

Statement of Accounts & Annual Governance Statement 2018/19 Report of the County Treasurer

Please note that the following recommendations are subject to confirmation by the Committee before taking effect.

1. Recommendations – it is recommended that members:

- 1.1. Approve the Letters of Management Representation for the Devon Pension Fund and the County Council;
- 1.2. Approve the Statement of Accounts for 2018/19;
- 1.3. Approve the Pension Fund Statement of Accounts for 2018/19;
- 1.4. Approve the preparation of both the Statement of Accounts for the Pension Fund and County Council on a going concern basis; and
- 1.5. Note that there are no significant events since the Audit Committee meeting in May that would require an amendment to the Annual Governance Statement.

2. Background

- 2.1. The purpose of this report is to ask Members to approve the Letters of Management Representation and the Statement of Accounts for 2018/19.
- 2.2. The Statement of Accounts has been prepared according to CIPFA's Code of Practice on Local Authority Accounting 2018/19. This year the Code adopts two new accounting standards:
 - IFRS 15 Revenue from Contracts with Service Recipients; and
 - IFRS 9 Financial Instruments.
- 2.3. There is no significant impact on how the Authority recognises or measures assets, liabilities, income or expenditure. However, there are additional disclosures:
 - Aged debt analysis of debtors for local taxation - business rates and council tax (Note 19)
 - Additional analysis of revenue from service recipients (Note 15)
 - How variations in the fair value of investments are accounted for and classified (Note 18)
 - The Available for Sale Reserve is replaced by the Financial Instruments Revaluation Reserve (Note 18).

3. Key Messages

- 3.1. The format of the Comprehensive Income and Expenditure Statement (CIES) reflects the Authority's current reporting segments in 2018/19 (consistent with the Authority's budget book and budget monitoring reports).
- 3.2. The Authority has a negative Balance Sheet as at 31st March 2019 which means that the Authority's liabilities are £103 millions greater than its assets (£226 millions at 31st March 2018). Although it may appear that this is a concern it is not as the Pension Liability of just under £1,050 millions does not represent an immediate call on the Authority's reserves and is a snap-shot valuation in time based on assumptions. The true value of the deficit is assessed on a triennial basis with contribution rates set to recover the balance over the longer-term.
- 3.3. No new borrowing has taken place this year with capital expenditure due to be met from borrowing being financed from internal resources.
- 3.4. Earmarked reserves (excluding carry forwards and schools) have increased by £25.2 millions (Note 9), and the explanations are set out in this extract from the outturn report to Cabinet in May 2019:

	£000	£000
Budgeted contribution - to offset risks relating to the Pilot		5,000
Underspend on Public Health Ring-fenced Grant	227	
In year change to Minimum Revenue Provision	3,925	
Release from Financial Instruments Adjustment Account - one off	2,948	
Bellwin Scheme Related Emergencies - mild winter	1,589	
Business Rates Pilot - Children's Initiatives	11,505	
Business Rates Pilot - Gain & Compensation Grants	1,577	
Business Rates - Levy Account Suplus Distribution - one-off	<u>1,550</u>	
		23,321
Spend on Transformation	(1,049)	
Spend from On Street Parking Reserve	<u>(2,089)</u>	
		<u>(3,138)</u>
		25,183

- 3.5. External audit has detailed the small number of amendments made to the unaudited Statement of Accounts for the Authority and the Pension Fund.
- 3.6. The audit is still not complete and as a result our auditors may request further small changes to the Statement of Accounts. Should this be the case these changes will be disclosed at the Audit Committee.

4. Letters of Representation

- 4.1 In order to provide assurance to our auditor's that they have received complete and accurate information the Audit Committee is asked to provide letters of representation. The Draft Letters of Management Representation relating to the Devon Pension Fund and the County Council are attached in the appendices.

5. Annual Governance Statement

- 5.1 The Statement was approved by the Audit Committee on 21st May 2019 and signed by the Chief Executive and Chairman of the Audit Committee. There have not been any significant events since May that would require any amendment to the Statement and its re-approval.

6. Conclusion

- 6.1 The Committee is recommended to approve the Statement of Accounts and the letters of representation contained in the appendices to this report.

Mary Davis

Electoral Divisions: All

Local Government Act 1972

List of Background Papers

Contact for Enquiries: Mat Thorpe
Tel No: (01392) 38 1310 Room 195

Background Paper Date File Ref

There are no equality issues associated with this report

Draft management representation letter – Devon Pension Fund

29th July 2019

Grant Thornton UK LLP
2 Glass Wharf
Bristol
BS2 0EL

Dear Sirs

**Devon Pension Fund:
Financial Statements for the year ended 31st March 2019**

This representation letter is provided in connection with the audit of the financial statements of Devon Pension Fund ('the Fund') for the year ended 31st March 2019 for the purpose of expressing an opinion as to whether the Fund financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

1. We have fulfilled our responsibilities for the preparation of the Fund's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
2. We have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial statements.
3. The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
4. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
5. We acknowledge our responsibilities for making the accounting estimates included in the financial statements. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Where it was necessary to choose between estimation techniques that comply with the Code, we selected the estimation technique considered to be the most appropriate to the Fund's particular circumstances for the purpose of giving a true and fair view. Those

estimates reflect our judgement based on our knowledge and experience about past and current events and are also based on our assumptions about conditions we expect to exist and courses of action we expect to take.

6. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.
7. Except as disclosed in the financial statements:
 - there are no unrecorded liabilities, actual or contingent;
 - none of the assets of the Council has been assigned, pledged or mortgaged; and
 - there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
8. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
9. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
10. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
11. The Pension Fund's actuaries provided an assessment of the impact of the McCloud judgement on the estimated liabilities of the Pension Fund. This was assessed as being material to the Pension Fund and the disclosure of the liability within the notes to the financial statements was amended accordingly.
12. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
13. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
14. We believe that the Fund's financial statements should be prepared on a going concern basis on the grounds that current and future sources of

funding or support will be more than adequate for the Fund's needs. We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

Information Provided

15. We have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the Fund financial statements such as records, documentation and other matters;
- additional information that you have requested from us for the purpose of your audit; and
- unrestricted access to persons within the Fund from whom you determined it necessary to obtain audit evidence.

16. We have communicated to you all deficiencies in internal control of which management is aware.

17. All transactions have been recorded in the accounting records and are reflected in the financial statements.

18. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

19. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund and involves:

- management;
- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the financial statements.

20. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

21. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

22. There have been no communications with The Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

23. We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.

24. We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.

25. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Approval

The approval of this letter of representation is minuted by the Council's Audit Committee at its meeting on 29th July 2019.

Name	Cllr John Clatworthy
Position	Chairman of the Audit Committee

Name	Mary Davis
Position	County Treasurer

Draft management representation letter – County Council

29th July 2019

Grant Thornton UK LLP
2 Glass Wharf
Bristol
BS2 0EL

Dear Sirs

Devon County Council: Financial Statements for the year ended 31st March 2019

This representation letter is provided in connection with the audit of the financial statements of Devon County Council for the year ended 31st March 2019 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

1. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
2. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
3. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
4. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial

statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.

6. Except as disclosed in the financial statements:
 - there are no unrecorded liabilities, actual or contingent;
 - none of the assets of the Council has been assigned, pledged or mortgaged; and
 - there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
7. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
8. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
9. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
10. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council's financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
11. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.
12. There is one unadjusted item in relation to the impact of the McCloud judgement impacting the pension liability and service costs. We have not adjusted the Council's financial statements for this as it is immaterial to the results of the Council and its financial position at the year-end.
13. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

14. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
15. We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

16. We have provided you with:
 - access to all information of which we are aware that is relevant to the preparation of the Council financial statements such as records, documentation and other matters;
 - additional information that you have requested from us for the purpose of your audit; and
 - unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
17. We have communicated to you all deficiencies in internal control of which management is aware.
18. All transactions have been recorded in the accounting records and are reflected in the financial statements.
19. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
20. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements.
21. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
22. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

23. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.

24. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

25. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

26. The disclosures within the Report of the Treasurer and Chief Executive (Narrative Report) fairly reflect our understanding of the Council's financial and operating performance over the period covered by the Council financial statements.

Approval

The approval of this letter of representation is minuted by the Council's Audit Committee at its meeting on 29th July 2019

Name Cllr John Clatworthy
Position Chairman of the Audit Committee

Name Mary Davis
Position County Treasurer