

WAVERLEY BOROUGH COUNCIL

MINUTES OF THE AUDIT COMMITTEE - 2 MARCH 2020

SUBMITTED TO THE COUNCIL MEETING – 9 JUNE 2020

(To be read in conjunction with the Agenda for the Meeting)

Present

Cllr Peter Marriott (Chairman)	Cllr Jan Floyd-Douglass
Cllr Jerome Davidson (Vice Chairman)	Cllr Richard Seaborne
Cllr Richard Cole	Cllr George Wilson
Cllr Simon Dear	

Apologies

Cllr Michaela Gray

Also Present

Cllr Jerry Hyman

AUD 43/19 MINUTES (Agenda item 1.)

The Chairman asked the committee to agree the Minutes of the meeting held on 26 November 2019.

The committee **AGREED** the Minutes of the meeting however:

Cllr Seaborne advised that, although he did not disagree with the record of the meeting, he did question the clarity of what was agreed in AUD 33/19 as he felt it did not reflect the decision in the meeting. He felt that the committee had agreed to the Section 151 Officer being able to approve 'limited' tactical changes to fees and charges, whereas he felt the Minutes suggested 'carte blanche' to agreeing changes. He asked if Democratic Services could clarify.

He highlighted I.10 (ii), of the Constitution, which stated delegation to officers did not include 'The setting of off-street car parking charges' as this was reserved to Council. He felt it was not in the remit of Audit to recommend to the Council a change to the Constitution but could recommend to Standards who could then in turn recommend to Council.

Cllr Dear agreed with the comments made by Cllr Seaborne and felt that clarification was needed that the delegation to the Section 151 Officer 'throughout the year' for minor adjustments did not deny Council the ability to scrutinise. Cllr Floyd-Douglass also agreed.

Cllr Cole disagreed, and had understood in the meeting that delegated powers were to make any changes to the fees and charges as necessary and he objected to this issue being brought back to the Committee.

Graeme Clark advised he would get the details of the discussion of the meeting scrutinised to clarify the exact discussion. Tom Horwood advised he had, during the discussion, looked at the constitution and Audit Committee report directly to Council not Standards.

Cllr Davidson commented that we could not amend the minutes but could clarify the discussion that took place and the decision.

ACTION: The recording of that item of the November 2019 meeting should be transcribed to ascertain the discussion that took place and the recommendation made to Council.

AUD 44/19 APOLOGIES FOR ABSENCE (Agenda item 2.)

Apologies for absence were submitted by Cllr Michaela Gray.

AUD 45/19 DISCLOSURE OF INTERESTS (Agenda item 3.)

There were no disclosures of interests submitted.

AUD 46/19 QUESTIONS BY MEMBERS OF THE PUBLIC (Agenda item 4.)

There were none.

AUD 47/19 QUESTIONS FROM MEMBERS (Agenda item 5.)

There were none.

AUD 48/19 AIR QUALITY MANAGEMENT INVESTIGATION OUTCOME AND FINDINGS
(Agenda item 6.)

Tom Horwood, Chief Executive of Waverley Borough Council read a statement to the Audit Committee (copy attached to these Minutes).

Cllr Jerry Hyman had registered to speak on this matter. He advised that he had been part of a group, along with the gentleman who had made the Freedom of Information request. Cllr Hyman asked what action has been taken to avoid this ever happening again; why the names of the officers interviewed had been redacted when it was all in the public domain; and, why the report did not contain information that Councillors were interviewed also.

Cllr Hyman went on to raise concern that a legal notice had been submitted by Waverley Borough Council to Crest Nicholson on 29/12/2010 by the Air Quality Officer at the time (not the one referred to in the report), advising they could not approve the Brightwells planning application due to an incomplete EIA. However this had not been considered when the application was approved. He felt this was a matter of governance and did not feel it was suitable for this administration to say the issue was closed when it clearly was not.

Cllr Hyman thanked officers for a very open report and acknowledged that the redactions were mainly concerning employment issues.

Cllr Hyman's last comment related to paragraph 3.7 of the report which was exempt but which he hoped members of the committee would consider and question.

The committee agreed that the way forward was to strengthen controls.

Richard Homewood reported that lessons had been learned. Waverley had now introduced two contracts: one for diffusion tubes and one to manage the Automatic Air Quality Monitors. In addition, the raw data was published monthly so it was in the public domain. One company also carried out quality assurance checks on the other and there were now much tighter controls overall.

Cllr Floyd-Douglass asked if there were any other areas of the council where only one staff member was responsible for a specific function. Graeme Clark advised that we were not aware of any others but internal audit routinely look at this within the control network. Internal audit would endeavour to eliminate any risk of this and look at strengthening controls.

Cllr Wilson asked if the fact the officer concerned was in secondary employment was a factor and asked whether there were controls in relation to secondary employment by council employees. Annie Righton explained that this had been looked at but was not thought to have been contributory. Tom Horwood stated that employees needed to seek permission to seek secondary employment and there were procedures in place to deal with that situation.

Cllr Seaborne felt that the findings on page 12 of the report referring to data collection had not given a definitive assurance that this could not happen in another area of Waverley's operations. He therefore asked that the committee request that Internal Audit draw up a report showing all aspects of operations that could be exposed or Heads of Service to give assurance that the lessons have been captured. He also raised the issue of misuse of expenses set out in the report. Some officers regularly visit sites and he asked what checks were in place to ensure expenses are claimed appropriately.

ACTION: Councillors asked for assurance be given that this was being addressed.

Graeme Clark advised that the Audit Plan reports coming up later in the meeting included information or data provided to other organisations. Expenses claims were looked at every 2 years.

The Audit Committee considered and endorsed the strengthened governance arrangements in relation to Air Quality.

AUD 49/19 EXTERNAL AUDIT PLAN FOR 2019/20 (Agenda item 7.)

Mark Bartlett, Audit Manager at Grant Thornton, outlined the External Audit Plan for the year ending 31 March 2020.

Mark outlined the scope of the audit and highlighted the key areas of significant risk.

The significant risks identified were:

- The revenue cycle includes fraudulent transactions – this was rebutted after the auditor concluded there was little evidence of any risk;
- Management over-ride of controls – this will be evaluated by Grant Thornton;
- Valuation of land and buildings – this will be evaluated by Grant Thornton; and
- Valuation of pension fund net liability – this will be evaluated by Grant Thornton

Mark highlighted other risks identified which were the implementation of International Financial Reporting Standards (IFRS) 16 Leases which had been issues but not adopted. This would be implemented from April 2020 and Mark advised Grant Thornton would evaluate the processes adopted to limit impact.

The committee were updated on the proposed fee variations this year.

Cllr Hyman had registered to speak on this item. He asked why the falsification of figures risk had not been included within the significant risks. He commented that the falsification of the transport assessment for the Brightwells scheme in Farnham which the Air Quality Officer had identified in 2010 had not been considered and, in his view, this posed an enormous risk to Farnham and to Waverley's reputation.

He also commented on the lack of implementation of the European Court of Justices ruling 2018 (Sweetman ruling) which we had to abide to by law and which had cost us a huge sum in appeals. Cllr Hyman expressed his view that there was an assumption that an assessment for mitigation was in LPP1 but it is not. Cllr Hyman asked that the committee take this forward as he felt we were selling mitigation to developers.

Cllr Floyd-Douglass asked where the Coronavirus sat within this as a risk. Mark advised it would be the same as Brexit (e.g. non-financial risk). Graeme Clark assured the committee that senior management were very aware of the operational and strategic risks involved in this.

Peter Vickers commented that members had received a presentation from Zurich not long ago and that there would be another member briefing on risk soon.

Cllr Davidson asked what Grant Thornton had experienced from other local authorities with regard to risks we may encounter. Mark highlighted the risks around shopping centres as set out in the Value for Money risks in the report.

Cllr Marriott asked Mark if future trends were considered when looking at property valuations and risks. Mark advised predicted trends were considered. Cllr Seaborne asked if financial stability was what he was actually meaning. Mark clarified this by saying they consider how robust the planning for the budget is.

Cllr Seaborne noted that the sentence *'We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and*

invitations to our technical update workshops', which had been in last year's report, was omitted from this years. Mark assured the committee that they had regular meetings with senior management to update.

Cllr Dear highlighted the implications/risks of the current administration cutting various services as highlighted in the 2020/21 Budget Report to Council. He advised he would like to see risk assessments done on the various savings proposals put forward by Heads of Service. Graeme Clark advised the risk assessments were done internally. There were challenges in the budget and the cumulative impact of each saving was a risk. Value for Money O&S would track this. Management Board had also asked for more frequent and robust monitoring reports.

Cllr Dear felt that a framework around risk assessments was needed.

Tom Horwood thanked the committee for their comments and advised that he had asked the Heads of Service to risk assess when suggesting savings and they had done this, and some savings proposals were not taken forward in the budget.

Cllr Davidson commented that he too shared these concerns and asked whether it was the Audit Committee or Value for Money O&S who would monitor the progress towards the savings. Graeme Clark advised it was the Executive's role but that Value for Money O&S would have oversight of the monitoring; the Audit Committee's role was to monitor the risks of not keeping within budget.

The Committee AGREED to note Grant Thornton's Audit Plan 2019/20.

AUD 50/19 ACCOUNTING POLICIES FOR 2020/21 (Agenda item 8.)

Peter Vickers gave an update on the Waverley Accounting Policies in line with changes to the CIPFA Code of Practice.

As reported last year the 2019/2020 Code had introduced no substantial new reporting requirements in 2019/20. In 2020/21 there was one substantial financial reporting standard which would be implemented from 1 April 2020. International Financial Reporting Standard (IFRS) 16 Lease accounting, which changed how leases were accounted for to represent the value of assets and liabilities. He advised that a lot of work had already been done around this change. The report outlined the areas affected and the impacts of the change.

Cllr Marriott highlighted that under impacts it stated 'short term leases' were exempt, and asked what constituted a short term lease. Peter advised this was a lease under 12 months. He also highlighted this change would mean that those buildings on a peppercorn lease which previously were not recorded or assessed would now be valued as an asset. Cllr Seaborne asked how the lease register would be monitored. Mark Bartlett advised this would be looked at by Grant Thornton in preparation for IFRS16.

Cllr Dear asked if there was a 'summary' of the principles under IFRS16 which would make it simple to understand. Mark Bartlett advised he had some slides which he could provide. (attached to minutes)

Cllr Cole asked if the rule to value property was set out in regulations. Peter Vickers advised that the Chartered Institute of Chartered Surveyors Regulations were used.

The committee noted the proposed changes in accounting policy.

AUD 51/19 ANNUAL GOVERNANCE STATEMENT - CONSIDERATION OF POTENTIAL GOVERNANCE ISSUES (Agenda item 9.)

Peter Vickers outlined the Annual Governance Statement. He explained this was an overarching document which follows a template set out by CIPFA. He outlined each section of the document in turn. The committee were then asked to consider the report and whether it reflected the Council's Governance arrangements.

Cllr Hyman had registered to speak on this item. He highlighted that section 5.2 Statutory Challenges outlined the two High Court Judgements but had not mentioned the issues around the impact of not implementing the European Court of Justices ruling 2018 (Sweetman ruling). Cllr Hyman also raised that at the end of section 10 of the report it stated '...no matters of significance have been omitted from this statement.' Yet there was no mention of the Sweetman judgement and the falsified transport assessment of 2010.

Cllr Marriott commented that some aspects of this had already been covered but invited Tom Horwood to comment on the mitigation issue.

Tom Horwood reminded the committee that this was a draft statement and officers would take on board the comments made by Cllr Hyman and the committee and consider items that needed including. The Air Quality issue had been covered in previous year's statements and would be added in again reflecting the guidance given.

Cllr Marriott commented on the planning presentation members had been given at the end of last year relating to habitats, biodiversity and environmental impacts. It was stated that applicants were obligated to provide assessment reports in their application but that this was not happening. It was suggested a 'tick box' approach was needed to ensure all consultations/assessments have been completed. This had been raised already with Zac Ellwood. Many of the committee agreed with the Cllr Marriott's comments.

Graeme Clark highlighted that the reason for this discussion was to make recommendations for improvements and the committees comments would be taken on board.

Cllr Marriott raised the issue of the governance of project management. He understood there had been a 'lessons learnt' report written on the overspend of Memorial Hall and asked if the committee could have sight of this. The committee agreed. Cllr Davidson felt a similar report should be written for each major project.

Cllr Marriott highlighted that at the last Council meeting it was suggested that the Audit Committee should have some input into the investment strategy. He asked

what form that might take. Graeme Clark agreed that as the Council had agreed a new revised property strategy it would be a timely for the Audit Committee to look at the governance and decision making arrangements for property investment. He suggested an offline detailed discussion with committee members and to return with some recommendations.

Cllr Seaborne commented that he could not find any mention of air quality issues in the report and should mention the lessons learnt. He also commented that there was no mention of the declaration of the Climate Emergency that had been made.

Tom Horwood agreed and endorsed these comments.

AUD 52/19 INTERNAL AUDIT PLAN PROGRESS 2019-20 (Agenda item 10.)

Gail Beaton presented the Internal Audit Plan progress report for 2019/20. It had been a difficult year, with limited in house internal audit resources, which resulted in having to procure additional resources from Southern Internal Audit Partnership (SIAP).

65% of planned work had been completed with the rest being in progress. The rolling work programme was outlined and work had progressed since the report was written. The committee was directed to the review of Air Quality which would ensure all the action points coming out of the Air Quality audit had been addressed.

Cllr Hyman had registered to speak on this item. He thanked Gail for highlighting the review of the Air Quality audit. He also asked about review of Management of Major Construction projects. Gail advised that this review would be looking at projects that have been completed since the Memorial Hall to review that project management experience and knowledge had been embedded now that senior staff had been provided with Project Management toolkit and training

It was noted that only 129 days had been delivered out of the 204 total plan days, and the majority of the extra 75 days would be provided by SIAP.

The Committee noted the contents of the Internal Audit Plan progress.

AUD 53/19 PROPOSED INTERNAL AUDIT PLAN FOR 2020-21 (Agenda item 11.)

Gail Beaton introduced and gave an overview of the proposed internal audit plan for 2020-21. She advised that the work had been developed in consultation with Heads of Service. There were a number of deferred reviews in this plan including Safeguarding, but there was flexibility in the plan to take on any areas highlighted by the Committee. All reviews that had been deferred had been risk assessed.

The Committee noted that the property investment review had been deferred from 2019-20 due to the lack of property acquisitions. As no acquisitions had taken place it was proposed to replace this review with an assessment of Waverley's compliance with the new guidelines from CIPFA as discussed earlier in the meeting.

Cllr Seaborne highlighted the earlier discussion on the Air Quality Management about ensuring other areas of the business did not have any officers working 'solo' without adequate monitoring. Gail advised that Internal Audit would discuss the way forward.

Cllr Seaborne asked why there was no indication of the number of days allocated to each audit. Gail advised this would be allocated by next meeting as she needed the committee's comments on any areas they felt needed including. Cllr Seaborne advised he found it difficult to approve a plan without any costings. Graeme Clark suggested Gail would review the comments and come up with a costed plan and circulate before the next meeting.

Cllr Dear suggested a line should be included acknowledging risks associated with cost cutting. Graeme Clark agreed and advised this would be added.

The committee approved the proposed plan subject to the comments and changes identified in the discussion.

AUD 54/19 PROGRESS ON THE IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS (Agenda item 12.)

Gail Beaton updated the Committee on Senior Management's progress in implementing the recommendations raised by Internal Audit following a review of each service area.

Gail advised the actions set out in annexe 1 were either overdue or due by the end of March. All actions were on target to complete by the end of the month, including the actions relating to the restaurant and vending machines processes. These actions were all underway and progressing with no concerns to raise.

The committee considered the information set out in annexe 1 and were happy with progress. The committee noted there were no recommendations for changes in due dates.

AUD 55/19 FRAUD INVESTIGATION (Agenda item 13.)

Gail Beaton updated the Committee on the council's fraud investigation work. Annexe 1 highlighted there had been five houses handed back to the council as well as investigations relating to Disabled Facility Grants and other housing related matters

Cllr Cole asked if the financial values stated in the annexe appeared on the Council's balance sheet. Gail advised that they did not as they were Cabinet office figures so were indicative.

The Committee noted the results of the report.

AUD 56/19 AUDIT COMMITTEE RECURRENT WORK PROGRAMME (Agenda item 14.)

The Chairman asked the committee to note the programme and asked if there were any comments. Mark Bartlett indicated that the External Audit Findings Report and Annual Governance Report set out for the July meeting were one and the same and that Annual Governance Report needed to be removed.

The committee noted the Recurrent Annual Work Programme

The meeting commenced at 7.00 pm and concluded at 9.10 pm

Chairman

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Statement made by Tom Horwood, Chief Executive, Waverley Borough Council to the Audit Committee on Monday 2nd March 2020.

The committee has before it the full report of the independent auditors' investigation into air quality management.

While I am not pleased that this case happened, I am pleased that we can now publish this report after two years of it being part of a criminal case, which concluded in December.

1st August 2017 sticks in my mind for two reasons. Firstly, it was the day I started at Waverley Borough Council as interim managing director. Secondly, I received an email from David Harvey, who runs ADM Ltd, a Farnham-based company providing expert professional services in air quality assessment and management.

Mr Harvey had some serious concerns about errors in the 2016 air quality status report. As a result of his email, we commissioned two independent reports on the data itself and on how these errors occurred. The latter is in your papers this evening.

I would like to take this opportunity of formally recording my and the council's thanks to Mr Harvey for raising the issue in the first place and for his constructive support in subsequent meetings and conversations. His intervention was crucial.

As the audit report of January 2018 indicated to us that the reporting problems were due to the wilful activity of a former employee, we referred the matter to Surrey Police and requested an investigation. That process concluded with a guilty plea by that individual, conviction, and then sentencing on 12th December 2019.

The independent investigation and the court hearings recognised that the fraud in relation to air quality figures was due to the actions of one individual. Nevertheless, I would like to apologise to the committee and to the community for the gaps in process and oversight that enabled it to happen undetected for so long until Mr Harvey's intervention and our response in August 2017. I am sorry for that, for the lack of reliable data, and for the expense and anxiety caused by the whole episode.

The Audit Committee and Environment Overview and Scrutiny Committee have received reports throughout this time. The chairs and vice-chairs of those committees, and members of the Executive, were also briefed internally on the legal processes. All supported the actions we were taking without hesitation.

My colleagues, Ms Righton and Mr Homewood, will be able to talk about the corrections to process and oversight that were implemented once we uncovered these problems. It is these strengthened governance arrangements that are the focus of the recommendation to the committee tonight. I hope you will see that the Council has dealt with this situation very seriously since it emerged, and that our new regime of air quality reporting provides sound data to inform the current important discussions on air quality. I thank you, chairman, for allowing me to add my reflections on how we got to this point.

ENDS

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Implementation of International Financial Reporting Standard 16 Leases

IFRS 16 *Leases*, as interpreted and adapted for the public sector, will be effective from 1 April 2020.

Background

IFRS 16 Leases was issued by the International Accounting Standards Board (IASB) in January 2016 and is being applied by HM Treasury in the Government Financial Reporting Manual from 1 April 2020. Implementation of the Standard will be included in the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) for 2020/21.

The new Standard replaces the current leasing standard IAS 17 and related interpretation documents IFRIC 4, SIC 15 and SIC 27 and it sets out the principles for the recognition, measurement, presentation and disclosure of leases. The IASB published IFRS 16 because it was aware that the previous lease accounting model was criticised for failing to provide a faithful representation of leasing transactions.

Impact on 2019/20 financial statements

Whilst the new Standard is effective from 1 April 2020, authorities are required by the Code to *'disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted'*. This requirement of the Code (3.3.4.3) reflects the requirements of paragraph 30 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

In the 2019/20 financial statements we would therefore expect to see authorities make disclosures including:

- the title of the Standard
- the date of implementation
- the fact that the modified retrospective basis of transition is to be applied, with transition adjustments reflected through opening reserves
- known or reasonably estimable information relevant to assessing the possible impact that application will have on the entity's financial statements, including the impact on assets, liabilities, reserves, classification of expenditure and cashflows
- the basis for measuring right of use assets on transition
- the anticipated use of recognition exemptions and practical expedients recognising that what is sufficient disclosure for one body may not be sufficient for another

Information needed for 2019/20 financial statements

In order to make disclosures in 2019/20, a significant amount of data will be needed, most significantly:

- a complete list of leases previously identified under IAS 17 and IFRIC 4
- details of non-cancellable lease terms, purchase options, extension and termination options
- details of lease arrangements at peppercorn or NIL rental
- anticipated future cash flows and implicit interest rates or incremental borrowing rates to enable calculation of lease liabilities

Audit work on IFRS 16 transition

At this stage, we would expect you to have:

- determined whether the impact of IFRS 16 will be material for your authority
- raised awareness of the new Standard across the authority, potentially including procurement, estates, legal and IT departments
- assessed the completeness and accuracy of your lease register and taken action if necessary
- formalised and signed existing lease documentation
- identified leases of low value assets and leases with short terms
- considered whether liaison with valuation experts is necessary
- started to draft your 2019/20 disclosure note
- started to embed processes to capture the data necessary to manage the ongoing accounting implications of IFRS 16

and that you are monitoring progress against an approved IFRS 16 implementation plan. Your local engagement team will be in touch to discuss your progress with IFRS 16 implementation and audit working paper requirements.

Implementation of International Financial Reporting Standard 16 *Leases*

Further information and guidance

HM Treasury published IFRS 16 Application Guidance in December 2019 which can be found at:

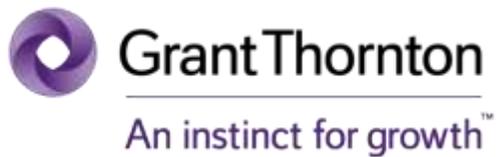
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/853238/IFRS_16_Application_Guidance_December_2019.pdf

CIPFA's IFRS 16 'Early guide for local authority practitioners' is available at:

<https://www.cipfa.org/policy-and-guidance/publications/i/ifrs-16-leases-an-early-guide-for-local-authority-practitioners>

IFRS 16 has been adopted a year earlier in the commercial sector. The Financial Reporting Council has published an IFRS 16 Thematic Review '*Review of Interim Disclosures in the First Year of Application*', containing key findings from their review and providing helpful insights into important disclosure requirements. The FRC's publication is available at:

<https://www.frc.org.uk/getattachment/a0e7c6e7-67d0-40fe-b869-e5cc589afe79/IFRS-16-thematic-review-2019-optomised.pdf>



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