

# The Audit Findings for Rutland County Council

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Year ended 31 March 2020

November 2020



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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 2020 for those charged with governance.

<b>Covid-19</b>	<p>The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council, including dealing with frontline challenges and working arrangements.</p> <p>Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements of 31 August 2020 and the date for audited financial statements of 30 November 2020</p>	<p>We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum in April 2020. In that addendum we reported an additional financial statement risk in respect of Covid-19 and highlighted the impact on our VfM approach. Further detail is set out on page 6.</p> <p>Restrictions for non-essential travel and social distancing has meant both Council and audit staff have had to complete the audit through remote access working arrangements i.e. remote accessing financial systems, video calling and additional procedures in relation to the completeness and accuracy of information produced by the entity. Both the Council and audit team have responded well to the challenges posed to ensure the audit work will be completed to the national deadline, although, in common with all our audits, the audit has taken significant additional inputs to complete.</p>
<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 remotely between July and November . Our findings are summarised on pages 5 to 14. One adjustment has been made to the financial statements during the audit that has resulted in a £174k adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix A.</p> <p>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 or material changes to the financial statements, subject to the following outstanding matters;</p> <ul style="list-style-type: none"> <li>• Receipt of assurances from the auditor of the Leicestershire Pension Fund;</li> <li>• receipt of management representation letter; and</li> <li>• review of the final set of financial statements.</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. Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph, highlighting material uncertainties in the valuations of your property, plant and equipment and net pension liability.</p>

# 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 2020 for those charged with governance.

<b>Value for Money arrangements</b>	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>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 have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix C. Our findings are summarised on page 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, although we have not yet concluded our work on the objection to the accounts made in 2018/19.</p> <p>We have completed the majority of work under the Code but are unable to issue our completion certificate until we complete the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement .</p>

## Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

# Audit approach

## 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 & 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 amended our audit plan, as communicated to you in April 2020, to reflect our response to the Covid-19 pandemic. This included obtaining an understanding of the impact of the pandemic on the organisation and considering how this manifests in the financial statements for the period. In particular, we have increased focus on asset valuations, use of the going concern assumption and narrative disclosure as well as considering this as a potential value for money risk.

## 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 & Risk Committee meeting on 10 November 2020, as detailed in Appendix C. These outstanding items include:

- Receipt of assurances from the auditor of the Leicestershire Pension Fund;
- receipt of management representation letter; and
- review of the final set of financial statements.

## 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.

We detail in the table below our determination of materiality for Rutland County Council.

	<b>Council Amount (£)</b>	<b>Qualitative factors considered</b>
<b>Materiality for the financial statements</b>	1,250,000	We determined materiality for the audit of the Council's financial statements as a whole to be £1.25m in our audit plan which equated to approximately 2% of the Council's 2018-19 gross operating expenses. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how it has expended its revenue and other funding.
<b>Performance materiality</b>	937,500	Performance materiality drives the extent of our testing and this was set at 75% of financial statement materiality. Our consideration of performance materiality is based upon a number of factors: <ul style="list-style-type: none"> <li>• We are not aware of a history of deficiencies in the control environment.</li> <li>• There has not historically been a large number or significant misstatements arising; and</li> <li>• Senior financial management and key reporting personnel have remained stable from the prior year audit</li> </ul>
<b>Trivial matters</b>	62,500	Triviality is the threshold at which we will communicate misstatements to the Audit & Risk Committee.
<b>Materiality for Senior Officer Remuneration</b>	100,000	In accordance with ISA320 we have considered the need to set lower levels of materiality for sensitive balances, transactions or disclosures in the accounts. We consider the disclosures of senior manager's remuneration to be sensitive as we believe these disclosures are of specific interest to the reader of the accounts.

# Significant audit risks

## Risks identified in our Audit Plan

## Auditor commentary

### Covid– 19

We:

- worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on time in July 2020;
- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council' property valuation expert
- evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;
- evaluated whether sufficient audit evidence could be obtained through remote technology;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ;
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment;

### The revenue cycle includes fraudulent transactions (rebutted)

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we determined that the risk of fraud arising from revenue recognition could be rebutted, because:

- there is little incentive to manipulate revenue recognition.
- opportunities to manipulate revenue recognition are very limited.
- the culture and ethical frameworks of local authorities, including Rutland County Council, mean that all forms of fraud are seen as unacceptable.

Therefore we did not consider this to be a significant risk for Rutland County Council.

There were no changes to our assessment as reported in the audit plan that we need to bring to your attention.

Whilst not a significant risk, as part of our audit work we are undertaking work on material revenue items. Our work has not identified any matters that would indicate our rebuttal was incorrect.

# Significant audit risks

## Risks identified in our Audit Plan

## Auditor commentary

### Management override of controls

We have:

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determine the criteria for selecting high risk unusual journals
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration
- gained an understanding of the accounting estimates, critical judgements applied and decisions made by management and consider their reasonableness with regard to corroborative evidence
- evaluated the rationale for any changes in accounting policies or significant unusual transactions.

Our audit work has not identified any issues in respect of management override of controls.

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

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

The Council's valuer revalued a proportion of assets as at 1 April 2019 in accordance with a rolling programme. A further review was carried out to update valuations to reflect the position as at 31 March 2020. In the report on the latter exercise, they have confirmed that as a result of the Covid-19 pandemic and the subsequent lockdown and impact on market activity, less certainty – and a higher degree of caution – should be attached to their valuations than would normally be the case. Their valuations are reported on the basis of 'material valuation uncertainty'. The Council have reflected this uncertainty in Note 17 to the financial statements.

We will refer to these material valuation uncertainties in our audit report as an emphasis of matter.

# Significant audit risks

## Risks identified in our Audit Plan

### Valuation of pension fund net liability

## 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.

The Council has included disclosures in Note 38 in relation to the ongoing impact of the Covid-19 pandemic, which has created uncertainty surrounding illiquid asset values. As such, the Pension Fund property and infrastructure allocations as at 31 March 2020 are difficult to value. Professional valuers have not been actively valuing many similar sized assets in the market due to the current lockdown environment. As such values have been rolled over from the end of February with an adjustment and may be inaccurate to the true 31 March 2020 position. We will refer to this material valuation uncertainties in our audit report as an emphasis of matter.

The Council have received an updated valuation which takes into account the consultation on the proposed remedy for the McCloud ruling regarding age discrimination (which was included in the 18/19 accounts). The effect of this is a reduction in the net pension liability of £174k, This is included in our list of audit adjustments in Appendix A.

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.

Our other audit work has not identified any other issues in respect of the valuation of the Council's pension fund net liability

## Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
<p><b>IFRS 16 implementation has been delayed by one year</b></p> <p>Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>Evaluated the processes the Authority has adopted to assess the impact of IFRS16 on its 2020/21 financial statements and whether the estimated impact on assets, liabilities and reserves has been disclosed in the 2019/20 financial statements.</li> </ul>	<p>Appropriate disclosure has been included within the financial statements.</p>
<p><b>Dedicated Schools Grant</b></p> <p>The Council The Council had a cumulative overspend of £0.268m as 31 March 2020 due to spend exceeding government funding. We have reviewed the statement from CIPFA which confirms the guidance in LAAP bulletin 99 Local Authority Reserves and Balances remains extant i.e.. it “neither anticipates nor allows for a voluntary earmarked balance to be presented in a deficit position.”</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>agreed the DSG disclosure note in the accounts to supporting documentation; and</li> <li>ensured that the Council has complied with LAAP bulletin 99</li> </ul>	<p>The Council have disclosed the impact of the overspend within the DSG note and have complied with the relevant guidance.</p>

# Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
<b>Land and Buildings – Other - £32.7m</b>	<p>Operational land and buildings comprises £32.7m of assets which are valued at EUV where market data is available or if specialised i.e. schools, libraries etc depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision</p> <p>The Council has engaged Bruton Knowles to complete the valuation of properties as at 31 March 2020, this includes all assets which are required to be measured at fair value.</p> <p>Management have demonstrated through correspondence with the valuer their challenge of assumptions used in the estimation of asset values.</p> <p>In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures in relation to estimation uncertainty at Note 17.</p> <p>The valuation of properties valued by the valuer has resulted in a net surplus on revaluation of £1.475m</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation expert and the scope of their work</li> <li>evaluated the competence, capabilities and objectivity of the valuation expert</li> <li>written to the valuer to confirm the basis on which the valuations were carried out</li> <li>tested on a sample basis revaluations of the Council's operational properties and investment properties during the year to ensure they have been input correctly into the Council's asset register and financial statements</li> </ul> <p>Our audit work has not identified any issues.</p>	

## 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 estimates and judgements

Accounting area	Summary of management’s policy	Auditor commentary	Assessment																								
<b>Net pension liability – £39.960m</b>	<p>The Council’s total net pension liability at 31 March 2020 is £39.960m (PY £47.095m) comprising the Leicestershire Local Government Pension Scheme and unfunded defined benefit pension scheme obligations in relation to Teachers.</p> <p>The Council uses Hymans Robertson LLP to provide actuarial valuations of the Council’s assets and liabilities derived from (this scheme/these schemes). A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy ,discount rates ,salary growth and investment return .Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £10.229m net actuarial gain during 2019/20.</p>	<p>We have</p> <ul style="list-style-type: none"> <li>Undertaken an assessment of management’s expert</li> <li>Reviewed and assessed the actuary’s roll forward approach taken,</li> <li>Used an auditors expert (PWC) to assess the actuary and assumptions made by the actuary. This led to further detailed discussions with the Pension Fund and Actuary whereby we challenged these assumptions and the calculation method applied</li> </ul> <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>2.3%</td> <td>2.3%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>1.9%</td> <td>1.8% - 2%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>2.4%</td> <td>Scheme specific</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>22.2 / 21 years</td> <td>Consistent</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>25.2 / 23.8 years</td> <td>Consistent</td> <td>●</td> </tr> </tbody> </table> <p>In addition to this, we have:</p> <ul style="list-style-type: none"> <li>identified no issues with the completeness and accuracy of the underlying information used to determine the estimate.</li> <li>confirmed there have been no changes to the valuation method since the previous year, other than the updating of key assumptions above.</li> <li>satisfied ourselves in respect of the reasonableness of: <ul style="list-style-type: none"> <li>the Council’s share of pension assets.</li> <li>of the decrease in the estimate, and</li> <li>the adequacy of disclosure of estimate in the financial statements</li> </ul> </li> </ul>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.3%	2.3%	●	Pension increase rate	1.9%	1.8% - 2%	●	Salary growth	2.4%	Scheme specific	●	Life expectancy – Males currently aged 45 / 65	22.2 / 21 years	Consistent	●	Life expectancy – Females currently aged 45 / 65	25.2 / 23.8 years	Consistent	●	
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**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
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  - We consider management’s process is appropriate and key assumptions are neither optimistic or cautious
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# Significant findings – 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).

## 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 2020/21 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.

### 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

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

### Concluding comments

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

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 matters for communication

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	Auditor commentary
<b>Matters in relation to fraud</b>	We have previously discussed the risk of fraud with the Audit & 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.
<b>Matters in relation to related parties</b>	We are not aware of any related parties or related party transactions which have not been disclosed
<b>Matters in relation to laws and regulations</b>	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.
<b>Written representations</b>	A letter of representation has been requested from the Council, which is included in the Audit & Risk Committee papers
<b>Confirmation requests from third parties</b>	We requested from management permission to send a confirmation request to your bank. This permission was granted and the appropriate confirmation was obtained.
<b>Disclosures</b>	Our review found no material omissions in the financial statements
<b>Audit evidence and explanations/significant difficulties</b>	All information and explanations requested from management was provided.

## Other responsibilities under the Code

Issue	Commentary
<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>
<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>
<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 2019/20.</p>
<b>Certification of the closure of the audit</b>	<p>We are unable to certify the closure of the 2019/20 audit of Rutland County Council in the audit report, as detailed in Appendix C, because we have not yet completed the work required in relation to the Whole of Government Accounts audit carried out by NAO. In addition, we have not yet completed our work on the objection to the accounts raised in 2018/19, and this could also impact on the timing of our 2019/20 certificate..</p>

# Value for Money

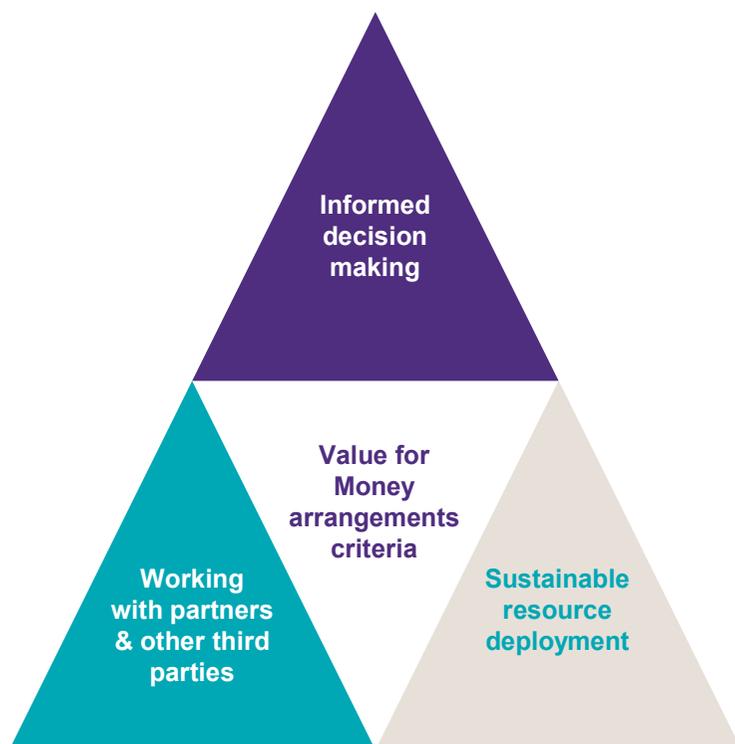
## Background to our VFM approach

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 April 2020. 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 2020 and did not identify any significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated this to you in our Audit Plan.

We have continued our review of relevant documents up to the date of giving our report, including giving consideration to the impact of the Covid-19 pandemic, and have not identified any further significant risks where we need to perform further work. It is likely that Covid-19 may have a more significant impact on our VFM conclusion work in 2020/21, given the timing of the initial outbreak.

## Overall conclusion

Based on the work we performed, 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.

# 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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B

# Independence and ethics

## 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, 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>			
Certification of Teachers Pension Return	4,000	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 £4,000 in comparison to the total fee for the audit of £56,420 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.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim	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 £56,420 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.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

## Non-audit related

None

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit & Risk Committee. None of the services provided are subject to contingent fees.

# 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 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000
<b>Internal Recharges</b>			
	Current Year (2019/20)	N/A	£0
Testing identified that internal recharges have incorrectly been included in the income and expenditure figures for the Council. Internal recharges do not meet the definitions of income and expenses in as set out in the CIPFA Code of Practice as they are not an inflow/outflow of economic benefits to/from the authority as a whole and do not result in an increase/decrease in reserves.	Dr People Income £1,650		
	Dr Places Income £407		
	Dr Resources Income £32		
	Cr People Expenditure £1,650		
	Cr Places Expenditure £407		
	Cr Resources Expenditure £32		
Officers also identified that internal recharges had been included in income and expenses in 2018/19. As a result a prior period adjustment has been made to correct the error.	Prior Year (18/19)	N/A	£0
For both years, the impact on the reported net expenditure is nil, as would be expected when internal transactions are eliminated.	Dr People Income £1,557		
	Dr Places Income £487		
	Dr Resources Income £23		
	Cr People Expenditure £1,557		
	Cr Places Expenditure £487		
	Cr Resources Expenditure £23		
Adjustment of the net pension liability to take into account an updated estimate of the impact of the McCloud judgement .	Cr Re-measurements of the net defined benefit liability/(asset) £174	Dr Other Long Term Liabilities £174	(£174k)
	Dr MIRS £174	Cr Pension Reserve £174	
<b>Council Tax and NNDR Provisions for Doubtful Debts</b>	N/A	Cr Short Term Debtors £151	£0
Testing identified that the provision for doubtful debts for Council Tax and NNDR was incorrectly included within the short term creditors.		Dr Short Term Creditors £151	
<b>Overall impact</b>	<b>£0</b>	<b>£0</b>	<b>(£174)</b>

# Audit adjustments

## 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>Material uncertainty in relation to the</b>	The Leicestershire Pension Fund have included a material uncertainty in their accounts relating to the valuation of its property assets.	The Council include a similar paragraph within its Defined Benefit Pension Schemes / Assumptions made about the future and other major sources of estimation uncertainty notes to reflect the impact of this issue on the net pension liability.	✓
<b>Other disclosures</b>	We identified a number of minor improvements required to other disclosures, none of which we consider merit reporting separately to Those Charged With Governance	The recommended changes are all being made	✓

# Fees

We confirm below the current situation in relation to audit fees. As noted earlier in this report, the completion of audit work remotely in the context of Covid-19 has meant that we have had to deploy significantly increased resources in order to complete audits, and it is unfortunately likely that we will need to recover part of the cost of this through additional audit fees, which we recognise we had already increased due to the increased regulatory requirements. We anticipate an additional fee of approximately 15% of the previously agreed fee, but we will discuss this with your Director of Resources.

<b>Audit fees</b>	<b>Proposed fee</b>	<b>Final fee</b>
Council Audit	£56,420	£TBC
<b>Total audit fees (excluding VAT)</b>	<b>£56,420</b>	<b>£TBC</b>

<b>Non-audit fees for other services</b>	<b>Proposed fee</b>	<b>Final fee</b>
Audit Related Services		
• Housing Benefit (Subsidy) Assurance Process	£6,500	TBC
• Certification of 2019/20 Teachers Pension Return	£4,000	TBC
Non- Audit Related Services	N/A	N/A
• None		
<b>Total non- audit fees (excluding VAT)</b>	<b>£10,500</b>	<b>TBC</b>

# Audit opinion

**We anticipate we will provide the Council with an unqualified opinion**

## 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 2020 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement, notes to the financial statements and a Statement of Accounting Policies. The notes to the financial statements include the EFA, Notes to the Core Statements, 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 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2020 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; 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.

#### The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Strategic Director for Resources and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

# Audit 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 for Resources use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Strategic Director for 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.

In our evaluation of the Strategic Director for Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority will continue in operation.

## Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings and property investments

We draw attention to Note 38 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's land and buildings and the Authority's share of the pension fund's property investments as at 31 March 2020. As, disclosed in note 38 to the financial statements, the outbreak of Covid-19 has impacted global financial markets and market activity has been impacted. A material valuation uncertainty was therefore disclosed in both the Authority's property valuer's report and the pension fund's property valuation reports. Our opinion is not modified in respect of this matter.

## Other information

The Strategic Director for Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report 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 Edition' 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.

# Audit opinion

## 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, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

## 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 for 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 for Resources. The Strategic Director for 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 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Strategic Director for 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 for 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 & 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.

# Audit opinion

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

### Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, 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 2020.

### 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 April 2020, 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 2020.

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.

## 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 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2020. We are satisfied that this work 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 2020.

### 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



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