

AUDIT COMMITTEE

26 November 2020

Present:-

Councillors J Mathews (Chair), I Hall (Vice-Chair), H Ackland, J Berry, J Brazil and R Peart

Apologies:-

Councillors A Saywell

Members attending in accordance with Standing Orders 8 and 25

* **96** **Minutes**

RESOLVED that the Minutes of the meeting held on 28 July 2020 be signed as a correct record

* **97** **Items Requiring Urgent Attention**

There was no item raised as a matter of urgency.

* **98** **EXTERNAL AUDIT - Update on the Financial Reporting Council (FRC) report on local audit**

The Committee noted the Report of the County Treasurer (CT/20/103) on a Report provided by Grant Thornton (Devon County Council's External Auditors) giving an update on the Financial Reporting Council's (FRC) report on local audit published on 30 October 2020.

The update included how Grant Thornton was responding to the FRC findings.

Members' discussion centred around what impact the expectations of the FRC Report would have on the relationship between Devon County Council and the external auditors primarily in terms of increased workload and detailed provision of evidence.

Members were satisfied that the external auditors had addressed the FRC recommendations as they considered it was an important indicator of performance.

* **99** **Devon Pension Fund Audit Findings Report 2019/20, Part I**

The Committee considered the Report of the County Treasurer (CT/20/94) on the findings from the audit of the Pension Fund's financial statements for 2019/20.

Grant Thornton outlined their work undertaken to address the risks identified in the Audit Plan (presented to the Audit Committee in February 2020) and the April 2020 addendum relating to the additional risks associated with COVID-19.

Grant Thornton delivered a presentation to Members that highlighted the problems posed by the COVID-19 pandemic and the company's response to this working with the Council. The Committee was assured that, whilst the pandemic had forced changes in working arrangements, Grant Thornton had not felt that their work had been impacted by the pandemic in terms of quality.

The overall message of the presentation was that there were no significant issues with regards to the Devon Pension Fund audit that required discussion (excepting the private matter to be discussed in Part II of the meeting). They anticipated that the Devon Pension Fund audit work would be completed by the end of the month with an unqualified audit opinion on the financial statements of the Devon Pension Fund, dependent on when they could complete their audit work on the Authority's financial statements.

It was **MOVED** by Councillor Berry, **SECONDED** by Councillor Ackland, and;

RESOLVED that the Report of Grant Thornton for Devon Pension Fund for 2019/20 (CT/20/94) be noted.

* **100** **Exclusion of the Press and Public**

RESOLVED that the press and public be excluded from the meeting for the following items of business under Section 100(A)(4) of the Local Government Act 1972 on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph 3 of Schedule 12A of the Act namely, the financial or business affairs of the a third party and of the County Council and in accordance with Section 36 of the Freedom of Information Act 2000, by virtue of the fact that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

* **101** **Devon Pension Fund Audit Findings Report 2019/20, Part 2**

(An item taken under Section 100A (4) of the Local Government Act 1972 during which the press and public were excluded).

The Committee noted a Report from Grant Thornton giving an update in relation to a deficit contribution made by a Fund employer to the Devon Pension Fund during the 2019-20 financial year.

Grant Thornton reported the outcome of independent legal advice which confirmed the lawful receipt of this contribution by the Pension Fund. Members were unanimous in concluding that the Council, in accepting this payment, had acted in good faith.

* **102** **Re-admission of the Public and Press**

RESOLVED that the meeting return to Part I – Open Committee and the press and public be re-admitted.

* **103** **Devon County Council Audit Findings Report 2019/20**

The Committee considered the Report of the County Treasurer (CT/20/95) enclosing a Report by Grant Thornton of the 2019/20 Audit Findings Report for Devon County Council. It set out the findings of Grant Thornton's audit of the County Council's financial statements and work undertaken relating to the 'value for money' conclusion 2019/20. The Report also highlighted the work undertaken to address the risks identified in the Audit Plan (presented to the Audit Committee in February 2020) and the April 2020 addendum relating to the additional risks associated with COVID-19.

Grant Thornton delivered a presentation to Members that included the outcomes on audit work for the Council's financial statements and their reports on the Value for Money conclusion which focused on the effectiveness and efficiency of the use of Council resources.

Grant Thornton advised that, based on the work that had been completed already, they anticipated issuing an unqualified audit position on the County Council's financial statements. However, they also anticipated issuing a qualified 'except for' opinion on the value for money conclusion in response to the January 2020 Ofsted report which had deemed the Council's Children's Services inadequate, with no other notable concerns.

It was **MOVED** by Councillor Peart, **SECONDED** by Councillor Hall, and;

RESOLVED that the Audit Findings Report be noted.

* **104** **Statement of Accounts and Annual Governance Statement 2019/20**

The Committee considered the Report of the County Treasurer (CT/20/96) on the Statement of Accounts and Annual Governance Statement. The Report highlighted the key messages from the Statement of Accounts 2019/20:

- Earmarked reserves (excluding schools and non-schools carry forwards) increased by a net £8.8 millions.
- The authority held a negative reserve for the first time due to the underfunding of the Dedicated Schools Grant Special Educational Need and Disabilities (SEND) service. The creation of this reserve was

in line with Government requirements. It was unclear how Government intended to rectify historic and projected future underfunding.

- As at 31st March 2020 the Authority had a negative Balance Sheet with the Authority's liabilities being at £56 millions greater than its assets. This was not a concern as the Pension Liability of just over £1,050 millions did not represent an immediate call on the Authority's reserves.
- No new borrowing had taken place during the year with capital expenditure due to be met from borrowing being financed from internal resources.

The Report highlighted some minor amendments to the Annual Governance Statement to outline the actions that the Authority was taking in response to the January 2020 Ofsted report into the Council's Children's Services.

Discussion points centred around the creation of the negative reserve. The Committee was advised that whilst this was not an issue unique to Devon County Council, it nonetheless remained a worrying development.

It was **MOVED** by Councillor Mathews, **SECONDED** by Councillor Hall, and;

RESOLVED

- (a) that the Letters of Management Representation for the Devon Pension Fund and the County Council be approved;
- (b) that the Statement of Accounts for 2019/20 be approved;
- (c) that the Pension Fund Statement of Accounts for 2019/20 be approved;
- (d) that the preparation of both the Statement of Accounts for the Pension Fund and County Council on a going concern basis be approved; and
- (e) that the amended Annual Governance Statement be approved.

* 105 **Key Messages from the Redmond Review**

The Committee received a presentation from the County Treasurer on the Redmond Review, which was an independent review by Sir Tony Redmond into the effectiveness and accountability of local audit and transparency of financial reporting in local authorities, released by the Ministry of Housing, Communities and Local Government in September 2020.

The Redmond Review had suggested a number of key changes into the audit process, many of which required legislative action from Central Government. The presentation highlighted some changes that the Local Authority could consider for early implementation.

Members noted the presentation.

* **106** **Revised Internal Audit Plan, 2020/21**

The Committee considered the Report of the County Treasurer (CT/20/92) on the Revised Internal Audit Plan 2020/21 which described the revised programme of internal audit work for the financial year 2020/21 as impacted by the COVID-19 pandemic.

The Committee was assured that despite delays, the Devon Audit Partnership felt it would be able to provide a year-end opinion.

Discussion centred around the role of the Chairs and Vice-Chairs of relevant Scrutiny Committees in being proactively involved with Audit moving forward.

It was **MOVED** by Councillor Ackland, **SECONDED** by Councillor Hall, and;

RESOLVED;

(a) that the Chairs and Vice-Chairs of Scrutiny discuss the possibility of closer alignment of Audit Plans with the Scrutiny Committees' Work Programmes and;

(b) that the revised Internal Audit Plan for the year 2020/21 be approved.

* **107** **Risk Management Update 2020/21**

The Committee considered the Report of the County Treasurer (CT/20/93) on the Risk Management Update 2020/2021 which set out the current risk position of the Council, changes to risk management arrangements during 2020/21, and the role of the Audit Committee in accordance with the Council's Risk Management Policy.

It was **MOVED** by Councillor Berry, **SECONDED** by Councillor Peart, and;

RESOLVED that the Report be noted.

NOTES:

1. *Minutes should always be read in association with any Reports for a complete record.*
2. *If the meeting has been webcast, it will be available to view on the [webcasting site](#) for up to 12 months from the date of the meeting*

DENOTES DELEGATED MATTER WITH POWER TO ACT

The Meeting started at 10.30 am and finished at 12.53 pm