

**Statement of Accounts & Annual Governance Statement 2019/20
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 the Committee:

- 1.1. Approves the Letters of Management Representation for the Devon Pension Fund and the County Council;
- 1.2. Approves the Statement of Accounts for 2019/20;
- 1.3. Approves the Pension Fund Statement of Accounts for 2019/20;
- 1.4. Delegates authority to the Chair of the Committee (in consultation with the County Treasurer) to agree the final version of the Pension Fund Statement of Accounts, should the external auditor require amendments as a result of the matter to be discussed in Part 2 of this Committee meeting;
- 1.5. Approves the preparation of both the Statement of Accounts for the Pension Fund and County Council on a going concern basis; and
- 1.6. Approves the amended 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 2019/20.
- 2.2. The Statement of Accounts has been prepared according to CIPFA's Code of Practice on Local Authority Accounting 2019/20. This year there have not been any significant changes to the Code.
- 2.3. As a result of the impact of Coronavirus, Parliament amended the deadlines in the Accounts and Audit Regulations for the 2019/20 accounts, putting back the publication deadline for the unaudited accounts to 31st August 2020 (31st May 2019) and the publication date for the audited accounts to 30th November 2020 (31st July 2019).

3. Key Messages – Pension Fund Accounts

3.1. The external auditor will be reporting the audit findings on the Pension Fund, both in Part 1 and Part 2 of this Committee meeting.

4. Key Messages – Authority’s Accounts

4.1. The format of the Comprehensive Income and Expenditure Statement (CIES) reflects the Authority's current reporting segments in 2019/20 (consistent with the Authority's budget book and budget monitoring reports).

4.2. At the beginning of the financial year, earmarked reserves (excluding schools and non-schools carry forwards) stood at £111.2 millions. During the year earmarked reserves have increased by a net £8.8 millions to £120.0 millions. The reason for this movement is explained in the following table, where £7.5 million of the increase was budgeted for and the additional £1.3 million is the net position after business rate pooling gain and underspend on the public health grant of £4.1 millions are offset by spending of £2.8 millions against reserves:

	£000	£000
Budgeted contribution		7,500
Underspend on Public Health Ring-fenced Grant	1,686	
Business Rates Risk Reserve - Pooling Gain & additional grant	<u>2,441</u>	4,127
Spend on Transformation	(1,475)	
Spend from On Street Parking Reserve	(786)	
Spend from Climate Change Emergency Reserve	(54)	
Spend from Business Rates Pilot Reserve	(503)	
Spend from Budget Management Reserve	<u>(20)</u>	
		<u>(2,838)</u>
		8,789

4.3. In addition, the Authority holds a working General Fund balance of £14.79 millions at 31 March 2020, an increase of £33,000 during the year. Capital grants unapplied have reduced by just over £15 millions and capital receipts have decreased by £700,000.

4.4. For the first time, the authority now also holds a negative reserve. The underfunding of the Dedicated Schools Grant Special Educational Needs and Disabilities (SEND) service has resulted in £19.772 millions being held on the Balance Sheet (Note 9 of the Statement of Accounts). The creation of the negative reserve is in line with

Government requirements and, whilst recognising this is a national issue, it is nonetheless a worrying development for Local Government. It is unclear how Government intends to rectify the historic and projected future underfunding.

4.5. Parliament has directed that from 2020/21 for a period of three years, this negative reserve will be transferred to an unusable reserve. It is not clear what will happen after this three year period expires. This temporary accounting treatment does not address the fundamental issue that Government funding is not sufficient to cover the spending pressures of SEND.

4.6. The Authority has a negative Balance Sheet as at 31st March 2020 which means that the Authority's liabilities are £56 millions greater than its assets (£103 millions at 31st March 2019). Although it may appear that this is a concern it is not as the Pension Liability of just over £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.

4.7. No new borrowing has taken place this year with capital expenditure due to be met from borrowing being financed from internal resources.

4.8. The audit is still not complete and as a result our auditors may request further 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 and signed by the Chief Executive and Chairman of the Audit Committee on 10th August 2020. External Audit has recommended that the Statement is updated to outline the actions that the Authority is taking in response to the recent Ofsted report into Children's Services. The Audit Committee is asked to consider the amendments and approve the amended Annual Governance Statement.

6. Conclusion

- 6.1 The Committee is recommended to approve the Statement of Accounts, the amended Annual Governance Statement 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: Angie Sinclair
Tel No: (01392) 38 1310 Room 195

<u>Background Paper</u>	<u>Date</u>	<u>File Ref</u>
There are no equality issues associated with this report		

Draft management representation letter – Devon Pension Fund

26th November 2020

Grant Thornton UK LLP
2 Glass Wharf
Bristol
BS2 0EL

Dear Sirs

**Devon Pension Fund:
Financial Statements for the year ended 31st March 2020**

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 2020 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 2019/20 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 2019/20 (“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. 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..
6. Except as disclosed in the financial statements:
 - there are no unrecorded liabilities, actual or contingent;
 - none of the assets of the Fund 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. 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.
8. 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.
9. 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.
10. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
11. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
12. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Fund's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern 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

13. 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
- access to persons within the Fund via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

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

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

16. 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.

17. 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.

18. 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.

19. 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.
20. 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.
21. We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.
22. 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.
23. 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 26th November 2020.

Yours faithfully

Name Cllr John Mathews
Position Chair of the Audit Committee

Name Mary Davis
Position County Treasurer

Draft management representation letter – County Council

26th November 2020

Grant Thornton UK LLP
2 Glass Wharf
Bristol
BS2 0EL

Dear Sirs

Devon County Council: Financial Statements for the year ended 31st March 2020

This representation letter is provided in connection with the audit of the financial statements of Devon County Council for the year ended 31st March 2020 for the purpose of expressing an opinion as to whether the 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 2019/20 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 2019/20 ("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.
6. 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.
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 Council's financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
11. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

12. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
13. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be 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

14. 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
 - access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.
15. We have communicated to you all deficiencies in internal control of which management is aware.
16. All transactions have been recorded in the accounting records and are reflected in the financial statements.
17. 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.
18. 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.

19. 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.

20. 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.

21. 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.

22. 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

23. 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

24. 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 26th November 2020.

Yours faithfully

Name	Cllr John Mathews
Position	Chair of the Audit Committee

Name	Mary Davis
Position	County Treasurer