Audit and Risk Committee

AGENDA

5 March 2019

2:00pm

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10. **External Audit** 57 - 107
Report by Chief Financial Officer

11. **Implementation of Internal Audit Recommendations: Summary of Progress** 108 - 126
Report by Chief Financial Officer

OTHER MATTERS

12. **To consider any other items of business which the Chairman decides should be considered as a matter of urgency pursuant to Section 100B (4) (b) of the Local Government Act 1972**

13. **To answer any formal questions of which due notice has been given**

14. **Exclusion of the Public**
The Committee is asked to consider excluding the public from the meeting under section 100A of the Local Government Act 1972 for consideration of the item below on the grounds that it involves the likely disclosure of exempt information as defined by Paragraphs 1, 3 and 5 of Part 1 of Schedule 12A to the Act as amended, and that the public interest in maintaining the exemption outweighs the public benefit in disclosing the information

15. **To receive and confirm the exempt minutes of the Audit and Risk Committee meeting held on 11 December 2018** 127 - 128

16. **To note the date of the next meeting – Tuesday 23 July 2019 at 2.00pm at Yare House, 62-64 Thorpe Road, Norwich**

Nominations for Chair and Vice-Chair

Audit and Risk Committee – 5 March 2019

Nominee for Chair	**Proposer**	**Seconder**	Acknowledged by Administrative Officer
Name of Candidate Confirmed willing to stand as Chair if nominated on *(date)*	*Name* Proposed on *(date)*	*Name* Seconded on *(date)*	Acknowledged proposer on *(date),* willing to stand on *(date)* and seconder on *(date)*
Name of Candidate Confirmed willing to stand as Chair on (*date)*	*Name of proposer* Proposed on *(date)*	*Name of Seconder* Seconded on *(date)*	*Name of Admin* Acknowledged emails on (*date)*

Nominee for Vice-Chair	**Proposer**	**Seconder**	Acknowledged by Administrative Officer
Nicky Talbot Confirmed willing to stand as Vice-Chair on 11/02/19	Jacquie Burgess Proposed on 11/02/19	Greg Munford Seconded on 12/02/19	Essie Guds Acknowledged on 12/02/19

Some candidates may have received two proposers and/or two seconders.

Broads Authority

Audit and Risk Committee

Minutes of the meeting held on 11 December 2018

Present:

Mr Louis Baugh
Ms Gail Harris
Mrs Nicky Talbot
Mr Haydn Thirtle
Mr Greg Munford

In Attendance:

Ms Esmeralda Guds - Administrative Officer
David Harris – Monitoring Officer (from item 1/13)
Miss Emma Krelle - Chief Financial Officer
Dr John Packman - Chief Executive (from item 1/13)
Rob Rogers – Director of Operations
Marie-Pierre Tighe – Director of Strategic Services

Also in Attendance:

Bill Dickson – Member (from item 1/13)

1/1 To receive apologies for absence

Apologies were received from Jacquie Burgess. Further apologies were received from Faye Haywood (Internal Audit) and Vicky Chong (External Audit).

The Committee was informed that the Chief Executive, the Chairman of the Authority and the Monitoring Officer were delayed and were due to join the meeting at 3 pm.

Recordings
The Chair announced that the meeting would be recorded and that the copyright remains with the Authority; however a copy of the recording could be requested.

1/2 Appointment of Chair

The Chief Financial Officer reported that nominations for the Chair had been invited in line with the new procedures adopted following the Authority's May meeting.

Louise Baugh had been proposed by Haydn Thirtle and seconded by Nicky Talbot.

There being no other nominations, it was

RESOLVED

that Mr Louis Baugh be appointed as Chairman of the Audit and Risk Committee for the forthcoming year.

Mr Louis Baugh (in the Chair)

1/3 Appointment of Vice Chair

No nominations for the position of Vice Chairman for the forthcoming year were received.

Nicky Talbot commented that she would be willing to undertake the role subject to the outcome of the Navigation Committee Appointment process.

All Members were supportive.

1/4 Declarations of Interests

Nothing to declare as stated in Appendix 1.

1/5 To note whether any items have been proposed as matters of urgent business

The Chairman said he would like to raise two items of urgent business under agenda item 14 as Members were asked for their views on a legal matter which needed to be dealt with within a certain deadline.

The Chairman informed the Committee that he had invited Bill Dickson, Member, to the meeting, as his views were valued in regards to the matters of urgent business being discussed later on the agenda. The Members welcomed Bill Dickson's attendance.

Gail Harris commented she would need to leave the meeting by 4 pm.

1/6 To receive and confirm the minutes of the Financial Scrutiny and Audit Committee meeting held on 24 July 2018

The minutes of the meeting held on 24 July 2018 were confirmed as a correct record and signed by the Chairman subject to the following amendment:

- <u>Minute 3/14 – Matter of Urgent Business , 4 - Difficult Year on Year Comparison of the accounts</u>, Para 4, line 3, when "*… that as it indirectly was being accused…"* should read "*… that as it was indirectly being accused…"*

1/7 Public Question Time

No questions were raised by members of the public.

1/8 Consolidated Income and Expenditure – 1 April to 31 October 2018 Actual and 2018/19 Forecast Outturn

The Members received a report which provided them with details of the actual income and expenditure for the seven month period to 31 October 2018, and provided a forecast of the projected expenditure at the end of the financial year (31 March 2019).

The Chief Financial Officer highlighted that the income for the Private Craft had improved as November had been busier than expected. She said the budget would be updated to reflect this.

When queried, it was explained that the increase in the insurance premiums was due to a combination of factors. One was the increase of insurance premium tax (IPT) which was similar to VAT but not reclaimable. Also, a large insurance claim was still outstanding at the end of the insurance year for the weed harvester, which meant the Authority did not receive its annual rebate. In addition, purchases of new equipment were more expensive to insure and car insurance premiums had increased. The Chief Financial Officer confirmed that the Authority only insured items over £250.

A Member queried whether a reserve of 10% was too substantial and was concerned the Government would grant less money if given the impression that the Authority was sitting on significant reserves. A further concern was that high Reserves would reduce the chances of receiving additional grant funding.

The Chief Financial Officer explained that the recommendation for Navigation funds was a minimum of 10 % and for National Park funds £100,000 plus 10%. The reserves allowed the Authority to take on larger projects, like the Acle Bridge development, as this would require match funding. Also, the National Park side was running at a deficit which was growing over the next five years. Members were made aware that National Park Grant funding was guaranteed up until 2019/20, however from 2020/21 there were uncertainties given the economic climate.

A Member commented that having awareness of the levels of reserves and having regular discussion to justify the levels was important. As long the Authority had projects in the pipeline reserves above the minimum could be justified.

Another Member added that the high level of reserves were prudent and necessary for the next five years.

Members noted the report.

1/9 Preparation for the 2019/20 Budget

Given that this meeting was taking place later than last year, Navigation Committee and The Broads Authority had seen draft figures as part of the "Setting of Tolls". Therefore the Preparation for the 2019/20 Budget had been removed from the Agenda.

This led to a discussion of the Audit and Risk Committee timetable, the Members tried to determine which dates would best fit with the Broads Authority new Committee timetable. They agreed to bring this to the next ARC meeting in March 2019, allowing them time to consider this fully.

1/10 Review of Strategic Risk Register

Members received the Strategic Risk Register which had been reviewed and updated following consultation with risk owners in June 2018 and Management Forum in August and October 2018.

Guidance had been received that the number of strategic business risks should be limited to those that were considered business-critical. It was suggested that the Committee might consider reducing the number of risks in the Register or decide to only bring risks above a certain level to Committee.

The Committee agreed they would like all 22 risks to remain on the register to evidence that all risks were being monitored. They however supported the idea of bringing just risks above a certain level to Committee.

The risk register had been reviewed as part of the Corporate Governance internal audit in November. The final report had yet to be received. The Chief Financial Officer confirmed she would circulate the reports for the Corporate Governance and the Key Controls audit prior to the March meeting.

Members approved the Strategic Risk Register and noted they would consider how to move forward following the outcome of the internal audit at the March meeting.

1/11 External Audit

The Members received a report which appended the Annual Audit Letter for 2017/18 and the Local Government Audit Committee Briefing by Ernst & Young.

The Chief Financial Officer confirmed that the Audit Letter contained the same information as the audit results the committee received in July 2018.

The Committee was made aware of the changes within the audit team and was informed that Sappho Powell, Audit Manager, had been replaced by Vicky Chong. Kevin Sutter, Audit Director at Ernst & Young, had been replaced by Mark Hodgson.

The Chief Financial Officer clarified that the graphics on page 80-81 of the agenda papers, showing journal postings during the weekend, related to transactions taken on the till and confirmed that the financial team did not work at the weekends.

A Member suggested that access to the Audit Report should be made more prominent and signposted better on the website. The Committee didn't believe this was necessary as the Authority was fully disclosed, sufficient information was available and appropriate access to the website was in place.

Members noted the Annual Audit Letter for 2017/18 and the briefing, including the key questions for Audit Committees as set out on page 10 in Appendix 2.

1/12 Implementation of Internal Audit Recommendations: Summary of Progress

The Members received a report which updated them on progress in implementing Internal Audit recommendations arising out of audits carried out during 2017/18.

The Committee was informed that the remaining two audits in 2019/20 for Disaster Recovery and Branding would be brought back to the Audit and Risk Committee once completed.

The Chief Financial Officer highlighted the overdue recommendation in regards to asset management and leases and said that the Monitoring Officer would take forward the procurement process for legal services at the beginning of next year.

At this point Hayden Thirtle declared an interest and stated he used to sit on the board of NPLaw.

The Chairman suggested induction and workshop training for Members to reinforce the role of internal audit and provide understanding of the whole audit process.

Members noted the report.

John Packman, Bill Dickson and David Harris joined the meeting at this point.

1/13 Members' Allowances

Members received a report which provided an overview of members' allowances and when these were last reviewed. Members' views were sought on the next steps and possible recommendations to the Broads Authority.

The Committee was informed that a review of the allowances was highlighted at a one-to–one Member's appraisal.

The Committee was surprised that this had been raised as time was offered voluntarily as a contribution to the Authority and expenses were covered. The

Members recognised that a review was due, but that it was inappropriate now given the current National Park Review led by Julian Glover.

The Committee agreed that a review of allowances should be put on hold until after the likely direction on any changes to the Authority' membership, following publication of the Glover Review of National Parks, was known. The Financial Performance and Direction report to the Broads Authority in February would incorporate a section on members' allowances and the views of the committee.

1/14 To consider any other items of business which the Chairman decides should be considered as a matter of urgency pursuant to Section 100B (4) (b) of the Local Government Act 1972

Exclusion of the Public

The Committee was asked to consider excluding the public from the meeting under section 100A of the Local Government Act 1972 for consideration of the item below on the grounds that it involved the likely disclosure of exempt information as defined by Paragraphs 1 and 2 of Part 1 of Schedule 12A to the Act as amended, and that the public interest in maintaining the exemption outweighed the public benefit in disclosing the information

The Chairman said he wished to raise two matters of urgent confidential business, one on potential legal fees and one in regards to a National Audit Office Report.

Potential legal fees

The Monitoring Officer informed the Committee that the Authority had received a letter in relation to a proposed Judicial Review Application. Following advice from a barrister, the Monitoring Officer proposed to respond within the obligatory 14 days of receipt.

The Committee agreed that a response to the letter was required and that the Audit and Risk Committee would be the appropriate group to take this forward if needed.

It was further agreed that the Broads Authority Members would be notified of the receipt of the letter and that a note from the Chairman of the Authority would go to Members later in the week.

National Audit Office Report

Members commended the Chief Financial Officer and her team for their time and efforts in providing a comprehensive and quick responds to the NAO, especially as the majority of the information was available in the public domain and that no substance was found to any of the criticisms made.

1/15 Formal Questions

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

1/16 Date of the next meeting

Members noted that the date of the next Committee meeting would be held on Tuesday 5 March 2019 at Yare House, 62-64 Thorpe Road, Norwich, commencing at 2:00pm.

The meeting concluded at 4.04 pm

CHAIRMAN

APPENDIX 1

Declaration of Interests

Committee: Audit and Risk Committee

Date of Meeting: 11 December 2018

Name **Please Print**	Agenda/ Minute No(s)	**Nature of Interest** (Please describe the nature of the interest)	Please tick here if the interest is a Pecuniary Interest ✓
Louis Baugh		None	
Greg Munford		As previously stated	
Nicky Talbot		Toll Payer	
Haydn Thirtle		Nil	
Gail Harris			

Audit and Risk Committee
5 March 2019
Agenda Item No 7

Investment Strategy and Performance Report 2018/19 and the Draft Capital, Treasury and Investment Strategy 2019/20

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 2019.

(ii) The Draft Capital, Treasury and Investment Strategy 2019/20.

Recommendation:

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

(iii) 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 2018/19. 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 2019 were:

	Opening Balance	**Closing Balance**	**Highest sum**	**Lowest sum**
Fixed Term *	£2 million	£2 million	£2 million	£2 million
95 Day Notice Account	£500 thousand	£1.5 million	£1.5 million	£500 thousand
Instant Access	£1.53 million	£1.28 million	£2.55 million	£836 thousand

* This consists of two £1 million fixed term deposits.

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 90 day notice account in June and October (£1 million in total) 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 (2017/18) were:

	Opening Balance	**Closing Balance**	**Highest sum**	**Lowest sum**
Fixed Term	£2 million	£2 million	£2 million	£2 million
95 Day Notice Account	£0	£1.5 million	£1.5 million	£500 thousand
Instant Access	£1.93 million	£1.53 million	£3.17 million	£1.19 million

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 £17,040.73 and is forecast to increase to £35,000 by the end of March. This is based on interest rates that range from 0.15% to 1%, although following the increase in the Bank of England base rate these have increased to 0.65% to 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 2017/18 was £22,577.01 based on interest rates ranging from 0.15% to 1%. Forecast interest for 2017/18 was £20,000.

3. Draft Capital, Treasury and Annual Investment Strategy 2019/20

3.1. The Prudential Code was updated in December 2017 and introduced the requirement for Local Authorities to have a Capital Strategy from 2019/20. The Strategy 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. As this is closely linked to the Authority’s Treasury and Investment Strategy it has been combined into one document. The 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 Full 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 can be found on pages one to three of the appendix. There have been no changes to the Treasury Strategy which can be found on pages four to eight of the appendix.

3.3. The annual investment strategy has been updated to reflect current holdings in paragraph 4.2. The estimate of capital expenditure for 2018/19 has been updated in the table within paragraph 5.1 to reflect the additional items funded through the Heritage Lottery Fund and the Authority's project pot. Paragraph 5.2 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 debt may need to increase for years beyond 2020/21.

3.4. The Authority previously held one non-treasury investment (Ludham Fieldbase) which was sold in August 2018. Paragraph 6.1 reflects this disposal and the creation of the Capital Receipts Reserve.

3.5. Members' views are sought on the draft prior to the full Authority on 22 March 2019.

Background papers:	None
Author:	Emma Krelle
Date of report:	15 February 2019
Broads Plan Objectives:	None
Appendices:	Draft Capital, Treasury and Annual Investment Strategy 2019/20

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 Full 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 2017/18 the value of these items was £4.75m, of which £254k 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 2017/18 the balance sheet contained one long term loan which had an outstanding balance of £123k. Further details can be found in the Treasury Management Policy Statement on borrowing principles (section 2.2.2).

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 and it is not anticipated to be used in 2019/20.

4. Short, Medium and Long term capital priorities

4.1. Short and Medium Term Priorities (1-3 Years)

4.1.1. The Authority's short to medium 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.

4.1.2. It is expected that during the short to medium term that the potential redevelopment of Acle Bridge site will be further explored following the business case received by members in September 2018. The key issue remains initial funding which is being 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.

4.1.3. 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.

4.2. Long Term Priorities (4 years plus)

4.2.1. 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, such as Acle Bridge, will need to ensure that they will generate income to fund their upkeep and any reduction in investment income.

4.2.2. 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.

4.2.3. 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 5).

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:

2.1.1. 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.

2.1.2. 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.

2.1.3. 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.

2.2. Borrowing Principles

2.2.1. 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.

2.2.2. 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.

2.2.3. 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.

2.2.4. 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.

2.3. **Investment Principles**

2.3.1. 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.

2.4. **Treasury Management Practices**

2.4.1. Risk Management

2.4.1.1. 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.

2.4.1.2. As part of the Authority's strategic risk register risks are monitored and managed on a regular basis. This includes investment risks. These are reported at least twice a year to the Audit and Risk Committee. Responsible Officers review these throughout the year and are discussed at Management Forum.

2.4.1.3. Risks specific to treasury management include:

2.4.1.3.1. *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.

2.4.1.3.2. *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.

2.4.1.3.3. *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.

2.4.1.3.4. *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.

2.4.1.3.5. *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.

2.4.1.3.6. *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.

2.4.1.3.7. *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.

2.4.1.3.8. *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.

2.4.1.3.9. *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.

2.4.2. Performance Measurement

2.4.2.1. 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.

2.4.3. Decision making and analysis

2.4.3.1. 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.

2.4.4. Approved Instruments, methods and techniques

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

2.4.5. Organisation, clarity & segregation of responsibilities, and dealing arrangements

2.4.5.1. 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.

2.4.5.2. 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 Financial Accountant. 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.

2.4.6. Reporting requirements and management information

2.4.6.1. 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.

2.4.6.2. The Full 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 Full Authority as part of its Finance Performance and Direction reports.

2.4.7. Budgeting, accounting and audit arrangements

2.4.7.1. 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.

2.4.8. Cash and cash flow management

2.4.8.1. 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 Financial Accountant. 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.

2.4.9. Money laundering

2.4.9.1. 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.

2.4.10. Training and qualifications

2.4.10.1. 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).

2.4.10.2. 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.

2.4.11. Use of External providers

2.4.11.1. 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.

2.4.12. Corporate Governance

2.4.12.1. 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.

2.5. **Management Practices for Non-Treasury Investments**

2.5.1. 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.

2.5.2. 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. A schedule of these types of investments will be included.

Annual Investment Strategy 2019/20

1. 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.

   1.1. The Authority will continue to invest in Sterling.

2. Specified Investment

   2.1. 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

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

   2.1.2. 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.

   2.1.3. 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.

3. Non Specified Investments

   3.1. 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.

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

   3.3. 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.

4. Liquidity

   4.1. 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 it's cash balances will range between £3.5m and £6m.

   4.2. Current Holdings as at 18/02/19

Counterparty	Holding/Investment	Interest Rate	Investment Date	Maturity Date
Lloyds Fixed Term	1,000,000	0.8%	02/03/18	01/03/19
Lloyds Fixed Term	1,000,000	1%	05/09/18	04/09/19

Barclays Notice Account	1,500,000	Base rate + 0.25%	95 days notice
Barclays Premium Account	1,017,000	0.65%	Instant access

5. **Capital Financing (Borrowing) Principles**

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

Prudential indicator	2018/19 (capital estimate revised only)	2019/20	2020/21	2021/22
Estimate of capital expenditure	£265,000	£150,000	£200,000	£260,000
Authorised limit for external debt	£500,000	£500,000	£500,000	£500,000
Operational Boundary	£400,000	£400,000	£400,000	£400,000

5.2. 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. 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.

5.3. 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	2019/20	2020/21	2021/22
General and Navigation Reserves	£1,351,000	£1,341,000	£1,328,000
Earmarked Reserves	£1,973,000	£2,234,000	£2,335,000
Capital Receipts Reserve	£405,000	£405,000	£405,000
Total Investments 31 March	£3,729,000	£3,980,000	£4,068,000

5.4. Affordability

5.4.1. 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.

5.5. External Debt

5.5.1. 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.

5.5.2. 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.

5.6. Authorised limit

5.6.1. 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.

5.7. Operational Boundary

5.7.1. 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.

5.8. Capital expenditure

5.8.1. 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.

5.9. Treasury Management

5.9.1. The Prudential Code requires authorities to set upper limits for it exposure to the effects of changes in interest rates. However, as explained above under paragraph 5.4.1, 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.

5.9.2. 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.

5.10. Maturity structure of borrowing

5.10.1. 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.

6. Non-Treasury Investments

6.1. 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.

7. End of Year Investment and Capital Financing Report

7.1. 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
5 March 2019
Agenda Item No 8

Consolidated Income and Expenditure: 1 April to 31 January 2019 Actual and 2018/19 Forecast Outturn

Report by Chief Financial Officer

Summary:	This report provides the Committee with details of the actual income and expenditure for the ten month period to 31 January 2019, and provides a forecast of the projected expenditure at the end of the financial year (31 March 2019).
Recommendation:	That the report be noted.

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 I&E by Directorate to 31 January 2019

	Profiled Latest Available Budget	**Actual Income and Expenditure**	**Actual Variance**
Income	(6,688,926)	(6,714,137)	+ 25,211
Operations	2,948,799	2,875,919	+ 72,880
Strategic Services	1,805,581	1,702,373	+ 103,208
Chief Executive	982,251	949,581	+ 32,670
Projects, Corporate Items and Contributions from Earmarked Reserves	38,500	43,873	- 5,373
Net (Surplus) / Deficit	**(913,795)**	**(1,142,391)**	**+ 228,596**

2.1. Core navigation income is above of the profiled budget at the end of month ten. The overall position as at 31 January 2019 is a favourable variance of £228,596 or 25.02% difference from the profiled LAB. This is principally due to:

- An overall favourable variance of £25,211 within income:
  - Hire Craft Tolls is £10,558 above the profiled budget.
  - Private Craft Tolls is £9,269 above the profiled budget.
  - Other Toll Income is £5,418 below the profiled budget
  - Interest Income is £10,774 above the profiled budget.

- A favourable variance within Operations budgets relating to:
    - Construction and Maintenance Salaries is under the profiled budget by £16,017 due to a vacancy which was filled in January.
    - Equipment, Vehicles and Vessels is over the profiled budget by £14,688 due to a number of repairs being completed ahead of profile.
    - Land Management is over the profiled budget by £15,520 due to timing differences on the receipt of income from the Rural Payments Agency.
    - Practical Maintenance is under the profiled budget by £14,522 due to timing differences on contractor work at Hoveton viaduct.
    - Ranger Services is under the profiled budget by £24,951 due to timing differences on the profile originally set for launch repairs.
    - Safety is under the profiled budget by £34,329 due to timing differences on the invoicing of the two new pool vehicles.
- A favourable variance within Strategic Services budgets relating to:
    - Development Management is under profiled budget by £50,017 due to additional income from the increased fees and salary savings. The forecast has been adjusted for the income and the salary savings.
    - Strategy and Projects Salaries is over profiled budget by £28,899 due to a salary being funded from the Catchment reserve.
    - Human Resources is under profiled budget by £17,082 due to a reimbursement of staff training following an individual leaving the Authority and salary savings following a vacancy which has now been filled. The forecast has been adjusted for the income.
    - Project Funding is under profiled budget by £43,972 due to timing differences.
- A favourable variance within Chief Executive budgets relating to:
    - Legal Services is under profiled budget by £13,213 due to timing differences and salary savings. The forecast has been adjusted for the salary savings.
    - Asset Management is under budget by £24,344 due to timing differences.

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 being monitored against a latest available budget (LAB) in 2018/19. 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. Details of the movements from the original budget are set out in Appendix 2.

Table 2 – Adjustments to Consolidated LAB

	Ref	£
Original budget 2018/19 – deficit	Item 1 26/01/18 (BA)	72,430
Approved budget carry-forwards	Item 12 18/05/18 (BA)	1,558
LAB at 31 January 2019 – deficit		**73,988**

4. Overview of Forecast Outturn 2018/19

4.1. Budget holders have been asked to comment on the expected expenditure at the end of the financial year in respect of all the budget lines for which they are responsible. A summary of these adjustments are given in the table below.

Table 3 – Adjustments to Forecast Outturn

Item	£
Forecast outturn deficit per LAB	**73,988**
Adjustments reported 11/12/18	(40,745)
Increase to Private Craft Income	(10,238)
Increase to Investment Income	(5,000)
Decrease to Construction and Maintenance Salaries following vacancy	(11,000)
Increase to Equipment, Vehicles and Vessels Expenditure	7,700
Increase to Premises Dockyard Expenditure	3,300
Decrease to Operations Management & Admin Expenditure to reflect actuals	(1,500)
Increase to Planning Fees	(14,000)
Decrease to Planning Salaries following delays to recruitment	(20,500)
Increase to Legal Income	(2,000)
Decrease to Legal Salaries to reflect new working arrangement	(13,228)
Forecast outturn surplus as at 31 January 2019	**(33,223)**

4.2. This represents a favourable variance of £107,211 between the forecast outturn and the LAB. This is a result of additional income and savings within expenditure.

5. Reserves

Table 4 – Consolidated Earmarked Reserves

	Balance at 1 April 2018	In-year movements	Current reserve balance
	£	£	£
Property	(479,194)	(68,962)	(548,156)
Plant, Vessels	(202,154)	(85,000)	(287,154)

and Equipment			
Premises	(148,424)	(44,743)	(193,167)
Planning Delivery Grant	(227,176)	0	(227,176)
Upper Thurne Enhancement	(100,175)	(18,264)	(118,439)
Section 106	(102,250)	0	(102,250)
Heritage Lottery Fund	(113,519)	122,365	8,846
Catchment Partnership	(99,481)	29,130	(70,351)
CANAPE	(72,259)	4,510	(67,749)
Computer Software	(40,307)	3,243	(37,064)
Total	**(1,584,939)**	**(57,721)**	**(1,642,660)**

5.1. £730,332 of the current reserve balance relates to navigation reserves.

6. Summary

6.1. The current forecast outturn position for the year suggests a surplus of £8,916 for the national park side and a surplus of £24,307 on navigation resulting in an overall surplus of £33,223 within the consolidated budget, which would indicate a general fund reserve balance of approximately £1,067,000 and a navigation reserve balance of approximately £392,000 at the end of 2018/19 before any transfers for interest. This will mean that the navigation reserve will be above the recommended level of 10% of net expenditure during 2018/19.

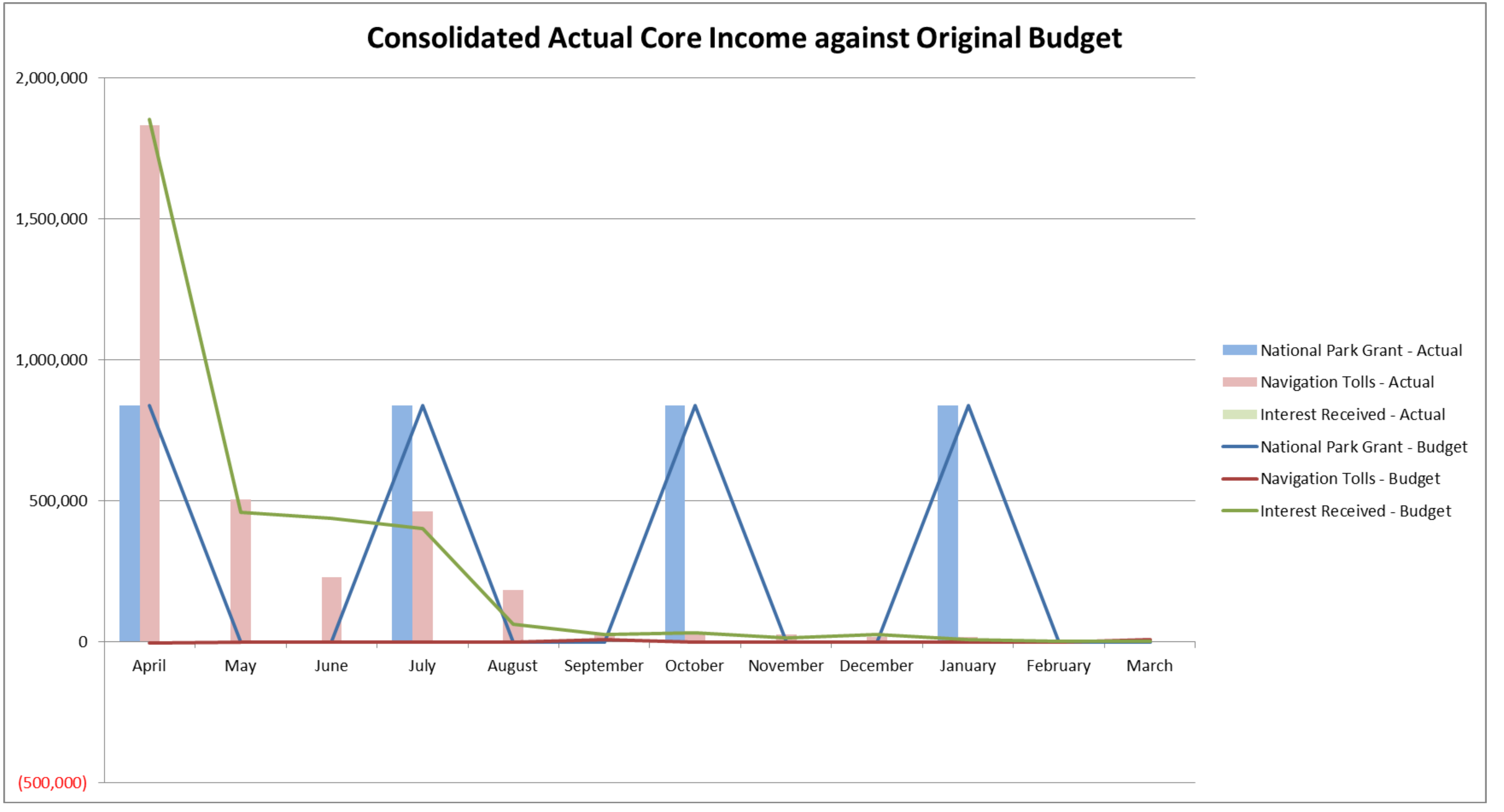
Background papers: None

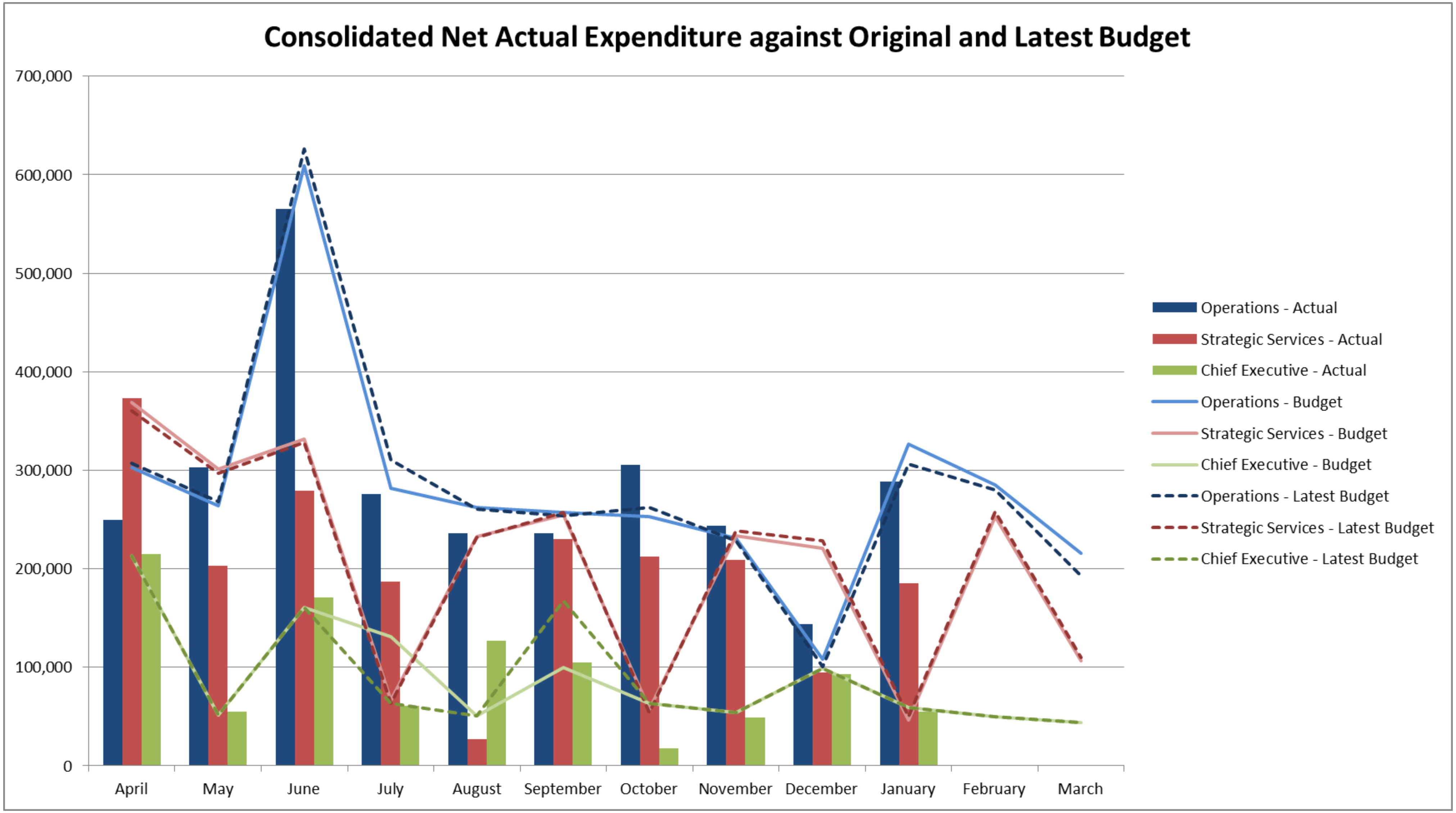
Author: Emma Krelle
Date of report: 15 February 2019

Broads Plan Objectives: None

Appendices: APPENDIX 1 – Consolidated Actual Income and Expenditure Charts to 31 January 2019

APPENDIX 2: Financial Monitor: Consolidated Income and Expenditure 2018/19


Consolidated Actual Core Income against Original Budget
2,000,000
1,500,000
1,000,000
500,000
0
(500,000)
April
May
June
July
August
September
October
November
December
January
February
March
National Park Grant - Actual
Navigation Tolls - Actual
Interest Received - Actual
National Park Grant - Budget
Navigation Tolls - Budget
Interest Received - Budget


Consolidated Net Actual Expenditure against Original and Latest Budget
700,000
600,000
500,000
400,000
300,000
200,000
100,000
0
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

To 31 January 2019

Budget Holder	(All)

Row Labels	Original Budget (Consolidated)	Budget Adjustments (Consolidated)	Latest Available Budget (Consolidated)	Forecast Outturn (Consolidated)	Forecast Outturn Variance (Consolidated)
	Values				
Income	(6,702,148)		(6,702,148)	(6,739,946)	37,798
National Park Grant	(3,356,348)		(3,356,348)	(3,356,348)	0
Income	(3,356,348)		(3,356,348)	(3,356,348)	0
Hire Craft Tolls	(1,149,300)		(1,149,300)	(1,159,229)	9,929
Income	(1,149,300)		(1,149,300)	(1,159,229)	9,929
Private Craft Tolls	(2,121,800)		(2,121,800)	(2,129,669)	7,869
Income	(2,121,800)		(2,121,800)	(2,129,669)	7,869
Short Visit Tolls	(40,900)		(40,900)	(40,900)	0
Income	(40,900)		(40,900)	(40,900)	0
Other Toll Income	(18,800)		(18,800)	(18,800)	0
Income	(18,800)		(18,800)	(18,800)	0
Interest	(15,000)		(15,000)	(35,000)	20,000
Income	(15,000)		(15,000)	(35,000)	20,000
Operations	3,501,440	24,200	3,525,640	3,521,210	4,430
Construction and Maintenance Salaries	1,184,010	0	1,184,010	1,170,080	13,930
Income	(4,530)		(4,530)	(7,460)	2,930
Salaries	1,188,540	0	1,188,540	1,177,540	11,000
Expenditure			0		0
Equipment, Vehicles & Vessels	451,500	12,000	463,500	470,500	-7,000
Income			0		0
Expenditure	451,500	12,000	463,500	470,500	-7,000
Water Management	103,000		103,000	103,000	0
Income			0		0
Expenditure	103,000		103,000	103,000	0
Land Management	(36,000)		(36,000)	(36,000)	0

Row Labels	Original Budget (Consolidated)	Budget Adjustments (Consolidated)	Latest Available Budget (Consolidated)	Forecast Outturn (Consolidated)	Forecast Outturn Variance (Consolidated)
Income	(90,000)		(90,000)	(90,000)	0
Expenditure	54,000		54,000	54,000	0
Practical Maintenance	493,700		493,700	493,700	0
Income	(10,500)		(10,500)	(10,500)	0
Expenditure	504,200		504,200	504,200	0
Ranger Services	739,060		739,060	739,060	0
Income	(131,020)		(131,020)	(131,020)	0
Salaries	674,180		674,180	674,180	0
Expenditure	195,900		195,900	195,900	0
Pension Payments			0		0
Safety	160,390		160,390	160,390	0
Income	(2,000)		(2,000)	(2,000)	0
Salaries	61,290		61,290	61,290	0
Expenditure	101,100		101,100	101,100	0
Volunteers	75,350		75,350	75,350	0
Income	(1,000)		(1,000)	(1,000)	0
Salaries	50,450		50,450	50,450	0
Expenditure	25,900		25,900	25,900	0
Premises	208,170	12,200	220,370	224,370	-4,000
Income			0		0
Expenditure	208,170	12,200	220,370	224,370	-4,000
Operations Management and Administration	122,260		122,260	120,760	1,500
Income	(2,360)		(2,360)	(2,360)	0
Salaries	112,120		112,120	112,120	0
Expenditure	12,500		12,500	11,000	1,500
Strategic Services	2,207,620	1,558	2,209,178	2,202,915	6,263
Development Management	402,805	0	402,805	357,305	45,500
Income	(80,000)		(80,000)	(105,000)	25,000
Salaries	368,880	(20,000)	348,880	328,380	20,500
Expenditure	113,925	20,000	133,925	133,925	0

Row Labels	Original Budget (Consolidated)	Budget Adjustments (Consolidated)	Latest Available Budget (Consolidated)	Forecast Outturn (Consolidated)	Forecast Outturn Variance (Consolidated)
Pension Payments			0		0
Strategy and Projects Salaries	296,440		296,440	309,900	-13,460
Income	(31,460)		(31,460)	(31,460)	0
Salaries	259,400		259,400	259,400	0
Expenditure	68,500		68,500	81,960	-13,460
Biodiversity Strategy	10,000		10,000	10,000	0
Income			0		0
Expenditure	10,000		10,000	10,000	0
Human Resources	134,710	1,558	136,268	131,018	5,250
Income	0		0	(5,250)	5,250
Salaries	75,210		75,210	75,210	0
Expenditure	59,500	1,558	61,058	61,058	0
Waterways and Recreation Strategy	87,480		87,480	87,480	0
Income			0		0
Salaries	77,980		77,980	77,980	0
Expenditure	9,500		9,500	9,500	0
Project Funding	105,500		105,500	105,500	0
Expenditure	105,500		105,500	105,500	0
Pension Payments			0		0
Communications	302,030		302,030	302,030	0
Income	(6,150)		(6,150)	(6,150)	0
Salaries	233,680		233,680	233,680	0
Expenditure	74,500		74,500	74,500	0
Visitor Centres and Yacht Stations	208,710		208,710	208,710	0
Income	(237,500)		(237,500)	(237,500)	0
Salaries	314,210		314,210	314,210	0
Expenditure	132,000		132,000	132,000	0
Collection of Tolls	134,180		134,180	124,900	9,280
Salaries	121,480		121,480	112,200	9,280
Expenditure	12,700		12,700	12,700	0

Row Labels	Original Budget (Consolidated)	Budget Adjustments (Consolidated)	Latest Available Budget (Consolidated)	Forecast Outturn (Consolidated)	Forecast Outturn Variance (Consolidated)
ICT	308,890		308,890	349,197	-40,307
Salaries	188,440		188,440	188,440	0
Expenditure	120,450		120,450	160,757	-40,307
Strategic Services Management and Administration	216,875		216,875	216,875	0
Income	(730)		(730)	(730)	0
Salaries	142,740		142,740	142,740	0
Expenditure	74,865		74,865	74,865	0
Chief Executive	1,076,443		1,076,443	1,071,490	4,953
Legal	108,670		108,670	93,442	15,228
Income	(510)		(510)	(2,510)	2,000
Salaries	49,180		49,180	35,952	13,228
Expenditure	60,000		60,000	60,000	0
Governance	124,750		124,750	124,750	0
Salaries	72,850		72,850	72,850	0
Expenditure	51,900		51,900	51,900	0
Chief Executive	112,090		112,090	112,090	0
Salaries	112,090		112,090	112,090	0
Expenditure			0		0
Asset Management	115,080		115,080	113,055	2,025
Income	(22,000)		(22,000)	(22,000)	0
Salaries	47,330		47,330	47,330	0
Expenditure	89,750		89,750	87,725	2,025
Finance and Insurance	362,160		362,160	374,460	-12,300
Income	(5,930)		(5,930)	(5,930)	0
Salaries	154,090		154,090	154,090	0
Expenditure	214,000		214,000	226,300	-12,300
Premises - Head Office	253,693		253,693	253,693	0
Income			0		0
Expenditure	253,693		253,693	253,693	0
Projects and Corporate Items	216,707		216,707	216,707	0

Row Labels	Original Budget (Consolidated)	Budget Adjustments (Consolidated)	Latest Available Budget (Consolidated)	Forecast Outturn (Consolidated)	Forecast Outturn Variance (Consolidated)
Partnerships / HLF	138,207		138,207	138,207	0
Income	(1,182,118)		(1,182,118)	(1,182,118)	0
Salaries	169,940		169,940	169,940	0
Expenditure	1,150,385		1,150,385	1,150,385	0
Corporate Items	78,500		78,500	78,500	0
Expenditure	2,500		2,500	2,500	0
Pension Payments	76,000		76,000	76,000	0
Contributions from Earmarked Reserves	(227,632)	(24,200)	(251,832)	(305,599)	53,767
Earmarked Reserves	(227,632)	(24,200)	(251,832)	(305,599)	53,767
Expenditure	(227,632)	(24,200)	(251,832)	(305,599)	53,767
Grand Total	**72,430**	**1,558**	**73,988**	**(33,223)**	**107,211**

Audit and Risk Committee
5 March 2019
Agenda Item No 9

Internal Audit Strategic and Annual Plans 2019/20

Report by Internal Audit Manager

Summary:

This report provides an overview of the stages followed prior to the formulation of the Internal Audit Plan for 2019/20.

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 provide the basis upon which the Head of Internal Audit will subsequently give an Annual Audit Opinion for 2019/20.

Recommendation:

The Committee is requested to approve:
(i) The Internal Audit Charter for 2019/20;
(ii) The Internal Audit Strategy for 2019/20; and
(iii) The Annual Internal Audit Plan for 2019/20.

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 2019/20 is described in the attached report, and the resulting plan contained therein.

Background papers:	Nil
Author:	Faye Haywood, Internal Audit Manager for the Broads Authority
Date of Report:	18 February 2019
Broads Plan Objectives:	None
Appendices:	Internal Audit Plan 2019/20

Eastern Internal Audit Services

eias
Providing quality public sector internal audit

BROADS AUTHORITY

Internal Audit Plans 2019/20

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 takes into account 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 so as 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 Financial Scrutiny and Audit 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 Chief Financial Officer, Senior Management and the Audit and Risk Committee every two years, or as required for review.

2.2 The latest version of the Charter included at **Appendix 1** of this report has been updated to reference the Internal Audit Manager role, reporting to the Head of Internal Audit and responsibilities for providing management oversight on the performance of the contractor.

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 2**) 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 3**, 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.

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 2019/20 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 CHARTER

EASTERN INTERNAL AUDIT SERVICES

INTERNAL AUDIT CHARTER FOR 2019/20

1. Introduction

1.1 The Public Sector Internal Audit Standards (PSIAS) came into effect from 1 April 2013, these provide a consolidated approach across the public sector encouraging continuity, sound corporate governance and transparency.

1.2 The Standards require all internal audit services to implement, monitor and review an internal audit charter; this formally defines the internal audit's purpose, authority and responsibility, and is a mandatory document.

1.3 The charter also displays formal commitment to and recognises the mandatory nature of the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics and the Standards, I.e. the International Professional Practices Framework (IPPF).

1.4 This Internal Audit Charter is applicable to each of the following internal audit consortium members covered by Eastern Internal Audit Services (EIAS).

- Breckland District Council;
- Broadland District Council;
- Great Yarmouth Borough Council;
- North Norfolk District Council
- South Holland District Council;
- South Norfolk Council; and
- Broads Authority.

1.5 The term Local Authority will be used to describe the above consortium members throughout the Charter.

1.6 **Mission**

Standards require the Internal Audit Function to articulate its overall purpose and summarise the way it will provide value to the organisation. The mission statement for EIAS is as follows:

"Protecting each of our consortium members ability to enhance value through the provision of independent risk-based assurance and advice"

1.7 This charter:

- Establishes the position and reporting lines of internal audit;
- Outlines provision for unrestricted access to information, officers, management and members as appropriate;
- Sets the tone for internal audit activities;
- Defines the nature and scope of internal audit services, in particular assurance and consultancy services; and
- Sets out the nature and scope of assurance provided to other parties.

1.8 The charter is to be periodically reviewed and presented to Senior Management and the Board for approval. The charter will be reviewed annually by the Chief Audit Executive to confirm its ongoing completeness and validity, and presented to Senior Management and the Board every 2 years for review.

2 Purpose, Authority and Responsibility

2.1 Purpose

2.1.1 Internal auditing is best summarised through its definition with the Standards, *"an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes"*.

2.1.2 Internal audit will provide reasonable assurance to each member of the Internal Audit Consortium, that necessary arrangements are in place and operating effectively, and to identify risk exposures and areas where improvements can be made.

2.2 Authority

2.2.1 The Accounts and Audit Regulations (England) 2015, states that the relevant body 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"*. The statutory requirement for internal audit is recognised in the Constitution of each Local Authority and the internal auditing standards in this regard are the Public Sector Internal Audit Standards.

2.2.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) Statement on the Role of the Head of Internal Audit confirms that this person is responsible for the organisation's internal audit service, including drawing up the internal audit strategy and annual plan and giving the annual audit opinion. The requirements of this statement are fully adhered to by the Chief Audit Executive.

2.3 Responsibility

2.3.1 The responsibility for maintaining an adequate and effective internal audit to evaluate risk management, control and governance processes lies with each Local Authority's Chief Finance Officer (the Section 151 Officer or Section 17 Officer).

2.3.2 The Local Authority and its Members must be satisfied about the adequacy of the advice and support it receives from internal audit.

2.3.3 Internal audit is provided by Eastern Internal Audit Services, with the Chief Audit Executive responsible for ensuring the internal audit activity is undertaken in accordance with the definition of internal auditing, the code of ethics and the standards.

2.3.4 Senior management are responsible for ensuring that internal control, risk management and governance arrangements are sufficient to address the risks facing the Local Authority. Accountability for responding to internal audit rests with senior management who either accept and implement the recommendations, or formally reject it. Any advice that is rejected will be formally reported.

3 Key Relationships and Position in the Organisation

3.1 The standards require the terms ‘Chief Audit Executive’, ‘Board’ and ‘Senior Management’ to be defined in the context of the governance arrangements in each public sector organisation in order to safeguard the independence and objectivity of internal audit. The following interpretations are applied within Eastern Internal Audit Services.

3.2 Chief Audit Executive

3.2.1 The Chief Audit Executive is based at South Norfolk Council and provides the Head of Internal Audit role to all consortium members with the exception of South Norfolk Council.

At South Norfolk Council, the Chief Audit Executive undertakes the Head of Governance role, administratively reporting to the Assistant Director of Resources (Section 151 Officer). Due to extra responsibilities undertaken and the Internal Audit Manager currently finalising qualifications, the Head of Internal Audit role here is undertaken by a contractor to ensure that independence is safeguarded.

3.2.2 The Head of Internal Audit reports functionally to the Board and administratively to the Section 151 Officer or Section 17 Officer at all other members of the consortium.

3.2.3 The Head of Internal Audit also has a direct line of reporting and unfettered access to the Chief Executive, the Senior Management Team at each Local Authority and the Chair of the Board at each Local Authority. The Head of Internal Audit is also supported by the Internal Audit Manager.

3.2.4 The delivery of the Annual Audit Plans and any specified ad-hoc assignments is provided by an external contractor, TIAA ltd from 1 April 2015. The Chief Audit Executive manages this contract with support from the Internal Audit Manager.

3.3 Board

3.3.1 In the context of overseeing the work of Internal Audit at each Local Authority, the ‘Board’ will be the Audit Committee (or equivalent) of the Local Authority, which has been established as part of the governance arrangements. The Audit Committee’s responsibilities are discharged through each of the Local Authority’s Constitution’s and explicitly referred to in each terms of reference.

3.3.2 This functional reporting includes;

- Approving the audit charter, audit strategy and risk based annual plans;
- Receiving regular reports on the outcomes of internal audit activity and performance;
- Receiving regular reports on management action in relation to agreed internal audit recommendations;
- Receiving the Annual Report and Opinion of the Head of Internal Audit, alongside a conclusion as to the effectiveness of internal audit;
- Overseeing External Assessments of the Internal Audit Service, at least once every 5 years.

3.3.3 Internal Audit work closely with the chair and members of the Audit Committee to facilitate and support their activities, part of which includes facilitating a self- assessment and providing training.

3.4 Senior Management

3.4.1 'Senior Management' is those individuals responsible for the leadership and direction of the organisation, and are responsible for specific aspects of internal control, risk management and governance arrangements. There is effective liaison between internal audit and senior management to ensure that independence remains, and provides for a critical challenge.

3.4.2 The Head of Internal Audit or Internal Audit Manager meets regularly with the Section 151 Officer or Section 17 Officer to ensure organisational awareness is maintained, to discuss progress with the agreed Internal Audit Plan and to maintain a good working relationship. These arrangements facilitate discussions in relation to the current and emerging risks and issues to ensure that the internal audit plan of work remains reflective and also responds as required.

3.5 <u>External Audit</u>

3.5.1 Regular liaison is maintained with External Audit to consult on audit plans, and to discuss matters of mutual interest. The external auditors have the opportunity to take account of the work of internal audit where appropriate.

3.6 <u>Other Internal Audit Service Providers</u>

3.6.1 Where appropriate internal audit will liaise with other internal audit providers, where shared arrangements exist. In such cases, a dialogue will be opened with the Chief Audit Executive to agree a way forward regarding the auditing of such shared services. This is to ensure an efficient and effective approach, and enable reliance on each other's outcomes. Where formal arrangements are entered into a protocol will be determined and agreed by both Chief Audit Executives.

3.6.2 Internal audit will also co-operate with all external review and inspection bodies that are authorised to access and evaluate the activities of the Local Authority, to determine compliance with regulations and standards. Assurances arising from this work will be taken into account where applicable.

4 Rights of Access

4.1 Internal audit, with strict accountability for confidentiality and safeguarding records and information, is authorised to have the right of access to all records, assets, personnel and premises and has authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities. This access is full, free and unrestricted and is set out in each Local Authority's Constitution.

4.2 Such access shall be granted on demand and shall not be subject to prior notice, although in principle, the provision of prior notice will be given wherever possible and appropriate, unless circumstances dictate otherwise.

5 Objective and Scope

5.1 The provision of assurance services is the primary role of Eastern Internal Audit Services, thus allowing the Head of Internal Audit to provide an annual audit opinion on the adequacy and effectiveness of the Local Authority's framework of governance, risk management and control, together with reasons if the opinion is unfavourable.

5.2 Internal audit will also provide consultancy services, at the request of management. These reviews are advisory in nature and generally performed to facilitate improved governance, risk management and control. This work may contribute to the annual audit opinion.

5.3 Whichever role / remit is carried out by internal audit the scope is to be determined by internal audit, through discussions with senior management, however this scope will not be unduly bias nor shall it be restricted.

5.4 A risk based Strategic Internal Audit Plan will be developed each year to determine an appropriate level of risk based audit coverage required to generate an annual audit opinion. The plan will be derived from risk assessments, discussions with Senior Management and Audit Committee taking prior year's assurance results into account.

5.5 Each audit review will be designed to provide evidence based assurance over the management of risk and controls within that area. The results of each review will be shared with management so that any required improvements can be actioned to restore satisfactory systems of internal control.

5.6 It is management's responsibility to control the risk of fraud and corruption; however internal audit will be alert to such risks in all the work that is undertaken. In addition, the Head of Internal Audit is either responsible for, or is consulted on, related policy and strategy. These include for example; Counter Fraud, Corruption, Anti-Bribery, Whistleblowing, Anti-Money Laundering and includes the related promotion and training for officers and councillors.

5.7 Through the contract in place with TIAA Ltd there are other services that can be provided, these include: fraud investigations, grant certification and digital forensics.

6 Independence and Objectivity

6.1 Internal Audit must be sufficiently independent of the activities that are audited to enable an impartial, unbiased and effective professional judgement. All internal auditors working within Eastern Internal Audit Services, annually confirm their adherence the Code of Ethics, which sets out the minimum standards for performance and conduct. The four core principles are integrity, objectivity, confidentiality and competency.

6.2 As contractors the TIAA Internal auditors have no operational responsibility or authority over any of the activities which they are required to review. They do not engage in any other activity, which would impair their judgement, objectivity or independence.

6.3 The Head of Internal Audit has overall responsibility for the management and strategic direction of the Internal Audit Service. At South Norfolk Council there are additional responsibilities that fall outside of internal auditing. These include;

- Monitoring Officer
- Democratic Services
- Legal Services
- Freedom of Information
- General Data Protection Regulation
- Risk Management
- Procurement
- Health and Safety

Safeguards exist to limit any impairments that may occur to the independence and objectivity at South Norfolk Council. The Internal Audit Manager assumes responsibility for the daily management, progress reporting and quality assurance of any internal audit work carried out by the contractor and does not have any involvement in the above mentioned activities.

In line with the PSIAS requirements, until the Internal Audit Manager is CMIIA qualified, the Head of Internal Audit role at South Norfolk Council will be provided by a contractor responsible for presenting the Annual Audit Opinion. The Head of Internal Audit will continue to provide the Annual Audit Opinion for all other consortium members.

6.4 If the independence or objectivity of the Head of Internal Audit is impaired, or appears to be, the details of the impairment will be disclosed to the Internal Audit Manager and / or senior management. The nature of the disclosure will depend upon the impairment.

7 Professional Standards

7.1 The Internal Audit Service and all Internal Audit staff operate in accordance with all mandatory guidance within the PSIAS including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards and Definition of Internal Auditing. Internal Auditors also have regard for the principles contained within the Standards of Public Life.

8 Internal Audit Resources

8.1 The Head of Internal Audit will be professionally qualified (CMIIA, CCAB or equivalent) and have wide ranging internal audit management experience to enable them to deliver the responsibilities of the role.

8.2 The Head of Internal Audit is supported by the Internal Audit Consortium Manager in ensuring the Internal Audit Service has access through the contract to a team of staff who have the appropriate range of knowledge, skills and experience to deliver the audit service.

9 Audit Planning

9.1 The Head of Internal Audit, supported by the Internal Audit Manager develops a strategy, alongside a strategic and annual internal audit plan, using a risk based approach.

9.2 The Internal Audit Strategy provides a clear direction for internal audit services and creates a link between the Charter, the strategic plan and the annual plan.

9.3 The annual internal audit plan of work, developed as per the Internal Audit Strategy, is derived using a risk based approach, discussed with Senior Management and approved by the Audit Committee. The Head of Internal Audit is responsible for the delivery of the internal audit plan, which will be kept under regular review and reported to the Audit Committee.

10 Audit Reporting

10.1 On conclusion of each assurance review included within the annual internal audit plan, a report will be provided to management giving an opinion on the adequacy of controls in place to manage risk. This report will provide an assurance level and associated recommendations to ensure that risks are appropriately addressed.

10.2 Management can choose not to accept / implement the recommendations raised, in all instances this will be reported through to the Audit Committee, especially in instances whereby there are no compensating controls justifying the course of action.

10.3 A Progress Report is periodically presented to the Audit Committee which includes the Executive Summary of all final reports, any significant changes to the approved plan and the performance of the contractor relative to completing the agreed plan.

10.4 A Follow Up Report is also periodically produced for the Audit Committee showing management progress against the implementation of agreed recommendations arising from internal audit assurance reports. The Internal Audit Team will verify and obtain evidence to demonstrate recommendation completion from responsible officers.

10.5 An Internal Audit Annual Report and Opinion is produced for Senior Management and the Audit Committee following the completion of the annual audit plan each financial year.

10.6 This report includes a summary of all Internal Audit work carried out, details of recommendations that have been implemented by management and the Annual Opinion.

10.7 The Annual Opinion is based on the overall adequacy and effectiveness of the Local Authority's framework of governance, risk management and control during the financial year, together with reasons if the opinion is unfavourable. This opinion is reached by considering the results from assurance reviews undertaken throughout the year.

10.8 The report also highlights any issues that are deemed particularly relevant to the Annual Governance Statement (AGS) and the results of the review of the effectiveness of internal audit.

11 Quality Assurance and Improvement Programme

11.1 The standards require a quality assurance and improvement programme to be developed that covers all aspects of internal audit; including both internal and external assessments.

11.2 If an improvement plan is required as a result of the internal or external assessment, the Head of Internal Audit or Internal Audit Manager will coordinate appropriate action and report this to Senior Management and the Audit Committee, as part of the annual report and opinion.

11.3 Internal Assessment

11.3.1 Internal assessment includes the ongoing monitoring of the performance of the contractor through the performance measures. These form a key part of service management of the contract and are subject to quarterly reporting to the Internal Audit Manager for review.

11.3.2 On conclusion of audit reviews a feedback form is provided to the key officer identified during the audit process. Outcomes are reviewed and relevant improvements discussed with the contractor.

11.3.3 The standards also require periodic self-assessment in relation to the effectiveness of internal audit, the detail and outcomes of which are then forwarded to the Section 151 Officer or Section 17 Officer for their independent scrutiny, before the summary of which is provided to the Audit Committee as part of the annual report and opinion. This information enables the Committee to be assured that the internal audit service is operating in accordance with best practice.

11.4 External Assessment

11.4.1 External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the Organisation. This can be in the form of a full external quality assessment that involves interviews with relevant stakeholders, supported by examination of the internal audit approach and methodology leading to the completion of an independent report, or a validated self-assessment, which the Internal Audit Manager compiles against the PSIAS assessment tool, which is then validated by an external assessor/team. The full external quality assessment is the chosen option for Eastern Internal Audit Services.

11.4.2 An external assessment will:

- Provide an assessment on the internal audit function's conformance to the standards;
- Assess the performance of the internal audit activity in light of its charter, the expectations of the various boards and executive management;
- Identify opportunities and offer ideas and counsel for improving the performance of the internal audit activity, raising the value that internal audit provides to the organisation; and
- Benchmark the activities of the internal audit function against best practice.

11.4.3 In January 2017 Eastern Internal Audit Services was fully assessed by the Institute of Internal Auditors. The conclusion of the review was:

The internal audit team fully meet most of the Standards, as well as the Definition, Core Principles and the Code of Ethics which form the mandatory elements of the Institute of Internal Auditors' International Professional Practices Framework (IPPF), the globally recognised standard for quality in Internal Auditing. This is described as "Generally Conforms". It means that the internal audit team may state in its audit reports that the work "has been performed in accordance with the IPPF"

APPENDIX 2 – INTERNAL AUDIT STRATEGY

EASTERN INTERNAL AUDIT SERVICES
THE BROADS AUTHORITY

INTERNAL AUDIT STRATEGY FOR 2019/20

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 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.

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 Financial Scrutiny and Audit 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 Senior Management 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 Management Team prior to these being brought to the Financial Scrutiny and Audit 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 Senior Management and the Financial Scrutiny and Audit 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 organisations 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 3 – ANNUAL INTENAL AUDIT PLAN 2019/20

Audit Area	No. of days	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Summary / purpose of audit
Annual Opinion audits						
Corporate Governance and Risk Management	5			5		Our annual review of governance and risk management will be carried out to support the Head of Internal Audit Opinion. This audit will provide assurance that the systems in place to control and manage the Broads Authority are operating effectively and that significant risks are being identified and managed. During our review early Q3 we will consider governance arrangements for decision making and the assignment accountability and monitoring of performance. Our review will also provide assurance over the Risk Management framework to give a view as to whether it supports the achievement of strategic priorities.
Key Controls and Assurance Framework	15			15		This audit 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 this audit are; 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.

Audit Area	No. of days	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Summary / purpose of audit
Service Area audits						
Procurement	8		8			The CANAPE and Water Mills and Marshes projects are now in delivery phases and plans are underway to engage external funders in more projects for the future. A procurement audit has been scheduled in late Q2 to support this work by providing assurance that Standing Orders are being followed, that a sufficient contract management framework exists to enable the BA to achieve value for money and monitor project progress effectively.
HLF - External Funding	8				8	The Water, Mills and Marshes project is now in delivery stage. This area was last viewed in 2016/17 when external funding was still at development stage. Our review will provide assurance that the Heritage Lottery Funding is being appropriately and transparently managed and that robust evidence is being retained to support evaluation and audit requirements.
Total number of days	**36**	**0**	**8**	**20**	**8**	

Audits Previously undertaken		
Service area audits		
Partnership Working	2009/10	Limited
Fens Ecological Project	2009/10	Reasonable
Planning	2011/12	Reasonable
Procurement	2013/14	Reasonable
Consultation Activities and partnership provisions	2014/15	Reasonable
Planning	2015/16	Reasonable
External Funding - HLF Bid and National Parks Partnership	2016/17	Reasonable
Port Marine Safety Code*	2017/18	Reasonable
Asset Management	2017/18	Reasonable
Branding	2018/19	Audit Due
IT Audits		
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
Disaster Recovery	2018/19	Reasonable

Future areas for consideration for audit review
Planning - 2020/21
Cyber Security 2020/21

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

Audit and Risk Committee
5 March 2019
Agenda Item No 10

External Audit
Report by Chief Financial Officer

Summary: This report appends:

(i) the Audit Plan for the 2018/19 audit
(ii) the Local Government Audit Committee Briefing by Ernst & Young.

Recommendation:

(i) That the Audit Plan for the 2018/19 audit be noted.

(ii) That the briefing, including the key questions for Audit Committees as set out on page 10, be noted.

1 Introduction

1.1 The Audit Plan for the 2018/19 audit by Ernst & Young is appended to this report (appendix 1). 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 2018/19. It confirms that the proposed audit fee will be £10,736, which represents a deduction of £3,207 when compared to the 2017/18 audit.

1.2 The Audit Partner, Kevin Suter, has been replaced by Mark Hodgson. The Audit Manager, Vicky Chong, will be attending the meeting to introduce the Audit Plan and answer any questions.

2 Identification of Significant Risks

2.1 The Audit Plan takes a risk-based approach to audit planning and identifies significant risks in 2018/19, 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 2017/18.

2.2 Other risks identified are the valuation of land and buildings and the pension liability valuation. These are not new risks and were considered in last year's audit.

2.3 There is one new area of audit focus for 2018/19 which relates to the implementation of new accounting standards IFRS 9 Financial Instruments and IFRS 15 Revenue from contracts. 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 Provision for the audit fee is included in the 2018/19 budget and will be charged in the accounts for the year.

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:

- The government and economic news, in particular regarding the impact of low unemployment and Brexit (page 2 onwards);
- CIPFA Investment Guidance (page 4);
- Public Sector Pension Scheme Valuation (page 5);
- Local Public Audit – Expectations gap (page 5); and
- PSAA: Report on results of 2017/18 audits (page 7).

Background papers:	None
Author:	Emma Krelle
Date of report:	15 February 2019
Broads Plan Objectives:	None
Appendices:	APPENDIX 1 – Ernst & Young Audit Plan 2018/19 APPENDIX 2 – Ernst & Young Local Government Audit Committee Briefing (Quarter 4 2018)

Broads Authority

Audit Plan

Year ended 31 March 2019

6 February 2019

Building a better working world

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

6 February 2019

Dear Audit & Risk Committee Members

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 2018/19 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 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.

This report is intended solely for the information and use of the Audit & Risk 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 the 5 March 2019, as well as understand whether there are other matters which you consider may influence our audit.

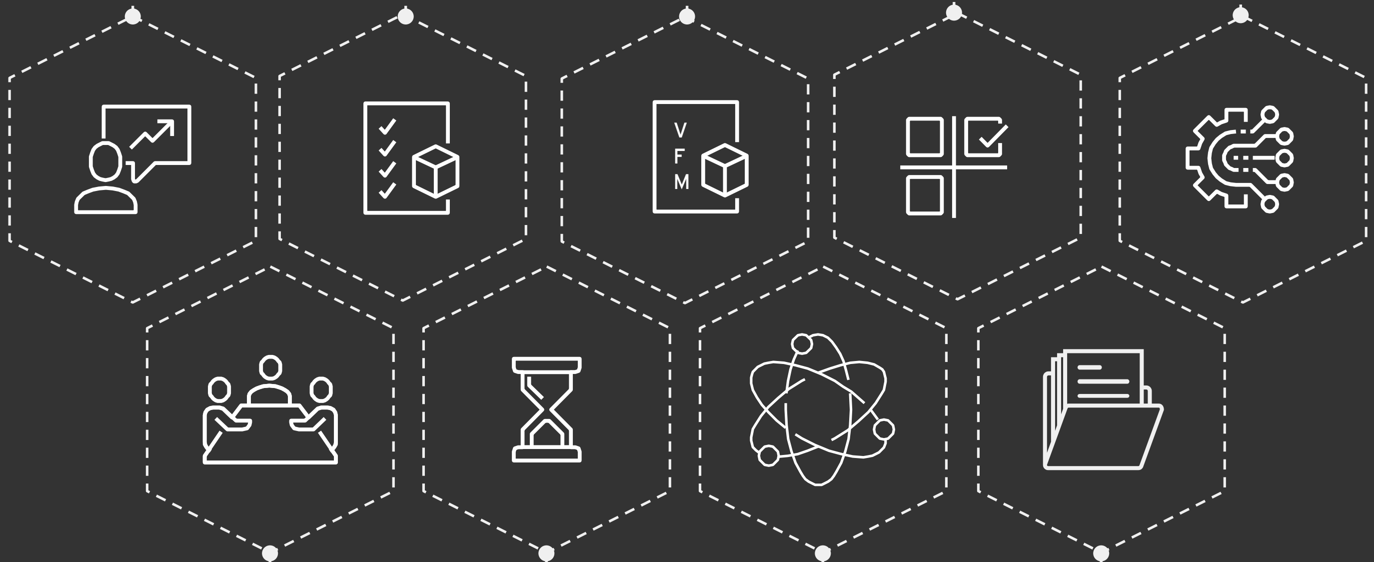
Yours faithfully

Mark Hodgson

Associate Partner

For and on behalf of Ernst & Young LLP

Contents



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from 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 and management of Broads Authority in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit & Risk Committee and management of 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 and management of 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 2018/19 audit strategy

Overview of our 2018/19 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit & Risk 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, 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.
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 Council. The Authority's pension fund liability (£7.571 million as at 31 March 2018) is a material estimate and the Code requires that the liability be disclosed on the Authority's balance sheet.

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 accounting standards	New area of focus	The 2018/19 CIPFA Code of practice on local authority accounting confirms that the Local Government will implement International Financial Reporting Standard ("IFRS") 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers. The Authority needs to assess and evaluate the implications of these new standards on the 2018/19 accounts.

Overview of our 2018/19 audit strategy

Materiality

Planning materiality
£158,300

Materiality has been set at £158,300 which represents 2% of the prior years gross expenditure on provision of services plus financing and investment expenditure

Performance materiality
£118,725

Performance materiality has been set at £118,725, which represents 75% of materiality.

Audit differences
£7,915

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement and cash flow statement) greater than £7,915. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit & Risk Committee.

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 Broads Authority give a true and fair view of the financial position as at 31 March 2019 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.

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.

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 (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 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. 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 2018/19 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 2018 this totalled £7.571million. 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 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

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>New accounting standards</u> The Code requires the Authority to comply with the requirements of two new accounting standards for 2018/19. These standards are: • **IFRS 9 – Financial Instruments** This new accounting standard 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. • **IFRS 15 – Revenue from contracts** 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.	In order to address this risk we will carry out a range of procedures including: ▸ Assess the Authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standards, transitional adjustments and planned accounting for 2018/19; ▸ Consider the classification and valuation of financial instrument assets; ▸ Review new expected credit loss model impairment calculations for assets; ▸ Consider 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 ▸ Check additional disclosure requirements.

03 Value for Money Risks

Background

We are required to consider whether Broads 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 2018/19 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.

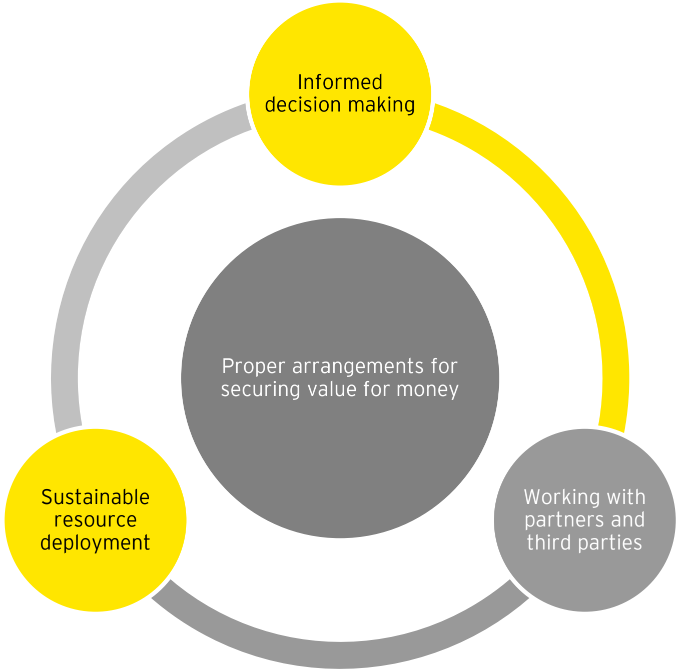
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

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. In 2018/19 this has included consideration of the steps taken by Broads 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 anticipate that Authorities will be carrying out scenario planning and that Brexit and its impact will feature on operational risk registers.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of no significant risk which we view as relevant to our value for money conclusion.



04 Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2018/19 has been set at £158,300. 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.

Expenditure for Materiality purpose
£7.9 million

Planning materiality
£158,300

Performance materiality
£118,725

Audit differences
£7,915

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 £118,725 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).

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 Statement; 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.

For 2018/19 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

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 Audit & Risk Committee.

Internal audit:
As in prior years, we will review internal audit plans and the results of their work. 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.

06 Audit team

Overview of our 2018/19 audit strategy

Audit team changes

Key changes to our team.

Mark Hodgson
Lead Audit Partner

Vicky Chong
Audit Manager

Will Turner
Lead Senior

Working together with the Authority

We are working together with officers to identify continuing improvements in communication and processes for the 2018/19 audit.

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

Audit team

The engagement team is led by Mark Hodgson, who has replaced Kevin Suter to be the Lead Audit Partner. Mark has significant experience on local government audits and leads our Government & Public Sector practice across East Anglia. Mark is supported by Vicky Chong who took over the role of Audit Manager from Sappho Powell. She is responsible for the day-to-day direction of audit work and is the key point of contact for the Chief Financial Officer. The day-to-day audit team will be led by Will Turner who took over from Bach Pham as the Lead Senior of the audit. Will is a fully qualified senior who has a number of years experience in Government and Public Sector audits.

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	Concertus (the Authority's property valuer), EY Real Estate team (if required)
Pensions disclosure	EY Actuaries, PwC (Consulting Actuary to PSAA) and Hymans Robertson (the Authority's actuary)

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.

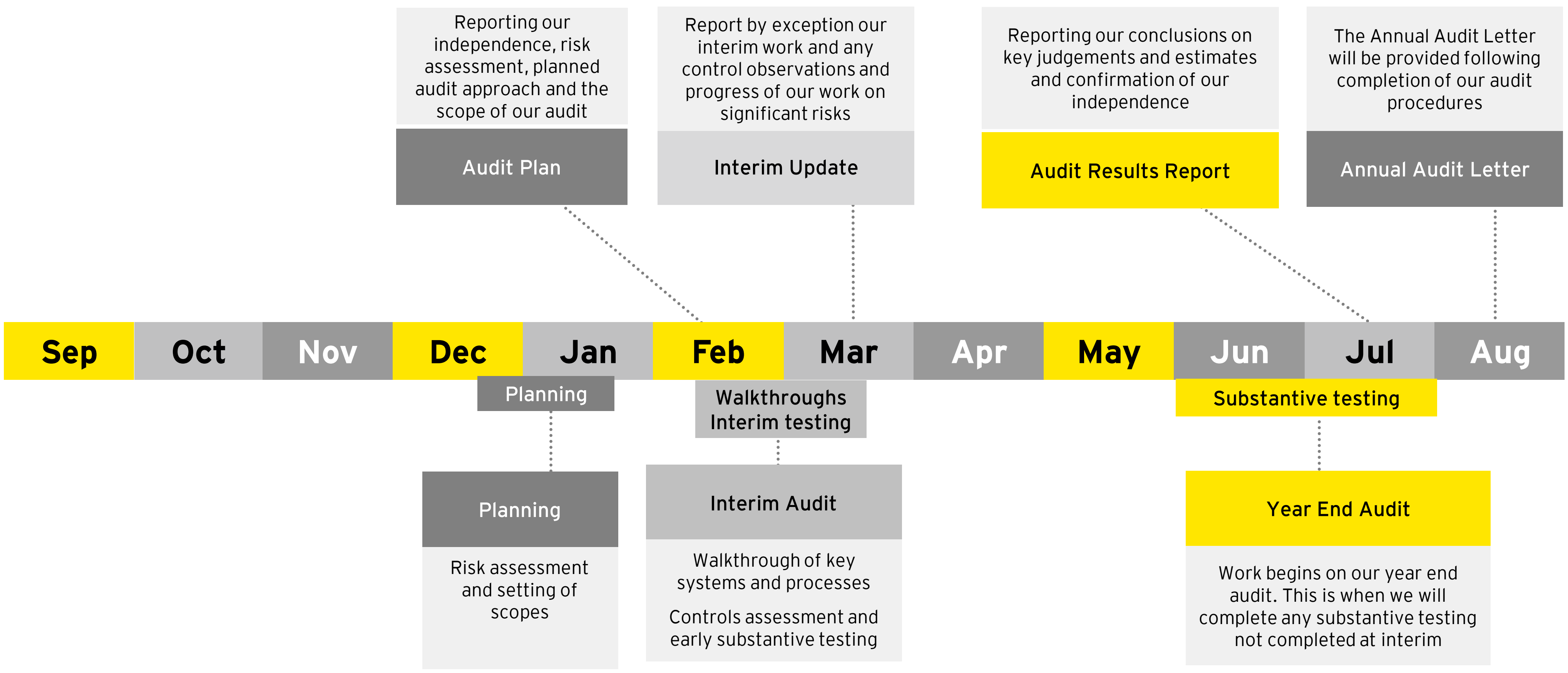
07 Audit timeline

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 2018/19.

From time to time matters may arise that require immediate communication with the Audit & Risk Committee and we will discuss them with the Audit & Risk 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 [note: additional wording should be included in the communication reflecting the client specific situation]	▸ 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%.

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.

Other communications

EY Transparency Report 2017
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 ended 1 July 2018 and can be found here: https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018

09 Appendices

Fees

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

PSAA has published a scale fee for all relevant bodies. 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 NAO Code.

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

All fees exclude VAT

The agreed fee presented is based on the following assumptions:

- The level of risk in relation to the financial statements and VFM arrangements remains the same;
- 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.

Appendix B

Required communications with the Audit & Risk Committee

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

Our Reporting to you

Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Audit & Risk 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 - February 2019
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 2019
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 2019

Appendix B

Required communications with the Audit & Risk Committee

Required communications	What is reported?	Our Reporting to you: When and where
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 2019
Fraud	▸ Enquiries of the Audit & Risk 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 2019
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 2019
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 Plan – February 2019; and Audit Results Report – July 2019

Appendix B

Required communications with the Audit & Risk Committee

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
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 2019
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 into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit & Risk Committee may be aware of	Audit Results Report - July 2019
Internal controls	▸ Significant deficiencies in internal controls identified during the audit	Audit Results Report - July 2019
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report - July 2019
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report - July 2019
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 2019
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 Plan - February 2019 Audit Results Report - July 2019

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 reporting appropriately addresses matters communicated by us to the Risk & Audit 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 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.

EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.
EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

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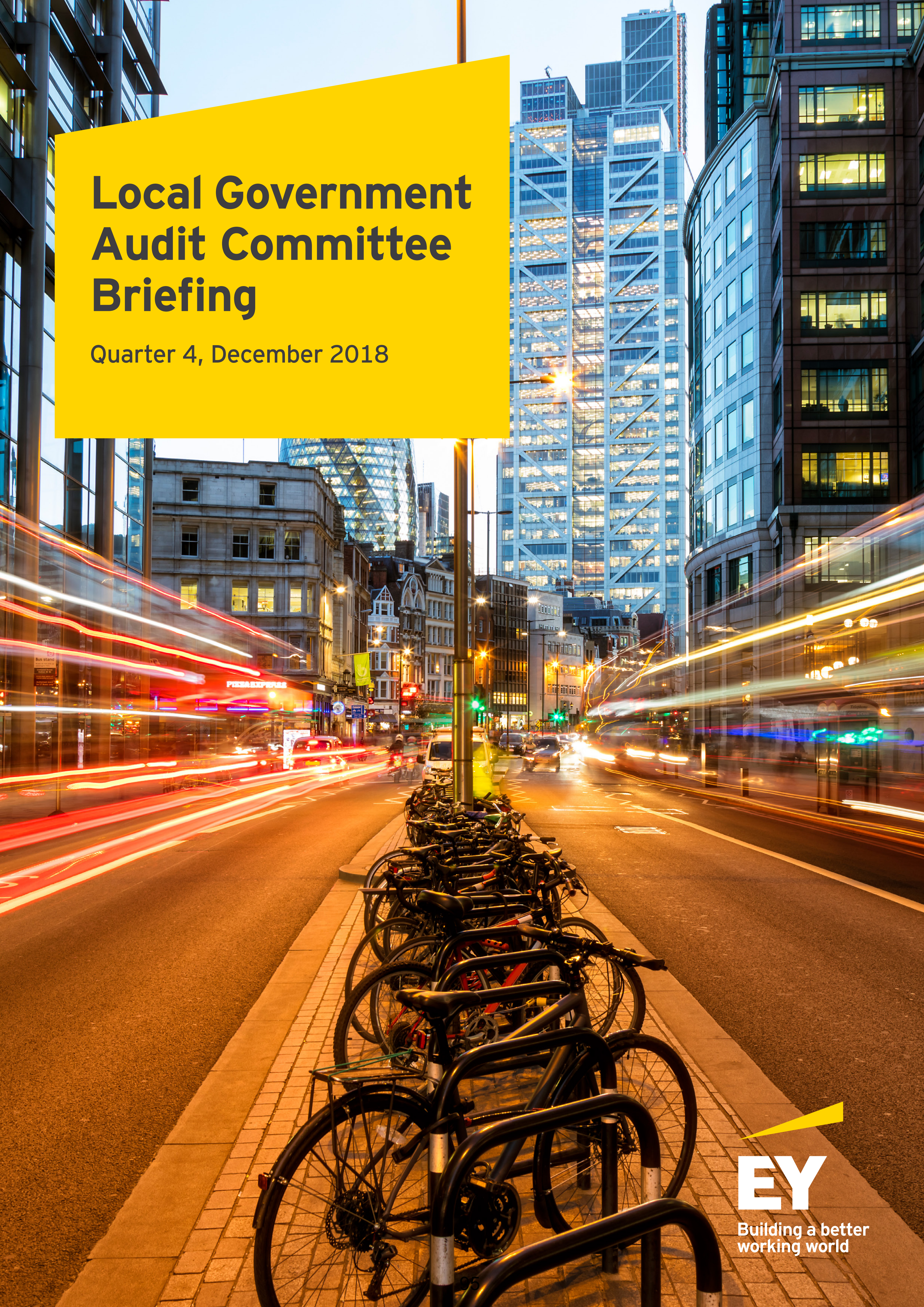


Local Government Audit Committee Briefing

Quarter 4, December 2018

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, the Local Government sector, and the audits that we undertake.

The briefings are produced by our public sector audit specialists within EY's 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 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

The latest EY ITEM Club forecast casts a cloudier outlook for the UK economy which will have implications for Local Authorities. This partly reflects increased uncertainties about Brexit, due to the elevated risk of the UK leaving the EU without a deal. It also reflects a more challenging global outlook, and continued pressures on consumer purchasing power.

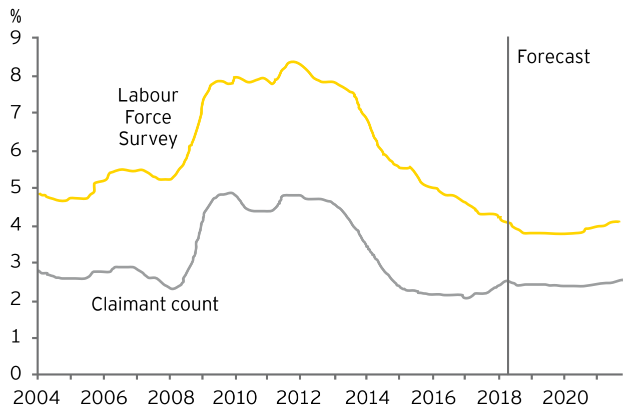
The forecast has slightly downgraded the UK's economic prospects for 2018 and 2019, with GDP growth for 2018 trimmed from 1.4% to 1.3% – the slowest rate of expansion since 2009. While performance improved in Q2 and Q3, the outlook has since become less certain.

One positive note for UK economy is the robust growth in labour demand. The unemployment rate remained at 4.0% for the three months to July, the lowest level since February 1975. Over the same period, the number of vacancies in the UK rose to 833,000, highlighting the tightness in the labour market.

As shown in Figure 1, it appears that the spare capacity in the labour market created during the crisis has been largely absorbed. The Bank of England's (BoE) recent report about the labour market suggests that very limited slack remains – a BoE's regional Agents survey found that 40% of companies are finding it harder to recruit and retain staff compared to last year.

Figure 1

UK: Unemployment rate



Source: EY ITEM Club

The recruitment challenges facing employers are well known by local authorities. An expanding and ageing population will only add to the demand pressures, while the supply of workers may be at risk due to the impact of Brexit on migration of EEA workers.

Theory suggests that, with unemployment falling and vacancies rising, there is little scope for further labour market tightening without generating excess wage pressures. However, earnings growth has remained subdued in recent periods, and indeed relapsed in Q2 2018. Some firms appear keen to limit their costs in an uncertain environment, while fragile consumer confidence is likely deterring workers from pushing hard for pay rises.

These consumer pressures are manifesting in many areas of the economy, and notably in the housing market. Caution over engaging in major transactions has seen mortgage approvals at approximately 18.1% below their long-term (1993–2018) average. Given the earnings squeeze, and the faltering demand for private housing, the important role of social housing is likely to persist. There were 1.2 million households on a waiting list for social housing in England on 1 April 2017, exhibiting the significant excess demand. As a result, the announcement by the Government to scrap the HRA borrowing cap is welcome, and should go some way to meeting demand in the market.

As Brexit beckons, what is the impact that local authorities can expect across the UK?

With increasing focus on a potential extension to the Brexit transitionary period and the likelihood of a 'no-deal' scenario failing to diminish, local authorities are beginning to prepare for an array of potential impacts from the UK's departure from the EU. We look below at some of the key focus areas for local government in assessing the impact of Brexit.

The impact on social care provision:

The social care workforce is particularly susceptible to the impact of Brexit. Since the referendum in 2016, there has already been a decrease in the number of EU nationals taking jobs in the UK social care sector, and this is likely to be squeezed further with the end of freedom of movement. This has the potential to lead to labour cost inflation, increasing the financial pressure facing local authorities.

The effects described above will be exacerbated further due to challenges in the healthcare system. The NHS is similarly likely to suffer to workforce challenges and hence, funding challenges. This has the potential to increase the pressure on hospitals to discharge early, increasing the burden on the social care system's capacity. The government's winter crisis cash pledge to the system, is unlikely to mitigate such challenges.

The impact on supply chains and logistics:

Some coastal local authorities may face years of road traffic issues if border checks are applied following Brexit; authorities in the South East likely to be most significantly affected, due to the potential of border checks being applied at Dover.

Furthermore, investigations have been made by authorities such as Pembrokeshire Council into the ready availability of food and medicine in the event of road blockages and closures. Additionally, local authorities are struggling to make plans around international trade, as they await information on charges and how long waiting times at ports are likely to be. This is particularly important in the case of livestock and fresh foods being transported.

Changes to customs unions and physical borders may reduce the availability and increase the price of key goods required by local authorities, including adult social care supplies.

Consumer demand:

Brexit will impact the wider economy, and hence local authorities will need to be attuned to the impact on their local economies.

Brexit uncertainty is already beginning to influence the high street and local authorities need to consider the prospect of increasing voids. Furthermore, local economies that are heavily dependent on certain sectors that are vulnerable to the impact of Brexit, such as financial services and agriculture, may bear a greater brunt of the economic shock that Brexit may cause.

Local authorities may also be impacted more directly, especially those authorities that have embarked enthusiastically on commercial property investments, thereby creating direct exposure to certain sectors, especially the retail sector. In respect of this, CIPFA have issued a warning to councils outlining concerns over their commercial activity, suggesting that some have been guilty of putting public funds at 'unnecessary or unquantified risk'. Councils need to evaluate the proposed impact that they were hoping such investments may have on their financial position, along with other trading activity, in light of the potential economic impact of Brexit.

Impact on property and agricultural land prices.

Predictions that property prices in general are likely to fall following Brexit are well documented. Bank of England Governor Mark Carney has stated that UK house prices may fall by up to a third in the event of a 'no-deal' Brexit.

A reduction in property prices may not be perceived to be a bad outcome for all. Furthermore, the government's HRA borrowing cap announcement has the potential to allow councils to increase the supply of housing, further supporting a challenged housing market. However, such a reduction in property values is likely to create a shock that may create financial hardship for many as well as impacting the performance of certain sectors.

Budget 2018

On 29 October 2018 the Chancellor delivered the 2018 Autumn Budget to Parliament. Among the headline policy announcements, such as a new 2% tax on revenue for large digital companies, changes to the income tax threshold bands, and increase in funding to help departments prepare for Brexit, there were a number of announcements that will have a direct impact on local authorities. These key announcements include:

- Immediate abolition of the Housing Revenue Account (HRA) cap which restricts local authority borrowing for house building.
- £675mn Investment in the Future High Street Fund created to support local areas prepare long term strategies for their high streets and town centres, including investment in physical infrastructure. As part of this announcement, small retail businesses will see a 33% decrease in business rates and public lavatories will receive 100% business rate relief after April 2019.
- Increased staff costs for local authorities; as the national living wage is set to increase by 5% from £7.83 to £8.21 an hour.
- Allocation of additional £420mn to local authorities in 2018/19 to tackle potholes and repair damaged roads.
- Local authorities in England will receive a further £650mn in social care funding.

CIPFA's response to the budget was that while the additional short term support for the provision of services is welcomed, there are greater long term challenges that need to be addressed to embed sustainable funding. The July 2018 OBR's (OBR) projection, upon which the budget was based, forecasts that within 50 years the UK will not be able to afford anything more than debt interest, health, social care and pension payments. CIPFA is clear that there is not sufficient funding to sustain expectations of public services at the current levels of taxation.

The Local Government Association (LGA) analysis has estimated that local services face a funding gap of £7.8bn by 2024/25; the funding gap as of 2019/20 is estimated to be £3.9bn. The services where there are the greatest funding pressures include social care, homelessness and public health. However, the growing demand for these services has detrimentally impacted on other services that help maintain local communities including libraries, roads and welfare support.

An unexpected announcement made by Government during the budget was that it will no longer use Private Finance Initiative (PFI) schemes, or its successor PF2, because PFI schemes have been identified by the Office for Budget Responsibility (OBR) as a source of significant fiscal risk to the Government. It is unclear if this decision by central Government will impact on local authorities in future years.

CIPFA Investment Guidance

The media spotlight and public scrutiny surrounding local government finances has increased significantly over the past year due to increased pressures to deliver services from reduced funding. To help authorities better manage their finances CIPFA is updating its guidance on Treasury Management. The new key principle of guidance will be that 'Local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed'.

During 2017/18 the rate at which English councils acquired land and buildings increased by 43% to a total of £4bn; whereas total borrowing increased from £4bn to £10bn (127 %). As such there is a growing concern that too many local authorities are investing heavily in commercial property at a rate that is disproportionate to their available resources. This exposes public funds to unquantified risks. This stands against the primary objective of a local authority's treasury management strategy to safeguard public money.

Accounting, auditing and governance

IFRS 9: Statutory Override update

The 2018/19 financial year will be the first year where the accounting standard IFRS 9 will be implemented by local government. IFRS 9 impacts on an authority's financial assets: the investments it holds; the amounts it has lent to others; and other monetary based assets it may have. It changes how these financial assets are classified and how movements in their value are accounted for. It also changes how these assets are impaired; based on the risk that the assets may not be recovered in full, or at all.

Following a consultation by the Ministry for Housing Communities and Local Government on the impact of IFRS 9, an initial statutory override has been granted for five years, despite 90% stakeholders opposing a time-limited period. This statutory override means that councils will still be required to account for fair value movements in financial instruments (in accordance with proper practices as set out in the code on local authority accounting); however these movements will not be charged to the revenue account.

The result of which is that statutory override will remove the potential burden that council tax payers or local authorities may have faced if fair value movements were unfavourable.

Public Sector Pension Scheme Valuation

The Government undertakes a valuation of public service pension schemes every four years, this year sees the first full assessment of these since the introduction of reformed schemes in 2015.

The Chief Secretary to the Treasury has stated that early indications would suggest that employers' contribution will need to increase as a result of a proposed decrease in the discount rate. The discount rate, known as the SCAPE rate, is based on the OBR projection of the short-term pay growth in terms of GDP. OBR has reduced this rate from 3.0% to 2.8% in 2016 and a further reduction has been proposed as of April 2019 to 2.4%. This discount rate is used to calculate the current costs of future payments and as the discount rate decreases, the pension liability increases. Given that employee rates are effectively fixed under scheme regulations, employer contributions will need to increase to meet the increased liability. Further details are to be announced later in the year in addition to further discussion taken forward as part of the spending review.

Local Public Audit — Expectations gap

For the public to gain trust and confidence in public spending, a framework of accountability, transparency, governance and ethics needs to be built. The ultimate responsibility lies with the government departments that delegate spending to local public bodies. These public bodies must then be able to demonstrate that the money has been spent efficiently and effectively.

One way the public can gain trust in public spending, is by relying on the external audit process to provide assurance on the financial statements and report by exception on the arrangements the public body has in place to secure economy, efficiency and effectiveness. However, the role of audit, is often misunderstood creating the audit expectation gap which is the difference between what an auditor actually does, as required by legislation and auditing standards, and what stakeholders think that the auditors' obligations might be and what they might do.

The Institute of Chartered Accountants in England and Wales (ICAEW) produced a report to raise awareness on the expectation gap and suggest some possible solutions. The report also discusses how issues faced by local public bodies such as financial difficulties, increasing demand from an ageing population, complex structures and weaknesses of accountability impacts the audit process and widens the expectation gap.

Some common concerns were noted in the report by interviews with Chief Financial Officers in different sectors and regulatory bodies:

1. Local authorities and health bodies are facing a difficult time with increasing pressure to deliver more services, become innovative and commercial with reduced financial support. This pressure could bring in concerns about behaviours that may not be in the best long-term interests of the public.
2. Reports produced by auditors are not being fully utilised by management and audit committees to build on successes and make improvements within the body where recommendations have been made.
3. Auditors are concerned that qualifications and issues identified in their opinions are not taken seriously enough by those charged with governance.
4. The reduction in audit fees has led to a perception by local bodies that they are receiving reduced scope of work compared to the previous regime (Audit Commission). The concerns are not in relation to compliance with auditing standards, but rather the lack of value added activities that was previously provided.
5. Chief Financial Officers expect more challenge and review of their forward-looking plans which underpin the financial resilience of the authority.
6. Other stakeholders are not getting sufficient assurance over the effectiveness of service delivery and performance in auditors' work.
7. Increased regulation and scrutiny against the reduced number of auditor firms in the local government market.
8. Local public auditors' power being limited by the removal of indemnity insurance and increased difficulty to recover costs.

The ICAEW has offered a number of potential solutions in the report to close this expectation gap including:

1. Chief Financial Officers could consider involving external support to assist them in their financial resilience work, such as challenging their budget assumptions and other key decision making factors, instead of relying on external auditors to provide other value added activities, as these may have some independence restrictions.
2. More broadly, consideration could be given to widen the scope of the audit to include for example a greater future-looking focus.

Regulation news

PSAA: Report on results of 2017/18 audits

PSAA (Public Sector Accounts Appointments) has reported its annual summary on the timeliness and quality of financial reporting in relation to audits for the 2017/18 financial year. A total of 431 (87 %) local government and fire authorities published their audited accounts by the deadline of 3 July 2018. 2017/18 was the first year that the accounts and audit deadline was brought forward from the 30 September to the 31 July. PSAA's Chief Officer stated that whilst these results were encouraging and reflect considerable efforts of both local government finance staff and auditors, there is still more work to be done in order for 100% of authorities to meet the new deadline.

The number of qualified 'Value for Money' conclusions is currently at 7% (compared to 8% for 2016/17); however there 30 conclusions still to be issued for 2017/18. The most common reasons for issuing a qualified Value for Money conclusion were corporate governance issues, financial stability concerns and contract management issues.

Other

EY 2018 Transparency Report

Our profession has come under scrutiny from policymakers and other stakeholders over the year, and the need for transparency has never been greater. Increasingly, the public is expecting more and more from the audit than its current remit requires. This difference is known as the ‘audit expectation gap’ which has been discussed above. We believe the time is right for all concerned in the corporate control ecosystem to seize the moment and consider deeply what society expects from businesses and the assurance it needs over their activity.

It’s in our interests and the public’s for EY UK to be as open and transparent as possible. The Transparency Report goes some way towards helping us achieve this, while also providing an opportunity to share a more balanced perspective on what we do and how we perform as a business. For example, it refers to our role in building trust and confidence in the capital markets and wider economies, by maintaining and developing positive relationships with our stakeholders. It explains what we do to make a difference to people’s lives by helping to improve social mobility in the UK. It also shows how our people are supported in their role as auditors by making reference to our tools, technologies and training programmes. Details on internal and external surveys and inspections are included as well, to show how we are performing against our own expectations and – most importantly – those of our regulators.

We refer to this report in our audit planning reports to audit committees, and we summarise the key headlines below.

2018 Highlights

Audit quality

External review

82%

82% of EY's FTSE 350 audits and 67% of all inspected audits required no more than limited improvements

(FY17: 92% and 88% respectively)

as at 29 October 2018

No FRC fines for audit work completed in the last five years and no sanctions against EY UK partners in respect of that period

Internal review

108 engagements reviewed in FY18, covering

47% of our **Responsible Individuals**, of which 81% had no improvements or minor improvements only

Delivery

Of our people in Audit

96%

96% consider delivering quality audits a priority

and

97% understand their role as an auditor in providing independent assurance, supporting strong capital markets and protecting the public interest

97%

The result of the FRC's most recent review of out audits showed that 82% of our FTSE 350 audits were graded as requiring no more than limited improvement, against a 90% target. Overall 67% of all EY UK's audits inspected were graded as requiring no more than limited improvements. We are proud of the progress we have made in the UK since the launch of UK Sustainable Audit Quality (SAQ) programme a few years ago. But there is still more work to be done to consider audit quality from the viewpoint of key stakeholders: investors, audit committees, companies, regulators and our people. The work we have done to model the behaviours of our highest performing teams, using cognitive psychologists, will continue. In the year ahead we will prioritise the extent and consistency of the model's adoption. We aim to transform the behaviours that feature in the model into business-as-usual activity across all of our audit teams.

As organisations become more complex, so do audits, making access to different skills and capabilities more important than ever. The traditional audit has already been transformed by the use of technology and digital platforms, and the pace of change will only accelerate. These new capabilities enable us to search, sift and sort through large quantities of data, allowing us to identify potential areas of risk and understand an organisation's performance at a more granular level. The audit process is becoming more forward looking, with a focus on anticipating future risks. Our new capabilities are also providing insights into areas that were once thought to be impossible to measure, such as culture.

This unprecedented scrutiny and demand for change, can be seen as an incredible opportunity to focus our efforts on addressing the root cause, deliver sustainable high quality audit and gain the trust and confidence in the capital markets society needs and demands.

Key questions for the Audit Committee

2018 Budget

How has the 2018 Budget impacted the local authority's financial plans for the current year and the year ahead?

CIPFA Investment Guidance

How much is your authority dependent on commercial investment income to fund services?

What governance structures are in place to ensure that the authority's borrowing is proportionate to its need and level of resources?

IFRS 9: Statutory Override

Have you considered the impact of the new IFRS 9 accounting standard? How will you plan for the possibility that the statutory override will end in five years' time?

Public Sector Pension Scheme Valuation

Have you taken into account the impact of the most recent review of the public sector pension scheme on your budgets and medium term financial position?

Local Public Audit – Expectations gap

How far do you recognise the issues of the ICAEW report on the expectations gap in local public audit? What is your perspective on the value that external audit provides?

PSAA: Report on results of 2017/18 audits

What lessons have you learnt from the earlier accounts and audit deadlines in 2017/18? Are you confident that these lessons will be applied for the 2018/19 accounts and audit process?

Find out more

EY Club Item

https://www.ey.com/uk/en/issues/business-environment/financial-markets-and-economy/item---forecast-headlines-and-projections

2018 Budget

https://www.gov.uk/government/news/budget-2018-24-things-you-need-to-know

https://www.local.gov.uk/about/news/lga-responds-budget-2018

https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cipfa-responds-to-budget-2018

https://www.local.gov.uk/sites/default/files/documents/Moving%20the%20conversation%20on%20-%20LGA%20Autumn%20Budget%20Submission%202018.pdf

CIPFA Investment Guidance

https://www.publicfinance.co.uk/news/2018/10/cipfa-investment-guidance-will-help-councils-steer-through-challenges

Local Public Audit – Expectations gap

https://www.icaew.com/about-icaew/regulation-and-the-public-interest/policy/public-sector-finances/local-public-audit-expectations-gap

https://www.icaew.com/-/media/corporate/files/about-icaew/policy/local-public-audit-expectation-gap.ashx?la=en

IFRS 9: Statutory Override

https://www.publicfinance.co.uk/news/2018/11/ifrs-9-override-last-five-years

Public Sector Pension Scheme Valuation

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/738917/Technical_Bulletin_Public_Service_Pension_Schemes_Valuations.pdf

https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2018-09-06/HCWS945/

PSAA: Report on results of 2017/18 audits

https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/

EY Transparency Report 2018

https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018

https://www.ey.com/Publication/vwLUAssets/ey-uk-2018-transparency-report/$File/ey-uk-2018-transparency-report.pdf

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ED None

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Audit and Risk Committee
5 March 2019
Agenda Item No 11

Implementation of Internal Audit Recommendations: Summary of Progress

Report by Chief Financial Officer

Summary:	This report updates members on progress in implementing Internal Audit recommendations arising out of audits carried out during 2017/18 and 2018/19.
Recommendation:	That the report be noted.

1 Introduction

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

1.2 This report summarises the current position regarding recommendations arising out of internal audit reports which have been produced for 2017/18 and 2018/19. It sets out in the appendix details of:

- 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 December the outstanding recommendations relating to the 2017/18 audits (Asset Management and the Port Marine Safety Code) remain unresolved. Updated commentary on the outstanding recommendations is provided in Appendix 1.

3 Internal Audit Programme 2018/19

3.1 The first three audits from the 2018/19 programme have now been completed, with further details below. The fourth audit on Branding is due to start 28 February with its results reported to the next committee in July 2019.

3.2 Key Controls

3.2.1 The objective of this audit was to look 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 formal recommendations being raised.

3.2.2 Good practice was noted relating to sound controls that are in place and operating consistently:

- Investments tested were documented and authorised.
- Loans and investments are reconciled to the general ledger and bank statements.
- Journals are raised sequentially and approved independently.
- The general ledger suspense account is reviewed on a monthly basis and any long outstanding items are cleared.
- All capital additions and disposals reviewed were authorised in accordance with procedures.
- A quarterly report of expenditure is downloaded from the ledger and reviewed for items to be capitalised.
- The asset register is reconciled to the ledger once a year and access to the register is restricted to appropriate staff.
- Budget monitoring reports are shared with budget holders on a monthly basis, from the end of the first quarter, which highlights any variances above £5,000. These are accompanied by an email from the Financial Accountant requesting an explanation of variances and changes to forecast outturn (year-end positions); commentary to explain significant variances (+/- £5,000) within their budgets and; requests for budget virements (budget transfers).
- Budgetary information, both capital and revenue is reconciled to the general ledger on a monthly basis.
- Invoices are independently checked prior to posting to the ledger.
- All invoice payments require two stage authorisation, thereby ensuring that only accurate and approved payments are processed.
- BACs runs had been signed and dated, prior to the payment run, by an appropriate officer.
- Starters, leavers and amendments to the payroll are checked to ensure that they have been actioned correctly by the payroll provider, thus ensuring the Authority's payroll is accurately maintained.
- There is a clear audit trail of actions taken to recover unpaid tolls, ensuring that debt recovery follows a prescribed and effective process and with all monies due to the Authority being pursued / received.
- Toll payments can be checked on the Tolls Management System by Rangers in the field, reducing the Authority's costs for printing plaques.

3.3 Corporate Governance and Risk Management

3.3.1 The objective of the audit was to review the adequacy, effectiveness and efficiency of the systems and controls in place over Corporate Governance and Risk Management. This resulted in a "reasonable" audit opinion with two "important" and five "needs attention" recommendations. These recommendations can be found in Appendix 1.

3.3.2 Good practice was noted relating to sound controls that are in place and operating consistently:

Risk Management

- The Strategic Risk Register (SRR) is kept up to date through six monthly reviews by the Monitoring Officer and Management Forum. It is then reported to the Audit and Risk Committee (ARC) thereby assisting the Broads Authority to meet the requirements of its Code of Corporate Governance, specifically in managing risks and performance.
- Partnership related risks are assessed on an ongoing basis and are included on the SRR. An annual report on partnership arrangements is reported to the Full Broads Authority. This report provides details of the Strategic Partnerships which are currently registered with the Broads Authority and highlights which actions are required to address weaknesses and in so doing, the Broads Authority manages risks in this area.

GDPR

- Recommendations from the previous GDPR audit (BA1804) have been verified as complete and are confirmed as still in operation. A GDPR risk is included on the SRR and controls recorded as in place to mitigate this risk comprise of a GDPR action/compliance plan and a GDPR working group.

3.3.3 One “needs attention” recommendation has been completed. The remaining six recommendations remain outstanding but on target.

3.4 Disaster Recovery

3.4.1 Disaster Recovery (DR) was an area that had not previously been audited at Broads Authority. As the systems that support the Authority's DR processes have been moved to the Dockyard at Griffin Lane, Norwich. The facility itself has been renovated and extended to support this work. As a result of this the DR plan has been updated. This objective of the audit was to help provide assurance that the appropriate controls are in place. This resulted in a “reasonable” audit opinion with one “important” and four “needs attention” recommendations. These recommendations can be found in Appendix 1.

3.4.2 Good practice was noted relating to sound controls that are in place and operating consistently:

- There is a documented Disaster Recovery (DR) plan document that has recently been reviewed to take account of recent improvements made to the DR facilities. It is also shared amongst relevant IT staff. Periodic review and communication of relevant plans reduces the risk that the plans are not fit for purpose and not shared as appropriate.
- Responsibility for DR is shared between the Head of IT & collector of Tolls and the Senior ICT Support Officer with assistance as required from other IT staff. The shared responsibility reduces the risk of relevant plans and operational procedures not being fit for purpose.
- The DR plan includes appropriate invocation and escalation procedures in support of similar processes and procedures within the Business Continuity

Plan. These reduce the risk of a lack of a coordinated response to DR incidents.

- The audit noted a lack of historic DR testing, although this is being addressed through the documentation of a proposed DR test plan within the DR plan document that has undergone recent review. The process has already started with a small test recovery of a server at the Dockyard as part of the recent DR facility improvement work. The creation of DR test plans will help to demonstrate the viability of the DR infrastructure and related processes.
- The audit noted the ability to divert telephone calls from Yare House to the Dockyard office, which helps to ensure continuity of customer service during an incident.
- The audit noted the presence of external CCTV coverage, which is recorded and retained for 10 weeks. CCTV coverage helps to detect unauthorised access to the Dockyard site.
- The entrance to the Dockyard DR facility did not have a lock fitted, although it was also noted that there is ongoing work to resolve this to help ensure the physical security of the facility.
- The lack of Uninterruptible Power Supply (UPS) at the DR facility is being addressed. This will help to ensure the controlled shutdown of the DR infrastructure following a power outage. UPS facilities provide a temporary battery backup that provides a ‘window of opportunity’ to power down all relevant equipment in a controlled manner prior to power being restored.

3.4.3 All of the recommendations remain outstanding but on target.

Background papers:	None
Author:	Emma Krelle
Date of report:	18 February 2019
Broads Plan Objectives:	None
Appendices:	APPENDIX 1 – Summary of Actions / Responses to Internal Audit Recommendations 2017/18 and 2018/19

Summary of Actions / Responses to Internal Audit Recommendations 2017/18

Asset Management: August 2017

	Recommendations	Priority Rating	Responsible Officer(s)	BA Response/Action	Timetable
3.	**Leases** The Authority agrees timescales for completing lease agreements with key stakeholders to reduce delays. Agreeing a timescale with all parties involved will help to ensure that key tasks are completed in a timely manner. If there is no agreed timescale, it is more difficult for the Authority to conclude lease agreements in advance.	Needs Attention	Solicitor & Monitoring Officer	Delayed responses from our current legal provider have been identified. This will be addressed when we go out to tender for Legal Services. The tender is due to go out by the end of September with the new contract to start 1 April 2018. New/extension leases are planned 12 months prior to expiry date. Control over the lessee legal services are difficult to influence due to the size and type of their organisations. Update: Following the previous delays with the procurement process and the Solicitor & Monitoring Officer moving to one day a week, legal services within the Authority needs to be re-scoped and this will include property issues. It is still the	Originally agreed by 01/04/18 Updated to 17/05/19

Summary of Actions / Responses to Internal Audit Recommendations 2017/18

Recommendations	Priority Rating	Responsible Officer(s)	BA Response/Action	Timetable
			preferred option at this stage is to move to a standing list of property legal providers. This did not make the previous Authority meeting in February. It will still need to be agreed by the next Full Authority meeting in May.	

Port Marine Safety Code: September 2017

	Recommendations	Priority Rating	Responsible Officer(s)	BA Response/Action	Timetable
1.	**Governance** To arrange for a peer review to be undertaken of the Broads Authority's Safety Management System (SMS) by the Canal and River Trust, or another suitable organisation, as a reciprocal arrangement in between external audit visits in addition to the 3 yearly external audit. The PMSC Guide to Good Practice advocates that the DP is independent of the SMS process and external / peer reviews would assist in	Important	Head of Safety Management	Agreed. The Authority has considered the issue of independence of the external auditors and the appointed designated person. The Authority is assured that the recent change in external audit providers adequately provides the assurance that the process is independent and complies with the requirements of the Port Marine Safety Code.	By 31/01/19 Updated to 30/06/19

Summary of Actions / Responses to Internal Audit Recommendations 2017/18

	Recommendations	Priority Rating	Responsible Officer(s)	BA Response/Action	Timetable
	mitigating the risks associated with this. This will also assist in assessing the performance of the SMS through benchmarking against other similar organisations.			However the recommendation of using a peer review or a MCA health check will give further assurance of independence. The Authority will commence talks with possible providers, by September 2018, regarding this proposal with the aim of scheduling an interim peer review or Health check in 2019. Update: Initial contact made with both the MCA and an external independent consultant who offer PMSC health checks. Health check scheduled for mid 2019.	
7.	**Governance** Briefings given to the Navigation Committee and BSMG on the risk assessment process, hazard identification and assessment and the ALARP principle are documented and recorded in the minutes. Briefing packs in relation to the risk assessment process, hazard	Needs Attention	Solicitor and Monitoring Officer, Head of Safety Management	Agreed. All members of Boat safety management group, the stakeholder hazard review group, the navigation committee and the Broads Authority receive training on risk assessment and ALARP principles before dealing with the risk	By 28/02/19

Summary of Actions / Responses to Internal Audit Recommendations 2017/18

Recommendations	Priority Rating	Responsible Officer(s)	BA Response/Action	Timetable
identification and assessment and the ALARP principle (which are provided to the stakeholder group involved in the review of hazards) should also be made available to all new appointees to the Navigation Committee and the BSMG. Consideration is also given to providing these to all members of the Navigation Committee and the BSMG. A record of all training provides confirmation that it has taken place and reduces the risk that misinformed decisions are made resulting in inadequate port marine safety.			assessments process. This formal training will be recorded in the minutes of each of the groups/ committees at the next opportunity when hazards are reviewed/ assessed scheduled for Feb 2019 Any new members to the group will be trained in this regard prior to any risk review or assessment as part of the regular refresher training being delivered each time the risk review process is entered into. Update: Briefing pack now in preparation for the forthcoming hazard review in February 2019	

Summary of Actions / Responses to Internal Audit Recommendations 2018/19

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	Important	Solicitor & Monitoring Officer	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 Audit and Risk for review prior to Broads Authority approval	By 26/07/19

Summary of Actions / Responses to Internal Audit Recommendations 2018/19

	Recommendations	Priority Rating	Responsible Officer(s)	BA Response/Action	Timetable
	processes are being used leading to incorrect decision making and lack of corporate governance.				
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	Important	Solicitor & Monitoring Officer	Review to be undertaken with Management Forum to distinguish between operational & strategic risk and how they link with the Strategic priorities in conjunction with the risk policy above.	By 10/06/19

Summary of Actions / Responses to Internal Audit Recommendations 2018/19

	Recommendations	Priority Rating	Responsible Officer(s)	BA Response/Action	Timetable
	prioritisation of mitigation actions.				
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 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.	Needs Attention	Solicitor & Monitoring Officer	Following committee approval of the revised policy and register the intranet page will be refreshed and communicated to all staff.	By 16/08/19
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	Needs Attention	Solicitor & Monitoring Officer	Agreed and partially completed. Template has been updated and is available on the intranet and the guidance will be completed by July 2019.	By 31/07/19

Summary of Actions / Responses to Internal Audit Recommendations 2018/19

	Recommendations	Priority Rating	Responsible Officer(s)	BA Response/Action	Timetable
	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 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	Needs Attention	Solicitor & Monitoring Officer	Agreed. Audit & Risk report to provide explanation of movements at next review.	By 23/07/19

Summary of Actions / Responses to Internal Audit Recommendations 2018/19

	Recommendations	Priority Rating	Responsible Officer(s)	BA Response/Action	Timetable
	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.				
6.	**Risk Management** 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. Defining the scoring categories helps assess risks more accurately and reduces the risk that that risks are not	Needs Attention	Solicitor & Monitoring Officer	Agreed. Scoring criteria will be incorporated into the risk policy.	By 10/06/19

Summary of Actions / Responses to Internal Audit Recommendations 2018/19

	Recommendations	Priority Rating	Responsible Officer(s)	BA Response/Action	Timetable
	appropriately assessed and assigned proportionate mitigation actions.				
7.	**GDPR** Evidence that the payroll provider has implemented the Information Commissioner Office (ICO) recommendations, since the data breach incident, is requested. In addition, all data breaches, including those which have been formally reported and those which the ICO have been consulted on, to be centrally recorded. Implementation of ICO recommendations by external organisations, provides assurance that the associated risk are mitigated to an acceptable level and the same breach does not happen again. A central record of all data breaches, which is accessible to key members of staff, mitigates the risk that records cannot be accessed in the event of staff absence and that there is an incomplete audit trail of breaches and subsequent action taken.	Needs Attention	Solicitor and Monitoring Officer	Agreed and completed. Response received from payroll provider on 24/01/19 and redacted e-mail from them supplied.	Completed

Summary of Actions / Responses to Internal Audit Recommendations 2018/19

Disaster Recovery: 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 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. 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 Business Continuity plan cannot adequately	Important	Head of IT & Collector of Tolls	Agreed	By 31/07/19

Summary of Actions / Responses to Internal Audit Recommendations 2018/19

	Recommendations	Priority Rating	Responsible Officer(s)	BA Response/Action	Timetable
	support priority services.				
2.	**Backup and Recovery Capabilities** The Authority to look at options for enhancing the existing data replication service such that it covers priority services such as Finance and Tolls. Increased replication between Yare House and the Dockyard will help to ensure timely recoveries of priority services following an incident, including any incidents that render Yare House inaccessible and which would currently require a recovery from tape. Where a tape recovery is required, there is an increased risk that this would result in up to 48 hours of data needing to be re-input as part of the recovery process, given that it takes an average of 24 hours to complete a tape backup at present	Needs Attention	Head of IT & Collector of Tolls	Agreed	By 31/07/19
3.	**DR Testing** The authority to ensure that all DR tests are formally documented in test reports that are communicated to relevant senior management and which are used as a basis for	Needs Attention	Head of IT & Collector of Tolls	Agreed	By 31/07/19

Summary of Actions / Responses to Internal Audit Recommendations 2018/19

	Recommendations	Priority Rating	Responsible Officer(s)	BA Response/Action	Timetable
	updating DR plans with lessons learned using appropriate change control processes. The formal documentation of all DR tests into test reports will help to demonstrate that the DR facilities and processes adequately support the Authority's priority services following an incident and that any lessons learned are taken account of as updates to the processes concerned. Where DR tests are not formally documented into test reports, there is an increased risk that the DR facilities and processes cannot be shown to be adequate and that any weaknesses in the DR facilities and processes are not detected and resolved in a timely manner.				
4.	**DR Development for New Systems** The Authority to ensure that relevant Project Management processes are updated to include work to understand what the DR support requirements will be for any new or changed infrastructure. The inclusion of work to understand	Needs Attention	Head of IT & Collector of Tolls	Agreed	By 31/07/19

Summary of Actions / Responses to Internal Audit Recommendations 2018/19

	Recommendations	Priority Rating	Responsible Officer(s)	BA Response/Action	Timetable
	the potential DR support requirements of any new or changed systems will help to ensure that any changes to the Authority's systems are adequately support as required by the Business. Where DR requirements are not taken account of adequately in project workflows, there is an increased risk that the DR support requirements that may result from the changed infrastructure are not supported adequately following an incident.				
5.	**Dockyard Physical Access Controls** The Authority to ensure that the server rack that contains the DR infrastructure at the Dockyard is moved to a more appropriate location within the DR facility as soon as practically possible. Moving the server rack to a more appropriate location will help to ensure the security of the rack and the environmental conditions within the room. If the server rack is not moved to a more appropriate position within the	Needs Attention	Head of IT & Collector of Tolls	Agreed	By 31/07/19

Summary of Actions / Responses to Internal Audit Recommendations 2018/19

Recommendations	Priority Rating	Responsible Officer(s)	BA Response/Action	Timetable
DR facility, there is an increased risk of security vulnerabilities caused by the removal of the side panels which has been done to facilitate the operation of the Air Conditioning unit.				