

Broads Authority

Financial Scrutiny and Audit Committee

Minutes of the meeting held on 19 September 2013

Present:

Prof J A Burgess
Mr N Dixon
Dr J S Johnson

In Attendance:

Mr T Adam – Head of Finance
Ms H Ayers – Administrative Officer
Ms A Long – Director of Planning and Resources
Mr J W Organ – Head of Governance and Executive Assistant
Dr J Packman – Chief Executive

Also in Attendance:

Mr N Harris – Director, Ernst & Young
Ms E Hodds – Deputy Audit Manager, Internal Audit
Ms J Penn – Treasurer and Financial Adviser
Mr D Riglar – Audit Manager, Ernst & Young

1/1 Apologies for Absence

Apologies for absence were received from Mr G McGregor and Mr P Durrant.

1/2 Appointment of Chairman

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

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

There being no other nominations, it was

RESOLVED

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

1/3 Appointment of Vice-Chairman

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

It was proposed and duly seconded that Mr Dixon be appointed as Vice-Chairman for the forthcoming year.

There being no other nominations, it was

RESOLVED

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

Mr Nigel Dixon (in the Chair)

1/4 Matters of Urgent Business

There were no matters of urgent business.

1/5 Declarations of Interests

No declarations of interest were received.

1/6 Minutes of the Financial Scrutiny and Audit Committee Meeting held on 9 July 2013

The minutes of the meeting held on 9 July 2013 were approved as a correct record and signed by the Chairman.

1/7 Public Question Time

No questions were raised by members of the public.

1/8 Consolidated Income and Expenditure – 1 April to 31 July 2013 Actual and 2013/14 Forecast Outturn

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

Members were reminded that the monitoring report (Appendix 2) was presented in the new format as discussed at the previous meeting on the 9 July 2013 and covered actual, latest available budget, and forecast outturn figures. Members' attention was brought to Table 1 in the main report, which was reported as showing a positive position and very close to the latest available budget (LAB).

The committee noted the explanations for actual variances within the Directorate figures and that some of these were offset by the use of reserves.

Details of the LAB specific budget changes were considered as detailed in Appendix 2. These, principally related to carry forwards, the funding of tourism activity by the National Park budget only, and the creation of the Upper Thurne Enhancement Scheme reserve removing the budget requirement in 2013/14.

Members considered the overview of forecast outturn for 2013/14, where the deficit for the year was forecast to be slightly below the LAB. The Head of Finance provided details of reserve balances as at the end of July 2013.

In conclusion, members noted that the overall forecast deficit was made up of a £92,975 surplus on National Park budgets and £155,931 deficit on Navigation budgets which resulted in projected year-end balances of approximately £698,000 and £209,000 respectively.

One member questioned the formatting of text in Table 4 of Section 5. It was noted that this was an error and the bracketed figures should have been shown in red. The Chief Executive enquired when the navigation reserve would be at the recommended 10% and was advised that the financial strategy anticipated that it would begin to return it to the recommended level in 2014/15 and that, when taken alongside the significant earmarked reserve balances, the navigation reserve balance was considered adequate in the short to medium term.

A member sought assurance that the navigation reserve balance would not fall below the recommended level in the event that earmarked reserves were spent. In response, members were advised that the recommended balance assessment related particularly to the navigation reserve, rather than the navigation earmarked reserves as a whole. However, a substantial amount of the earmarked reserves related to Mutford Lock where a strategy existed to build up that reserve. Significant expenditure from navigation earmarked reserves was not anticipated. The Authority's Chair advised he was happy with the earmarked reserves' table as it showed STEP and PRISMA, he also acknowledged that it did not show general fund reserve balances.

The Chair enquired whether there were any comments regarding the new graphs which had been presented to the committee at the July and September 2013 meetings. One member commented that they showed how income as opposed to expenditure could be forecast with greater confidence. The Chairman recommended that views on the graphs would be sought at a future meeting.

RESOLVED

that the report be noted.

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1/9 Annual Governance Report 2012/13

The committee received a tabled report from Ernst & Young (EY) which contained the draft findings from their audit of the Authority.

The Audit Commission's Code of Audit Practice (the Code) required EY to report to 'those charged with governance' on the work they had carried out. It was reported that their work was substantially complete and included messages arising from the audit of the Authority's financial statements and the results of assessment into the Authority's arrangements to secure value for money in its use of resources.

In terms of financial statements as at 19 September, the findings were that the Authority had prepared these well and this was reflected in the low number of issues identified. The main message from the EY expected to issue an unqualified audit report on the financial statements. The auditors drew attention to one significant error, which had been adjusted for, relating to the classification of Prisma grant income, which had been shown net within expenditure rather than gross. However, this had no impact on the bottom line.

In terms of value for money, EY expected to conclude that the Authority had made appropriate arrangement to secure economy, efficiency and effectiveness in its use of resources. In terms of the whole of the Authority's accounts, the auditors expected to issue an unqualified confirmation to the National Audit Office (NAO). In summary, EY expected to issue the audit certificate (which demonstrated the full requirements of the Audit Commission's Code of Audit had been discharged for the relevant audit year) at the same time as the Audit Opinion, which was anticipated to be completed by the statutory deadline of 30 September 2013. EY anticipated that they would issue the audit letter (available to members of the public) before November 2013, which would go for approval by Broads Authority members, and report the closure of the audit.

The Chief Executive noted that the adjustments to the Statement of Accounts would be made apparent to BA members when considering the Statement of Accounts for approval on 20 September 2013.

In response to a question from a member, EY reported that they did not see any reason for the Authority Chair to refrain from signing the Statement of Accounts. Further, EY advised the committee Chair that he could report to members at the Broads Authority meeting on the 20 September that the audit work was substantially complete, subject to confirmation from EY by 30 September. EY stated that compared to other audits it had carried-out elsewhere, the audit report was very clean and highlighted that in terms of the Authority's arrangements to secure economy, efficiency and effectiveness, they were satisfied and expected to reach an unqualified value for money conclusion.

A member queried why there appeared to be no reference to pension funds / deficits in the audit report. EY advised that this was not a specific audit focus in the current year, but that it was kept under review and the auditors would continue to consider the risks around this in future. For the purposes of the Statement of Accounts, EY's focus is on the appropriateness of the assumptions used and that figures have been incorporated correctly. The Pension Fund accounts are also subject to a separate audit. The Director attending from EY concluded that Local Government Pension Fund audits in EY are high profile and EY Pension specialists are assigned to these audits.

The Chief Executive advised that at the recent in-house training session for members and key officers, pensions were shown to impact on the balance sheet. The Authority's pension fund is managed as part of the Norfolk Pension Fund and as a result, the Authority's ability to influence pension issues is limited. EY commented that there was truth in this, however, the Authority was wise to keep these issues under review in light of the potential significant impact of pension figures on the Authority's financial position. A member commented that the national pension fund figures were concerning but acknowledged that the local picture was slightly better. However, when projected into the future, this had potential to be a concern and members noted that they would like to understand how this would be addressed. The Authority's Chief Executive advised that his understanding was that the Norfolk Pension Fund was recognised nationally as one of the best administered Local Government Pension Funds. When compared with other public sector pensions, the Local Government Pension Scheme (LGPS) is in a very different position from (for example) the civil service pension scheme, as the LGPS is a 'funded' scheme with investments established from employer, employee and ex-employee contributions. However, the Chief Executive agreed that attention was needed on this issue in respect of affordability and potential impacts from changes to National Park Grant resulting from the CSR. The Chief Executive added that looking at the broader financial picture in terms of other National Parks, the Broads Authority was in a more favourable position because of the stability afforded by navigation income. A member agreed but added that the general trend in pension funds was worrying. It was noted that the triennial valuation of the pension fund was due in 2013 and would provide a better insight in the position of the Fund. Auditors and officers both agreed a requirement for better programming of the timetable next year. Internal Audit confirmed that the programming was considered in the audit plan; but advised there was not a great deal of debate and recommended both parties discussed this to form an agreeable programme.

The Treasurer and Financial Adviser noted that the timing of the audit work had been challenging this year and that there would need to be greater consultation on the timetable for 2013/14. EY acknowledged that there was a need for better programming of the audit in future. The auditors thanked the Authority's finance team for their support in completing the audit work within the time available.

Attention was then brought to the draft Letter of Representation in connection with the Audit of the Financial Statements for 2012/13 which was to be sent to EY. The content of the Letter of Representation was considered and the committee Chair sought comments from those present.

The Chairman requested that in future years, metrics could be included in the evidence of activities demonstrating active Governance; for example: complaints could show how many received, how many found justified and in what area of BA activities etc. and such data would enrich several of the strands of activity evidence comprising the AGS. This was agreed as an action for future years.

RESOLVED

- (i) that the Annual Governance Report 2012/13 be noted; and
- (ii) that the Letter of Representation in connection with the Audit of the Financial Statements for 2012/13 be signed by the Treasurer and Financial Adviser and the Chairman of the FSAC for return to EY.

1/10 Implementation of Internal Audit Recommendations – Summary of Progress

Members were presented with a progress report on the implementation of Internal Audit recommendations arising from audits carried out since 2008/09. The Head of Finance advised that there had not been any internal audits completed since the last committee meeting. However, a Computer Audit Needs Assessment had been undertaken which identified key areas of computer audit risk and identified a shortlist of audits to be included in future audit plans. The annual audit plan for 2014/15 would be reported back to the committee in February 2014. It was also reported that the one outstanding medium priority recommendation was in progress, with a target completion date of 31 December 2013. A member welcomed the more succinct report with few recommendations outstanding, a significant improvement on the position in the past. The member also suggested that in terms of the progress recommendation an agreement could be reached as to when the action is considered complete, otherwise it could remain permanently outstanding due to the regular revision of planning policies by central government. This was supported by the Deputy Audit Manager.

RESOLVED

that the report be noted.

1/11 Audit Committee Self-Assessment Exercise 2013/14

The Chartered Institute of Public Finance and Accountancy (CIPFA) advocates that it is good practice for Audit Committees or their equivalent to undertake a regular self-assessment to aid understanding on best practice, confirm the

level of compliance being achieved, and identify any areas for enhancements. Members received a report from the Deputy Audit Manager which presented the outputs from the committee's first self-assessment exercise in 2012 and gave members the opportunity to review current provisions and identify any deviation from best practice guidance, and comment on the checklist for the second self-assessment. The report also set out progress made on the action points agreed from the previous self-assessment exercise.

Of the six actions identified from the first exercise, the Deputy Audit Manager advised that all actions could be closed and the Authority was now in full compliance.

Members were invited to study Appendix 1 for their comments and recommendations. One member advised that he was content to be led by Internal Audit on the content of the checklist, although pointed out that some points did not appear to apply to the Authority. The Deputy Audit Manager advised that a number of the checklist items were not strictly applicable to the Authority and were recorded as such in relation to 1.8, 1.17, 2.5 and 5.4. The member also questioned whether members' skills and experience (point 1.13) had been assessed to which the Deputy Audit Manager advised that this was assessed on formation of the Committee and ongoing training items would ensure that this was maintained. The Chair also queried how should 1.15 ('Are members sufficiently independent of the other key committees of the council?') be regarded. The Deputy Audit Manager advised that such individuals had to be as independent as they could be given all of the work that has to be achieved and given the size of the Authority, as such the item would also be marked as not applicable in this regard. The Chief Executive advised that larger Authorities had a problem when it came to this point.

One member advised he had a philosophical problem with 2.3 ('Does the audit committee consider how meaningful the Annual Governance Statement is?') to which he was advised that the same point was raised last year and that the committee meeting minutes reflected the level of discussion that was held in relation to the Annual Governance Statement thus ensuring that it is considered fully by this Committee. In terms of 6.6, around whether the committee issued guidelines around the format and content of papers presented, the Authority Chair advised that guidelines were not issued, but the format / general template was accepted by presenters and utilised for all reports presented to the Committee, which included the reports presented by the internal audit service. The Deputy Audit Manager agreed to circulate the final versions of Self-Assessment Checklist to committee members.

RESOLVED

that the report be noted.

1/12 Annual Review of Strategic Risk Register

The Committee received a report from the Head of Governance and Executive Assistant providing an updated Strategic Risk Register which had incorporated issues raised during the formal annual review with the Management Forum and the six monthly reviews with risk owners.

Members noted that the Register incorporated 18 key risks, which included three new risks relating to loss of invested reserve funds, failure of major procurement activity and loss resulting from fraud, corruption or misappropriation of resources. Members also noted that, following the full and final settlement with Defra over Dragonfly House costs, this previous significant vulnerability within the Financial Overspend risk had been removed from the Register. With the mitigation measures in place, all the risks identified in the Register were considered to fall within the accepted tolerance level detailed within the Risk Management Policy.

Members referred to the risk concerning Ineffective Engagement with Key Partners/Stakeholders and noted that the first Parish Forum had taken place on 18 September 2013. This had attracted good participation from Parish Councils and members of the public and had been well received by attendees. A programme of further Parish Forums would be arranged within other areas of the Broads and the Committee hoped that members would support these events to assist in such engagement with stakeholders.

Members also sought clarification on the risks to the Authority as a result of moving from three to two Directorates in April 2013. It was noted that the risks had been reallocated as a result of the reorganisation and that the Risk Register had been subject to scrutiny in this regard during the Internal Audit on Risk Management arrangements in April/May. This audit had resulted in a good assurance, the adequacy and effectiveness of controls had received a 'green' rating and no recommendations had been raised in relation to Risk Management as a result of the audit. Members did, however, identify the dependency the Authority had on key personnel and the vulnerability and impact that the loss of such staff would present the Authority.

RESOLVED

that the updated Strategic Risk Register be approved.

1/13 External Funding Opportunities and Income Generation

The Head of Finance presented members with a report which set out details of potential external funding opportunities and income generation options open to the Authority, together with research findings that gave the indicative income that could be generated. This undertaking was in response to recent discussions at member level and followed the Chancellor of the Exchequer's recent Comprehensive Spending Review (CSR) announcement which

included a reduction in Department Expenditure Limit (DEL) for Defra of 9.6% for 2015/16.

Potential income streams considered included visitor giving, sponsorship, maximizing Defra income, and European and other external funding options. Officers emphasised that engagement with the Local Enterprise Partnership (LEP) was seen as one of the most promising sources of external funding.

The Chief Executive commented that he was considering whether the report should be presented at the full Authority meeting. He advised how past sponsorship agreements had not delivered the anticipated benefits and that the strategy now was for National Parks in England (NPE) to work collectively (as per the American National Parks approach) to offer a more attractive package and thereby maximise returns. Current NPE deals in the pipeline were with British Airways, Land Rover, Airwick and Merrell. The Chief Executive went on to advise that Visit England's CEO (James Beresford) had advised him that in some American parks, visitors collected various branded items available from each park which was reported as something that NPE was hoping to develop through raised awareness. A member stated how the American parks appeared to be more embedded in the psyche of its citizens and the UK needed to look at how it could develop the same appeal. The Chief Executive commented that the 'Britain's Breathing Spaces' campaign was the enterprise most akin to this and aimed to foster this collective spirit (which has already gained attention from Owen Patterson and No. 10). He added that the officers now sought advice from members regarding policy and strategy to be adopted, following consultation with employees. Feedback so far had given rise to initiatives such as a new catering contract at Whitlingham and increased local sourcing of goods for Hoveton Tourist Information Centre. Overall, the Authority is working to increase its commercial assertiveness, mindful of and balanced against the risks, limited resources (e.g. floor space in TICs), and its commercial relationships where it could be in direct competition with others.

Members felt that this issue was outside the remit of the committee as it related to wider strategic considerations beyond the purely financial and supported the proposal to present it to the full Authority. Consideration was given to how best to take this work forward at the Authority level. A member queried what would be done at a national level to bring ideas together. In terms of local opportunities, the same member queried why pre-application charges were not in-force and noted that this was out-of-step with other Authorities. The Chief Executive advised that this was being considered, although charging can put some people off putting forward an application. A member welcomed the report and commented that it covered a lot of important issues but remarked that some areas such as tolls were missing. He also added that one area to be explored was Broads' pubs and restaurants purchasing endorsements on a gold, silver, bronze system or similar and suggested it would be good to run a workshop with members of the Authority and Navigation Committee to explore such ideas. Another member wanted to understand any restrictions that were in-place around

commercial activity, but welcomed the opportunity to learn and work with other National Parks on developing a more aggressive commercial approach. Further, she added that this exercise could challenge us to think what it meant to be the 'Broads Authority'.

The Chief Executive advised that National Parks UK was to become a registered charity in order that it would be better positioned to broker deals from organisations that wanted to use NPs to promote their brands. He added that some of the specific things that came out of this process were the importance of trademarking and whether, for example, the Authority needed to trademark its dragonfly logo. A member suggested that some of these matters could wait until the outcome of the Defra spending review, unless there were ideas that could be progressed in the interim. The Chief Executive acknowledged that some members were keen to take a working group forward, however limited resources and the uncertainty around National Park grant allocations would make it challenging to do this in the short term.

Members welcomed the report as a way of engaging members in the process and supported the proposal that this be taken to the November full Authority for further consideration. It was also suggested that the report be circulated to all members (including the Navigation Committee) for comments that could be fed into a second draft for the Authority. This would provide an opportunity for input and buy-in by all members.

RESOLVED

that the report be noted and that this be circulated to all members of the Authority for comment so that a revised report could be taken to the full Authority for consideration in November.

1/14 Other Items of Business

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

1/15 Formal Questions

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

1/16 Date of Next Meeting

The next meeting of the Committee would be held on Tuesday 11 February 2014 at Yare House, 62-64 Thorpe Road, Norwich, commencing at 2:00pm.

The meeting concluded at 4.30 pm

CHAIRMAN

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