

**MINUTES** of a **MEETING** of the **AUDIT COMMITTEE** held on 5 December 2023 at 5.00 pm

**Present**

**Councillors**

E Buczkowski, C Connor, G Duchesne,  
L Knight (Vice Chairman), R Roberts and  
S Robinson

**Apology**

**Councillor**

L G J Kennedy

**Also Present**

**Councillors**

J Buczkowski and D Wulff

**Also Present**

**Officers**

Andrew Jarrett (Deputy Chief Executive (S151)), Paul Deal (Corporate Manager for Finance, Property and Climate Change), Matthew Page (Corporate Manager for People, Governance and Waste), Dr Stephen Carr (Corporate Performance & Improvement Manager), Paul Middlemass (Audit Manager), David Parker (Democratic Services & Policy Research Officer) and Sarah Lees (Democratic Services Officer)

**Councillors**

**Online**

J M Downes,  
G Czapiewski, A Glover, L Taylor and J Wright

**43. APOLOGIES**

Apologies were received from Cllr Lance Kennedy.

**44. PUBLIC QUESTION TIME**

The following questions were asked by members of the public:

**Paul Elstone**

My Questions relate to Agenda Item 8 Grant Thornton Interim Audit Findings for 2022/2023:

## **Question 1**

Page 5 of the Report - Headlines - says the following. As set out in the Value for Money section of this report the Council have made loans to its subsidiary company i.e. 3 Rivers, totalling circa £23 million.

This loan figure is higher than previously stated. Therefore, what is the exact amount of the 3 Rivers loan today?

Answer

£22.171m

## **Question 2**

The report also says that the Council has previously recognised impairments of around £5.3 million. That its assessment in November 2023 for a further impairment of £3.7 million.

Therefore, a total impairment or write off or loss to this Council of £9 million. This as a result of its lending to 3 Rivers.

For full clarity can it be confirmed that the £9 million is the actual amount of impairment sitting on MDDC's accounts today, this as the figure seems to be rapidly escalating ?

Answer

No, the impairments to date are the c£5.3m, the c£3.7m are the likely further impairments incurred in soft closing the company. These are still estimates based on a number of commercial variables.

## **Question 3**

Reference to Agenda item 6, Corporate Risk Register CR9a – Reputational Risk of 3 Rivers.

Despite this administration saying they will not apportion any blame in their investigation into 3Rivers, it seems officers are willing to blame the general public for asking questions even threatening criminal action. The general public are justifiably very concerned because they can see that £9m is being written off.

Amongst other things they are aware of, the S151 Officer said as early as 2019 and I quote 'We have taken on the St George's Court Scheme, there was obviously no profit in it. If 3Rivers had been offered it on a commercial basis, it would not have taken it'.

This was after he had recommended to Members that 3Rivers build this development. Also at the Cabinet meeting taking decisions involving 3Rivers the Cabinet Member for Finance asked the Chair of Scrutiny to withdraw a comment about 'cooking the books' which they declined to do.

My question is directed at Grant Thornton on this or even Bishop Fleming. Will the external auditors examine each of these points made?

Answer

In terms of the work that we are looking at as part of the audit, all audit years relating to 2021/22 and prior have already been completed, conducted and closed and in reference to our previous external auditors reports you will see, certainly in terms of the Value For Money findings, areas where we have identified a number of recommendations over a number of those early years of the company. I would draw your attention to those previous audit reports and those findings.

I can only comment about the audit year that is still open and has yet to be certified as you'll see from the update report that we have today the audit work is still very much in progress as is our Value For Money work in relation to not only 3Rivers but also wider governance and financial considerations to the Council so please be assured that we are looking at this area as part of the risk assessment that we set out in our plan earlier this year but I cannot comment anymore until that audit work has been concluded. (Julie Masci, Grant Thornton).

**Nick Quinn**

Regarding Agenda Item 8 – Grant Thornton Interim Audit Findings 2022/23

On page 3 of the Grant Thornton Interim Audit Findings in the third paragraph, mention is made of the Council decision on 6 September to 'soft close' 3 Rivers.

At a meeting arranged by Grant Thornton, three weeks after this decision, it was clear that "*no arrangements had been made to reconsider the accounts of the Company at that time*".

It is also stated in the following paragraph that "*the Council has yet to agree with 3 Rivers a clear timeline for the Company's closure or set out clear action plans to manage its exit strategy*".

It is also stated elsewhere in the report that the 2022/23 Audit has been paused.

My questions are:

Q1. Has Audit Committee received assurances that arrangements for the reconsideration of the 3 Rivers Accounts have now been put in place?

Answer

I am not quite sure what the 'reconsideration' is referring to? At the end of the day 3Rivers will have their accounts verified by an external auditor. That process has been suspended and the company have asked their external auditors for a delay in completing their accounts which I believe has been agreed. Obviously in order for Grant Thornton to complete their 22/23 audit of 'the Council' it needs to see completed accounts from 3Rivers however as I have said those accounts are delayed because there are a number of material transactions such as asset disposals that are ongoing at the moment and until those are clarified it's very difficult

for 3Rivers auditors to give a view on the accounts. So there is no 'reconsideration', there will be a 'consideration' of their accounts for the 22/23 final year. Once that's been concluded we will then consolidate them in our own 22/23 accounts and bring them in front of you as soon as we practically can. (S151 Officer)

Q2: As the Council's main Risk oversight Committee, has Audit Committee now been provided with a "clear timeline for the Company's closure and clear action plans to manage its exit strategy"?

Answer

I have not provided the Audit Committee with a clear timeline because I am following the Cabinet and Council's instruction to soft close the company as soon as practicable. Clearly senior officers and 3Rivers have had a number of discussions and now have weekly meetings to progress the soft closure. We do have a very clear close down plan which we are aiming for the vast majority of the company's activities to be closed by the end of this financial year, again clearly that kind of document would be very commercially sensitive therefore it couldn't be brought before you in a Part I capacity, we could, if you wanted to see it, provide that in a Part II report but at the end of the day I am following the instruction of full Council. I have given reassurance a few months ago now that where we can Cabinet will receive updates on a monthly basis in our budget monitoring reports of how that close down process is going clearly within the gift of Part I and Part II commerciality, so that's where we are with that at the moment. (S151 Officer).

Note: It was **AGREED** that the clerk would liaise with the Chairmen of the Scrutiny Committee and Audit Committee as to the most appropriate Committee to bring a Part II report to setting out the close down timetable for 3Rivers.

Q3: Has the 2022/23 Grant Thornton Audit been recommenced?

Answer

A thorough update will be provided to you under the Grant Thornton item later in the meeting.

45. **DECLARATION OF INTERESTS UNDER THE CODE OF CONDUCT**

There were no interests declared under this item.

46. **MINUTES OF THE PREVIOUS MEETING (00:16:00)**

The minutes of the meeting held on 24 October 2023 were confirmed as a true and accurate record and **SIGNED** by the Chairman.

In agreeing the minutes a query was made as to progress in relation to appointing an independent member to the Audit Committee. It was confirmed that the S151 Officer had spoken to the Managing Director of DAP who had informed him that an advert had gone out requesting independent members who would, between them, cover Committees across all the Devon Districts. Interviews would be held in early January and any appointments would be notified to the Committee as soon as possible after that.

#### 47. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman had no announcements to make.

#### 48. **CORPORATE RISK (00:21:00)**

The Committee had before it, and **NOTED**, a report \* from the Corporate Performance and Improvement Manager and Corporate Manager for People, Performance and Waste providing it with a quarterly update on the Corporate Risk Register.

Discussion took place regarding:

- The risk ratings in the Corporate Risk Register for the Culm Garden Village (20) and the Cullompton Relief Road (25). It was understood that one was dependent upon the other and that delivery of each scheme was dependent on funding, however, it was felt that the scores should be the same in relation to both due to the severity of the risk of non-delivery in each case. A suggestion was made that the severity score in relation to the Garden Village could be increased from 4 to 5 meaning that the overall risk rating would be 25. It was explained that this was a management document and that a decision would need to be taken by Leadership Team as to any amendment.

**RECOMMENDED** to Leadership Team that the risk ratings in relation to the Culm Garden Village and the Cullompton Relief Road both be set at 25.

(Proposed by Cllr E Buczkowski and seconded by Cllr S Robinson)

Further consideration was given to:

- Cyber Security risks given reduced staffing levels and a need to manage resources to mitigate risks. The Committee were informed that a Business Continuity exercise had taken place in the previous week with particular service areas being tested. A report and action plan would be brought before Members in due course listing the learning points and mitigations proposed to address any weaknesses.

Note: \* Report previously circulated.

#### 49. **DAP INTERNAL AUDIT PROGRESS REPORT (00:36:00)**

The Committee had before it, and **NOTED**, a report \* from the Devon Audit Partnership summarising the work undertaken to date during the current financial year.

The following was highlighted within the report:

- One audit had received 'Substantial Assurance' and nine had received 'Reasonable Assurance'.

- Work had been undertaken in relation to fraud detection as well as a review into the Single Person's Discount. A follow up audit in relation to Cyber Security was due to commence shortly.
- 2 'High' audit recommendations were outstanding and 22 'Medium'. It was felt that this was a relatively low figure for a local authority.
- It was confirmed that there had already been several applicants apply for the independent member positions being advertised by DAP.

Consideration was given to:

- It was anticipated that the independent members would attend 2 or 3 Committees each and they would observe in the first instance.
- There was some work to do in terms of updating the Council's website.
- The audit in relation to Housing Options and the increasing demands in relation to operating the Council's Homelessness Strategy. It was requested that a discussion take place at a future Audit Committee to better understand the pressures and costings in relation to this strategy and the subject as a whole. An update was requested from the Corporate Manager for Public Health, Regulation and Housing.

Note: \* Report previously circulated.

50. **GRANT THORNTON INTERIM AUDIT FINDINGS REPORT FOR 2022/2023 (00:45:00)**

The Committee had before it, and **NOTED**, a report \* from the External Auditors providing its Interim Findings for the 2022/2023 audit on the Council's Financial Statements.

The following was highlighted within the report:

- The report set out the interim position of the external audit for 22/23 which was dependent upon receipt of an independent audit of 3Rivers. The audit on the Council's accounts could not be completed until this had taken place. Questions relating to the assets and liabilities of 3Rivers remained outstanding. Until these were known and audited upon, Grant Thornton were unable to issue an opinion on the Council's consolidated accounts.
- Government was in the process of trying to restore hard statutory deadlines, the details of which were not yet known. If matters in relation to 3Rivers remained outstanding by the Government's yet to be determined deadline this could have an impact on Grant Thornton's opinion of the Council's accounts. Clarity was needed from Government as soon as possible.
- Outside of 3Rivers the Council's accounts were viewed in a positive light with few matters to bring to the Committee's attention. Some small adjustments were needed to building valuations and a tightening up needed in relation to journal processes.
- A final Value For Money report would be brought to the next Audit Committee.
- Once company assets had either been sold or transferred back to the Council then an audit of 3Rivers could go ahead quite swiftly. It was anticipated that this would take place by the end of the financial year.
- It was confirmed that only 10 Councils out of approximately 350 Council's nationally had had their accounts for the previous financial year signed off.

Note: \* Report previously circulated.

51. **IDENTIFICATION OF ITEMS FOR THE NEXT MEETING (00:10:00)**

The Committee had before it, and **NOTED**, the items identified in the work programme for the next meeting. It was also requested that the following come to a future meeting of the Committee:

- An update in relation to the cost pressures facing the Council in delivering the Homelessness Strategy.
- A possible Part II report in relation to the 3Rivers soft closure timetable (noting that this may be better placed going to the Scrutiny Committee).
- Update on the Financial Regulations.

It was **NOTED** that the Statement of Accounts for 2022/2023 would not be coming to the next meeting in January and neither would Grant Thornton's Audit Findings for 2022/2023 as a result of this. An introduction to Bishop Fleming would also now be postponed to a more appropriate Committee date.

(The meeting ended at 6.11 pm)

**CHAIRMAN**