



The Annual Audit Letter for Rutland County Council

Year ended 31 March 2020

January 2021



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Rutland County Council (the Council) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Risk Committee as those charged with governance in our Audit Findings Report on 10 November 2020.

Our work

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Materiality	We determined materiality for the audit of the Council's financial statements to be £1,250,000, which is approximately 2% of the Council's gross cost of services.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 18 December 2020. We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings and the property assets of its pension fund given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 18 December 2020.
Certificate	We are unable to certify that we have completed the audit of the financial statements of Rutland County Council until we complete our work on an objections made by local electors in relation to the Council's action in relation to the St George's Barracks site.

Working with the Council

The Covid-19 pandemic has impacted on the Council operational with the majority of its staff working remotely. 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 completion of the audit work.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff .

Grant Thornton UK LLP
January 2021

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's financial statements to be £1,250,000, which is approximately 2% of the Council's gross cost of services. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration of £100,000, which we consider to be sensitive and of interest to the public.

We set a lower threshold of £62,500, above which we reported errors to the Audit and Risk Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Covid-19</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • worked with management to understand the impact 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's 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; 	<p>Our audit work has not identified any issues in respect of Covid-19</p>
<p>Management override of internal controls</p>	<p>As part of our audit work we;</p> <ul style="list-style-type: none"> • 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. 	<p>Our audit work has not identified any issues in respect of management override of controls.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> 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 	<p>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.</p> <p>We referred to these material valuation uncertainties in our audit report as an emphasis of matter.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of net pension liability</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • 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. 	<p>The Council included disclosures within its Financial statements relating 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. Values have been rolled over from the end of February with an adjustment and may be inaccurate to the true 31 March 2020 position.</p> <p>We referred to this material valuation uncertainties in our audit report as an emphasis of matter.</p> <p>The Council 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 was a reduction in the net pension liability of £174k which was reflected in the financial statements.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 18 December 2020. Our opinion was delayed as we were awaiting assurances from the auditor of Leicestershire Pension Fund in relation to the net pension fund liability. These assurances were late due to the need identified at a late stage to undertake additional audit testing.

Preparation of the financial statements

The Council presented us with draft financial statements in July in accordance with the agreed timescale, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit and Risk Committee on 10 November 2020.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the Statement of Accounts in line with the national deadlines

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Council was below the audit threshold

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts. We did not identify any matters which required us to exercise our additional statutory powers.

Certificate of closure of the audit

We are unable to certify that we have completed the audit of the financial statements of Rutland County Council until we complete our work on an objection made by local electors in relation to the Council's action in relation to the St George's Barracks site. We will be determining this objection shortly.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work. Our risk assessment did not identify any significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

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 Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	January 2020
Audit Findings Report	November 2020
Annual Audit Letter	January 2021

Fees

	Planned fees £	Actual fees £	2017/18 fees £
Statutory audit	50,420	64,883	65,481
Total fees	50,420	64,883	

Audit fee variation

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of £50,420 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table. With the exception of the additional element for Covid-19, the increase were all communicated to you and agreed early in 2020.

Fee variations are subject to PSAA approval.

Area	Reason	Fee proposed
Raising the Bar	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.	£2,500
Pensions – valuation of net liabilities under International Auditing Standard (IAS) 19	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	£1,750
PPE Valuation – Work of Experts	We have increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations.	£1,750
Covid-19	Covid-19 has impacted on the audit of your financial statements in several ways. These impacts include: <ul style="list-style-type: none"> • Revisiting our audit planning • Additional work on management’s assumptions and estimates • Additional work on our financial resilience assessment • Impact of remote working on our teams and yours, which has led to routine audit work taking much longer than usual. 	£8,463
Total		£14,463

A. Reports issued and fees continued

Fees for non-audit services

Service	Fees £
Audit related services	
- Housing Benefit (Subsidy) Assurance Process	£6,500
- Certification of 2019/20 Teachers Pension Return	£4,000
Non-Audit related services	
- None	

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 table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor



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