



# Audit Completion Report

Rushcliffe Borough Council

Year ended 31 March 2020

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24 November 2020

Dear Members

### **Audit Completion Report – Year ended 31 March 2020**

We are pleased to present our Audit Completion Report for the year ended 31 March 2020. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum dated 6 February 2020. Since we issued our Audit Strategy Memorandum the UK has been subject to the challenges and restrictions of COVID-19. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

One implication of COVID-19 for the Council was that the deadlines for submission of the draft and audited financial statements were pushed back to 31 August and 30 November respectively. Despite the revised deadlines we acknowledge the difficulties encountered by your team during accounts preparation and audit, and would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0115 964 4744 .

Yours faithfully

David Hoose  
Mazars LLP

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# 1. EXECUTIVE SUMMARY

## Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of Rushcliffe Borough Council ('the Council') for the year ended 31 March 2020, and forms the basis for discussion at the Governance Scrutiny Group meeting on 24 November 2020.

The detailed scope of our work as your appointed auditor for 2019/20 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Sections 2 and 5 of this report outline the detailed findings from our work on the financial statements and our conclusion on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources. Section 2 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of control;
- Valuation of property, plant and equipment and assets held for sale; and
- Valuation of net pensions liability.

## Status of our work

As we outline on the following page, our work is substantially complete. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

### Opinion on the financial statements

We anticipate issuing an unqualified opinion on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.

### Value for Money conclusion

We anticipate concluding that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. Our draft auditor's report, including proposed conclusion, is provided in Appendix B.

### Whole of Government Accounts (WGA)

The NAO has not yet issued its Group Instructions regarding the audit work required and its timetable for audit reporting. The Council is expected to again be below the threshold requiring a detailed review of your WGA submission, and we would expect to be able to provide the information required by NAO by the confirmed deadline..

### Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. We have received no such objections or questions. Further details on the exercise of our wider powers are provided in section 2.

# 1. EXECUTIVE SUMMARY

## Status of our audit work

We have substantially completed our work on the financial statements and Value for Money conclusion for the year ended 31 March 2020. At the time of preparing this report the following matters remain outstanding:

Audit area	Status	Description of outstanding matters
Property, plant and equipment and Investment Properties	●	<p>We are awaiting evidence from management to support the assumptions used by the Council's internal valuation expert to support the detailed valuation for items that we have selected for sample testing.</p> <p>We are consulting on the on the form of the audit opinion wording that should be used against the backdrop of COVID-19. We currently expect that the disclosed 'material uncertainty' in property valuations caused by Covid19 will lead to an emphasis of matter paragraph in the audit opinion. We say more on this at page 7.</p>
Pensions	●	<p>Part of our assurance over the net pensions liability is derived from specified procedures commissioned from the external auditors of the Nottinghamshire Pension Fund. We are yet to receive their final report over the procedures we are seeking assurance over for our consideration.</p>
Whole of Government Accounts (WGA)	●	<p>NAO Group Instructions for local authority 2019/20 audits are not yet available and WGA returns and audit certificates cannot be issued at the present time.</p>
Audit Quality Control and Completion Procedures	●	<p>Our audit work is undergoing final stages of review by the Engagement Lead. In addition, there are residual procedures to complete, including agreeing the expected amendments to the final Statement of Accounts, updating post balance sheet event considerations to the point of issuing the opinion, completing the consolidation checks of Streetwise accounts into the Group accounts and obtaining final management representations. We also need to agree the final copy of the trial balance to the latest version of accounts.</p>

### Status

- Likely to result in material adjustment or significant change to disclosures within the financial statements
- Potential to result in material adjustment or significant change to disclosures within the financial statements
- Not considered likely to result in material adjustment or change to disclosures within the financial statements

We will provide the Governance Scrutiny Group with an update in relation to these outstanding matters in a follow-up letter, prior to signing the auditor's report.



# 2. EXECUTIVE SUMMARY (CONTINUED)

### Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum dated 6 February 2020. We have not made any changes to our audit approach since we issued our Audit Strategy Memorandum.

### Materiality

We set materiality at the planning stage of the audit at £852k using a benchmark of 2% of Gross Revenue Expenditure on the Surplus/Deficit on Provision of Services for the Group. Our final assessment of materiality, based on the final financial statements and qualitative factors is £818k using the same benchmark for the single entity. We set our trivial threshold (the level under which individual errors are not communicated to the Governance Scrutiny Group), at £25k based on 3% of overall materiality.

### Misstatements and internal control recommendations

Section 3 sets out any internal control recommendations that we make, together with an update on any prior year recommendations.

Section 4 outlines the misstatements noted as part of our audit as at the time of issuing this report. If any additional misstatements are noted on completion of the outstanding work, these will be reported to the Governance Scrutiny Group in a follow-up letter.



## 2. SIGNIFICANT FINDINGS

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 10 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

### Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Council's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

#### Significant risk

Management override of controls

#### Description of the risk

Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

#### How we addressed this risk

We addressed this risk through performing audit work over:

- Accounting estimates impacting on amounts included in the financial statements;
- Consideration of identified significant transactions outside the normal course of business; and
- Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

#### Audit conclusion

Our audit procedures have not identified any material errors or uncertainties in the financial statements, or other matters that we wish to bring to Members' attention in relation to management override of controls.

## 2. SIGNIFICANT FINDINGS (CONTINUED)

### Significant risk

#### Valuation of property, plant and equipment and Investment Properties

The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Authority's holding of PPE. Although the Authority uses an internal valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved in providing revaluations. We have therefore identified the valuation of PPE to be an area of significant risk.

At the outset of the Covid19 outbreak, guidance issued by the Royal Institute of Chartered Surveyors set out an expectation that valuers are likely to conclude that there is "material uncertainty" over the valuation of land and buildings at the balance sheet date.

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#### How we addressed this risk

We addressed this risk through performing the following audit work:

- Assessing the Council's valuers scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations;
- Considering whether the overall revaluation methodology used by the Council's valuer is in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies;
- Assessing whether valuation movements are in line with market expectations by reference to alternative sources of valuation data to provide information on regional valuation trends;
- Assessing the treatment of the upward and downward revaluations in the Council's financial statements with regards to the requirements of the CIPFA Code of Practice; and
- Assessing the approach that the Council adopts to ensure that assets not subject to revaluation in 2019/20 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuer.

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#### Current Position

We are finalising our sample testing of valuations on both PPE and Investment Properties and completing our testing in relation to the significant audit risk identified.

At the outset of the Covid19 outbreak, an expectation was raised that valuers were likely to conclude that a "material uncertainty" over the valuation of land and buildings existed at the balance sheet date. The Council's valuer has followed guidance issued by the Royal Institute of Chartered Surveyors and as expected their valuation report concluded that, due the impact of COVID-19 on the property market, there is "material uncertainty" over the valuation of land and buildings and investment properties at the balance sheet date. The Council did disclose this uncertainty in the draft financial statements but we have requested the Council update its financial statements to ensure this is disclosed to reflect the conclusion of the Council's valuer and not RICS in general.

We have considered the impact to our auditor's report and have included an 'emphasis of matters' paragraph to draw attention to the relevant disclosure note in the financial statements. Our draft Auditor's Report at Appendix B includes the 'emphasis of matter' paragraph we expect to include. This is not a modification to the audit opinion and this approach is consistent with our other local authority audits.

The procedures we have undertaken to date have not identified any material errors or uncertainties in the financial statements, or other matters that we wish to bring to Members' attention.

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## 2. SIGNIFICANT FINDINGS (CONTINUED)

### Significant risk

#### Valuation of net pensions liability

The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.

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#### How we addressed this risk

In relation to the valuation of the Council's defined benefit pension liability in addition to our standard programme of work in this area we addressed this risk through performing the following audit work:

- review the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information provided by PwC, the consulting actuary engaged by the National Audit Office;
- agree the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements;
- critically assess the competency, objectivity and independence of the Nottinghamshire Pension Fund's Actuary, Barnett Waddingham; and
- liaise with the auditors of the Nottinghamshire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This will include the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate.

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#### Current Position

The procedures we have undertaken to date have not identified any material errors or uncertainties in the financial statements.

Part of our assurance over the net pensions liability is derived from specified procedures commissioned from the external auditors of the Nottinghamshire Pension Fund. We are yet to receive their final report over the procedures we are seeking assurance over for our consideration. These assurances will also inform us of any concerns relation to the valuation of pension fund assets as a result of any uncertainty caused by Covid 19. We will need to consider the impact of this on the Council's share of the pension fund assets as shown in the balance sheet before issuing our opinion. This may give rise to additional disclosures in the Council's financial statements and also an additional 'emphasis of matter' explanation in our audit report.

In July 2020, MHCLG consulted on the proposed remedy for the 'McCloud' and 'Sargeant' cases. This indicates that the approach adopted for 2018/19 and 2019/20 was likely to have led to an overstatement of the pension fund liability as at 31 March 2020. Management did not obtain an updated actuarial valuation for these matters following the advice of the actuary. Management has liaised with the Pension Fund and its actuary and taken the view that this matter would not have a material impact on its estimated net pension liability valuation. As a result and it is not reflected in the Statements. We are satisfied the impact is not material to the gross liability estimate.

A second emerging issue is the Goodwin case that was brought against the Secretary of State for Education earlier this year regarding discrimination owing to sexual orientation in the Teachers' Pension Scheme. Management has liaised with the Pension Fund and its actuary and taken the view that this matter would not have a material impact on its estimated net pension liability valuation and it is not reflected in the Statements.

We will update the Governance Scrutiny Group if any significant reporting issues emerge from these areas.

## 2. SIGNIFICANT FINDINGS (CONTINUED)

### Significant matters discussed with management

We have discussed the impact of Covid19 on the Council's business and concluded there were no additional financial statement significant audit risks arising.

Significant matters discussed with management during our audit and which had implications for our audit testing and reporting included:

#### Financial Resilience

One area of concern arising from Covid19, is the impact on the Council's financial resilience. The full financial impact of Covid19 is not yet certain, however the initial outbreak impacted on the Council's ability to enact its original 2020/21 plan, including income generation and expenditure reductions. We recognise the Council is working through the implications and considerations through business planning and financial planning updates. The impact on the Council's finances will impact the level of useable reserves and it is important the Council develops clear plans to ensure the Council's financial resilience is assured over the medium term.

#### Financial Statement Matters: Sources of estimation uncertainty, including PPE, investment properties and pension fund assets and liabilities

We assessed the impact of COVID-19 on the Council's business, including any potential impact on risks of material misstatement. This included the disclosures required regarding the key sources of estimation uncertainty that management has made in preparing the Statement of Accounts. The Council's valuers have followed RICS guidance and as expected their valuation reports conclude that, due to the impact of COVID-19 on the property market, there is "material uncertainty" over the valuation of land and buildings and investment properties at the balance sheet date. This has been disclosed in the notes to the Statement of Accounts although we have requested some further changes to the note to aid clarification on PPE and the material uncertainty.

We are awaiting confirmation from the Pension Fund Auditor as to whether there is a material uncertainty disclosure on the pension fund assets.

#### Financial Statement Matters: Going Concern

The Council's going concern status is confirmed through the 2019-20 local government accounting code, and must also follow International Accounting Standard (IAS) 1: Presentation of financial statements. We must comply with a revised ISA (UK) 570 Going Concern, effective for periods commencing on or after 15 December 2019. The above, combined with the impact of Covid-19, means an additional level of scrutiny is required over the going concern assertion in 2019/20. In particular, reviewing management's explicit considerations of whether the financial statement disclosure for going concern should more explicitly describe the impact of Covid-19.

We provided a briefing note to management and requested the Council perform a formal going concern assessment for 2019/20 prior to us forming our final audit opinion. This was presented to the Governance Scrutiny Group meeting on 29 September and was considered satisfactory.

#### Financial Statement Matters: Financial Instruments

Whilst the Government has introduced a number of measures to ease financial hardship, the Council needed to consider the impact on expected credit losses and the impairment of financial assets.

#### Financial Statement Matters: Legal Cases

The Council's response to relevant legal cases which impact on the valuation of certain pension liabilities. These included:

the proposed remedy for the 'McCloud' case (which emerged initially in 2018/19 and was reported on in our previous Audit Completion Report). An updated IAS19 valuation report has not been sought from the Council's actuary for this matter as management assess the impact to be immaterial; and

the 'Goodwin' case brought against the Secretary of State for Education earlier this year regarding discrimination owing to sexual orientation in the Teachers' Pension Scheme. The factors underpinning this case are likely to apply to the Local Government Pension Scheme and employers are being asked to determine whether there is a risk that their liabilities are materially misstated. Management has sought advice from its actuary in relation to this matter and concluded that the impact on this accounting estimate is not material and need not be included in the Council's pension liability estimates.

## 2. SIGNIFICANT FINDINGS (CONTINUED)

### Audit Fees

As explained in our Audit Strategy Memorandum, we continually strive to maintain high standards of audit quality. One mechanism for doing this is to consider the outcome of independent quality reviews, in particular by the Financial Reporting Council, of our audit work and that of other audit suppliers. In particular, we have increased the level of work we do on:

- defined benefit pension schemes; and
- valuation of property, plant and equipment and investment properties

We expect this to be a permanent uplift to the audit fee and have provided management with an estimate, to be confirmed on completion of our work, of £6,194

We have discussed with management the additional audit testing and audit work required relating to pension assets and liabilities as well as adjustments for 'McCloud'; uncertainty in the valuation of land and buildings; going concern; and financial instruments as result of additional risks arising from Covid 19. We have provided management with an estimate of between £5,317 and £6,817 for these matters. The final amount will be agreed on completion of our work and be proportionate to the level of specific additional work required.

### Qualitative aspects of the Council's accounting practices

We have reviewed the Council's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting (the Code), appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council on the 14<sup>th</sup> June and were of a good quality. Some amendments were made by the client to the draft accounts after the audit commenced. We noted note 40 requires more clarification and have asked for this to be amended.

### Management Co-operation

During the ongoing coronavirus situation, Mazars has implemented clear and decisive measures to ensure the welfare of our people and clients while ensuring that we continue to deliver for those who rely on us. Remote working has meant the audit is not as efficient as we would like or expect, including an extended period of query resolution. This is consistent across all our clients and a reflection of the impact of Covid19.

Management have been under substantial pressure to deliver against many competing priorities since March 2020 and we want to extend our thanks to the finance team for their positive support and co-operation during the course of the audit.

### Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2019/20 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account.

We have not received any questions or objections.

### Possible delay in Audit certificate

The issue of the Audit Certificate confirms that we have discharged all of our audit responsibilities and that the audit is formally 'closed'. The Audit Certificate would normally be published in our Auditor's Report on the Statement of Accounts alongside the accounts opinion and value for money conclusion. The NAO has not yet issued its Group Instructions for local authority audits. If it looks that these Instructions are to be significantly delayed then we may agree with management to issue the Auditor's Report, but without the Audit Certificate, shortly after the audited Statement of Accounts has been approved by the Governance Scrutiny Group. We would then issue the Audit Certificate separately as soon as we are able to do so. We will update the Governance Scrutiny Group when more information is known but at this stage the draft Auditor's Report at Appendix B assumes that we will not be able to issue the Audit Certificate alongside the accounts audit opinion and value for money conclusion.

# 3. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
<b>1 (high)</b>	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	0
<b>2 (medium)</b>	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	0
<b>3 (low)</b>	In our view, internal control should be strengthened in these additional areas when practicable.	0

### Significant deficiencies in internal control

We have not identified any significant deficiencies in internal control. Any minor issues will be discussed with the finance team as part of the audit de-brief.



## 4. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £25k.

The first table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material, either individually or in aggregate, to the financial statements and does not currently plan to adjust.

The second table outlines the misstatements that have been adjusted by management during the course of the audit.

### Unadjusted misstatements 2019/20

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1 Dr: Deferred Income Cr: Grant Income		42	42	
Correct recognition of Covid 19 first tranche of income into 2019/20 and not 2020/21				
<b>Total unadjusted misstatements</b>				

The Governance Scrutiny Group must formally approve managements decision not to formally adjust the financial statements for these items.

These unadjusted items must also be formally appended to the management representation letter.

### Adjusted misstatements 2019/20

We have not at this stage identified any misstatements above our trivial threshold and which also exceeds our audit materiality, that management need to amend

### Disclosure amendments

In addition to the above numerical errors that relate directly to the primary statements or their related notes, our audit also identified a small number of errors and adjustments in relation to other disclosures. Some errors were identified by management and amended within the first versions of the draft financial statements. We identified the following errors. These have been discussed with management who have agreed to the amendments and includes:

- Note 40 – requirement to update note on PPE and material uncertainty and the disclosure on Pensions
- Note 21 – bracket signage changed as incorrect on some lines
- Collection Fund – NNDR income updated correctly from £23.389m to £23.339m (identified by management)
- Collection Fund –note 5 total updated correctly
- EFA – note number updated for adjustments between the funding and accounting basis
- EFA – figures changed to be consistent between main EFA statement and relevant notes
- AGS – updated to make it clearer in sections 2.4 and 2.7 that RSM were Internal Auditors in 2019/20

## 5. VALUE FOR MONEY CONCLUSION

### Introduction

We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- Informed decision making;
- Sustainable resource deployment; and
- Working with partners and other third parties.

### Our approach

Our overall approach is set out in our Audit Strategy Memorandum and involves a detailed risk assessment at the planning stage to identify whether or not a Value for Money (VFM) risk exists. Risk, in the context of our VFM work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. As set out in our Audit Strategy Memorandum, for the 2019/20 financial year, we identified no significant audit risks.

### Matters kept under review

We did though identify the Council's medium term financial sustainability and commercialisation as matters which we needed to keep under close review during our audit. Although the Council achieved a surplus for the current year the 2020/21 financial position and future years are more challenging, with the underlying factors being common to all bodies in the local government sector.

We acknowledged that the Council made a surplus in 2019/20 and is continuing to examine its 20/21 budget and taking forward its transformation programme to generate proposals to bridge the potential gap although note proposed reserve contributions of £0.422m being utilised in 2020/21. Savings of £0.6m are included within the Council's 2020/21 budget.

Before drawing our conclusion, we have:

- Reviewed the 2019/20 financial performance and forecasts during the year and considered the Council's financial outturn position as presented in the financial statements;
- Reviewed the 2020/21:
  - Revenue and Capital budgets and Medium Term Financial Plan; and
  - Treasury Management Strategy, incorporating the Minimum Revenue Provision Policy and Capital and Investment Strategies.
- Considered the Council's latest financial monitoring information and its updated medium term outlook;
- Updated our risk assessment for the progress made regarding transformation proposals, any new or emerging issues through discussions with management and updating our review of committee reports;
- Reviewed the Council's Annual Governance Statement for any significant issues;
- Reviewed the Council's Investment Holdings and rental income;
- Considered the general findings from our audit work in other areas; and
- Taken into account updated NAO VFM Conclusion guidance.

## 5. VALUE FOR MONEY CONCLUSION (CONTINUED)

### Matters kept under review (continued)

In April 2020 NAO issued an update to its VFM guidance to auditors which set out how local auditors should approach considering the impact of COVID-19 on their 2019/20 VFM arrangements conclusion risk assessment. The guidance states that auditors should generally consider local bodies' arrangements and their response to the pandemic as part of their 2020/21 work on VFM arrangements, and that only where there is a clear indication of a significant failure of arrangements during the 2019/20 financial year as a result of COVID-19 would it be appropriate to raise a 2019/20 significant risk. We have not identified any significant failures in the Council's arrangements during 2019/20 and are satisfied that no additional significant VFM risks have been identified in relation to these matters.

### Other observations:

The COVID-19 lockdown occurred in the final two weeks of the Council's financial year and the impact on the 2019/20 financial outturn was not significant. Council spending by department was slightly below the budget and, despite the requirement to close the Leisure Centres and the cessation of car parking charges during late March, the revenue outturn position was contained within the original net budget amount. This was broadly in-line with earlier forecasts and the Council has been able to increase its earmarked reserves by £1.7m, mainly as a result of planned efficiencies plus decreased expenditure and increased income – particularly in relation to the increased NNDR pool surplus. Capital expenditure was also £19.2m lower than expected most of which is being carried forward.

The impact of COVID-19 on the Council's 2020/21 financial position has been significant and has required a prompt response by management. A budget impact report has gone to each cabinet meeting since May 2020 setting out the potential impact of Covid. These mainly affect the income receivable from fees and charges, with an estimate that approximately £2.8m might be lost in income with additional cost pressures expected to be in the region of £2.5m-£4.5m. The Government has indicated its commitment to funding the costs of COVID-19 to councils, and to date the Council has received £1.6m in grant support. Management has continued to update its budget forecasts and, whilst the Council has sufficient reserves that could manage the short term effects, the ongoing impacts and resource levels will determine the extent of service provision possible. For example, reallocating existing earmarked reserves could adversely impact upon the Council's ability to provide funding for capital projects, future transformation initiatives and the ability to manage future events with negative consequences for the Council's financial position.

Overall a balanced position in 2020/21 is achievable although the situation is acknowledged to be challenging and requiring continued strong management actions and the use of the organisation stabilisation reserve.

The full financial impact of COVID-19 in the medium term is not yet certain. The initial outbreak has impacted on the Council's ability to enact its original 2020/21 plan, including income generation and expenditure reductions. We recognise the Council is working through the implications and considerations through business planning and financial planning updates. The 2020/21 budget and MTFP assumptions were updated and presented to Cabinet in September 2020. This shows the expected position is a deficit of £0.422m in 20/21. Efficiencies of (£0.624m) are expected, Covid funding of (£1.5181m) with additional cost pressures of £2.564m. Voluntary payments are still expected to be paid on MRP as there are sufficient reserves in the organisation stabilisation reserve to meet the deficit. Budgets are continuing to be revisited and updated and it is important the Council continues to ensure its financial resilience is assured over the medium term. There is also an acknowledgement that national funding reviews are unlikely to now take place as originally planned, so creating more uncertainty for the medium term.

We note that the Council has a figure of £3.822m unallocated in its Asset investment programme and have taken a step back from commercial investments as a result of Covid 19 although 2 new investments are due to complete in 20/21. Investment income is still expected to generate approx. £1m per year for the Council and represents 20.3% of income in 20/21 rising to 26% in 2024/25. Covid to date has not had a significant negative effect on the income generated from investments but we advise caution in the current climate when considering any future investments due to obvious volatility in property holdings as well as the likelihood of voids or non payment of rent.

The Council's response to the pandemic will be a major focus of our 2020/21 audit and value for money assessment under the new Code of Audit Practice framework and supporting NAO guidance. We will continue to liaise with management and update our understanding of the Council's arrangements as part of our risk assessment and reporting in the new financial year.

### Our overall Value for Money conclusion

We have completed our procedures and, as set out in our draft auditor's report included at Appendix B, we intend to issue an unqualified Value for Money conclusion for the 2019/20 financial year.

# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER

David Hoose  
Mazars LLP  
Park View House  
58 The Ropewalk  
Nottingham  
NG1 5DW  
(date)

Dear David

### **Rushcliffe Borough Council - audit for year ended 31 March 2020**

This representation letter is provided in connection with your audit of the financial statements of Rushcliffe Borough Council (the 'Council') and the consolidated financial statements of the Council and its subsidiaries (the 'Group') for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code).

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience and, where appropriate, inspection of supporting documentation, sufficient to satisfy myself that I can properly make each of the following representations to you.

#### **My responsibility for the statement of accounts and accounting information**

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the Code and applicable law.

#### **My responsibility to provide and disclose relevant information**

I have provided you with:

- access to all information of which I am aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Trust you determined it was necessary to contact in order to obtain audit evidence.

I confirm as s151 Officer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

#### **Accounting records**

I confirm that all transactions undertaken by the Council (and the Group) have been properly recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

#### **Accounting policies**

I confirm that I have reviewed the accounting policies applied during the year in accordance with the Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council and Group's financial position, financial performance and cash flows.

#### **Accounting estimates, including those measured at fair value**

I confirm that any significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

I confirm that I am satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with my knowledge. I confirm that all settlements and curtailments have been identified and properly accounted for. I confirm that all significant retirement benefits have been identified and properly accounted for (including any arrangements that are statutory, contractual or implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded).

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# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER

### Material Valuation Uncertainty

The outbreak of COVID-19, has impacted global financial markets and as such identified that less weight can be attached to the previous market evidence for comparison purposes and to inform opinions of value. The current response to COVID-19 has resulted in an unprecedented set of circumstances on which to base judgement, resulting in the valuations recognised within the Statement of Accounts being reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Given the unknown future impact that COVID-19 might have on the real estate market. I am satisfied that sufficient and appropriate disclosures have been made in the Statement of Accounts to reflect the impact of 'material valuation uncertainty' on the Council's assets.

### Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains not already disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council (and the Group) have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

### Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom. We have complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

### Fraud and error

I acknowledge my responsibility as s151 Officer, for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements of the Council (and the Group) may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the entity involving:
  - management and those charged with governance;
  - employees who have significant roles in internal control; and
  - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's (or the Group's) financial statements communicated by employees, former employees, analysts, regulators or others.

### Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law.

I have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which I am aware.

### Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment and intangible assets below their carrying value at the statement of financial position date. In particular, I have considered the impact of Covid-19 on our Investment Properties. An impairment review is therefore not considered necessary.

# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER

### **Charges on assets**

All the Council's assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

### **Future commitments**

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

### **Subsequent events**

I confirm all events subsequent to the date of the financial statements and for which the Code require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

### **Going concern**

To the best of my knowledge there is nothing to indicate that the Council will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

I have updated our going concern assessment in light of the Covid-19 pandemic. I continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements

### **Annual Governance Statement**

I am satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and I confirm that I am not aware of any significant risks that are not disclosed within the AGS

### **Narrative report**

The disclosures within the Narrative Report fairly reflect my understanding of the Council's financial and operating performance over the period covered by the financial statements

### **Unadjusted misstatements**

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this letter as an Appendix.

### **Ultimate parent company**

I confirm that the ultimate parent company for Rushcliffe Borough Council is the Ministry of Housing, Communities and Local Government.

Yours faithfully

**Peter Linfield**

Deputy Chief Executive and Executive Manager – Finance and Corporate Services

### Independent auditor's report to the members of Rushcliffe Borough Council

#### Report on the financial statements

##### Opinion

We have audited the financial statements of Rushcliffe Borough Council ('the Council') and its subsidiary ('the Group') for the year ended 31 March 2020, which comprise the Council and Group Comprehensive Income and Expenditure Statements, the Council and Group Movement in Reserves Statements, the Council and Group Balance Sheets, the Council and Group Cash Flow Statements and notes to the financial statements, including a summary of significant accounting policies. 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 Rushcliffe Borough Council and the Group as at 31<sup>st</sup> March 2020 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

##### 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 section of our report. We are independent of the Council 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.

##### Emphasis of Matter – Effect of the Covid-19 pandemic on the valuation of land, buildings and investment properties

We draw attention to note 4 in the General Notes to the Accounts, which describes the effects of the Covid-19 pandemic on the valuation of the Council's land, buildings and investment properties. As disclosed in note 40 of the General Notes to the Accounts, the Council's valuers included a 'material valuation uncertainty' declaration within their reports as a result of the Covid-19 pandemic creating a shortage of relevant market evidence on which to base their judgements. Our opinion is not modified in respect of this matter.

##### 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 Chief Finance Officers' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council'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 Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, 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 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.

# APPENDIX B

## DRAFT AUDITOR'S REPORT (CONTINUED)

### Responsibilities of the Chief Finance Officer for the financial statements

As explained more fully in the Responsibilities of the Chief Finance Officer, the Executive Manager - Finance and Corporate Services 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, and for being satisfied that they give a true and fair view. The Director of Resources is also responsible for such internal control as the 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.

The Executive Manager- Finance and Corporate Services is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Chief Finance Officer is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

### 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.

### Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

### Conclusion on Rushcliffe Borough Council's arrangements for securing economy, efficiency and effectiveness in the 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, in all significant respects, Rushcliffe Borough Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

#### Basis for conclusion

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in April 2020, as to whether the Council 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 in satisfying ourselves whether the Council 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 form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

#### Responsibilities of the Council

The Council is responsible for putting in place proper arrangements to secure 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.

# APPENDIX B

## DRAFT AUDITOR'S REPORT (CONTINUED)

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

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### Use of the audit report

This report is made solely to the members of Rushcliffe Borough Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 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 members of the Council 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 members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

### Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

### David Hoose

For and on behalf of Mazars LLP  
Park View House  
58 The Ropewalk  
Nottingham  
NG1 5DW

November 2020

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# APPENDIX C INDEPENDENCE

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.



## CONTACT

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