solicitor & Monitoring Officer, the Management Team agreed to take responsibility for the Corporate Risk Register. This work is scheduled for the summer and will be reported to the November ARC and BA meetings. The updated Corporate Risk Register was approved by ARC on 19/11/19 with minor adjustments and by BA on 31/01/20. Action completed.	Originally agreed by 10/06/19 Updated to 19/11/19
3. Risk Management A review and update of the RM page on the authority's intranet is undertaken incorporating any revised documents such as the RM policy and including relevant	Needs Attention	Head of Safety Management, Head of Governance	Following committee approval of the updated Risk Management Policy and Corporate Risk Register, the intranet	Originally agreed by 16/08/19

Recommendations	Priority rating	Responsible Officer(s)	BA response/action	Timetable
committee reports. This should be re-launched with staff including ascertaining feedback on the RM process and identifying any training needs at all levels across the authority. The intranet should provide clarification of what the risk appetite is and how risks, which are outside of the risk appetite, are managed. Staff being adequately informed and trained in respect of risk ensures that that correct processes are followed leading to informed decisions being made that assist in the achievement of objectives.		(previously Solicitor & Monitoring Officer).	page will be refreshed and information communicated to all staff. Update: The Corporate Risk Register (previously strategic risk register) and updated Risk Management Policy have been placed on the intranet. Training needs will be identified as part of the annual appraisal process. Action completed.	Updated to 29/11/19
4. Risk Management A standard risk implications section to be introduced on the committee report template to allow for a fuller explanation of the risks. Guidance/criteria to be produced to enable authors to sufficiently assess if there are any risk implications. Guidance to include reference to the SRR and any operational/service risks which have been identified; and the risk management policy. A fuller explanation of risks within reports will encourage a risk aware culture within the authority, and a consistent approach is applied in identifying risk implications. Referral to corporate risk documents	Needs Attention	Head of Governance, previously Solicitor & Monitoring Officer.	Agreed and partially completed. Report templates for BA and Navigation Committee have been updated and are available to report writers on DMS. The new risk management policy provides guidance on risk identification. Action completed.	Originally agreed by 31/07/19

Recommendations	Priority rating	Responsible Officer(s)	BA response/action	Timetable
should alert authors to risks which they may not have been aware of and reduce the risk that objectives are not achieved.				
5. Risk Management The 'Review of the Strategic Risk Register (SRR) reports to the Audit and Risk Committee to contain an explanation of risks that have changed from the previous SRR, including risks which have had their score reduced; risks which have been reduced to the risk appetite; and change of risk description (i.e. the GDPR risk). This should include explanation as to why certain risk scores have not lowered from initial risk to revised risk score despite current mitigating actions and additional actions being put in place. Providing an explanation for key changes within the committee reports mitigates the risk that the committee does not receive a full picture of the status of risks and if they are being mitigated as expected.	Needs Attention	Directorates, previously Solicitor & Monitoring Officer.	Agreed. ARC report to provide explanation of movements at next review. Update: Once the updated risk register has been agreed, regular reports will provide details of changes/movements since the last meeting. Update: Revised policy includes reference to movement of risks between Corporate and Directorate registers as required. Action completed.	Originally agreed by 23/07/19 Updated to 19/11/19
6. Risk Management	Needs Attention	Management Team (previously	Agreed. Scoring criteria will be incorporated into the risk policy.	Originally agreed by 10/06/19

Recommendations	Priority rating	Responsible Officer(s)	BA response/action	Timetable
A scoring criteria is defined for low, high and medium risks, in relation to severity/impact, for categories such as financial, reputation and service provision. A scoring criteria is also defined for low, high and medium risks in relation to likelihood, i.e. a high likelihood applies to a risk likely to happen more than once per year and a low risk is only likely to happen in 10–15 years' time.		Solicitor & Monitoring Officer)	Update: a new 5x5 risk matrix and guidance has been developed by Management Team. This will be incorporated into the policy under review. Action completed.	Updated to 19/11/19

Table 2

Disaster Recovery (DR) February 2019

Recommendations	Priority Rating	Responsible Officer(s)	BA Response/Action	Timetable
1. Alignment with Business Continuity Plans The Authority to ensure that senior management are made aware that Business Continuity (BCP) recovery timelines of up to 24 hours may not be achievable if such recovery has to be undertaken using the tape backups stored at the Dockyard. Formal acceptance (or otherwise) of this risk to be formally documented to support this.	Important	Head of IT & Collector of Tolls	Agreed. Update: MT are aware of the potential delays. This will be formally updated in the Business Continuity Plan as part of the external funding recommendation 1	Originally agreed by 31/07/19 Update to 30/04/20

Recommendations	Priority Rating	Responsible Officer(s)	BA Response/Action	Timetable
Formally notifying senior management of the potential inability to support Business Continuity recovery timelines up to 24 hours where a tape restoration is required will help to ensure that the acceptance (or otherwise) of this risk is formally documented. Where senior management are not advised of the potential inability to support Business Continuity recovery timelines up to 24 hours, there is an increased risk that the BCP cannot adequately support priority services.				

Table 3

Branding April 2019

Recommendations	Priority rating	Responsible Officer(s)	BA response/action	Timetable
1. Broads Authority branding - strategies, guidelines / procedures The communications work plan be updated to include the finalisation of the local Broads National Park Branding Strategy. The work plan should also be updated to include work in relation to recommendations agreed within this audit, including branding training; update of intranet communications page; and internal guidance/criteria in relation to the use of Broads Authority and Broads National Park logos. Currently, there is no defined timescale for completing the Broads National Park Branding Strategy. Whilst this is dependent on the completion of the national branding strategy, an estimated timescale (subject to change) would help mitigate the risk that the strategy and other key tasks are not completed in a timely manner.	Needs Attention	Head of Communications	Agreed. The work plan for 2019/20 is being populated and recommended key milestones will be included within it. Partially completed: The work plan is now complete for 2019/20 with the timelines included. This has been incorporated into the Directorate work plan. There has been considerable progress in accordance with the work plan. Several documents related to the strategy have been updated (such as the Writing style guide, accessibility guidance and commonly used words). The Comm's team are also producing a guide for staff which provides branding advice.	Originally by 31/05/19 Updated to 30/04/20

Recommendations	Priority rating	Responsible Officer(s)	BA response/action	Timetable
			External support in the development of key messaging that incorporates the National Parks narrative and the production of infographics has been sought. This is seen as the last piece essential element of the future strategy and will be completed by the end of the financial year.	
2. Broads Authority branding - strategies, guidelines / procedures The Broads Authority Communications Policy be updated to include the roles and responsibilities for overseeing management of correct branding. This should be included within a separate branding section which the policy does not currently have. This should make the branding area more easily to locate within the policy and helps mitigate the risk that responsibilities for branding are unclear.	Needs Attention	Head of Communications	Agreed. Given that the National Branding guidelines that will inform the strategy are awaiting approval by the 15 national parks' Chief Executives and relevant Chairs, it is anticipated that this work will be completed by Autumn 2019. Revision of the Communications policy has been delayed to ensure that all elements are completed. A comprehensive plan for all associated elements has been prepared with the	By 31/10/19 Updated to 30/04/20

Recommendations	Priority rating	Responsible Officer(s)	BA response/action	Timetable
			input of the Design and Information Supervisor. Please refer to the above update to 1. Final elements of the policy / strategy are being prepared and are expected to be in place by April 2020.	
4. Broads Authority branding - use of the Broads Authority logo Guidance be produced for staff which covers the criteria for applying either the Broads Authority or Broads National Park logo, or when both logos are applicable. This guidance should include reference to partnership and project work, and the approach to take when applying logos of both the project, the Broads Authority and the Broads National Park logo. Reference should be made to the Broads National Park Brand Standards and the Broad's National Park branding strategy where applicable. It would be good practice to include examples of logo application for different circumstances from promotional flyers and training programmes to more formal documents.	Needs Attention	Head of Communications	Agreed. The guidance will be produced in conjunction with the strategy, guidelines and procedures. As above - some elements complete (updated Feb 2020)	By 31/10/19 Updated to 30/04/20

Recommendations	Priority rating	Responsible Officer(s)	BA response/action	Timetable
Furthermore, this document should make clear the formal process to go through when branding documents, i.e. consultations with the communications team. Clear guidance should provide clarity over the application of the different logos, reducing the risk that inconsistent and incorrect logos are applied leading to ambiguity and inadequate promotion of the area as a national park.				
5. Broads Authority branding - use of the Broads Authority logo A review and update of the communications page on the authority's intranet be undertaken once the national Parks branding strategy and associated documents, including the local broads national park strategy and Broads Authority Communications Policy, are finalised. This should be re-launched with staff including the provision of staff and member training in relation to branding, incorporating the use of both the Broads Authority logo and Broads National Parks logo. The communications intranet page should include the communications team details; branding strategies and communications policy; and the Broads Authority New Signs guide.	Needs Attention	Head of Communications	Agreed. The intranet content will be produced in conjunction with the strategy, guidelines and procedures. As above. Some elements complete – awaiting full strategy completion by April 2020 (update Feb 2020)	By 31/10/19 Updated to 30/04/20

Recommendations	Priority rating	Responsible Officer(s)	BA response/action	Timetable
Staff being adequately informed and trained in respect of branding mitigates the risk that incorrect processes are followed leading to inconsistent and/or incorrect branding being applied that affects the achievement of branding objectives.				

Appendix 2 – Summary of actions and responses to internal audit recommendations 2019/20

Table 5

External Funding – Water, Mills and Marshes

Recommendations	Priority rating	Responsible Officer(s)	BA response/action	Timetable
1. Governance The Broads Authority Business Continuity Plan (BCP) is reviewed and updated to take into account the recent organisational re-structure and to ensure major projects such as the WMM Project are provided for. Ensuring the Corporate BCP is reviewed and updated in a timely manner mitigates the risk that BC management procedures and priorities are not embedded in the Broads Authority resulting in a lack of effective management of any disruption to normal services and externally funded major projects.	Important	Head of Governance	Agreed by Management Team on 26/09/2019. Progress has been delayed due to other priorities.	By 31/12/19 Updated to 30/04/20
6. Financial Management Evidence that tenders are advertised on the BA's website/social media page and on industry specific websites/in newspapers or journals circulating among persons or bodies who undertake such contracts, to be retained. Retaining evidence verifies that the BA's Standing Orders Relating to Contracts have been adhered to mitigating the risks that there is inadequate transparency and fairness in	Needs Attention	Water, Mills and Marshes Programme Manager	Agreed, with timetable depending on future procurement. There have been no further tenders since this recommendation was raised.	By 31/03/20

Recommendations	Priority rating	Responsible Officer(s)	BA response/action	Timetable
the procurement process and the BA does not obtain VFM from it procurements.				

Table 6

Procurement

Recommendations	Priority rating	Responsible Officer(s)	BA response/action	Timetable
1. Procurement The authority to ensure that the Broads Authority seal is applied to all contracts over £100k and subsequently recorded in the authority's record of sealed documents. Advice is to be sought from the Broads authority legal advisors on whether the seal can be added to current contracts retrospectively. Applying the seal provides assurance that the contract is kept securely and that there is evidence of it actually existing due to a record of sealed documents being kept securely. It also ensures compliance with CSOs. This mitigates the risk that the contract is not formally recorded and or is mislaid leading to incorrect contract payments and underperformance not being detected and no recall for the authority in the event of disputes.	Important	Chief Finance Officer	Agreed. Advice will be sought from Birketts on sealing those contracts that are still active. Completed. Advice received confirms that contracts cannot be sealed retrospectively. All new contracts will be sealed.	By 31/03/20

Recommendations	Priority rating	Responsible Officer(s)	BA response/action	Timetable
2. Procurement The Authority to ensure that waivers are completed for all procurements which exceed the £5K threshold and where the requirement in CSOs to obtain three written quotations, are not applied. Retrospective waivers should be completed for the following contracts and reported to the Broads Authority: - Martha Gary Works Ltd (MGW); - Sentinel Enterprises Ltd (SLT) - Kereds Construction Ltd; and - Phoenix Software Ltd. Completed waivers and receiving the correct number of quotations ensure compliance with CSOs. This helps mitigate the risk of inadequate probity, transparency and equality in the procurement of works, goods and services, leading to the non-achievement of value for money.	Important	Chief Finance Officer	Agreed. Budget holders will be asked to complete retrospective waivers. Included in the annual report on waivers.	By 31/03/20
3. Procurement The Procurement guidance is reviewed and updated and version controlled, including the inclusion of up to date procurement thresholds, particularly those relating to OJEU requirements.	Important	Senior Finance Assistant	Agreed.	By 31/03/20

Recommendations	Priority rating	Responsible Officer(s)	BA response/action	Timetable
Up to date procurement guidance ensures that staff are aware of and are adhering to the correct guidelines, thereby mitigating the risk of non-compliance with CSOs and OJEU requirements.				
4. Procurement A procurement project/contract risk assessment is produced, and referred to in the Procurement Strategy, to score each project prior to the commencement of the procurement process. This is issued to assess the type of procurement activity undertaken, i.e. framework, partnership arrangements. This can also be used to assess the level of contract management involved. The contract risk assessment should consider proposed length of contract; Proposed procurement arrangement; Estimated whole-life cost; Impact of Contract (e.g. from Critical to external mandatory service delivery to minimal impact); Impact on organisation; Political / Reputational Risk; Health and Safety Risk; and Opportunity to misuse/ fraud/ exploit. Assessment of risks prior to procurement assists in choosing the right procurement type and level of contract management mitigates the risks of choosing an unsuitable procurement method and inappropriate supplier and not	Important	Chief Finance Officer	Agreed. Procurement Strategy to be updated to provide a definition that complex contracts such as building/development contracts are considered high risk, and high value is considered above £250k.	By 31/03/20

Recommendations	Priority rating	Responsible Officer(s)	BA response/action	Timetable
having the necessary resources in place to effectively manage the contract.				
5. Procurement Section 15 (specifically part (f)) of the CSOs, in relation to the standing list, be reviewed and updated to reflect current practices. CSOs to also be amended to remove reference to the Solicitor and Monitoring Officer as this role no longer exists. Contract standing orders should govern the overall contract and procurement process and ensuring this are up to date and reflect the current agreed practices. Ensuring these are up to date helps reduce the risk of inconsistent practices being followed leading to agreed practices not being adhered to.	Needs Attention	Chief Financial Officer	Agreed. CSO to be updated to reflect actual process for Fen Management practices.	By 31/03/20
6. Procurement To consolidate the standard terms document with the contract conditions outlined in the CSOs to have an overall set of terms and conditions. These should be consolidated in conjunction with the Broads Authority's legal advisor and included within the CSOs.	Needs Attention	Chief Financial Officer	Agreed. Standard terms and conditions to be drawn up with legal provider, including conditions for contracts over £5k. Work has been initiated with our Legal provider.	By 31/03/20

Recommendations	Priority rating	Responsible Officer(s)	BA response/action	Timetable
A consolidated set of terms and conditions protect the purchaser against unforeseen financial losses, e.g. goods not delivered as agreed, mitigating the risks of delay in services/goods and quality of goods which could also lead to a poor reputation.				
7. Procurement Procurement training is provided to all relevant members of staff, and Members, where applicable. Up to date procurement training ensures that staff are aware of and are adhering to the correct guidelines, thereby mitigating the risk of non-compliance with CSOs and OJEU requirements	Needs Attention	Chief Financial Officer	Agreed.	By 30/06/20