

## **Broads Authority**

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

Minutes of the meeting held on 14 February 2012

#### **Present**

Mr G McGregor – in the Chair

Mr N Dixon  
Dr J S Johnson  
Mr A S Mallett

#### **In Attendance**

Dr J Packman – Chief Executive  
Mr R G Holman – Director of Change Management and Resources  
Mr J W Organ – Head of Governance and Executive Assistant

#### **Also Present**

Mrs S King – Head of Internal Audit

#### **2/1 Apologies for Absence**

Apologies were received from Mr P Durrant. Apologies were also received from Mr D Rigler (Principal Auditor, Audit Commission) and Ms J Penn (Treasurer and Financial Adviser / Section 17 Officer).

#### **2/2 Matters of Urgent Business**

There were no matters of urgent business.

#### **2/3 Declarations of Interests**

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

#### **2/4 Minutes of the Financial Scrutiny and Audit Committee Meetings held on 12 July 2011 and 23 November 2011**

The minutes of the meetings held on 12 July 2011 and 23 November 2011 were approved as correct records and signed by the Chairman.

#### **2/5 Public Question Time**

No questions were raised by members of the public.

## **2/6 Business Plan 2012/13 – 2014/15**

The Committee received a report from the Director of Change Management and Resources setting out the timetable and key components for the production of the Authority's Business Plan for the period 2012/13 to 2014/15.

Members reviewed the general principles, agreed by the Resource Allocation Working Group (RAWG), to be used to underpin the financial strategy and considered that these were still sound and relevant. Members also reviewed the assumptions made by the RAWG in compiling its figures and noted comments on these assumptions. In particular, toll income had increased by more than the projected amount during 2011/12 and the additional income had been built into the revised budget agreed by the Authority in January 2012; the assumption was that these boat numbers would remain at the 2011 level for the next three years. The approved 2012/13 budget also assumed a pay increase of 1% and it was considered appropriate to also assume a 1% increase in 2013/14 in view of the recent Government announcement about public sector pay awards.

Members also considered that the impact on the Authority's medium term financial planning, should the Authority decide to take over responsibility for the management of the navigation at Breydon Water and the Lower Bure, as well as clarification of Dragonfly House running costs, should also be referenced. It was noted that there was no direct information that the allocation of National Park Grant would be cut further than already planned, but it was recognised that 2014/15 would be a difficult year for Defra which might require further cuts to be made. Members therefore considered that the Authority should be prudent with the forward planning of resources. Members also noted the key components proposed for the Business Plan.

RESOLVED

that the report be noted.

## **2/7 Arrangements for Future Budgeting**

The Director of Change Management and Resources reported that a meeting had been held with the Treasurer and Financial Adviser, following the discussion on budgeting at the last Broads Authority meeting. The practice of drawing up a revised budget part way through the year would be dispensed with and replaced by the introduction of forecast outturn budgets which would be monitored and updated throughout the year. The aim would be to identify significant changes when justified, rather than making frequent small adjustments. Members would therefore receive the approved budget and the forecast outturn budget, together with actual income and expenditure, within budget monitoring reports. It was hoped that this would encourage budget holders to monitor their budgets more proactively in order to predict realistic outturn figures.

Members considered that it would be necessary to ensure that there were appropriate delegations in place to enable officers to vire expenditure for less

substantive amounts, although any significant changes would still need member approval. .

RESOLVED

that a report on the matter be taken to the Authority for consideration.

## **2/8 Consolidated Income and Expenditure: 1 April 2011 to 31 December 2011**

The Committee received a report summarising actual income and expenditure for the nine month period to 31 December 2011, compared to the current profiled budget.

Members noted that the total income for the period was £5,766,715, which was 85.7% of the revised annual budget and 101% of the profiled budget. The total net expenditure for the period was £4,253,129, which was 59.4% of the revised annual budget and 82.3% of the profiled budget. Members reviewed a list of major variances and the reasons for these variances, noting that much of the underspend was due to the proportion of operational activities, including refits, which were undertaken during the winter period.

It was noted that a further £375,000 had been transferred into reserve accounts in January 2012, of which £150,000 had been provided for the PRISMA project and £75,000 for STEP.

Members reinforced the need for budget holders to improve the profiling of budgets in future to ensure that variances were not misrepresented when work would be undertaken within the year. Budget holders would receive further training in February and March 2012 which, it was hoped, would help to resolve the budget profiling issues and reduce excessive variances.

RESOLVED

that the report be noted.

## **2/9 Implementation of Internal Audit Recommendations: Summary of Progress**

The Committee received a report from the Director of Change Management and Resources providing an update on progress in implementing Internal Audit recommendations arising out of audits carried out since 2008/09.

Members noted that only three substantive recommendations remained outstanding from audits carried out prior to 2011/12, two of which were Low priority. Three audits had been carried out during 2011/12 covering Corporate Governance and Risk Management, Planning and the Tolls Management System. The Corporate Governance and Risk Management Audit had generated two Medium priority recommendations, both of which had been implemented, and had received an Adequate assurance. The Planning audit had also generated two Medium priority recommendations, one of which had been implemented and one of which was underway. This audit had received an Adequate assurance.

The Tolls Management System audit had been performed at a time when the system was running in parallel with the legacy system to identify issues which needed to be addressed before the system went live. Nine recommendations were raised, of which one was High priority and the remainder were Medium priority. Consequently the audit received a Limited assurance. Members noted that procedures had immediately been put in place to implement two of the recommendations, including the High priority recommendation, before the final audit report was published. Six further recommendations were scheduled to be completed by the end of February 2012. The final recommendation was scheduled for completion by July 2012.

Though the Authority had challenged the Audit assurance for the Tolls Management System in view of the immediate implementation of some of the recommendations, the auditors responded that the assurance could not be changed as it needed to reflect the position at the time of the audit. However, the Head of Internal Audit advised that the immediate response by management to resolve the issue linked to the High priority recommendation was to be commended, as well as the short timescales being applied to the implementation of the other agreed actions arising from the audit. This input by management to deal with issues arising at the earliest opportunity would be taken into account when providing the overall annual audit opinion at year-end.

RESOLVED

that the report be noted.

## **2/10 Internal Audit's Terms of Reference, Code of Ethics, Audit Strategy, Strategic and Annual Audit Plans and a Summary of Internal Audit Coverage for 2012/13**

The Committee received a report from the Head of Internal Audit concerning the formulation of the Strategic Audit Plan for 2012/13 to 2014/15 and the Annual Audit Plan for 2012/13. Members noted that the Annual Audit Plan would serve as the work programme and initial terms of reference for the Authority's Internal Audit Services Contractor and provide the basis upon which the Head of Internal Audit would subsequently provide audit opinions on the systems of internal control, risk management and corporate governance.

The Terms of Reference for Internal Audit had been amended to align with the Authority's latest set of financial regulations and were more explicit about the provisions in place to monitor the status of Internal Audit recommendations and to supply further information regarding the computer needs assessment process.

In developing the Strategy for 2012/13, members noted that the Strategic Audit Plans would be formulated on a three year basis. It was noted that computer audit coverage had been altered to provide biannual rather than annual input. It was also noted that the Partnership audit would be postponed until 2013/14, which would be more advantageous to the Authority with STEP and PRISMA projects coming to an end. The Plan for 2013/14 and beyond would need to be reassessed following the minor organisational restructure in April 2013. Members welcomed that the new Strategic Audit Plan had reduced the number of audit days for 2012/13 from 42 to 35, with these being specifically targeted. The Head of Internal Audit confirmed that

External Audit and the Treasurer and Financial Adviser had been consulted on the documentation and had made no comments.

Members considered that delegated authority should be provided to officers to determine the Computer Audit requirements, once clarity was provided over where Internal Audit resources would be most beneficial.

#### RESOLVED

- (i) that the Internal Audit's Terms of Reference and Performance Indicators for 2012/13 be approved;
- (ii) that Internal Audit's revised Code of Ethics for 2012/13 be approved;
- (iii) that Internal Audit's Strategy for 2012/13 be approved;
- (iv) that the Strategic Audit Plan for 2012/13 to 2014/15 be approved;
- (v) that the Annual Audit Plan for 2012/13 be approved; and
- (vi) that the Summary of Internal Audit Coverage for 2012/13 be approved, with delegated authority provided to the Chief Executive to determine the Computer Audit requirements.

#### **2/11 Internal Audit Assurance Levels**

The Committee received a report from the Director of Change Management and Resources concerning the current Internal Audit assurance levels, following the suggestion by members of the Broads Authority that the Authority should seek to aspire to the highest definition of assurance.

Members reviewed the four categories by which Internal Audit provided assurance. Two of these were positive assurances (Good and Adequate) and two were negative assurances (Limited and Unsatisfactory). To achieve a Good assurance the Authority would need to ensure that there were highly effective controls and systems in place and strong compliance with these. In some circumstances this might only be achievable through the deployment of additional staff or financial resources; in such cases it would be necessary to make a judgement as to whether the additional costs were proportionate to the benefits which would be attained. The Head of Internal Audit had advised that Internal Audit would be looking for evidence of positive/adequate control and would emphasise that adequate assurances represented a satisfactory outcome as far as Internal Audit was concerned.

RESOLVED

that the Authority should seek to meet the highest level of audit assurance at all times unless the additional costs of doing so were considered to be excessive or disproportionate to the benefits which would be attained.

## **2/12 The Future of Local Public Audit**

The Director of Change Management and Resources provided an update on the future of local public audit.

The Department for Communities and Local Government (CLG) had held a series of workshops for local authorities across the country to publicise its revised proposals, and had recently published the Government response to the future of local public audit. Members noted that there would be a two stage approach. Firstly the Audit Commission, in consultation with CLG, would oversee the outsourcing of contracts to the new private sector auditors. These contracts would be for either three years or five years. 13 firms had been invited to tender, in a series of 'lots', and the contract award decisions were expected to be announced in mid March. Consultation would then take place with the relevant bodies during April to July, with the new auditors taking over full responsibility in November 2012.

The Government then proposes to publish a draft Bill to set out the key elements of the second stage, which would require primary legislation, and to provide the necessary powers to implement these proposals. Under the new framework all larger local public bodies – those with a gross income or expenditure in excess of £6.5 million – would be under a duty to appoint an auditor from a register of local public statutory auditors. They would also be required to establish an Independent Audit Appointment Panel (IAAP), including an independent Chairman and a majority of independent members, whose primary function would be to advise the Authority on the appointment of the auditor or, in some cases, to make the appointment themselves. In the case of county and district councils this appointment had to be made by the Full Council, but in the case of national park authorities (NPAs) and the Broads Authority it would be devolved to the IAAP itself. Authorities could set up joint panels, devolve certain other powers to the IAAP and continue to retain a separate Audit Committee if they wished to do so. The proposals for smaller bodies were less clear at this stage, and further information was awaited.

It was noted that these proposals would lead to a 'two tier' approach amongst NPAs, with potentially four or five – probably including the Broads Authority – being treated as a larger authority, and the remainder as smaller authorities.

In conclusion it was noted that the longer term proposals still needed to be set out in legislation, at which stage the Authority would have an opportunity to comment on the proposals.

RESOLVED

that the update on the future of local public audit be noted.

## **2/13 Review of Strategic Risk Register**

The Committee received a report from the Director of Change Management and Resources providing an updated Strategic Risk Register which had incorporated issues raised during the Authority's Risk Management Workshop in October 2011.

The Risk Register now included 15 key risks, whereas the previous version had only 13. This was because the risk relating to Financial Overspend/Significant Loss of Income had been divided into two risks and an additional risk had been added relating to Planning Decisions not made in accordance with the Development Plan or Regulations and Procedures.

RESOLVED

that the updated Strategic Risk Register be approved and be presented to the Authority at the next meeting for information.

## **2/14 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.

## **2/15 Formal Questions**

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

## **2/16 Date of Next Meeting**

The next meeting of the Committee would be held on Tuesday 10 July 2012 at Dragonfly House, 2 Gilders Way, Norwich, commencing at 2:00pm.

## **2/17 Exclusion of the Public**

RESOLVED

that the public be excluded from the meeting under section 100A of the Local Government Act 1972 for consideration of the following item on the grounds that it involved the likely disclosure of exempt information as defined by Paragraph 3 of Part 1 of Schedule 12A to the Act as amended.

## **2/18 Exempt Minutes of the Financial Scrutiny and Audit Committee Meetings held on 12 July 2011 and 23 November 2011**

The exempt minutes of the meetings held on 12 July 2011 and 23 November 2011 were approved as correct records and signed by the Chairman.

## **2/19 Dragonfly House Costs**

The Chief Executive provided a report and update on Dragonfly House Costs following a meeting with Defra on 24 January 2012.

### **RESOLVED**

- (i) that the report and update be noted; and
- (ii) that a briefing be provided for members on 2 March 2012 to appraise them of the current situation.

The meeting concluded at 3:45pm

CHAIRMAN



## Code of Conduct for Members

**Declaration of Interests**

Committee: Financial Scrutiny and Audit Committee

Date of Meeting: 14 February 2012

<b>Name</b> <b>Please Print</b>	Agenda/ Minute No(s)	<b>Nature of Interest</b> (Please describe the nature of the interest)	Please tick here if the interest is a Prejudicial Interest ✓
N Dixon	General	Member of Norfolk County Council	
A S Mallett	General	Member of Broadland District Council Toll Payer	
G McGregor	General	Member of Suffolk County Council	