

# The Audit Findings for Rutland County Council

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Year ended 31 March 2019

July 2019



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Rutland County Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

<b>Financial Statements</b>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:</p> <ul style="list-style-type: none"><li>• give a true and fair view of the financial position of the Council and its income and expenditure for the year; and</li><li>• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li></ul> <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed on site during July. Our findings are summarised on pages 4 to 9. We have identified one adjustment to the financial statements, in relation to the McCloud pensions case, that has resulted in a £2.267m increase in the Council's net pension liability and is also reflected in the Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix A. Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion in Appendix C, subject to the following outstanding matters; c</p> <ul style="list-style-type: none"><li>- completion of outstanding sample testing in some areas</li><li>- receipt of management representation letter;</li><li>- review of the final set of financial statements; and</li><li>- responses to our enquiries to the Pension Fund Auditor.</li></ul> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.</p> <p>Our anticipated audit report opinion will be unmodified.</p>
<b>Value for Money arrangements</b>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p>	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Rutland County Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix C. Our findings are summarised on pages 13 to 15.</p>
<b>Statutory duties</b>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"><li>• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li><li>• To certify the closure of the audit.</li></ul>	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code but are unable to issue our completion certificate until we complete our work on objections made by local electors in relation to the Council's action in relation to the St George's Barracks site.</p>

## Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit in this, our first year as your external auditors..

# Summary

## Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and the Audit and Risk Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

## Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls; and

- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you in January 2019.

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Risk Committee meeting on 23 July 2019, as detailed in Appendix C. These outstanding items include:

- completion of outstanding sample testing in some areas
- receipt of management representation letter;
- review of the final set of financial statements; and
- responses for our enquiries to the Pension Fund Auditor.

## Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remain the same as reported in our audit plan. We detail in the table below our determination of materiality for Rutland County Council.

	Council Amount (£)
Materiality for the financial statements	£1,250,000
Performance materiality	£937,500
Trivial matters	£62,500
Materiality for senior officer remuneration disclosure note	£100,000

# Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p><b>1</b> <b>The revenue cycle includes fraudulent transactions (rebutted)</b></p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition</p>	<p><b>Auditor commentary</b></p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>In our audit plan we rebutted this presumed risk for Rutland County Council because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Rutland County Council, mean that all forms of fraud are seen as unacceptable</li> </ul> <p>This assessment is still appropriate and therefore the risk is rebutted.</p>
<p><b>2</b> <b>Management override of controls</b></p> <p><b>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</b></p> <p><b>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</b></p>	<p><b>Auditor commentary</b></p> <p>We have:</p> <ul style="list-style-type: none"> <li>• evaluated the design effectiveness of management controls over journals</li> <li>• analysed the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul> <p>Our audit work has not identified any issues in respect of management override of controls.</p>

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

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### Valuation of land and buildings (Rolling revaluation)

The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£35 million) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value at the financial statements date, for those assets not formally revalued in the year.

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk.

### Auditor commentary

We have:

- evaluated the processes, controls and assumptions put in place by management to ensure that the PPE valuation is not materially misstated and evaluate the design of these and whether they are sufficient to mitigate the risk of material misstatement;
- assessed the competence, capabilities and objectivity of management's experts (valuers) who carried out your PPE valuations;
- evaluated the instructions issued by management to their management expert (a valuer) for this estimate and the scope of the valuer's work;
- communicated with the valuer about the basis on which the valuation is carried out and where necessary challenge the key assumptions
- reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding
- tested revaluations made during the year to ensure they are consistent with the valuer's report and input correctly into the Council's asset register
- evaluated the assumptions made by management for those assets not revalued during the year and how management have satisfied themselves that these are not materially different to current value

Our audit work has not identified any issues in respect of the valuation of land and buildings.

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

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### Valuation of pension fund net liability

The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£22million in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.

### Auditor commentary

We have, relying where appropriate on work carried out by ourselves as auditors of the Leicestershire Pension Fund:

- updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls;
- evaluated the instructions issued to the management expert (actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Authority to the actuary, through the Pension Fund, to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and
- documented and evaluated the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

### Impact of the McCloud judgement

The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members. The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for these pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits. The LGPS Scheme Advisory Board (with the consent of the Ministry of Housing, Communities and Local Government) commissioned GAD to prepare an assessment of the financial impact of the McCloud judgement on an LGPS scheme-wide basis to inform the financial reporting of participating entities. The report shows the estimates of the cost of the remedy if the LGPS underpin was found to result in unlawful age discrimination.

As a result of the ruling and the GAD review, we have worked with the Council to consider the implications and as a result the Council have commissioned a further actuarial assessment to include the impact of the findings. As a result of the actuarial assessment there has been a material increase in the pension liability to be disclosed by the Council, which has been reflected in amendment in the financial statements.

### Outstanding

We are awaiting assurances from the auditor of the Leicestershire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

# Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
<b>Land and Buildings – Other - £32.049m</b>	<p>Other Land and Buildings comprises of £24.3m of assets that are considered non-specialised in nature and are required to be valued at existing use value (EUV) at year end. The Council has engaged Bruton Knowles to complete the valuation of properties as at 31/03/2019 on a five yearly cyclical basis. The valuation of properties valued by the valuer has resulted in a net decrease of £2.415m. Management have considered the year end value of non-valued properties by engaging Bruton Knowles to undertake a desktop review of these properties to identify any changes in their total value. The total year end valuation of Other Land and Buildings was £32.049m, a net decrease of £2.415m from 2017/18 (£34.464m).</p>	<p>In respect of Other Land and Buildings, we have;</p> <ul style="list-style-type: none"> <li>assessed the competence, capabilities and objectivity of Bruton Knowles who carried out your valuations</li> <li>the completeness and accuracy of the underlying information used to determine the estimate</li> <li>the impact of any changes to valuation method</li> <li>the consistency of estimate against near Gerald Eve report</li> <li>the reasonableness of the increase in estimate from the prior year</li> <li>the adequacy of disclosure of estimate in the financial statements</li> </ul>	

## Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key judgements and estimates

Summary of management's policy	Audit Comments	Assessment																								
<b>Net pension liability – £47.095m</b>	<p>We have considered in respect of the Net pension liability;</p> <ul style="list-style-type: none"> <li>the competence, capabilities and objectivity of the Hymans Robertson who carried out the Authority's pension fund valuation</li> <li>the appropriateness of the actuary's roll forward approach taken and we have used PwC as an auditors expert to assess assumptions made by actuary in this approach. The results of this work is detailed in the table below:</li> </ul>																									
<p>The Council's total net pension liability at 31 March 2019 is £47.095m (PY £37.109m) comprising of the Leicestershire Local Government and unfunded defined benefit pension scheme obligations. The Council uses Hymans Robertson to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p>	<table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.4%</td> <td>2.4 – 2.5%</td> <td></td> </tr> <tr> <td>Pension increase rate</td> <td>2.5%</td> <td>2.4 – 2.5%</td> <td></td> </tr> <tr> <td>Salary growth</td> <td>3.5%</td> <td>3.5%</td> <td></td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>23.8 / 22.1 years</td> <td>23.7–24.4 / 21.5-22.8 years</td> <td></td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>26.2 / 24.3 years</td> <td>26.2-26.8 / 24.1-25.1 years</td> <td></td> </tr> </tbody> </table>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.4%	2.4 – 2.5%		Pension increase rate	2.5%	2.4 – 2.5%		Salary growth	3.5%	3.5%		Life expectancy – Males currently aged 45 / 65	23.8 / 22.1 years	23.7–24.4 / 21.5-22.8 years		Life expectancy – Females currently aged 45 / 65	26.2 / 24.3 years	26.2-26.8 / 24.1-25.1 years		<ul style="list-style-type: none"> <li>Completeness and accuracy of the underlying information used to determine the estimate</li> <li>Impact of any changes to valuation method</li> <li>Reasonableness of the Council's share of LPS pension assets.</li> <li>Reasonableness of increase/decrease in estimate</li> <li>Adequacy of disclosure of estimate in the financial statements</li> <li>The specific approach and assumptions used to assess the impact of the McCloud case.</li> </ul>
Assumption	Actuary Value	PwC range	Assessment																							
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## Assessment

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-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Going concern

## Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

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## Going concern commentary

### Management's assessment process

Management has considered:

- The Council's historical balanced financial position including its level of reserves
- Oversight and assessment of financial risk and performance
- Looking forward to 2019/20 and beyond

### Auditor commentary

- We are satisfied that it is appropriate that management has used the going concern assumption in the preparation and presentation of the financial statements
- In particular, we are satisfied that management has considered all pertinent areas relevant for consideration of the Council's ability to continue as a going concern.

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### Work performed

We reviewed management's assessment by:

- Ensuring the assessment concurred with our knowledge of the Council
- Reviewing the Medium Term Financial Strategy for 2019 to 2022 which was approved by Council in February 2019

### Auditor commentary

- We are satisfied there is no material uncertainty about the Council's ability to continue as a going concern.

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### Concluding comments

We are satisfied the use of the going concern assumption is appropriate.

### Auditor commentary

- We did not identify any events or conditions during the course of our audit that casted any significant doubt on the Council's ability to continue as a going concern.
- There is no impact on our audit opinion which is unmodified in relation to Going Concern

# Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
① <b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit and Risk Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
② <b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related parties or related party transactions which have not been disclosed</li> </ul>
③ <b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</li> </ul>
④ <b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the Council, which is included in the Audit and Risk Committee papers</li> </ul>
⑤ <b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to send a confirmation request to your bank. This permission was granted and the appropriate confirmation was obtained.</li> </ul>
⑥ <b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements</li> </ul>
⑦ <b>Audit evidence and explanations/significant difficulties</b>	<ul style="list-style-type: none"> <li>All information and explanations requested from management was provided.</li> </ul>

## Other responsibilities under the Code

Issue	Commentary
① <b>Other information</b>	<ul style="list-style-type: none"> <li>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</li> </ul> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect (Appendix C).</p>
② <b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit</li> <li>If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters.</p>
③ <b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>This is not required at Rutland County Council as the Council does not exceed the threshold of £500m for 2018/19.</p>
④ <b>Certification of the closure of the audit</b>	<p>We are unable to certify the closure of the 2018/19 audit in the audit opinion because of the objections received from local electors..</p>

# Value for Money

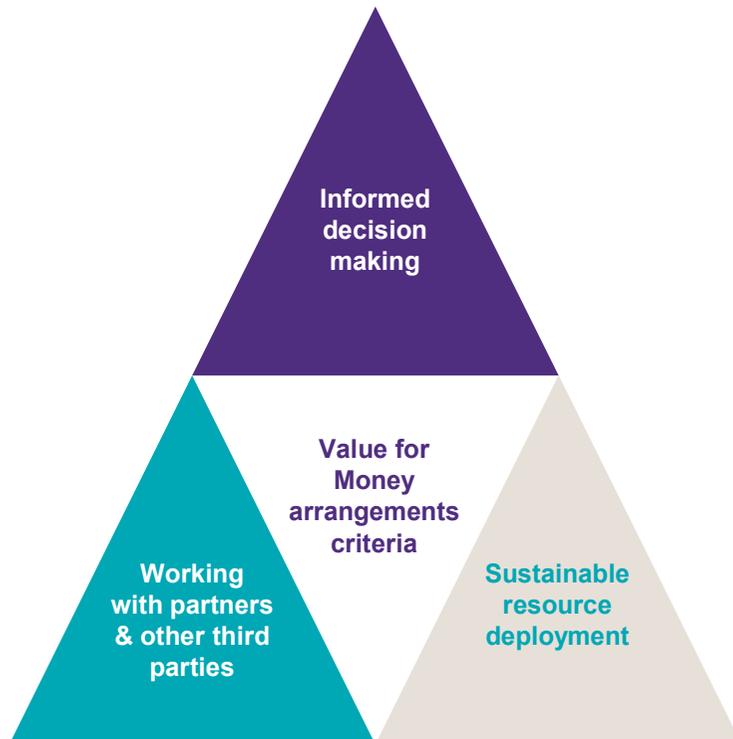
## Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

*"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."*

This is supported by three sub-criteria, as set out below:



## Risk assessment

We carried out an initial risk assessment in January 2019 and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated this risk to you in our Audit Plan dated January 2019.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any new significant risks where we need to perform further work.

# Value for Money

## **Our work**

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- Looking at the financial performance of the Council and its ability to deliver its budget and saving plans

We have set out more detail on the risk we identified, the results of the work we performed, and the conclusions we drew from this work on page 15.

## **Overall conclusion**

Based on the work we performed to address the significant risk, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix C.

## **Significant difficulties in undertaking our work**

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

## **Significant matters discussed with management**

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk (as per audit plan in January 2019)	Findings	Conclusion
<p><b>1 Financial Sustainability</b></p> <p>Officers are currently in the process of finalising the budget for 2019/20 and the medium term financial plan (MTFP) 2018 to 2023 and are expecting to present it to Cabinet in February 2018 for approval. For 2019/20 the Council is proposing a balanced budget with no use of General Fund reserves. The medium term financial strategy (MTFS) 2018/19 to 2022/23 shows that the Council will need to use general fund reserves to balance the budget from 2020/21 onwards (£1.45m in 2020/21, £1.3m in 2021/22 and £1.16m in 2022/23). While this position is far less severe than that faced by many authorities, it will still require careful planning and management.</p>	<p>We have undertaken the following procedures to address this VfM risk:</p> <ul style="list-style-type: none"> <li>Reviewed the outturn for 2018/19 and the updated MTFS.</li> <li>Assessed how the Council is planning on addressing the funding gaps going forward as the use of general fund reserves is not sustainable in the long term.</li> </ul> <p>Our Findings:</p> <ul style="list-style-type: none"> <li>The authority reported an underspend of £74k (after transfers to reserves of £2,355k) on its revised general fund budget for 2018/19. The General Fund reserve stands at £8.963m as at 31 March 2019. This is above the minimum General Fund reserve balance set by the authority of £2m (5.5% of net expenditure).</li> <li>The authority has set a General Fund balanced budget of £36.4m for 2019/20, with a contribution of £41k from general fund balances and has refreshed its Medium Term Financial Strategy 2019/20 to 2021/22. Based on these assumptions the authority has a balanced budget for 2019/20, which builds upon various savings schemes introduced during 2018/19. The authority has assumed a “stand still” funding position and on this basis has estimated it would have a budget shortfall of £1,544k in 2020/21, and a further £2,078k in 2021/22.</li> </ul>	<p><b>Auditor view</b></p> <ul style="list-style-type: none"> <li>Like most of local government, the authority faces a challenging future driven by funding reductions and an increase in demand for services. This is further complicated by the uncertainty relating to the future of financing of local government, particularly business rate reform, fair funding review and the strategy for funding social care. Given these uncertainties, the authority is proposing to use its general fund reserves in the short term until the outlook becomes clearer. In preparation for this the authority is reviewing all of its expenditure and income to identify savings and revenue options.</li> <li>The authority needs to make tough decisions ahead to deliver balanced budgets over the coming years, but also to maintain strict budgetary control to minimise overspends and continue to monitor delivery of savings targets tightly. The use of reserves to balance the budget is not sustainable in the long term and the authority needs to make the most of the time it now has available to put it onto a sound sustainable financial footing.</li> </ul>

# Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B

## Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified which were charged from the beginning of the financial year to July 2019, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
<b>Audit related</b>			
Housing Benefit (Subsidy) Assurance Process	6,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £6,500 in comparison to the total fee for the audit of £50,420 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
<b>Non-audit related</b>			
Certification of 2018/19 Teachers Pension Return	3,500 (indicative)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £3,500 in comparison to the total fee for the audit of £50,420 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

# Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000
1 Adjustment of the net pension liability to take into account the McCloud judgement.	£2,267	£2,267	£2,267
<b>Overall impact</b>	<b>£2,267</b>	<b>£2,267</b>	<b>£2,267</b>

## Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
<b>Note 4 Officers Remuneration</b>	<ul style="list-style-type: none"> <li>Inconsistencies in the prior year comparators to the audited financial statements</li> <li>Double counting of the Deputy Director of Resources in the Senior Officer Remuneration table and Officers Over £50k table</li> </ul>	The note is amended to correct the discrepancies identified.	✓
<b>Other disclosures</b>	<ul style="list-style-type: none"> <li>We identified a number of minor improvements required to other disclosures, none of which we consider merit reporting separately to Those Charged With Governance</li> </ul>	The recommended changes are all being made	✓

# Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

## Audit Fees

	Proposed fee	Final fee
<b>Council Audit</b>	£50,420	£52,420
<b>Total audit fees (excluding VAT)</b>	<b>£50,420</b>	<b>£52,420</b>

We are intending to charge an additional fee of £2,000. This additional fee relates to additional work required to audit the net pension liability, which is due to the impact of the McCloud judgement, which required us to undertake additional work both locally and nationally to assess the approach used by your actuaries and the additional assumptions made. This additional fee will also need to be approved by Public Sector Audit Appointments Ltd.

The fees reconcile to the financial statements.

## Non Audit Fees

Fees for other services (yet to be carried out)	Fees £
<b>Audit related services:</b>	
• Housing Benefit (Subsidy) Assurance Process	£6,500
<b>Non-audit services:</b>	
• Certification of 2018/19 Teachers Pension Return	£3,500
	<b>£10,000</b>

# Audit opinion

We anticipate we will provide the Council with an unmodified audit report

## Independent auditor's report to the members of Rutland County Council Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of Rutland County Council (the 'Authority') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund, statement of accounting policies and notes to the financial statements. The notes to the financial statements include the EFA, Notes to the Core Statements, Policies and Judgements and Notes to the Collection Fund Statement. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;

have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and

have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

the Strategic Director of Resources use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

the Strategic Director of Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### Other information

The Strategic Director of Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts and the Annual Governance Statement, other than the financial statements and, our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

### Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

# Audit opinion

## **Matters on which we are required to report by exception**

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

## **Responsibilities of the Authority, the Strategic Director of Resources and Those Charged with Governance for the financial statements**

As explained more fully in the Statement of Responsibilities set out on page 15, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Strategic Director of Resources. The Strategic Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Strategic Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Strategic Director of Resources is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit and Risk Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

## **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## **Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

## **Responsibilities of the Authority**

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

## **Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

# Audit opinion

## **Report on other legal and regulatory requirements - Delay in certification of completion of the audit**

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2019 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of an objection brought to our attention by a local authority elector under Section 27 of the Local Audit and Accountability Act 2014. We are satisfied that this matter does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

## **Use of our report**

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

John Gregory, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor  
Birmingham

**Xx July 2019**



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