

Audit and Risk Committee

Minutes of the meeting held on 17 November 2020

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Present

Nicky Talbot – in the Chair, Matthew Bradbury, Bill Dickson, Gail Harris, Lana Hemsall, Tristram Hilborn, Greg Munford, Simon Roberts and Fran Whymark.

In attendance

John Packman – Chief Executive, Esmeralda Guds (minutes), Sarah Mullarney (meeting moderator), Sara Utting (meeting moderator), Emma Krelle – Chief Financial Officer, Fiona Dodimead – Internal Audit, Jacob McHugh – External Audit Ernst & Young, Mark Hodgson – Audit Partner External Audit Ernst & Young.

1. Apologies and welcome

The Chairman welcomed everyone to the meeting.

Apologies None were received.

Remote meeting standing orders and recording

The Chair welcomed everyone to this meeting of the Audit and Risk Committee, which was being held remotely under the Standing Orders for remote meetings adopted by the Broads Authority on 22 May 2020. The meeting was being live streamed and recorded, with the live stream accessible from a link on the Authority's website. The Broads Authority retained the copyright of the recording and the minutes remained the formal record of the meeting.

2. Introductions and declarations of interest

Members introduced themselves and declared interests on items of this agenda as set out in Appendix 1 to these minutes, in addition to those interests already registered.

3. Items of urgent business

There were no items of urgent business.

The Chair agreed a request of variation in order in the agenda for item 8 - Audit Results 2019/20 to come before item 7 – Statement of Accounts 2019/20.

4. Public question time

No public questions had been received.

5. Minutes of last meeting

The minutes of the meeting held on 21 July 2020 were approved as a correct record and would be signed by the Chair.

6. Update on financial position – impact of COVID

The Chief Executive gave an update on the Authority's financial position and highlighted that, compared with the situation following the first lockdown in March, the Authority now found itself in a much stronger financial position. Once the first COVID lockdown restrictions had

been eased, the position of the local tourism industry had improved rapidly. This meant that the toll income, although not as much as predicted, was much closer to the original budget.

The behaviour of a small number of new and inexperienced visitors to the Broads waterways this season had highlighted some safety issues. The Authority was addressing those issues, including working with the boating industry on an online safety training scheme for visitors, and proposing that all Ranger launches would be out every day during the season, significantly increasing the Ranger presence on the system.

The package of safety measures had been supported by members at a Tolls briefing on 5 October 2020. Further to a proposal for a 7% increase in navigation charges to fund these measures, the Chief Executive and Chief Financial Officer (CFO) had managed to reduce this increase to 4% by gaining agreement from DEFRA to allow the cost of the Safety Package to be funded in the first two years from National Park Reserves. The Chief Executive added that, while members were in support of the proposal, they must be mindful that using National Park Reserves would impact on what could be achieved on National Park functions in future years.

With regard to further savings, the Management Team were assessing the future working arrangements for the Authority's staff. A survey had shown that the majority of office-based staff would like to continue working for part of the week from home, post COVID restrictions. Discussion with members was also needed on whether some or all formal committee meetings could continue remotely. If office-based staff were working partly from home, and there was less need for a large meeting room, there could be a significant reduction in office floor space and in the Authority's carbon footprint.

The Committee noted the report and supported the approach proposed to increase patrolling by the Rangers and to use National Park Reserves to fund the safety package for 2021/22 and 2022/23.

Agenda item 8 (Annual Audit Results 2019/20) was taken at this point in the meeting.

7. Statement of Accounts 2019/20

Members received a report on the Authority's Statement of Accounts for the year ended 31 March 2020.

The Chief Financial Officer clarified that the Annual Governance Statement would need updating to reflect the invoice fraud in April 2019. The amended Statement would be taken to the Broads Authority on 20 November.

The CFO highlighted that part of the disclosure in the Going Concerns Statement was missing and would be updated in the final version of the accounts.

The CFO explained that, as the McCloud adjustments (see paragraph 4, agenda item 8) would impact on the comprehensive income and expenditure statement, it would affect the expenditure funding analysis, the movement in reserves and the balance sheet followed by notes 7, 9, 19 31 and 35. These adjustments would be reflected in the final version of the

Statement of Accounts, which would go back to Ernst & Young for checking before being signed off by the Chair.

The CFO also reported that there was a new provision that covered the Whitlingham Charitable Trust dilapidations, which could be drawn down upon once the negotiations were finalised.

The Committee recommended to the Broads Authority the amended Statement of Accounts for 2019/20 for approval, subject to the adjustments outlined above.

8. Annual Audit Results 2019/20 (includes letter of representation to EY)

The Committee received a report summarising the Authority's preliminary audit conclusion in for 2019/20. A final report would be issued after the Broads Authority meeting on 20 November.

The Audit Partner of Ernst & Young reported that it was a good audit, especially as the draft financial statement was prepared during the C-19 lockdown and the audit had been completed remotely. He advised there were no matters to report on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources.

Members were updated on the outstanding audit recommendations and informed that there were no matters to report on either the Whole of Government Accounts procedures or the procedures in relation to assurances over the IAS 19 Pension Liability.

The Audit Partner raised two issues on the pension fund audit. The first issue related to the McCloud judgement made in last year's financial statement; in July 2020, the Government announced how this should be applied. As a result, a revised report from the pension fund reduced the Authority's liability by £47,000. The CFO would adjust the financial statement in the relevant sections.

The second issue was in relation to the pension fund assets. The Authority's share of the understatement of the pension state level was £95,000, which was approaching the materiality levels of £186,000. This meant there was an unadjusted error of £95,000, which resulted in an unadjusted audit difference.

Members discussed the audit fees and questioned whether the additional work required and the department's imposition on the Authority could be considered value for money. Members felt strongly that the proposed substantial increase in fees of 316% (£33,963) was unacceptable.

The Audit Partner explained that the scale fees were set by the regulators and the fee base had not been adjusted since 2010. The auditors believed it was a fair and necessary fee to provide an international good quality audit. In response, members remained of the opinion that the fee increase was unacceptable.

The Chair asked for clarification on what had gone into the risk profile analysis and a breakdown of how much work had been involved. The Auditor replied that the main areas requiring significant regulating by the auditors were property, plant and equipment evaluation, and pension liability. He said that, although the Authority was relatively small in comparison to a county council, international audit requirements were the same and so the audit procedures were no different.

A member asked for the additional work for COVID-19 considerations and the total fees to be confirmed. The auditor responded that this would be discussed with the CFO once the audit report in the annual audit letter had been concluded.

The CFO reported that the Public Sector Audit Appointments (PSAA) was consulting on the 2020/21 fee adjustments and that a paper on the Redman Review would be presented at the Audit and Risk Committee in March 2021.

After further discussion, members agreed that there were two key issues, firstly the scale of the audit and whether this was in proportion to the size of the Authority, and secondly the considerable audit fees increase. Members unanimously agreed to support the CFO in her challenging the very substantial increase proposed in the external auditors' fees and working with the PSAA to resolve the issue.

In addition, members suggested that the Chair of the Broads Authority should write to the Minister, Lord Gardner, indicating that the Authority's audit arrangements were not appropriate and should be tailored to its turnover and to the size and complexity of the organisation.

The CFO noted that the Chair of the Audit and Risk Committee would sign the final version of the Letter of Representation and that there was an unadjusted difference in the pension due to materiality.

Members noted the Annual Audit Results 2019/20 and recommended that the Letter of Representation in connection with the Audit of the Financial Statements for 2019/20 was signed by the Chief Financial Officer and the Acting Chair of the Audit and Risk Committee.

9. Corporate Risk Register – update

The Head of Governance introduced the updated Corporate Risk Register and highlighted a small misprint in paragraph 1.3 which should read "since the update in November 2019".

A member commented that COVID was a substantial risk and questioned whether a risk factor 3 on a scale from 1 to 5 was high enough, especially as further lockdowns were anticipated. The CFO agreed that further lockdowns would have a further impact on the Authority's finances and she was reviewing whether the stated reserves were sufficient. It was likely that the Reserves of 10% would need to be increased, and that this would need to be phased over a couple of years.

The Head of Governance commented that the risk factors were reviewed on an ongoing basis, COVID risks for the Authority and its staff were being monitored and addressed on a weekly

basis by the Management Team and Section Heads, and the Risk Register was one element of wider risk assessment and control measures in place.

The Committee noted the updated Corporate Risk Register.

Tristram Hilborn left the meeting.

10. Corporate Partnerships Register – update

The Head of Governance presented the updated Corporate Partnership Register, which listed the Broads Authority's key partnerships with external organisations. She highlighted the criteria (para 2) used by the Management Team and lead officers when reviewing the partnerships. It was noted that the Norfolk and Suffolk Broads Charitable Trust would be added to the register.

A member highlighted the fact that the Authority's partnership with the Whitlingham Charitable Trust had ended in March, and requested an update on the negotiations in regard to the dilapidation costs. The Director of Operations replied that the Authority was following its dilapidation protocol, and legal advice had confirmed that the validity of the Trust's claim for dilapidation was correct. The Authority had now moved on to the next stage and had taken on a surveyor to start negotiations.

The Director of Operations also noted that although the partnership had ended, the Authority was still a member on the WCT Board and was therefore able to appoint four members to it. Members were asked to consider whether having a trustee on the WCT board was beneficial, and it was agreed that this matter would be brought to the Broads Authority on 20 November for consideration.

The Committee noted the Corporate Partnerships Register.

11. Implementation of internal audit recommendations: summary of progress

The Committee received a summary of progress in implementing the Internal Audit recommendations arising out of audits carried out during 2018/19 and 2019/20.

The CFO gave an update on the recommendation regarding the procurement audit on pages 208-209 of the report. She said that the goods contract template had now been finalised with the solicitors. It was available for staff to use and training would be provided before the end of the financial year.

Due to COVID, some of the audits had been delayed. However, the Internal Auditor confirmed that they were now able to carry out a full audit remotely. Audits had been rescheduled to take place in November, December and January.

The Committee noted the report.

12. Other items of business

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

13. Formal questions

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

14. Date of next meeting

The next Audit and Risk Committee meeting would be on Tuesday 2 March 2021 at 2.00pm.

The meeting ended at 3.41pm

Signed by

Chairman

Appendix 1 – Declaration of interests: Audit and Risk Committee, 17 November 2020

Member	Agenda/minute	Nature of interest
Gail Harris	8	River Wensum Project and Trowse Rail Bridge