Risk, Audit and Governance Committee

Minutes of the meeting held on 12 March 2024

Contents

Present

Tristram Hilborn – in the Chair (from item 2), Bill Dickson, Paul Hayden, Siân Limpenny, Kevin Maguire, Michael Scott and Matthew Shardlow.

In attendance

Jason Brewster – Governance Officer, Natalie Gourley – Senior Internal Auditor, Emma Krelle – Director of Finance, John Packman – Chief Executive – in the Chair (item 1), David Riglar – Ernst & Young External Auditor, Teresa Sharman – Head of Internal Audit and Sara Utting – Senior Governance Officer.

1. Appointment of Chair

Tristram Hilborn was proposed by Bill Dickson and seconded by Siân Limpenny.

Tristram Hilborn was appointed Chair.

2. Appointment of Vice-Chair

Siân Limpenny was proposed by Tristram Hilborn and seconded by Bill Dickson.

Siân Limpenny was appointed Vice-Chair.

3. Apologies and welcome

The Chair welcomed everyone to the meeting.

Apologies were received from Alan Goodchild and Tony Grayling,

Openness of Local Government Bodies Regulations 2014

The Chair explained that the meeting was being audio-recorded. All recordings remained the copyright of the Broads Authority and anyone wishing to receive a copy should contact the Governance Team. The minutes remained the formal record of the meeting. He added that the law permitted any person to film, record, photograph or use social media in order to report on the proceedings of public meetings of the Authority. This did not extend to live verbal commentary. The Chair needed to be informed if anyone intended to photograph, record or film so that any person under the age of 18 or members of the public not wishing to be filmed or photographed could be accommodated.

4. Introductions and declarations of interest

No additional declarations of interest were declared.

5. Items of urgent business

There were no items of urgent business.

6. Minutes of last meeting

The minutes of the meeting held on 25 July 2023 were approved as a correct record and signed by the Chair.

7. Investment Strategy and Performance Report 2023/24 and Draft Capital, Treasury and Investment Strategy 2024/25

The Director of Finance (DoF) introduced the report which detailed the Broads Authority's investment of surplus cash, including the investment principles adopted and performance during the ten months to 31 January 2024 and the draft Capital, Treasury and Investment Strategy 2024/25.

The DoF indicated that there was an error in Table 1 of the report relating to the opening balances for the Instant Access and 32 Day Notice accounts; these figures should correspond to the Closing Balances stated in Table 2 and therefore should read £1.097m and £513,000 respectively.

Interest earned to the end of January was £220,077.93 and was forecast to be more than double the amount earned in 2022/23.

Market testing to determine whether to engage a Treasury Management provider to help formulate the Authority's next investment strategy, agreed at the committee meeting 14 March 2023, had been delayed due to other commitments. This investigation would be undertaken in 2024 and reported to the committee in preparation for 2025/26.

Where leases were included under the adoption of IFRS 16, it would increase the Authority's assets as well as its other long-term liabilities (borrowings). As a result, the authorised level of capital expenditure and debt had increased for 2024/25 when compared to those quoted in 2023/24 strategy.

The figure quoted for capital expenditure in 2024/25 was based on the maximum amount that may be spent if a £500k capital grant from DEFRA was received. If DEFRA were unable to commit to the £500K capital grant then capital expenditure would reduce by £60,000. As agreed by the Management Team, the capital grant would be used to purchase items that would have been funded by earmarked reserves in 2024/25.

The introduction of IFRS 16 had resulted in the lease liability for Rights of Use (ROU) assets being included in the Authority's forecast of the Capital Financing Requirement (CFR). This new requirement had resulted in the authorised and operational boundary for external debt increasing from £500k and £400k to £900k and £800k respectively.

In response to a question the DoF reminded Members that the Debt Management Office (DMO) was a facility that provided Local Authorities with access to investments or loans at preferable rates. The Authority deposited money for short (up to 6 month) periods to capitalise on these preferable rates and a comparison of rates between the DMO and the other accounts used by the Authority was shown in the table in section 3.1 of the report's Appendix 1.

A Member highlighted that the Authority's banking provider had received some negative publicity for their sizable investments in fossil fuels and asked whether consideration was given for the ethical behaviour of our financial partners/suppliers. Another Member was in favour of an ethical investment strategy and asked whether consideration would be given to an alternative bank provider if they had a more ethical investment strategy. The DoF responded that the Authority did consider the ethical stance of new lenders although there was no review for incumbents. Given the overlap with the existing Treasury Management provision for 2024/25, it was agreed to incorporate a review of banking providers into this activity.

Michael Scott proposed, seconded by Matthew Shardlow and

It was resolved unanimously to recommend the Draft Capital, Treasury and Investment Strategy to the Broads Authority for approval.

8. Consolidated income and expenditure – 1 April to 31 January 2024 actual and 2023/24 forecast outturn

The Director of Finance (DoF) presented the report which detailed actual income and expenditure for the ten month period to 31 January 2024, and a forecast of the projected expenditure at the end of the financial year (31 March 2024).

The DoF indicated that since the report had been published the opening balances on the earmarked reserves had been revised down due to a number of accruals relating to the previous financial year, 2022/23.

A Member asked whether the fall in Tolls revenue was due to a delay in payments or was it indicative of a reduction in craft on the Broads. The Chief Executive responded that there had been a reduction in tolls income last year which had been offset by additional interest income. There was always an element of change in the number of boats on the Broads in any one year and this made it difficult to analyse changes between years. There was a reduction in the number of smaller private craft and the increase in tolls, albeit a small relative increase for this size of craft, would have contributed to this reduction although the poor weather experienced last season would most likely have had a greater impact.

A Member noted the delay to the toll system replacement project and asked for an update. The CE responded that the delay had been down to staff absence due to long term illness and there would be further planned absence in 2024/25. The good news was that the work required to replace the tolls system had been dramatically reduced. The initial assessment had assumed that to replace the impending un-supported version of the database, underpinning the current system, would require a major rewrite, if not replacement, of the system. The IT team, in consultation with an external IT company, had determined that the database could be upgraded to the latest version without the need for a complete rewrite of the existing system. An initial test of this proposal had been conducted and the results appeared to be successful. This solution would maintain the existing system functionality, ensure future database updates could be applied thereby ensuring the database remained supported and would enable the system to be hosted via the cloud.

The cost of this work was much less than anticipated and the resulting updated technology would aid future enhancements. Further investigation had taken place to scope a new online payment system delivering the same functionality but using current technologies such as one time passcodes for logging in and renewing tolls to improve the usability and widen the appeal of this system.

A Member noted the underspend within Operations and asked whether that would have implications for spending in 2024/25. The DoF confirmed that some activity related to earmarked reserves had not been completed (as per section 2.1 of the report) and would be carried forward into 2024/25.

A Member noted the underspend on staff salaries and wondered whether this had resulted in an extra workload for existing staff. The DoF replied that this was due to a seasonal post being mistakenly budgeted for when it was no longer required and this would be corrected in 2024/25.

The report was noted.

9. International Financial Reporting Standards – IFRS 16 Leases

The Director of Finance (DoF) presented the report which detailed the new International Financial Reporting Standards (IFRS) 16 Leases, which would be mandated from 1 April 2024, and corresponding changes required to the Authority's Accounting Policy (Appendix 1 of the report).

The DoF explained that IFRS 16 required Rights of Use (ROU) assets, including peppercorn leases, to be included on the balance sheet. Previously these had been classed as operational leases and, given that the risks and rewards of ownership did not transfer to the Authority, these had been disclosed using a note in the accounts. The intention of this new standard was to provide transparency regarding the assets that an organisation had the right to use. The most significant lease for the Authority was Yare House and the report assumed that the new lease would be completed from 1 April 2024.

The standard expected leases to be valued based on a number of factors including the type of lease and its duration. Previously the accounts would not recognise peppercorn leases however IFRS 16 required these leases to be included on the balance sheet at market value. Norfolk Property Services, the Authority's property consultant, was engaged in valuing these leases and, where a valuation was still outstanding, an estimate based on an equivalent known asset, had been included in the report. The leases valued so far equated to £699,000 and an estimate for the peppercorn leases was £158,000. As mentioned previously (agenda item 7), the reclassification of ROU assets for IFRS 16 had resulted in significant impacts to the capital financing requirement and the debt level.

A Member asked what the distinction was between the liability and debt elements of a lease. The DoF responded that in the context of an operational lease, there were lease payments that would be met in the current financial year and future lease payments that were owed beyond that time. The future lease payments would be classed as liability and the total of all current and future payments would equate to the debt. The DoF indicated that peppercorn leases were treated differently as there was no liability associated with them. They were considered to be donated assets and therefore would not impact capital financing requirements.

The DoF confirmed that leases under 12 months were excluded from this new standard and indicated that if the new lease on Yare House was not completed before 1 April 2024, then the Capital, Investment and Treasury Strategy 2024/25 would need to be updated to reflect the continuation of the old lease arrangements into the new financial year.

The Chair thanked the DoF for her work in preparing the Authority for IFRS 16 ahead of the deadline.

Bill Dickson proposed, seconded by Matthew Shardlow and

It was resolved unanimously to recommend the new IFRS 16 accounting policy to the Broads Authority for approval.

10. Internal Audit Strategic and Annual Plans 2024/25

The Head of Internal Audit (HoIA) presented the report which covered the Internal Audit Charter, Internal Audit Strategy and the Annual Internal Audit Plan 2024/25 (Appendices 1-3 in the report). The Internal Audit Plan 2024/25 would consist of four audits covering Corporate Governance and Risk Management, Key Controls and Assurance, (both audited annually), Cyber Security and the Farming in Protective Landscapes (FiPL) Grant programme.

A Member asked for some more information regarding the Cyber Security audit. The HoIA explained that government bodies were under increasing risk of cyberattack and this would be a valuable area of focus for 2024/25. The IT auditor would use a government framework to assess the Authority's cyber security capability including areas such as authentication, firewall resilience and virus protection.

The Chief Executive mentioned that a National Park Authority (NPA) had lost access to its systems and data due to a ransomware attack and this had been the catalyst for other NPAs including the Broads Authority to transfer to Office 365 for the enhanced security this platform offered. The DoF added that all attachments (including scanned documents) were now scanned for viruses automatically and that all staff underwent annual cyber security training.

Siân Limpenny proposed, seconded by Matthew Shardlow and

It was resolved unanimously to approve the Internal Audit Charter 2024/25, the Internal Audit Strategy 2024/25 and the Annual Internal Audit Plan 2024/25.

11. External Audit

The External Auditor (EA) introduced the report which provided an update on the Government Local Audit consultation, the interim 2022/23 Value for Money report and the Audit Plan for 2023/24. The EA proposed to discuss each section of the report in turn.

Department of Levelling Up, Housing and Communities Local Audit Consultation

The EA explained that the government's proposal, set out in this consultation, consisted of three phases; the first was to reset the local government audit system, the second to recover the system and the third was to reform the system. This proposal was the culmination of a number of years of work to understand the issues within the audit system and demonstrated that a resolution was at hand.

Members were keen to understand who had responded to the consultation and in what way. The EA confirmed that EY had responded and questioned the first backstop date (for 2023/24 accounts) on 31 May 2025 as it was not consistent with Local Authorities' budget setting processes or their preparations for the next financial year. The Director of Finance (DoF) confirmed that the Authority had also responded and raised the same issue regarding the clash of priorities caused by a May backstop date, as the Authority's draft accounts would be due at that time.

A Member asked whether the government's proposal would work. The DoF believed that the proposal was workable especially given that the Authority only had the 2022/23 audit outstanding; other Local Authorities had to resolve multiple audits. The EA and HoIA both stressed the need to adequately resource the work required in phase 2, without which there would be a repeat of the audit backlog. The EA indicated that EY's recent recruitment campaign had produced positive results however there was still a shortage of experienced public auditors and it would take time to train to this level. The EA reported that recruitment problems were also evident in Local Authorities' finance teams, with many relying on interim resource.

The EA confirmed that the proposal would be to disclaim the 2022/23 accounts as they had not been audited. The associated interim Value for Money report would be amended, to reflect the disclaimed 2022/23 accounts, with the adoption of alternative high level reviews to provide some assurance of the report's findings. The introduction of a disclaimer for a given set of accounts would not preclude further review of these accounts in later audits over time. The disclaimer itself would clearly indicate that it was due to statutory instruments and was not related to the Authority.

Members were keen that when the 2022/23 accounts were disclaimed that there was some form of communication to avoid it being perceived as some form of financial irregularity on the part of the Authority. The EA confirmed that there were over 700 overdue audits so the Authority would not be alone in receiving a disclaimer.

Value for Money Interim Report 2022/23

The EA indicated that this report would need to be refreshed as and when the 2022/23 accounts were disclaimed. No significant risks or weaknesses had been identified.

Audit Planning report 2023/24
The EA highlighted that as the government's local audit consultation had not been finalised, there were a number of caveats associated with the 2023/24 audit plan. Any additional risks, arising from the completion of the consultation, would be brought to the committee.

The key risks that the audit would focus on, as per previous audits, included misstatement due to fraud or error, inappropriate capitalisation of revenue expenditure, pension valuation and valuation of land and buildings.

Regarding the risk associated with pension liability, there was a nuance resulting from the Norfolk Pension Fund triangular valuation moving to a strong funded position. The result was that the net liability was moving into a positive position, in contrast to previous years, and would require different accounting considerations.

There was a risk around property, plant and equipment and this would be included in the work associated with inappropriate capitalisation of revenue expenditure.

The materiality figures (page 9 of the report's Appendix 3) were consistent with previous years. The performance materiality had been set at 75%, rather than 50%, which reflected the auditor's confidence of not finding too many errors.

The expected timeline (page 32 of the report's Appendix 3) was to complete the 2023/24 audit by the end of November 2024 providing a safeguard between the potential backstop date of 31 May 2025.

The EA highlighted the inclusion of appendices within the Audit Plan that detailed new accounting or auditing standards that would impact the plan. The auditor would work with the Authority to prepare for these new standards one of which was IFRS 16 Leases. The EA reported that very few Local Authorities had produced a paper relating to IFRS 16 so it was commendable that the Authority, given its size, had already undertaken this work (see agenda item 9). The other area of change related to ISA 315, an audit standard that required enhancements to the auditor's risk assessment procedures and would require a greater understanding of the Authority's IT processes.

The report was noted.

12. Implementation of internal audit recommendations – summary of progress

The Director of Finance (DoF) introduced the report summarising progress in implementing Internal Audit recommendations arising from audits performed during 2020/21, 2021/22, 2022/23 and 2023/24. The DoF confirmed that all four audits associated with the internal audit plan 2023/24 had been completed and drew member's attention to Corporate Governance and Risk Management receiving a "substantial" assurance with the other three areas receiving audit opinions of "reasonable". There were two outstanding actions relating to internal audit 2020/21, two outstanding actions for 2022/23 and six outstanding actions for 2023/24 with the latest six actions on target to be completed before November 2024.

A Member noted that the “substantial” assurance was in part due to the successful completion of actions associated with the external review into the formal complaint and commended the Authority on this achievement. The Member was pleased to note the progress made on the pilotage recommendations and asked whether the recommendations associated with changes to committee meetings were likely to be completed.

The Senior Governance Officer responded that this was a low priority item and, given the demands made of IT, there would always be more important work to be undertaken. The DoF indicated that there might be scope to address this outstanding recommendation as part of the work to integrate DMS into SharePoint, although this work was not planned for 2024/25. It was proposed to close this recommendation, given that it would be superseded by the move to SharePoint, and the Head of Internal Audit confirmed this was acceptable.

A Member asked for an update on the Health & Safety at Work policy recommendations. No further information could be furnished and the DoF agreed to provide Members with an update via email.

The report was noted.

13. Recommendations from external review into formal complaint – update

The Senior Governance Officer (SGO) introduced the report on progress implementing the recommendations from the external review into the formal complaint. The SGO confirmed that all the actions assigned to the Authority had been completed and highlighted that the next area of focus, regarding the ongoing review of governance arrangements, would be the Authority’s Standing Orders.

Members thanked the SGO for the successful completion of this work.

The report was noted.

14. Risk Management update

The Senior Governance Officer (SGO) introduced the report that provided two versions of the Corporate Risk Register (CRR) dated November 2023 and February 2024 with changes marked since the previous version and an updated version of the Authority’s Risk Management Policy. The SGO explained that the scheduled bi-annual review of the Risk Management Policy had identified minor changes to reflect the committee’s new name and to remove an out-of-date reference regarding maintenance of the CRR.

In response to a question the Chief Executive indicated that the increase in risk associated with recruitment stemmed from vacancies in the Planning Team. There was a national shortage in planning resource and other National Parks’ Planning Teams were experiencing similar recruitment problems. The Authority was liaising with Norwich City Council to investigate the potential of sharing planning resource.

Members welcomed the introduction of the arrow indicators (↔ ↓↑) to summarise a change in Risk Scores.

Matthew Shardlow proposed, seconded by Paul Hayden and

It was resolved unanimously to approve the Risk Management Policy and recommend its adoption by the Broads Authority.

15. Other items of business

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

16. Formal questions

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

17. Date of next meeting

The next Audit and Risk Committee meeting would be on **Tuesday 23 July 2024** at Yare House, 62-64 Thorpe Road, Norwich, commencing at 10.00am.

The meeting ended at 11:42am.

Signed by

Chair