

Audit and Standards Committee

Monday, 13 March 2017

10.00 am

White Room, County Buildings, Martin Street, Stafford

John Tradewell
Director of Strategy, Governance and Change
3 March 2017

A G E N D A

1. **Apologies**
2. **Declarations of Interest**
3. **Minutes of the Audit and Standards Committee Meeting held on 5 December 2016** (Pages 1 - 6)
4. **Information Governance Annual Report** (Pages 7 - 16)
Report of the Head of Information Governance
5. **Annual Statement - Member Standards** (Pages 17 - 20)
Report of the Director of Strategy, Governance and Change
6. **Local Government Pension Scheme Asset Pooling** (Pages 21 - 36)
Report of the Director of Finance and Resources
7. **External Audit Plan 2016/17** (Pages 37 - 74)
Verbal update from Ernst and Young LLP
8. **Forward Plan** (Pages 75 - 82)
9. **Exclusion of the Public**

The Chairman to move:-

“That the public be excluded from the meeting for the following items of business which involve the likely disclosure of exempt information as defined in the paragraphs of Part 1 of Schedule 12A (as amended) of the Local Government Act

1972 as indicated below”.

PART TWO
(reports in this section are exempt)

10. **Exempt Minutes of the meeting held on the 5 December 2016** (Pages 83 - 88)
11. **Internal Audit Reports - Special Investigation/Top 10 Risk Report** (Pages 89 - 110)

Report of the Director of Finance and Resources

- Trading Standards – Special Investigation
- Infrastructure – Partnership Governance and Risk – Top 10 Risk Area (presented regardless of risk score).

Membership

Derek Davis, OBE	Robert Marshall
Mike Davies (Vice-Chairman)	David Smith
William Day	Alison Spicer
Brian Edwards	Martyn Tittley (Chairman)
Michael Greateorex	Diane Todd
Derrick Huckfield	Caroline Wood
Kevin Jackson	Mike Worthington
Philip Jones	

Note for Members of the Press and Public

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Minutes of the Audit and Standards Committee Meeting held on 5 December 2016

Present: Martyn Tittley (Chairman)

Attendance

Derek Davis, OBE	Kevin Jackson
Mike Davies (Vice-Chairman)	David Smith
Brian Edwards	Caroline Wood
Michael Greatorex	Mike Worthington
Derrick Huckfield	

Also in attendance:

Apologies: William Day, Philip Jones and Diane Todd

PART ONE

43. Declarations of Interest

Councillor Kevin Jackson declared an interest as his wife was a Member of Staffordshire County Council Pension Scheme.

44. Minutes of the Meeting held on 26 September 2016

Resolved: That the minutes of the Audit and Standards Committee held on the 26 September 2016 were approved as an accurate record of the meeting and signed by the Chairman.

45. Health, Safety and Wellbeing Performance Annual Report

The Health, Safety and Wellbeing Manager highlighted key points in the presentation which detailed achievements in 2015/16; incidents in 2015/16; the involvement of the Health and Safety Executive; the outcomes of Health and Safety Audits; accident, violence and ill health performance; health and safety management and the key actions for 2016/17.

In response to Members questions in respect of schools, the Health, Safety and Wellbeing Manager confirmed that as the landlord, (academy premises are leased on a one hundred year fully maintained and repaired basis), the County Council did have some obligations regarding the management of asbestos in academy schools and must, for example, ensure that accurate information was provided to schools.

A Member queried if the eighty one percent of schools achieving level three and above in their Health and Safety Audit included academy schools? It was confirmed that information was held about all schools that bought the County Council's Health and Safety Services in addition to the approximately two hundred and sixty five schools that remained maintained.

Concern was expressed that almost twenty percent of schools were not achieving level three or above in their Health and Safety Audit and that almost twenty five percent of schools were recorded as not having completed or reviewed Fire Risk Assessments in the last twelve months which would leave them at risk regarding validity of insurance.

It was highlighted that it was a legal requirement to have risk assessments and current electrical and fire certificates in place.

The Health, Safety and Wellbeing Manager clarified that every school had a Fire Risk Assessment and was asked to review this annually. The County Council would visit schools and encourage them to carry this out. It was confirmed by the Head of Financial Strategy & Support that there was an element of school insurance that was internal.

The Chairman undertook to write to the Health, Safety and Wellbeing Manager on behalf of the Committee seeking assurances about the action taken to address this.

A Member expressed concern regarding asbestos in schools and it was confirmed by the Health, Safety and Wellbeing Manager that additional information could be provided to Members should they require it.

In response to a Member's question regard staff stress levels it was highlighted that psychological absence had reduced by seven percent. There were more self-referrals and a dedicated Think Well service had been introduced. The Think Well Service tackled issues proactively and provided an improvement in early support. The service could triage individuals within forty eight hours and offer an appointment within six days. This helped to keep people in work or get them back to work sooner if they were absent.

In response to a further question it was confirmed that there was a strict criteria for the approval of ill health retirement. This had to be signed off by a medical health professional who had not been previously involved with the individual.

It was requested by a Member that he be sent the names of those schools in his division which had not complied with the Health and Safety Self Audit. It was instead suggested that School Governors should ask questions about this matter and that all members could be provided with some information to prompt useful discussions with local schools.

In response to a point raised about the new system being introduced, the Health, Safety and Wellbeing Manager clarified that this was an online system which would be easier for schools to use. It would enable schools to see trends and support the analysis of information. Action taken by schools could be tracked and there would be more transparency.

A Member referred to the reduction in the County Council's workforce and requested that future reports include the percentage of accidents rather than just total numbers. It was confirmed that this information would be included.

It was **Resolved** that:

- The Chairman write to the Health, Safety and Wellbeing Manager on behalf of the Committee seeking assurances about the action taken where Fire Risk Assessments have not been completed or reviewed by schools.
- Support be given to assist members in raising health and safety matters with the schools in their division.
- Future Health and Safety reports to the Committee include the percentage of accidents to staff as well as total numbers.

46. Annual Audit Letter 2015-16

Steve Clark, Ernst and Young LLP introduced the Annual Audit Letter for the year ended 31 March 2016 following the completion of audit procedures for the year.

Resolved: That Committee Members note the content of the Annual Audit Letter for the year ended 31 March 2016.

47. Internal Audit Plan 2016-17

The Chief Internal Auditor presented the Internal Audit Plan Update 2016/17 and highlighted the key points within the report.

In a response to a question regarding the outsourcing of the internal audit function of other District/Borough Councils it was confirmed by the Chief Internal Auditor that organisations had themselves approached the County Council for support and there were now discussions with two Districts regarding greater working together. There was work with Entrust as the County Council's internal audit was the supplier of choice to academies.

Referring to the high level audit recommendations not implemented by the agreed date it was confirmed that where the responsibility for a recommendation had sat with an Officer who had subsequently left the Council, a new person had now been identified to take on this responsibility and the action was being chased up. There was an electronic system in place and any recommendations not cleared were flagged up.

It was **Resolved** that the Committee;

- Note the progress against the 2016/17 Internal Audit Plan and the amendments to the original plan, including those audits which had been cancelled since its approval in June 2016.

Note progress on the implementation of high level recommendations made during 2016/17.

48. National Fraud Initiative

The Chief Internal Auditor presented the report and highlighted the requirements of the Cabinet Office's National Fraud Initiative (NFI) 2016.

It was **Resolved** that the Committee Members note the content of the report presented.

49. Fraud Briefing

The Audit Manager – Fraud, gave a detailed presentation on fraud, bribery and theft. Key issues discussed included the cost of local government fraud; what constituted fraud and bribery offences; when fraud was likely to occur; who committed fraud; red flag indicators for possible fraud; strategies to reduce the risk of fraud; what the County Council was doing to combat fraud losses; performance against the CIPFA Code of Practice; staff awareness and proactive work planned.

In response to a question from a Committee Member reassurances were provided that there were staff in place to support fraud investigations and that the Audit Manager could approach the Chief Internal Auditor if more resources were required.

A Member queried if fraud within the County Council was growing or declining? The Audit Manager explained that fraud was not particularly high. There were high profile risks however, for example fraudsters were known to send letters to Councils posing as known suppliers asking for the supplier's bank details to be updated to fraudulent accounts. In these scenarios once money had been transferred to an incorrect account it could not be recovered. The County Council paid attention to cases from elsewhere as fraud methods were always evolving. Eleven cases had been identified this year none of which had resulted in financial loss to the Council. In one case a P-Card had had to be cancelled. The losses were low and there was work being undertaken to raise awareness. In response to further questions the Audit Manager referred to the proactive work undertaken to consider P-Card fraud. Transaction amounts were examined and spend data analysed. P-Card usage was compared with, for example, periods of sickness absence from work. Split transactions were also identified. If there was a concern that fraud could have taken place the member of staff would be contacted and the transaction queried. This was a good deterrence to fraud.

A Member referred to the need to ensure value for money and the potential for fraud in the tendering process and queried the amount of undetected fraud? The Audit Manager reassured the Committee that the Internal Audit team had offered to input into the new procurement policy. Procurement guidelines ensured that where there was a new contract, fraud and corruption were considered. If there was a large supplier the Council would ask the supplier to confirm that they had a whistle blowing policy and that they promoted work against, for example, fraud. Procurement had been considered in the past and a similar exercise was likely to be repeated this year on a different set of contracts and this would query if there were appropriate selection processes in place.

The Head of Financial Strategy and Support explained that there were long established procurement procedures. Procurement Teams had to sign conflict of interest forms and large contracts would be considered by a panel. A single Officer could not take a decision in isolation. Certain contracts were subject to both internal and external audit. Cartels had been identified in the Public Sector in the past and the appropriate action had been taken. Under the transparency code, payments over a certain amount had to be published on the Council's Website. The Council could not be complacent, but as EU tendering regulations were so tight, there would have to be sophisticated collusion to prevent the County Council getting value for money.

It was queried how Councillors could raise any concerns regarding fraud and the Chief Internal Auditor confirmed that the Internal Audit Team could be informed of any

financial concerns straight away through the reporting line and through an online reporting form which would be going live shortly.

In response to a further question regarding liaison with District/Borough Council colleagues, the Chief Internal Auditor confirmed that the issue of fraud was discussed at a subgroup of the Midland Counties Chief Internal Auditors Group and at the Staffordshire Internal Auditors Group.

50. Forward Plan 2016-2017

There were no comments on the Forward Plan.

It was **Resolved** that Members put forward any items that they considered should be included in the 2016/17 Forward Plan.

51. Exclusion of the Public

52. Staffordshire and Stoke on Trent NHS Partnership Trust Update

53. Internal Audit Reports - Update on Limited Assurance Review

54. Exempt minutes of the Audit and Standards Committee meeting held on the 26 September 2016

Chairman

Audit Committee – 13 March 2017

Information Governance Annual Report: Full Report

Recommendation

1. That the Audit and Standards Committee considers the Annual Information Governance Report and notes the work ongoing to manage the County Council's information assets with regard to legislative and regulatory requirements.

Report of the Director of Strategy, Governance and Change

Background

2. Information Governance is the term used to describe how the Council manages its information assets particularly with respect to legislative and regulatory requirements. This report seeks to provide assurance around the policies, processes and practices employed to ensure we meet those requirements.

3. There is a comprehensive and complex legal and regulatory information landscape within which the County Council must operate including compliance with the Data Protection Act 1998, Freedom of Information Act 2000, Environmental Information Regulations 2004 and other statutes. In addition to this, there are a number of further requirements contained within codes of practice and regulations dealing with a range of service provision. Compliance with this range of legislation is monitored and administered through various national commissioner roles including the Information Commissioner, Surveillance Commissioner and Interception of Communications Commissioner. These commissioners have powers to impose significant penalties, including monetary penalties and custodial sentences on organisations or individuals who breach these rules.

4. The County Council has adopted and promoted an Information Governance Framework which collates requirements, standards, policy and guidance on the Council intranet pages. This provides for a strategic direction in terms of managing information and provides detailed guidance and support for staff in using information, including sharing and working with partners. This is particularly important as we continue to share information with partners to provide better and more efficient services across Staffordshire.

Transparency

5. The County Council has statutory obligations to publish data as required by the Inspire Directive and the Local Government Transparency Code 2014. Publishing under this code will give's the public access to information about local authorities' assets, contracts and financial spend as well as providing detail on senior officers roles and salaries. In 2016 the County Council now also publishes data regarding tenders with a value of £25000 and over, in line with procurement regulations.

Freedom of Information

6. Published statistics have shown that nationally the number and complexity of Freedom of Information requests submitted to Local Authorities remains high and overall the amount of time consumed in administering the requests continues to increase. The Council continues to mirror the national picture with the volume of requests increasing. The Council has a robust system in place for dealing with FOI requests. However as request numbers remain in excess of 4000 a year, this places a greater challenge to remain compliant within the statutory deadline of twenty days. Failure to meet statutory requirements in this area is monitored by the Information Commissioners Office (the ombudsman for information legislation).

7. Performance in SCC is monitored on a quarterly basis and published on the internet. The benchmark set by the Information Commissioner for an acceptable service is 85% of requests answered with 20 days, for 2016 SCC maintained a 95% rate against the 20 day target. Freedom of Information statistics can be found at Appendix A.

8. We publish a selection of questions and answers under FOI, based on the nature of requests and to potentially negate the need for duplicate requests. In doing this, we can simply refer requestors to the website rather than responding to a request we have already published, therefore saving staff time and resources.

9. In 2015/16 the Freedom of Information Act was subject to a review by the Independent Commission on Freedom of Information (“the Commission”) and it was their opinion that the Act is generally working well, and that it has been one of a number of measures that have helped to change the culture of the public sector. It has enhanced openness and transparency. The Commission considered that there is no evidence that the Act needs to be radically altered but made several recommendations including that the right of access should be increased and a reduction in the delays in the process. This has yet to be implemented by parliament but may lead to additional requirements in future years.

Data Protection

10. Data protection is primarily concerned with personal data about individuals rather than general information as covered by Freedom of Information legislation. As a public body with a diverse range of people services this relates to a significant volume of data. As service delivery and commissioning evolve the way in which SCC is delivering its services has an impact on information governance arrangements. The Information Governance Unit is working together with all partners on projects and initiatives which require sharing personal information on a large scale to ensure that it meets statutory obligations and is completed securely.

11. Central to information sharing is the on-going use of the One Staffordshire Information Sharing Protocol. Information sharing protocols are agreements that establish mutually binding rules for the safe and appropriate sharing of personal information between different agencies. The County Council took the lead on establishing this single agreement signed by over 173 public sector bodies across Staffordshire who are committed to effective

information sharing. The County Council lead on the management of the Protocol including a full review in March 2016 to ensure that the protocol is up to date and fit for purpose.

12. The authority is committed to partnership in terms of safe and strong communities. Under section 29 of the Data Protection Act 1998, the Police and other agencies, are able to request a data controller, to waive an individual's rights to have their personal data protected, for the purposes of prevention and detection of a crime and investigation of taxation. The County Council has signed up to a national protocol to expedite Police and CPS requests for information in child safeguarding investigations known as Annexe C requests. We have committed that an Annex C request under the protocol will be answered within fourteen days, in practice this is often done within seven days. Although at times this can place a strain on resources it evidence of our commitment to give the highest priority to such matters.

13. The General Data Protection Regulation (GDPR) was adopted into European law in April 2016. The GDPR aims to strengthen consumer protection and enhance trust and confidence in how personal data is used and managed, giving citizens more control over their own private information. In addition, the GDPR provides important new safeguards, including new fines of up to 4% of an organisation's annual global turnover, or €20 million, in the most serious cases of breaches of the regulation. As a regulation, it will directly apply to all European Union member states from 25 May 2018 and as the UK will still be in the EU at that time the UK Government has stated that the GDPR will be adopted directly into UK law, superseding the Data Protection Act 1998 with new legislation.

14. The County Council has already undertaken some preparatory work to understand the impact of GDPR on the organisation and a substantial work programme will take place throughout 2017 to ensure that the County Council is compliant with the new requirements.

Information Security

16. Local Authorities continue to face challenges to ensure that appropriate cyber security is in place therefore the County Council remains focussed on working towards ensuring that resilient procedures are employed across the Authority.

17. The authority continues to be subject to a high-level of cyber-attacks. It is not believed that the authority is being specifically targeted but more as an inevitable consequence for any organisation that has a high level of activity on the internet. In particular denial of service attacks have seen an increase both directly attacking the Authority's network but also that of our Internet Service Provider and this can lead to significant disruption to the network. An increase in malware email campaigns (software which is specifically designed to disrupt or damage a computer system) has led to limits being placed on downloading executable files. Blocked traffic is monitored and a breakdown of blocked malicious and threat emails are in Appendix B. In 2016 SCC systems dealt with over 750,000 security events of varying threat levels.

18. The Council has developed a Cyber Security Incident Plan in case of a cyber-attack and a desk top exercise was carried out in 2016 to test the plan. Work is ongoing to review the plan due to the outcomes identified by the exercise.

19. The Council continues to invest in appropriate software and hardware to combat security threats and also works closely with its Internet Service Provider to improve its security and to ensure the earliest possible waning of cyber-attacks. The firewall hardware and software continues to provide protection to our network.

20. As an organisation we are committed to ensure that we only use legitimate software for which we hold a valid licence. Hosting unlicensed software is illegal and can lead to monetary penalties. A software auditing tool to ensure that there are no instances of unauthorised software with the SCC network and that all instances are licensed.

21. The Information Governance Unit record all reported security incidents and investigate where necessary. Security incidents include both physical and electronic data. All incidents will be followed up with the appropriate manager to receive assurance from the service that recommendations have been implemented. The security incidents are also reported quarterly to the Senior Information Risk Officers.

22. All security policies are regularly reviewed to reflect changes in technology and knowledge of potential threats; this involves revision of policies and also technical improvements to software, hardware and networks on an ongoing basis.

23. Staffordshire County Council has successfully been granted Public Services Network (PSN) accreditation for 2017. PSN is a key part of Government ICT Strategy and accreditation means that the authority can continue access a secure network that facilitates the safe access of Government shared services. Accreditation is an annual requirement. The safety of PSN is paramount and to achieve accreditation the authority had to satisfy a Code of Connection containing over 60 different security controls. The security control responses were audited by means of independent ICT security health checks and an onsite assessment conducted by a government accredited third party auditor.

Governance

24. Governance of information requirements is provided through the Corporate Governance Group, Information Governance Unit and Senior Information Risk Owners (SIRO).

25. The role of SIRO is to foster a culture of best practice in how the organisation uses, shares and keeps information, and to own the risk policies and procedures for managing information. In 2016 SIROs were appointed for Families and Communities and Economy, Infrastructure and Skills to ensure that there are representatives across the authority. In Health and Care a Caldicott Guardian fulfils that role.

26. The SCC Information Asset Register (IAR) identifies information that enables the organisation to perform its business functions and all rules associated with the management of that information. The IAR is intended to be a resource for managers and to inform decision-making about the management of our information assets in order to mitigate information risks. In 2016 work was undertaken to develop and implement a comprehensive risk assessment framework to be applied to the assets that have been identified.

27. The NHS IG Toolkit is an online system which allows organisations to assess themselves or be assessed against Information Governance policies and standards. The NHS require the County Council to be compliant with the toolkit to enable integrated working between the County Council and NHS bodies, including connection to systems and the transfer and sharing of sensitive personal data. In 2016 Public Health passed the requirements, building on this success work is currently ongoing to obtain compliance to the latest local authority version of the toolkit for the whole County Council.

Training and Guidance

28. All new starters are expected to complete the Privacy e-learning module as part of the induction process. All staff can complete a suite of Information Governance e-learning modules including Freedom of Information, Data Protection, Information Security, Records Management, Protective Marking and Privacy. The modules are reviewed at least annually to ensure information is current and reflects regulations and procedures and the modules have been classified as 'essential'.

29. A review of the completion of e-learning was undertaken in 2016 where the numbers of people undertaking the modules was deemed to be insufficient. The Senior Leadership Team have approved the introduction of mandatory training to be implemented to all staff in 2017.

30. In 2016 new guidance was produced to assist all staff with Information Governance considerations for smart working. This is available to all staff via the SCC intranet.

Regulation of Investigatory Powers Act

31. Staffordshire County Council is entitled to use the Regulation of Investigatory Powers Act for carrying out covert surveillance as part of our statutory duties. All applications for surveillance must be approved by a Magistrate. In 2016 no Directed Surveillance applications were made. No operations involving Covert Human Intelligence Sources were undertaken.

32. Access to Communications Data from communication are processed by the National Anti-Fraud Network (NAFN). In 2016 Two Access to Communications Data applications approved and no applications were rejected. These requests are still subject to the Magistrate approval process.

33. There is a regulatory obligation to report the outcome of any Surveillance Commissioner Inspections to members. No Commissioner inspections took place in 2016.

34. The Surveillance Camera Commissioner requires the completion of a self-assessment tool by local authorities operating CCTV systems. This was completed and returned in 2016.

Equalities Implications

35. There are no direct implications arising from this report.

Legal Implications

36. Failure to comply with legislation or legal requirements (i.e. Data Protection Act, Regulation of Investigatory Powers Act) can result in external censure, financial loss (including fines and compensation) and reputational damage.

37. Failure to comply with the Regulation of Investigatory Powers Act can result in censure by the Surveillance Commissioner, including reporting to Parliament, and judgement by the Investigatory Powers Tribunal.

Resource and Value for Money Implications

38. Continued adherence to good information assurance practice will help to ensure that the Council does not suffer financial loss through fine(s) for breaches.

Risk Implications

39. Any risks identified are subject to inclusion within the Authority's risk register and are dealt with as a matter of priority accordingly.

40. It is a key part of the Committee's role to give assurance to the Authority and the council tax payers that the public resources invested in the Authority are being properly managed. This report is one way by which that assurance can be given.

Climate Change Implications

41. There are no implications for climate change.

Report author:

Author's Name: Philip A. Jones

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Appendix A: Information Requests January 2016 – Dec 2016 – FOI & EIR

Statistic	January - March	April - June	July - September	October - December	Annual total
Number of Freedom of Information (FOI) requests received	382	324	317	325	1348
Number of Environmental Information (EIR) requests received	728	720	753	735	2936
Total number of FOI and EIR requests received	1110	1044	1070	1060	4284
Number of requests that took 20 working days or less	1056	986	996	1027	4065
Number of requests processed within 25 working days	1094	1004	1008	1035	4141
Number of FOI requests not answered within 20 working days	14	44	72	54	184
Number of EIR requests not answered within 20 working days	3	14	2	1	20
Number of requests where 20 working days deadline extended as permitted in legislation - Clarification	13	20	12	18	63
Number of requests where 20 working days deadline extended as permitted in legislation - Public Interest Test	2	4	3	7	16
Number of requests where a fee was charged	0	0	0	0	0
Number of requests refused in full because SCC does not hold information	80	59	65	77	281
Number of requests refused because requests considered vexatious	0			1	1
Number of request refused due to repeated requests	0				0
Number of requests refused as costs would exceed the 'appropriate' limit	14	11	26	10	61
Number of FOI requests refused under sections 22 - 44	8	1	8	10	27
Percentage of requests answered within 20 working days	95	94	93	97	95
Percentage of requests answered within 25 working days	99	96	94	98	97

Appendix A: Information Requests January 2016 – Dec 2016 – Data Protection

	s29 and Annex C Cases		Subject Access Requests	
Month	s29	Annex C	SARs Due for completion	SARs Completed on Time
Jan	19	19	10	6
Feb	16	15	8	7
March	11	6	12	12
April	10	18	8	3
May	123	18	11	4
June	11	16	6	5
July	6	8	7	7
August	17	9	16	16
Sept	15	22	8	7
Oct	7	10	2	2
Nov	14	15	9	8
Dec	9	4	7	5
Total	258	160	104	82

Appendix B: Email Gateway Statistics

Executive Summary (Inbound and outbound)

Total Messages

Message Types	Count	%
Single Threat Messages	898,053	6.3
Multiple Threat Messages	24,209	0.2
Total Threat Messages	922,262	6.5
Clean Messages	13,227,213	93.5
Total Messages	14,149,475	100

Threat Types

Threat Type	Count	%
Content Filtering	85,594	9.3
Malware	16,890	1.8
Invalid recipients	538,047	58.4
Bad reputation	135,859	14.7
Spam and unwanted mail	145,650	15.8
Disarmed message	0	0
Total Threats	922,262	100

In addition the DDoS prevention identified 764, 852 security events in 2016.

Audit and Standards Committee

13 March 2017

**Annual Report on the Management of Complaints made under the
Members' Code of Conduct**

1. Recommendation:

That the Panel note the information contained in this report.

Report of the Director of Strategy, Governance and Change

2. Background

Members of the Staffordshire County Council pride themselves in their high standards of behaviour. The County Council has its own Code of Conduct for members prepared in accordance with the requirements of the Localism Act 2011 and adopted in 2012. It is based upon the seven principles of public life namely: Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty and Leadership.

The Code also specifically requires members to publically register and declare as necessary any disclosable pecuniary interest that they may have and any gifts and hospitality that they offer, are offered or refuse.

There may, however, be occasions when members of the public are unhappy about the way a Member of the County Council has behaved. The Localism Act 2011 requires local authorities to have arrangements in place to deal with such formal complaints against members. Those arrangements have to include the appointment of an 'Independent Person' whose views must be sought by the authority. The County Council has appointed two Independent Persons: Mr C Mitchell CBE and Mr A Goldstraw. As Independent members of the County Council's former Standards Committee both are experienced in handling complaints against members.

Complaints are made in writing to the Monitoring Officer of Staffordshire County Council. There is a form available on the internet to help people to describe the issue and their proposed resolution.

Complaints are acknowledged and then considered in the following way –

In cases of allegations in respect of disclosable pecuniary interest/bribery it may be necessary to refer the matter to the police for investigation. For other matters, the Monitoring Officer, in consultation with the Independent Person, assess the complaint to confirm whether or not it relates breach of the Code.

If they conclude that it warrants detailed consideration they will also decide whether that consideration needs to be by the Monitoring Officer or by a Panel of elected members.

Complaints considered by the Monitoring Officer

These are complaints for which the Monitoring Officer in consultation with the Independent Person, feels that appropriate remedy would be:

- a formal apology by the member concerned to the complainant
- training, or both.

Complaints considered by a Panel of the Audit and Standards Committee

Where the Monitoring Officer, in consultation with the Independent Person, thinks that it is not appropriate to deal with the complaint or that more serious sanctions might be appropriate the complaint will be referred to a Panel of up of 5 members taken from the full membership of this Committee. The sanctions available are wider including recommendations that the member be removed from a particular committee or outside body and the issuing of an appropriate press release.

3.Complaints considered- 2016

In the period January 2016 to December 2016 there were four complaints. The complaints received were as follows:

No. of complaints received by the monitoring officer	No. and nature of complaints considered by the monitoring officer /independent person	Action
2	Failure to respond to emails	There was no sanction applied to the councillors concerned [in both cases caused by ICT issues] Apology extended for the delay
2	Councillor attitude falling short of expectations	There was no sanction applied to the councillors concerned Apology extended for offence/upset caused

No complaints were referred for consideration by the Audit and Standards Committee

Appendix 1

1.0. Equalities Implications

1.1 None

2.0. Legal Implications

2.1 The County Council is required to have a formal complaints procedure for the handling of complaints about elected members.

3.0 Resource and Value for Money Implications

3.1. There are no significant resource or value for money implications from this report..

4.0 Risk Implications

4.1. Compliance with the arrangements addresses the risk of challenge to the governance arrangements of the Council.

Report Author:

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Local Members' Interest
N/A

Audit and Standards Committee – 13 March 2017

Local Government Pension Scheme (LGPS) Asset Pooling

Report of the Director of Finance and Resources

Recommendation

1. That the Audit and Standards Committee support the recommendation of the Pensions Committee in making the following recommendations to Full Council:
 - A. To enter into a shareholders agreement to become a joint shareholder of LGPS Central Ltd; a private company limited by shares, held solely by the participating funds, on a 'one fund, one vote' basis; incorporated for investment management purposes and regulated under the Financial Services and Markets Act 2000.
 - B. To approve the Staffordshire Pension Fund's involvement in the governance and management arrangements for future Pension Fund investment management activity in accordance with the Governance Structure, shown at paragraph 7 and the Terms of Reference summarised in Appendix 2 of this report, more specifically:
 - (i) To appoint the Chair of the Staffordshire Pensions Committee or their nominated representative, to attend all Shareholder Forum meetings and to exercise the Council's voting rights as a shareholder of LGPS Central Ltd.
 - (ii) To enter into an Inter-Authority Agreement with;
 - Cheshire West and Chester Council
 - Derbyshire County Council,
 - Leicestershire County Council,
 - Nottinghamshire County Council,
 - Shropshire Council,
 - Wolverhampton City Council and
 - Worcestershire County Council

to regulate how the above authorities collaborate with each other in relation to the investment activities of LGPS Central Ltd.
 - (iii) To establish a joint pension fund investment pool, in accordance with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
 - (iv) To establish a Joint Committee under s102 of the Local Government Act 1972, to provide joint oversight of the pool and to suggest recommendations to the

Practitioners Advisory Forum from time to time, in accordance with the terms of the Inter-Authority Agreement.

- (v) To appoint the Chair of the Staffordshire Pensions Panel or their nominated representative, to attend all meetings of and act as the Council's representative on the Joint Committee.
 - (vi) To agree in principle to any future request for the Council to act as lead authority to provide governance and administrative support to the Joint Committee on behalf of the participating Councils, subject to an appropriate cost sharing agreement in respect of officer time and other expenses.
 - (vii) To appoint the Director of Finance and Resources (and s151 Officer) or their nominated representative to represent the Council on a Practitioner Advisory Forum, providing joint officer support to the Joint Committee and support and decision making advice to the Shareholder Forum.
- C. To authorise the Director of Strategy, Governance and Change and the Director of Finance and Resources to enter into the Shareholders Agreement and the Inter-Authority Agreement to establish a joint asset pool, and investment management company and Joint Committee, as outlined in this report, and to implement the agreed recommendations.

Background

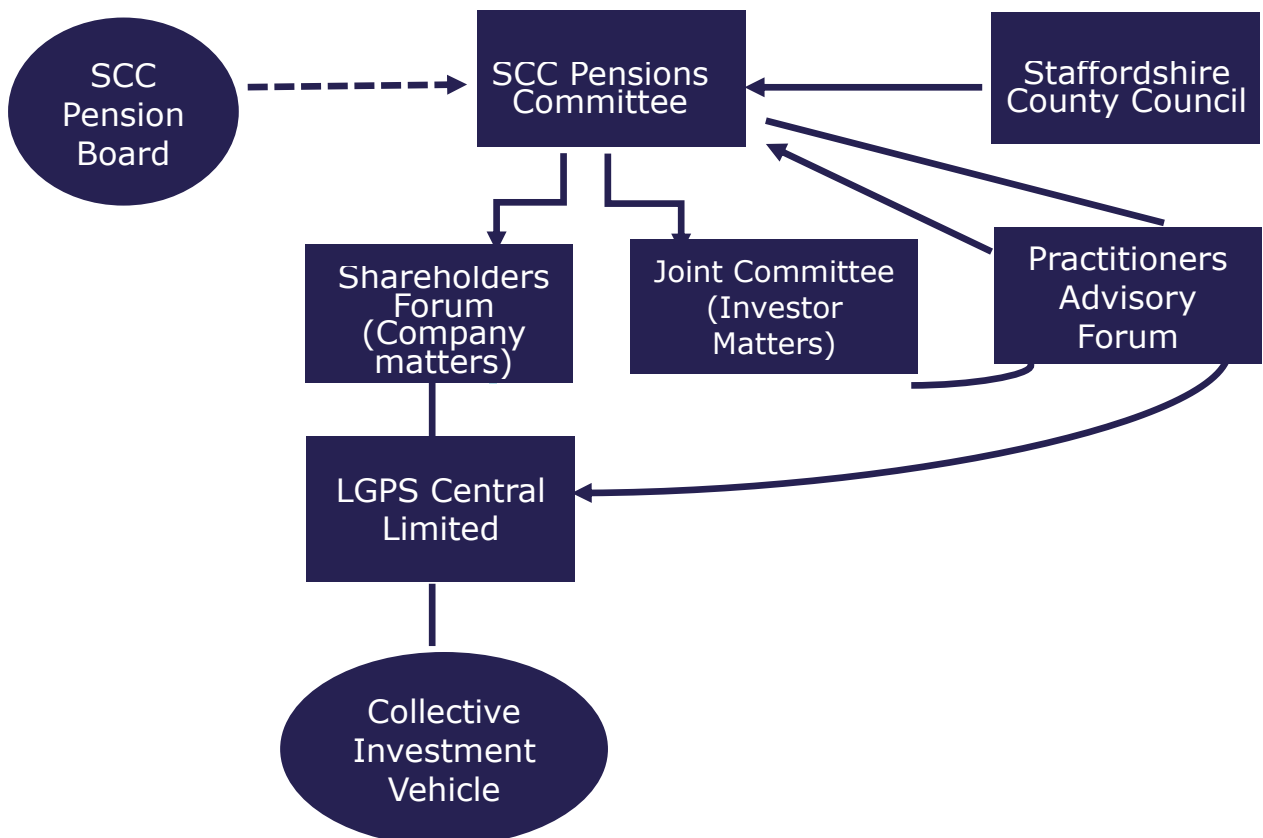
2. Over the last two and a half years, the government has explored a number of options for improving the efficiency and sustainability of the LGPS and has undertaken extensive consultation on the potential to deliver savings through greater investment management collaboration.
3. In the summer of 2015, the government announced its intention to introduce a new regulatory framework which would facilitate collective investing and issued guidance and criteria to help administering authorities to develop proposals for pooling aimed at reducing costs and improving efficiency. Initial proposals were required by February 2016, followed by more detailed business case submissions in July 2016, with a target implementation date of 1 April 2018. The government also announced that 'backstop' powers would be introduced to allow the Secretary of State to intervene where authorities failed to bring forward sufficiently ambitious proposals in accordance with the guidance and criteria issued.
4. Informal links with several Midlands based LGPS Funds became the starting point for wider discussions in the context of the formal requirement for pooling. This resulted in a joint proposal from Cheshire, Derbyshire, Leicestershire, Nottinghamshire, Shropshire, Staffordshire, West Midlands and Worcestershire to create 'LGPS Central', with combined assets of £35 billion. The Minister, Marcus Jones MP provided written confirmation, in November 2016, that LGPS Central had been formally accepted as a Local Authority Pension Fund Pool.
5. Over the last 12 months, the Staffordshire Pensions Committee, Pensions Panel and Local Pensions Board have been kept informed of the progress being made in meeting the Government's criteria. Legal workshops, presentations and reports have been presented on the proposed governance structure, the business case and the

associated implications, of the submission made to Government in July 2016. The Chairs of the Pensions Committee and Pensions Panel together with the Director of Finance and Resources have attended regular joint meetings of the 8 Partner Funds.

A focus on strong Governance and Decision Making

6. LGPS pooling relates solely to the assets of the 8 Partner Funds. Each administering authority will retain the decision making function about the Investment Strategy and the Strategic Asset Allocation of the Fund. As liabilities will also be retained locally, decisions about the Funding Strategy and Contribution Strategy will also remain with the administering authority's Pensions Committee and Pensions Panel.

7. The chart below details the Governance Structure for LGPS Central. A Shareholders Forum, comprising one elected Member from each of the 8 Partner Funds will act as the supervisory body of the pool and will fulfil the shareholders' role in ensuring that the company is managed efficiently and effectively. A Joint Committee, set up in accordance with the provisions of the Local Government Act 1972, will be the forum for dealing with common investor issues and for the collective monitoring of the performance of the pool against its objectives. To support the Joint Committee and the Shareholders' Forum, a Practitioners Advisory Forum will be created, consisting of Officers from each of the 8 Partner Funds. This Forum will provide day to day oversight of the company and will monitor its investment performance and investment costs. The Forum will also act as the customer, monitoring levels of customer service and the delivery of wider investor services such as responsible investment and voting. More detail can be found in the paper produced by Eversheds LLP, attached at Appendix 1.



8. In order to facilitate the effective Governance arrangements for LGPS Central, there needs to be a number of changes made to the County Council's constitution. These primarily include the agreement to become a shareholder in LGPS Central and to become party to a Joint Committee. More detailed amendments are required to the terms of reference for the Pensions Committee and Pensions Panel. Full details of the required changes are provided at Appendix 2 for information.

Equalities and Climate Change Implications

9. There are no direct implications arising from this report.

Legal Implications

10. The legal considerations are outlined in the report to the Pensions Committee on 30 January 2017.
<https://www.staffspf.org.uk/Finance-and-Investments/Asset-Pooling.aspx>

Resource and Value for Money Implications

11. The resource and value for money implications are outlined in the report to the Pensions Committee on 30 January 2017.
<https://www.staffspf.org.uk/Finance-and-Investments/Asset-Pooling.aspx>

Risk Implications

12. The risk implications are outlined in the report to the Pensions Committee on 30 January 2017.
<https://www.staffspf.org.uk/Finance-and-Investments/Asset-Pooling.aspx>

Andrew Burns
Director of Finance and Resources

Contact Melanie Stokes
Telephone No. (01785) 276335

Background Documents:

Report to Pensions Committee 30 January 2017
Local Government Act 1972
Localism Act 2011
LGPS (Management and Investment of Funds) Regulations 2016
CIPFA Investment Pooling Governance Principles

LGPS Central

Summary of LGPS Central Governance Structure

7 November 2016



LGPS Central

Summary of LGPS Central Governance Structure

This advice note has been prepared solely for LGPS Central (and its participating authorities) to provide a summary explanation of the structure of the LGPS Central governance arrangements and may be circulated to authorities' committees when seeking approval for the structure. We do not accept liability to any other person in respect of this advice note. This note is intended to be a summary of the structure and the detailed and definitive provisions of the governance structure can be found in the company's Articles of Association, the Shareholders Agreement and the Inter Authority Agreement (containing the Joint Committee's terms of reference and constitution and the terms of reference for the Practitioners Advisory Forum).

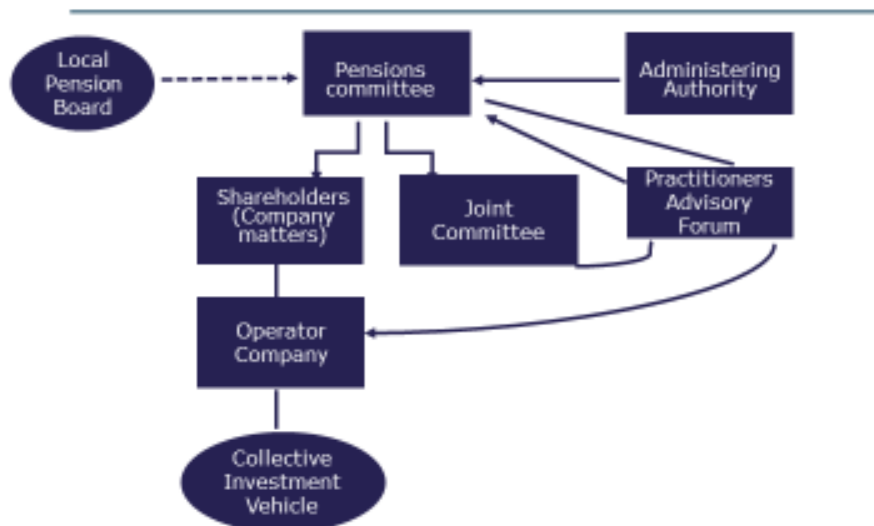
1. Background

1.1 We have been asked to provide a high level summary of the LGPS Central governance structure, in particular setting out the roles and interactions of the key bodies, including LGPS Central Limited, the shareholder representatives, the Joint Committee and the Practitioners Advisory Forum.

1.2 Please note that the administering authorities retain their core duties and responsibilities as the administering authorities of their respective LGPS funds. Administering authorities may need to review their current internal governance arrangements to see if they will need reviewing once pooling is implemented (and/or to deal with the transition period whilst assets are being moved over to the pool).

1.3 In broad terms the governance structure is summarised in the following diagram:

Summary of Governance Structure



Summary of LGPS Central Governance Structure

2. **LGPS Central Limited**

- 2.1 LGPS Central Limited is a private company limited by shares. The company was incorporated in England and Wales on 13 October 2016 with registered number 10425159 under the Companies Act 2006. Its registered office is at Mander House, Wolverhampton.
- 2.2 The company has been formed to act as an alternative investment fund manager to run and operate one or more collective investment vehicles (including an Authorised Contractual Scheme ("ACS")) to allow the administering authorities to pool their respective investments. In due course the company will become authorised by the Financial Conduct Authority.
- 2.3 The company will be run by a board of directors which will comprise of three non-executive directors and two executive directors. Directors are appointed (and can be removed) by the shareholders.
- 2.4 The company will have eight shareholders, Cheshire West and Chester Borough Council, Derbyshire County Council, Leicestershire County Council, Nottinghamshire County Council, Shropshire Council, Staffordshire County Council, Wolverhampton City Council and Worcestershire County Council. West Midlands Combined Authority is not a shareholder but will be represented through Wolverhampton City Council.

3. **Shareholder Representatives**

- 3.1 Shareholder meetings will be the forum for dealing with the shareholder rights of the eight administering authorities as individual shareholders in the Operator. This is distinct from investor/customer matters dealt with by the Joint Committee (see below).
- 3.2 Each shareholder exercises one vote. Certain major decisions (e.g. changes to articles of association, rights in shares, buy-back of shares etc) which would have an effect on the shareholders' rights are usually required, through the Companies Act 2006, to be approved by the shareholders at a general meeting called by the directors of the company.
- 3.3 Shareholders can also via a 'Shareholders' Agreement' provide that the company can only take certain actions with their prior approval (such as adopting strategic plan, board changes, entry into/termination of certain key contracts, changes to key employee terms and conditions).
- 3.4 In order to retain sufficient control over the company to address 'Teckal' issues from a procurement perspective, the Shareholders Agreement needs to provide that certain key strategic shareholder decisions will require unanimous approval of all the shareholders before they can be approved at a shareholder meeting. These are known as 'reserved matters' and are set out in the Shareholders Agreement.
- 3.5 Meetings of the shareholders are subject to the requirements of the Articles of Association of the Operator, the terms of the Shareholders Agreement and general company law. They are therefore subject to different rules to a Joint Committee meeting (for example in relation to areas such as access to information and voting rules) and for this reason shareholder meetings need to be kept separate from Joint Committee meetings.
- 3.6 It is intended that shareholders will meet at least two times a year.
- 3.7 Each authority will be represented at shareholder meetings by an appointed representative of that authority. This may or may not be the same individual that represents the authority on the Joint Committee. This is a matter for each authority to decide.
- 3.8 Having different individuals at the shareholder level and on the Joint Committee would clearly help to manage conflicts of interest (should they arise) and may assist in retaining clarity of governance functions being carried out. However it should equally be possible to put in place an appropriate conflicts policy to deal with potential conflicts.

Summary of LGPS Central Governance Structure

4. **Joint Committee**

- 4.1 The Joint Committee will be the forum for discussing common investor/customer issues relating to the Operator and the ACS.
- 4.2 Each administering authority will be an individual investor in the ACS (and any other pooled vehicles managed by the Operator) and therefore each authority will have investor rights afforded by the suite of key investor documents which, in the case of the ACS, are made up of the constitutive deed, application form, key investor information, prospectus and FCA handbook of rules and guidance. These investor rights are embedded in those documents and cover matters including the right to withdraw from the pooled vehicle, investor reporting (including frequency and content) and investor voting rights (for example, on proposed changes to the pooled vehicle).
- 4.3 The administering authorities do not want to delegate their actual key investment decision making powers or investor rights to the Joint Committee. Instead these will be retained for exercise by the individual administering authorities through their pension committees in the normal way, subject to consideration of any recommendations the Joint Committee may make.
- 4.4 It is expected the Joint Committee will meet twice a year (with support from the Practitioners Advisory Forum) to discuss and agree a common consensus view on investor issues such as:
 - 4.4.1 Operator service delivery and KPIs; and
 - 4.4.2 other Pool related investment issues, for example adopting common approaches to investment policies (for example common social, environmental and corporate governance policies or policies on voting rights).
- 4.5 The Joint Committee would not make binding decisions on any of these issues but would make recommendations back to each administering authority (via the Practitioners Advisory Forum) to individually approve. Where any issues do need to be resolved, these will be decided by a majority vote and again each administering authority represented on the committee exercises one vote.
- 4.6 A joint committee structure established under the Local Government Act 1972 provides a tried and tested structure that delivers a clear and transparent separation of shareholder matters and investor/customer matters.

5. **Practitioners Advisory Forum**

- 5.1 The Forum will be made up of an officer from each administering authority (such as the Section 151 officer or a pension fund officer). The Forum is not a legal entity but a working group of officers. The terms of the Forum will be set out in an Inter Authority Agreement confirming how the Forum will be comprised, operate and be resourced and funded.
- 5.2 As this is a working group of officers, no statutory functions can be delegated to the Forum. The Role of the Forum is:
 - 5.2.1 To support the meetings of the Joint Committee and action the Joint Committee's recommendations back to the administering authorities;
 - 5.2.2 To act as a mechanism to facilitate discussions between the individual administering authorities as investors and the Operator; and
 - 5.2.3 To analyse the Pool-wide investment performance of the Operator, including its investment costs, customer service and delivery of wider investor services such as voting and responsible investment. The Forum will also review risk management and compliance arrangements from an investor perspective.
- 5.3 The Practitioners Advisory Forum would not have a formal role at shareholder meetings but could attend to deliver presentations etc.

LGPS Central

Summary of LGPS Central Governance Structure

Eversheds LLP

7 November 2016

Privileged and confidential

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EXTRACT FROM STAFFORDSHIRE COUNTY COUNCIL CONSTITUTION

SECTION 8 - PENSIONS

Approved by the County Council on xx xx 2017

Bold Text

Terms of Reference to be gradually phased out, with effect from 1 April 2017, to co-incide with the establishment of LGPS Central Limited, the transfer of Pension Fund investment management activity to that company and the establishment of associated revised governance arrangements

Red (Italic) Text

Terms of Reference to be to gradually phased in, with effect from 1 April 2017, to co-incide with the establishment of LGPS Central Limited, the transfer of Pension Fund investment management activity to that company and the establishment of associated revised governance arrangements

- 4.1 The Pensions Committee will have full delegated powers to deal with all Functions relating to Local Government Pensions on behalf of the County Council.
- 4.2 The Committee shall comprise 9 elected members and 6 non-voting co-opted members representing the following categories:-
- Local Authorities/Staffordshire Police Authority/ Combined Fire Authority (1 seat)
 - Contractors (1 seat)
 - Other Scheduled Bodies (1 seat)
 - Trades Unions (2 seats)
 - Pension Recipients (1 seat)
- 4.3 The terms of reference of the Pensions Committee will be:-
- To decide and set from time to time:-
 - The strategic asset allocation and objectives of the Staffordshire Pension Fund (“the Pension Fund”);
 - The strategic benchmarks for the performance of the Pension Fund against which the actual performance is to be measured;
 - The strategic targets against which the performance of the Pensions Panel **and Fund Managers** is to be measured;
 - The arrangements for consultation with the stakeholders that have an interest in the affairs of the Pension Fund.
 - To review at not more than yearly intervals the performance of the Pension Fund and the Pensions Panel against the strategic objectives, benchmarks and targets set by them and to consider if, and to what extent, any change may be necessary to ensure the efficient and effective performance of the Pension Fund;

- *Selection, appointment and dismissal of an investment pooling operator to manage the assets of the Fund.*
- *Determining what the administering authority requires the pool to provide to enable it to execute its local investment strategy effectively.*
- *Receiving and considering reports and recommendations from the Joint Committee and Practitioners Advisory Forum, established to oversee the pool, to ensure that the Fund's investor rights and views are represented effectively.*
- *Identifying and managing the risk associated with investment pooling.*
- *Ensuring that appropriate measures are in place to monitor and report on the ongoing costs of investment pooling.*
- *Ensuring the responsible investment, corporate governance and voting policies of the Fund are delivered effectively.*
- To approve and keep under review the Investment Strategy Statement and Funding Strategy Statement.
- To maintain a Communication Strategy.
- To approve the Pension Fund Annual Report and Accounts.
- To receive a report at least annually on pensions administration activities.
- To approve and keep under review the Fund's Additional Voluntary Contribution (AVC) arrangements.
- To approve the formal Actuarial Valuation.
- To approve the admission of employing organizations to the Fund where there is discretion to do so.
- To have due regard to the advice of the Director of Finance and Resources and to the advice of Consultants appointed by the Committee for the purpose (the appointment of whom may be made by the Committee on such terms and conditions and for such duration as the Committee may consider appropriate) with expertise in either or both of the following fields:-
 - Actuarial matters and Risk/Liability assessment
 - Investment Strategy and Allocation;
- To monitor from time to time the advice received from Consultants.
- To have regard to the advice of the Pensions Panel on matters referred to the Committee for consideration by the Panel and to call for advice from any Adviser or Manager who could have been asked by the Pensions Panel to give the Panel advice.
- If the Pensions Committee shall disregard the advice of Consultants their reasons for so doing shall be recorded in the minutes of the Committee.

- To deal with any other matters arising in respect of Local Government Pensions.
- To appoint a Pensions Panel of five Members of the Committee.
- To appoint a Pensions Board of a maximum of seven members (comprising two employer representatives, two employee representatives and a maximum of three 'independent' members).

4.4 The Pensions Panel

4.4.1 The Pensions Committee will constitute a Pensions Panel of five members of the Committee with full delegated powers to deal as and when appropriate with the following matters:-

- The structure of the management arrangements necessary to achieve the effective management of the Pension Fund to meet the objectives set by the Pensions Committee;
- **The selection, appointment and dismissal of, and the monitoring of the performance of, the Managers of the Pension Fund**
- The allocation of the assets of the Pension Fund and the generic selection of asset portfolios in order to meet the objectives set by the Pensions Committee;
- The monitoring of the performance of the Pension Fund **and its portfolios** on a regular and routine basis across all sectors of investment and management and the reporting arrangements to Panel *that may be* required from time to time for this purpose;
- *The monitoring of the performance and effectiveness of the investment pooling operator to ensure it is providing an effective means of delivering the investment strategy (e.g. types of assets and style of investment management) and it is meeting the objectives that have been set (including requirements in relation to responsible investment).*
- **To agree from time to time any restrictions to be placed on any one or more Managers of the Pension Fund as to particular classes of authorised investment or decisions they may take on behalf of the Pension Fund or as to the exercise of voting rights.**

4.4.2 The Pensions Panel will review regularly and make recommendations to the Pensions Committee on the following matters:-

- Strategic Asset Allocation.
- Strategic Benchmarks.
- Strategic Performance Targets.
- **The performance of Investment Fund Managers**
- The Investment Strategy Statement and the Funding Strategy statement.
- Legislative, financial and economic changes which impact on the investment activity of the Fund.
- The advice from advisers appointed by the Panel.

4.4.3 The Pensions Panel shall have regard to the advice of the Chief Finance Officer and to the advice of Independent Advisers appointed by the Panel for the purpose (the appointment of whom may be made by the Panel on such terms and conditions and for such duration as the Panel may consider appropriate) with expertise in any one or more of the following fields:-

- Tactical Asset Allocation/Investment Strategy Implementation;
- Equities/Stocks/Shares/Securities (whether in UK or Overseas)
- Property
- Bonds and Gilt-edged Investments
- **Manager Selection and Performance Monitoring**

and to the advice of any one or more Managers of the Pension Fund as the Panel may request.

4.4.4 The Pensions Panel may make recommendations to the Pensions Committee on any other matter whether or not it falls within the delegated powers available to the Pensions Panel.

4.5 **The Pensions Board**

4.5.1 The Pensions Board will be established under the provisions of Regulation 106(5) of the Pension Local Government Pension Scheme Governance Regulations 2014 and will comprise three representatives of employers and three representatives of employees. Upon receipt of written approval from the Scheme Manager, the Pension Board may appoint a non-voting independent advisor to the Pension Board

4.5.2 The Pensions Board will be constituted and conduct its business in compliance with its formal constitution as approved by the Pensions Committee on 24 October 2014 (and any formally approved subsequent version thereof).

4.5.3 The main purpose and role of the Board will be to:

a) Assist the Administering Authority, as Scheme Manager:

- To secure compliance with the LGPS Regulations and any other legislation relating to governance and administration of the LGPS
- To secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator including but not limited to the regulatory strategy of public service pension schemes (as amended);
- In such matters as the LGPS regulations may specify

b) Secure the effective and efficient governance and administration of the LGPS for the Staffordshire Pension Fund.

- c) Provide the Scheme Manager with such information as it requires to ensure that any member of the Pension Board or person to be appointed to the Pension Board does not have a conflict of interest.
- d) To ensure the Staffordshire Pension Fund effectively and efficiently complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.
- e) Help ensure that the Staffordshire Pension Fund is managed and administered effectively and efficiently in terms of administration and governance including investments and funding and complies with the Code of Practice on the governance and administration of public service pension schemes issued by the Pensions Regulator.
- f) Meet sufficiently regularly to discharge its duties and responsibilities effectively.

4.6 LGPS Central Joint Committee

- 4.6.1 *The LGPS Central Joint Committee will be the forum for discussing common investor / customer issues relating to LGPS Central Limited.*
- 4.6.2 *The Staffordshire Pension Fund will be represented on the Joint Committee by the Chairman of the Staffordshire Pension Panel, or their nominated representative.*
- 4.6.3 *The Joint Committee's role is to support and provide assistance and guidance and recommendations to the 8 participating Council's in connection with common investor issues such as:*
 - (a) *Operator service delivery and KPIs; and*
 - (b) *Other Pool related investment issues, for example adopting common approaches to investment policies (for example common social, environmental and corporate governance policies or policies on voting rights).*
- 4.6.4 *The Joint Committee shall with the support of the Practitioners Advisory Forum act as the initial forum for LGPS Central to engage with, in connection with general service and performance issues applicable to the wider LGPS Central Pool. This will not preclude LGPS Central engaging directly with Councils in relation to specific matters relating to individual Councils only.*
- 4.6.5 *It is expected the Joint Committee will meet twice a year.*

Staffordshire County Council

Year ending 31 March 2017

Audit Plan

February 2017

Ernst & Young LLP



Building a better
working world

Private and confidential

February 2017

Members of the Audit and Standards Committee
Staffordshire County Council
Staffordshire Place 1
Stafford
ST16 2DH

Dear Committee Members

Reporting of the 2016-17 External Audit Plan

We are pleased to attach our Audit Planning report for the forthcoming meeting of the Audit and Standards Committee. The purpose of the report is to provide the Committee with a basis to review our proposed audit approach and scope for the 2016/17 audit, in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, standing guidance, international auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

The audit plan summarises our assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit and Standards Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this Audit Plan with you on 13 March 2017 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Steve Clark
Partner
For and behalf of Ernst & Young LLP

Enclosures

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies’. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk).

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Audit Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Overview

This Audit Plan covers the work that we plan to perform to provide you with:

- ▶ Our audit opinion on whether the financial statements of Staffordshire County Council (the Council) give a true and fair view of the financial position as at 31 March 2017 and of the income and expenditure for the year then ended.
- ▶ A statutorily required conclusion on the Council's arrangements to secure economy, efficiency and effectiveness (the Value for Money conclusion).

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

We will also give the electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the financial statements.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements;
- ▶ Developments in financial reporting and auditing standards;
- ▶ The quality of systems and processes;
- ▶ Changes in the business and regulatory environment; and
- ▶ Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

Our annual results report will be brought to this Committee in September 2017 to update those charged with governance on the results of our work in these areas.

2. Financial statement risks

We analyse the risks in your operational activities, external influences and through knowledge of the Council. We outline below our current assessment of the financial statement risks facing the Council, identified through our knowledge of the Council's operations and discussion with those charged with governance and officers.

At our meeting, we will seek to validate these with you.

2.1 Significant risks

Of the financial statement risks identified, we are required by Auditing Standards to consider whether any of the risks identified are 'significant' risks to our audit. Auditing standards define significant risks as those with a high likelihood of occurrence and, if they were to occur, could result in a material misstatement of the consolidated financial statements:

There are two presumed risks present in every audit:

- ▶ Risk of management override of controls*
- ▶ Risk of fraud in revenue and expenditure recognition*

* As defined by auditing standards

Significant risks (including fraud risks)	Our audit approach
<p>Risk of fraud in revenue recognition</p> <p>Under ISA (UK and Ireland) 240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p>In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p>	<p>Having considered the factors for expenditure recognition, we believe the risk is focused on the year-end balance sheet and in particular the completeness and valuation of creditors and the existence and valuation of debtors. We also believe the risk is linked to the existence of capital expenditure arising from the potential to incorrectly capitalise revenue expenditure.</p> <p>We will:</p> <ul style="list-style-type: none"> ▶ Review and test expenditure recognition policies. ▶ Review and discuss with management any accounting estimates on expenditure recognition for evidence of bias. ▶ Test the valuation of any provisions recorded in the financial statements and perform appropriate tests to consider whether all material provisions have been recognised. ▶ Develop a testing strategy to test material debtors and creditors. ▶ Develop a testing strategy to test whether the Council has inappropriately capitalised revenue expenditure.
<p>Risk of management override</p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that</p>	<p>Based on the requirements of auditing standards our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Identifying fraud risks during the planning stages. ▶ Inquiry of management about risks of

otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

fraud and the controls put in place to address those risks.

- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud.
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determining an appropriate strategy to address those identified risks of fraud.
- ▶ Developing a testing approach to journal entries.
- ▶ Assessing accounting estimates for evidence of management bias.
- ▶ Evaluating the business rationale for any significant unusual transactions.
- ▶ Performing appropriate tests to assess whether provisions are both complete and fairly stated.
- ▶ Performing mandatory procedures regardless of specifically identified fraud risks.
- ▶ Consider whether the results of testing for incorrect revenue and expenditure recognition indicates management override of controls.

In addition to the two mandated significant risks, we have identified two further significant risks to the 2016/17 audit.

Significant risk	Our audit approach
<p>Property, Plant and Equipment Valuation</p> <p>In a refresh of our approach to the audit of large local authorities, we have included a further significant risk relating to the valuation of Property, Plant and Equipment. Property, Plant and Equipment accounts for a significant proportion of the Council's (£2billion at 31 March 2016) total assets. The Council carries out a rolling programme that ensures that all property, plant and equipment required to be measured at fair value is revalued at least every five years. All valuations are carried out by the Council's own specialist valuer and must follow the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. This process incorporates significant judgements.</p>	<p>We will:</p> <ul style="list-style-type: none"> ▶ Review each class of asset and the valuation approach adopted to assess where the risk of material misstatement is higher. We will share this risk assessment with management. ▶ Evaluate the competence, capabilities and objectivity of management's specialist. ▶ Review any terms of engagement or instructions issued to the valuer to ensure these are consistent with accounting standards. ▶ Engage our valuation specialists to support our testing strategy and help evaluate the work of the Council's valuer. ▶ Perform appropriate tests over the completeness and appropriateness of information provided to the valuer. ▶ Review the classification of assets and ensure the correct valuation methodology has been applied. ▶ Ensure the valuer's conclusions have

Significant risk	Our audit approach
	been appropriately recorded in the accounts.
Accounting for the Waste PFI	
<p>The Council has four PFI Schemes, the most significant of which is the Waste to Energy PFI Scheme and was subject to material audit adjustment in 2015/16.</p> <p>Accounting for this material scheme requires the use of a complex financial model, the calculation of estimates and the application of management judgement.</p>	<p>We will involve our financial modelling and PFI experts to:</p> <ul style="list-style-type: none"> ▶ Test the integrity of the financial model used by the Council. ▶ Test the completeness and accuracy of the inputs to the financial model and the subsequent correct application of the outputs to the financial statements.

2.2 Other key areas of audit focus

We have identified other key areas of the audit that have not been classified as significant risks but are still important when considering the risks of material misstatement to the financial statements and disclosures.

Other financial statement risks	Our approach
LGPS Liability	
<p>The Council is a member of the Local Government Pension Scheme (LGPS), administered by Staffordshire Pension Fund. The net pension liability was £935million as at 31 March 2016.</p> <p>The estimation of the defined benefit obligations is sensitive to a range of assumptions, such as mortality, the rate of inflation, salary increases, pension changes and discount rates. The Pension Fund separately engages an external valuation specialist, Hymans Robertson LLP, to provide these actuarial assumptions.</p> <p>The extent of judgement required, and resulting significant impact this has on the value in the balance sheet, means it is an area for additional audit focus.</p>	<p>We will:</p> <ul style="list-style-type: none"> ▶ Engage EY actuarial experts to assist our review of the key actuarial assumptions impacting the pension fund liability. ▶ Perform appropriate tests to obtain assurance over the information provided to the actuary. ▶ Write to the Pension Fund auditor to ascertain whether there are material concerns we need to be aware of for our audit. ▶ Ensure accounting entries and disclosures are consistent with the actuaries report.
Financial statements presentation – Expenditure and funding analysis and Comprehensive income and expenditure statement	
<p>Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the code) this year changing the way the financial statements are presented.</p> <p>The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.</p> <p>The Code no longer requires statements or notes to be prepared in accordance with</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Review of the expenditure and funding analysis, CIES and new notes to ensure disclosures are in line with the code ▶ Review of the analysis of how these figures are derived, how the ledger system has been re-mapped to reflect the Council's organisational structure and how overheads are apportioned across the service areas reported. ▶ Agreement of restated comparative figures back to the Council's segmental analysis and supporting working papers.

Other financial statement risks**Our approach**

SeRCOP. Instead the Code requires that the service analysis is based on the organisational structure under which the authority operates. We expect this to show the Council's segmental analysis.

This change in the code will require a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements. The restatement of the 2015/16 comparatives will require audit review, which could potentially incur additional costs, depending on the complexity and manner in which the changes are made.

2.3 Responsibilities in respect of fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ▶ Identifying fraud risks during the planning stages;
- ▶ Enquiry of management about risks of fraud and the controls to address those risks;
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud;
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud;
- ▶ Determining an appropriate strategy to address any identified risks of fraud, and,
- ▶ Performing mandatory procedures regardless of specifically identified risks.

3. Value for money risks

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. For 2016/17 this is based on the overall evaluation criterion: "In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people."

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- ▶ Take informed decisions;
- ▶ Deploy resources in a sustainable manner; and
- ▶ Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the local authority reporting guidance on governance statements responsibilities published by CIPFA to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

3.1 Significant risks

Significant risks

Our audit approach

Sustainable resource deployment

VFM Criteria: Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions

The Council's 2016/17 and the recently updated 2017/18 Medium Term Financial Strategy (MTFS) contains a number of significant assumptions and risks to the Council's overall financial resilience.

Third quarter financial performance (Cabinet February 2017) shows an overspend of £9.4million mainly due to pressures from the Better Care Fund (BCF) and the Staffordshire & Stoke-on-Trent Partnership NHS Trust risk share.

In addition, the 2017/18 budget:

- ▶ Is dependent on a 4.95% increase in council tax.
- ▶ Requires the delivery of £47.3million savings.
- ▶ Identified a £6.1million budget gap in 2018/19.

We will:

- ▶ monitor the financial position for the remainder of 2016/17, including delivery against revenue and capital budgets;
- ▶ evaluate the impact of any audit findings on the reported financial position, including the risk of management override and revenue and expenditure recognition;
- ▶ use any work by internal audit to inform our risk assessment on the adequacy of the Council's arrangements;
- ▶ review the overall controls in place to manage expenditure in Adult Social Care;
- ▶ meet with management to discuss the arrangements for financial planning in Adult Social Care; and
- ▶ review the Council's approach to identify savings and bridge the spending gap for 2017/18 to 2019/20.

Working with third parties effectively to deliver strategic priorities

VFM Criteria: Working with third parties effectively to deliver strategic priorities

The health economy across Staffordshire is significantly challenged, with substantial deficits

We will:

- ▶ meet with management to discuss

Significant risks

across the health economy.

The MTFs was left with a shortfall of £15million in 2016/17 as a result of additional funding planned for the Better Care Fund (BCF) no longer being available due to financial challenges within the NHS. The Council delayed signing of the 2016/17 BCF whilst this was under negotiation, subsequently signing in January 2017 without the receipt of the £15million.

Recently local partners have outlined a "Sustainability and Transformation Plan (STP)" on how they will work together to improve health and social care service and a deliver a financially resilient system for local people. The challenges set in the STP are significant and will require joint working and integrated solutions to deliver planned outcomes.

For the purposes of our 2016/17 audit, there is a significant risk to the VFM conclusion that the Council does not have effective arrangements in place to work effectively with the Staffordshire CCGs to deliver strategic priorities through the BCF.

Our audit approach

whether arrangements and relationships over the Better Care Fund have improved, including how KPIs have been incorporated into decision making;

- ▶ use any work by internal audit to inform our risk assessment on the adequacy of the Council's arrangements;
- ▶ understand the Council's approach to bridge the £15m gap in the BCF; and
- ▶ understand the Council's approach to incorporate learning and the development of a BCF for 2017/18;
- ▶ understand how the Council is working with local partners to develop the STP.

Working with third parties effectively to deliver strategic priorities

VFM Criteria: Commissioning services effectively to support the delivery of strategic priorities

Adult social care is provided by Staffordshire & Stoke-on-Trent Partnership NHS Trust (SSOTP) who were inspected by the CQC during 2016/17, rating community adult services rated as 'inadequate'.

Combined with the financial pressures and risk share agreement noted above, there is a significant risk to the VFM conclusion that the Council does not have adequate arrangements in place to oversee performance and enact change in a timely manner.

We will review the Council's governance arrangements over the SSOTP contract. We will discuss with management, and obtained supporting evidence, as to the actions taken by the Council as to how it has considered the Trust's performance and what action has been taken to enact change in a timely manner.

3.2 Other matters

We will remain alert to the possibility of new or emerging significant risks as our audit progresses. In particular, we will keep under review:

- ▶ The work and reports of regulators, such as the Care Quality Commission and OFSTED.
- ▶ The outcome of other aspects of assurance work, such as the audited financial position and the Head of Internal Audit's opinion.

Should our risk assessment change, we will notify the Director of Finance and Resources and Audit & Standards Committee.

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the National Audit Office's Code of Audit Practice (the 'Code') our principal objectives are to review and report on, the Council's:

- ▶ Financial statements
- ▶ Arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue a two-part audit report covering both of these objectives.

i Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We will also review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require.

ii Arrangements for securing economy, efficiency and effectiveness

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. We report by exception only.

4.2 Group audit

The Council has two principal entities that fall within the group structure:

- ▶ Entrust Support Services Ltd. The Council owns 49% of the ordinary shareholding of Entrust, and Capita plc holds the remaining 51% of the shares in the joint venture.
- ▶ Penda Limited, a joint venture company with Kier and the County Council.

On the basis of our initial risk assessment, neither entity is judged to be a significant component of the Group.

Further details are included at Appendix C.

4.3 Audit process overview

Processes

A key consideration in our audit planning process is the effectiveness of entity level controls; including the extent to which the Council assesses risk, implements controls in order to minimise risk and performs ongoing testing and monitoring of the effectiveness of the controls implemented.

Analytics

We will aim to use our computer-based data analytics tools to:

- ▶ Focus our testing on specific exceptions and anomalies such as duplicate payments, round sum amounts, items outside of our range of expectations, for example:
 - high volume of payments to individuals or suppliers; and
 - repeated items just below authorisation and approval levels.
- ▶ Perform data integrity checks; for example between static supplier master data and the transactional amounts.
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

In using our data analytics tool we will be able to gain assurance over populations of transactions and assess if appropriate internal controls are in place to avoid fraud/ error.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and make recommendations for improvement, to management and the Audit Committee.

Internal audit

We will review Internal Audit plans and the results of its work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where we raise issues that could have an impact on the year-end financial statements

Use of experts

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Pensions	EY Pensions team Management specialist - Hymans Robertson LLP
Property, Plant and Equipment	EY Asset Valuation team Management specialist – in-house valuation team
Waste PFI	EY FAAS / PFI team

In accordance with Auditing Standards, we will evaluate each specialist’s professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council’s environment and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the expert to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist’s findings are properly reflected in the financial statements.

Mandatory procedures required by auditing standards

As well as the financial statement risks outlined in section three, we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- ▶ Addressing the risk of fraud and error;
- ▶ Significant disclosures included in the financial statements;
- ▶ Entity-wide controls;
- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- ▶ Auditor independence.

Procedures required by the Code

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Governance Statement.
- ▶ Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

Reviewing and examining, where appropriate, evidence relevant to the Council's corporate performance management and financial management arrangements, and its reporting on these arrangements.

4.4 Materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- ▶ The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- ▶ The level of work performed on individual account balances and financial statement disclosures.

At this early stage of our audit, we have determined that materiality for the 2016/17 financial statements is £13.25 million based on 1% of the Council's gross expenditure for 2015/16. We will communicate uncorrected misstatements greater than £0.66million to you.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

4.5 Fees

The duty to prescribe scales of fees is a statutory function delegated to PSAA by the Secretary of State for Communities and Local Government. In law, audit fees are not a fee for audit services, but a charge to fund operating costs, out of which the costs of audits are met (<http://www.psaa.co.uk/audit-and-certification-fees/201617-work-programme-and-scales-of-fees/>).

PSAA has published a scale fee for all authorities. The indicative scale fee for the audit of Staffordshire County Council is **£109,755** and the assumptions underpinning the fee are set out in Appendix A. If any of the assumptions prove to be unfounded, we will seek a variation to the agreed fee and this will be discussed with the Council in advance.

4.6 Your audit team

The engagement team is led by Steve Clark, who has significant experience of local authority audits. Steve is supported by Mark Surridge, a Senior Manager who will be responsible for the day-to-day direction of our audit and the key point of contact for the Director of Finance & Resources.

Our audit team also includes a number of specialists to assist us with our procedures, including specialists in pensions, taxation and IT. Where appropriate we will also leverage wider expertise from within the firm. For example: we have a firm wide local authority audit network to share best practice, identify common issues and to develop a consistent audit approach.

4.7 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the VFM work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the Audit Committee’s cycle in 2016/17.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Committee Chair as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Council and external stakeholders, including members of the public

Audit phase	Timetable	Audit committee timetable	Deliverables
High level planning	January 2017	February 2017	
Risk assessment and interim testing of routine processes and controls	February	March 2017	Audit Plan
Year-end audit	July		
Completion of audit	July	September 2017	Report to those charged with governance via the Audit Results Report Audit report (including our opinion on the financial statements; our opinion on the regularity of your expenditure and income; and overall value for money conclusion). Audit completion certificate Reporting to the NAO on the Whole of Government Accounts return.
Conclusion of reporting	October	October 2017	Annual Audit Letter

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

5. Independence

5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that we are independent; ▶ Details of any inconsistencies between APB Ethical Standards, the PSAA Terms of Appointment and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ▶ An opportunity to discuss auditor independence issues.

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future contracted services, and details of any written proposal to provide non-audit services;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period are disclosed, analysed in appropriate categories.

5.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Council

At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services, and we will comply with the policies that the Council has approved and that are in compliance with PSAA Terms of Appointment.

At the time of writing, there are no non-audit fees to audit fees is approximately

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to the Council. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 4.

There are no other self-interest threats at the date of this report.

Self-review threats

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no other self-review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Overall Assessment

Overall we consider that the adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Steve Clark, the audit engagement Partner and the audit engagement team have not been compromised.

5.3 Other required communications

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended June 2016 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2016>

Appendix A Fees

The fee for 2016/17 is unchanged from the previous period:

	2015/16 fee	Planned Fee
Opinion Audit and VFM Conclusion	£109,755	£109,755
Total Audit Fee – Code work	£109,755	£109,755
Non-audit work	Nil	Nil

All fees exclude VAT.

The agreed fee presented above is based on the following assumptions:

- ▶ All working papers are provided in accordance with an agreed timetable.
- ▶ Good quality early drafts of the Council's Annual Governance Statement and Financial Statements are available for us to review.
- ▶ Appropriate quality supporting documentation is provided by the Council.
- ▶ The Council has an effective control environment.
- ▶ Our accounts opinion and value for money conclusion being unqualified.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the [Audit Committee]. These are detailed here:

Required communication	Reference
<p>Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.</p>	▶ Audit Plan
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process ▶ Findings and issues regarding the opening balances on initial audits [delete if not an initial audit] 	▶ Audit Results Report
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	▶ Audit Results Report
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	▶ Audit Results Report
<p>Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	▶ Audit Results Report
<p>External confirmations</p> <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	▶ Audit Results Report
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	▶ Audit Results Report

Required communication	Reference
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement director's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Audit Results Report
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assertion is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<ul style="list-style-type: none"> ▶ Audit Results Report
<p>Significant deficiencies in internal controls identified during the audit</p>	<ul style="list-style-type: none"> ▶ Audit Results Report
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Audit Results Report ▶ Annual Audit Letter if considered necessary

Appendix C Detailed scopes

We set audit scopes for each reporting unit which together enable us to form an opinion on the group accounts. We take into account the size, risk profile, changes in the business environment and other factors when assessing the level of work to be performed at each reporting unit.

- ▶ Full scope: locations deemed significant based on size and those with significant risk factors are subject to a full scope audit, covering all significant accounts and processes using materiality levels assigned by the EY Birmingham audit team for the purposes of the consolidated audit. Procedures are full-scope in nature, but may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements (as materiality thresholds support to the consolidated audit).
- ▶ Specific scope: locations where only specific procedures are performed by the local audit team, based upon procedures, accounts or assertions identified by the EY Birmingham audit team.
- ▶ Limited Scope: limited scope procedures primarily consist of enquiries of management and analytical review. On-site or desk top reviews may be performed, according to our assessment of risk.

The Council has two principal entities that fall within the group structure:

- ▶ In April 2013 the Council entered into a partnership to form Entrust Support Services Ltd. The Council owns 49% of the ordinary shareholding of Entrust, and Capita plc holds the remaining 51% of the shares in the joint venture.
- ▶ The Council has created a Strategic Partnership, which involves the formation of a joint venture company, Penda, with Kier and the County Council. It began in April 2015 for an initial 10-year term, with a potential further five-year extension. As part of the partnership, the Council and PCC provide details of their property assets, local needs and access to other public sector organisations, which may have adjoining assets that can be pooled with the partnership's projects. Kier has appointed staff to the partnership, to provide expertise and advice on those assets, developing and managing the partners' property assets.

On the basis of our initial risk assessment, neither entity is judged to be a significant component of the Group and are outside the scope of our audit.

ISA 600 (UK and Ireland) requires that we provide you with an overview of the nature of our planned involvement in the work to be performed by the component auditors of significant locations/reporting units. Whilst neither entity is judged to be a significant component, our work can be summarised as follows:

- ▶ Obtaining the audited financial statements of each joint venture.
- ▶ Overall analytical procedures on the transactions recorded in the Council's financial statements.
- ▶ Reviewing related party disclosures.
- ▶ Reviewing all material adjustments between the Council's single entity accounts and the Group accounts.

EY | Assurance | Tax | Transactions | Advisory

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Staffordshire Pension Fund

Year ending 31 March 2017

Audit Plan

Ernst & Young LLP



Building a better
working world

Audit Committee
Staffordshire Pension Fund
2 Staffordshire Place
Tipping Street
Stafford
ST16 2DH

2 March 2017

Dear Committee Members

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2016/17 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Pension Fund and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this Audit Plan with you on 13 March 2017, and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Richard Page
Executive Director
For and behalf of Ernst & Young LLP

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the [PSAA website \(www.psaa.co.uk\)](http://www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Audit Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Overview

1.1 Overview

This Audit Plan covers the work that we plan to perform to provide you with:

- ▶ Our audit opinion on whether the financial statements of Staffordshire Pension Fund (the Pension Fund) give a true and fair view of the financial position as at 31 March 2017 and of the income and expenditure for the year then ended; and
- ▶ Our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the published financial statements Staffordshire County Council.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements;
- ▶ Developments in financial reporting and auditing standards;
- ▶ The quality of systems and processes;
- ▶ Changes in the business and regulatory environment; and
- ▶ Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Pension Fund. Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

We will provide an update to the Audit Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September 2017.

1.2 Key audit influences

Our audit is an iterative process and as we progress our work, we may need to refine our approach. Our interim work has been completed in February 2017, where we completed and updated our assessment of:

- ▶ Significant risks.
- ▶ Business risks relevant to financial reporting objectives.
- ▶ Other risks, such as regulation.

Whilst the interim work is largely complete, we can discuss and amend our audit plan going forward if there are other matters of audit significance that emerge in the Committee meeting on 13 March. In parts three and four of this plan we provide more detail on the above areas and we outline our plans to address them. Our proposed audit process and strategy are summarised below and set out in more detail in section five.

We will provide an update to the Audit Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September 2017.

2. Financial Statement Risks

We outline below our current assessment of the financial statement risks facing the Pension Fund, identified through our knowledge of the Pension Fund's operations and discussion with those charged with governance and officers.

2.1 Significant risks

Significant risks (including fraud risks)

Our audit approach

Risk of Management Override

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

Our approach will focus on:

- ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- ▶ Performing substantive procedures to gain assurance on the valuation of hard to value investments;
- ▶ Reviewing accounting estimates for evidence of management bias; and
- ▶ Evaluating the business rationale for significant unusual transactions.

2.2 Other key areas of audit focus

Other financial statement risks

Our audit approach

Valuation of complex investments (Unquoted investments)

The Fund's investments include unquoted pooled investment vehicles and direct property investments. Judgements are taken by the Investment Managers to value those investments whose prices are not publically available. The material nature of Investments means that any error in judgement could result in a material valuation error.

Current market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations could have a material impact on the financial statements.

We will:

- ▶ Review the basis of valuation for property, private equity funds and other alternative investments and assess the appropriateness of the valuation methods used;
- ▶ Review the latest audited accounts for all underlying investment vehicles and ensure there are no matters arising that highlight weaknesses in the funds valuation;
- ▶ Perform tests of valuation such as reviewing transactions around the year end, performing 'look through' testing or obtaining latest available audited accounts and auditing any subsequent cash movements between the date of the audited accounts and the Fund's year end; and
- ▶ Where necessary our internal valuation specialists will support our work in these areas.

We will keep our risk assessment under review throughout our audit and communicate, to the Audit Committee, any revisions to the risks identified here and any additional local risk-based work we may need to undertake as a result.

3. Responsibilities in relation to fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ▶ identifying fraud risks during the planning stages;
- ▶ enquiry of management about risks of fraud and the controls to address those risks;
- ▶ understanding the oversight given by those charged with governance of management's processes over fraud;
- ▶ consideration of the effectiveness of management's controls designed to address the risk of fraud;
- ▶ determining an appropriate strategy to address any identified risks of fraud, and
- ▶ performing mandatory procedures regardless of specifically identified risks.

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Code of Audit Practice (the 'Code') our principal objectives are to review, and report on, the Pension Fund's financial statements

Our objectives are to:

- ▶ form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).
- ▶ form an opinion on the consistency of the financial statements within the pension fund annual report with the published financial statements.

4.2 Audit process overview

Our audit involves:

- ▶ identifying and understanding the key processes and internal controls;
- ▶ where relevant reviewing the work of your internal auditors;
- ▶ reviewing and assessing the work of experts in relation to areas such as valuation of the Pension Fund to establish if reliance can be placed on their work; and
- ▶ substantive tests of detail of transactions and amounts

Processes

Our initial assessment of the key processes across the Pension Fund has identified the following key processes:

- ▶ Benefits payable
- ▶ Cash and bank
- ▶ Contributions receivable
- ▶ Investments
- ▶ Pensions membership database
- ▶ Financial Statements Close Processes

Having identified key processes we document the main internal controls and perform a walkthrough of the controls to confirm our understanding of their operation. We are planning to follow a substantive testing strategy for all of the above.

As investments are managed by contracted fund managers and overseen by the appointed custodian, we will also review the findings of independent ISAE 3402 assurance reports, for the custodian and fund managers, and assess if there are any issues reported that may impact on our testing strategy.

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, if we identify any significant weaknesses or inefficiencies, and make recommendations for improvement to management and the Audit Committee.

Internal audit

We will review internal audit plans and the results of their work. We reflect on these when designing our overall audit approach and when developing in our detailed testing strategy. We may also reflect relevant findings from their work in our reporting, where it raises issues that we assess could have a material impact on the year-end financial statements

Use of experts

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Asset valuation	Fund Investment Managers and Custodian EY Investment Valuation Specialists as appropriate eg real estate
Pensions liability	The Pension Fund's Actuary and the EY Pensions team

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Pension Funds environment and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ analyse source data and make inquiries as to the procedures used by the expert to establish whether the source data is relevant and reliable;
- ▶ assess the reasonableness of the assumptions and methods used;
- ▶ consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ assess whether the substance of the specialist's findings are properly reflected in the financial statements

4.3 Mandatory procedures required by auditing standards

As well as the financial statement risks outlined in section three, we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- ▶ Addressing the risk of fraud and error;
- ▶ Significant disclosures included in the financial statements;
- ▶ Entity-wide controls;
- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- ▶ Auditor independence.

Procedures required by the Code

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the annual governance statement.

Finally, we are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014.

4.4 Materiality

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition.

We have determined that overall materiality for the financial statements of the Pension Fund is £37 million based on 1% of net assets. We will communicate uncorrected audit misstatements greater than £1.9 million to you.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

4.5 Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The indicative fee scale for the audit of Staffordshire Pension Fund is £28,637. We will agree separate fees and obtain pre-approval in respect of work undertaken around IAS19 reporting.

4.6 Your audit team

The engagement team is led by Richard Page, who has significant experience of pension audits. Richard is supported by Caroline Davies who is responsible for the day-to-day direction of audit work and is the key point of contact for your finance and pension teams.

Steve Clark is the Partner leading our overall engagement with Staffordshire County Council and our relationship with the Audit Committee.

4.7 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit and the deliverables we have agreed to provide to the Council through the Audit Committee's cycle in 2016/17. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Chair as appropriate.

Audit phase	Timetable	Audit Committee timetable	Deliverables
Risk assessment and setting of scopes	February 2017	13 March 2017	Audit Plan
Interim audit	February 2017	September 2017	
Year-end audit	Commencing July		
Completion of audit	September 2017	September 2017	Report to those charged with governance via the Audit Results Report Audit report on our opinion on the financial statements Audit report on our opinion on the consistency of the financial statements within the pension fund annual report with the pension fund financial statements
Annual report review	TBC		

5. Independence

5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 ‘Communication of audit matters with those charged with governance’, requires us to communicate with you on a timely basis on all significant facts and matters that bear on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that we are independent; ▶ Details of any inconsistencies between APB Ethical Standards, PSAA Terms of Appointment and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ▶ An opportunity to discuss auditor independence issues.

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future contracted services, and details of any written proposal to provide non-audit services;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period are disclosed, analysed in appropriate categories.

5.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Pension Fund.

At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services, and we will comply with the policies that the Pension Fund has approved and that are in compliance with the PSAA Terms of Appointment.

At the time of writing, there are no non-audit services provided by us to the Pension Fund.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to the Pension Fund. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 4.

There are no other self-interest threats at the date of this report.

Self-review threats

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no other self-review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Overall Assessment

Overall we consider that the adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Richard Page, the audit engagement director and the audit engagement team have not been compromised.

5.3 Other required communications

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended June 2016 and can be found here:

<http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2016>

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2016/17 £	Out-turn 2015/16 £	Published fee 2015/16 £
Total Audit Fee – Code work	28,637	28,637*	28,637
Non-audit work – IAS 19	TBC	5,500	N/A

All fees exclude VAT.

* We charged an additional fee of £5,500 in 2015/16 to take into account the additional work required to respond to sixteen IAS19 assurance requests from scheduled bodies. We anticipate raising an additional fee in 2016/17, and will confirm this with the Committee when we are in receipt of all requests.

The agreed fee presented above is based on the following assumptions:

- ▶ There are no significant changes in the level of risk in relation to the audit of accounts from those described in section 3
- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ We are able to use the work of internal audit to inform our understanding of your internal control environment;
- ▶ Our accounts opinion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Pension Fund; and
- ▶ The Pension Fund has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Director of Finance in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the Audit Committee. These are detailed here:

Required communication	Reference
Planning and audit approach	
Communication of the planned scope and timing of the audit including any limitations.	▶ Audit Plan
Significant findings from the audit	
▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures	▶ Report to those charged with governance
▶ Significant difficulties, if any, encountered during the audit	
▶ Significant matters, if any, arising from the audit that were discussed with management	
▶ Written representations that we are seeking	
▶ Expected modifications to the audit report	
▶ Other matters if any, significant to the oversight of the financial reporting process	
Misstatements	
▶ Uncorrected misstatements and their effect on our audit opinion	▶ Report to those charged with governance
▶ The effect of uncorrected misstatements related to prior periods	
▶ A request that any uncorrected misstatement be corrected	
▶ In writing, corrected misstatements that are significant	
Fraud	
▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity	▶ Report to those charged with governance
▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist	
▶ A discussion of any other matters related to fraud	
Related parties	
Significant matters arising during the audit in connection with the entity's related parties including, when applicable:	▶ Report to those charged with governance
▶ Non-disclosure by management	
▶ Inappropriate authorisation and approval of transactions	
▶ Disagreement over disclosures	
▶ Non-compliance with laws and regulations	
▶ Difficulty in identifying the party that ultimately controls the entity	
External confirmations	
▶ Management's refusal for us to request confirmations	▶ Report to those charged with governance
▶ Inability to obtain relevant and reliable audit evidence from other procedures	
Consideration of laws and regulations	
▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off	▶ Report to those charged with governance
▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of	

Required communication	Reference
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY’s objectivity and independence</p> <p>Communication of key elements of the audit engagement director’s consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Significant deficiencies in internal controls identified during the audit</p>	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance

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Audit and Standards Committee Forward Plan June 2016 - May 2017

If you would like to know more about our work programme, please get in touch with Louise Morris, Scrutiny Support Officer, 01785 276144 or louise.morris@staffordshire.gov.uk

Item and lead officer	Date of meeting	Detail	Action/Outcome
Information Governance Head of Information Governance	21 March 2016	Annual Report	Members received the Information Governance annual report and noted the work ongoing. An increase in cyber-attacks was investigated where necessary.
Protecting the Public Purse Chief Internal Auditor		Fraud Briefing/ Awareness Training	Members received a presentation: Protecting the Public Purse raising awareness of fraud, how it can arise and why it is important to mitigate ongoing threat.
Members Standards Director of Strategy, Governance and Change		Annual Statement	Members received the report in respect of Complaints against members of the county council.
External Audit Plan 2015-16 Ernst & Young			Members approved the External Audit Plan 2015-16; agreed that a letter should be sent to the Leader of the County Council recommending the appointment of a Cabinet Member without portfolio to act as a gatekeeper for the County Councils finances; and asked for arrangements for scrutinising Entrust to be investigated.
Staffs Pension Fund – External Audit Plan 2015-16 Ernst & Young			Members approved the Pensions Fund External Audit Plan 2015-16

Item and lead officer	Date of meeting	Detail	Action/Outcome
External Audit Ernst & Young	27 June 2016	Progress Report	The committee received the progress report; sought assurance that SLT could evidence that the County Council is achieving Value for Money; and, asked about the likely cost and necessity of identifying the Highways Network Asset, in line with CIPFA Code of Practice.
Internal Audit Chief Internal Auditor		<ul style="list-style-type: none"> • Outturn Report 2015-16 • Strategy and Plan 2016-17 • Charter 	The committee received the Internal Audit Outturn report including the annual audit opinion and the Internal Audit Strategy and Plan for 2016-17. They noted two small revisions to the Internal Audit Charter for 2016-17.
Code of Corporate Governance Director of Strategy, Governance and Change <i>and</i> Director of Finance and Resources		Update on action plan	Members noted progress towards implementing the Corporate Governance Action Plan 2015-16 and in particular revising the Code of Conduct. The revised framework contained a number of key changes to the principles which determine the County Councils governance arrangements.
Better Care Fund (BCF) Director for Health and Care		Management of Risk	Members received an update on managing risk around the Better Care Fund.
Politically Restricted Posts Director of Strategy, Governance and Change		Approval to amending the Council's constitution	The committee approved the change to the list of politically restricted posts and recommended the change to Council.
Annual Governance Statement Director of Strategy,	12 September 2016		The Committee approved the Annual Governance Statement. It was agreed that the Chairman write to the Leader of the Council regarding the Committee's concerns

Item and lead officer	Date of meeting	Detail	Action/Outcome
Governance and Change <i>and</i> Director of Finance and Resources	12 September 2016 continued		in relation to delegating decisions to one Cabinet Member, in particular making reference to recommendations made previously by Corporate Review and concerns regarding the BCF.
Statement of Accounts 2015/6 Chief Accountant		<ul style="list-style-type: none"> • County Council • Pension Fund 	The Committee gave approval to the 2015/2016 Statement of Accounts as included in the Committee papers and the letters of representation from the Director of Finance and Resources.
Report to those charged with Governance Report of Ernst & Young			The Committee noted the Staffordshire County Council Audit Results Report – ISA (UK and Ireland) 260 for the year ended 31 March 2016 and the Staffordshire Pension Fund Audit Results Report – ISA (UK and Ireland) 260 for the year ended 31 March 2016
Code of Corporate Governance Director of Strategy, Governance and Change <i>and</i> Director of Finance and Resources		To receive the new Code	The Committee noted the updated Code of Corporate Governance, the revised Single Sheet Local Framework and the progress on developing the Corporate Governance Action Plan 2016/17.
Future External Audit Procurement Report of the Director of Finance and Resources			The Committee recommended that Full Council ‘opt-in’ to the Local Government Association Sector Led Body approach via Public Sector Audit Appointments Ltd for the procurement of the External Audit contract for the financial year commencing April 2018.
Health, Safety and Wellbeing Performance Health, Safety & Wellbeing	5 December 2016	Annual Report	

Item and lead officer	Date of meeting	Detail	Action/Outcome
Manager	5 December 2016 continued		
Annual Audit Letter 2015-16 Report of Ernst & Young			It was agreed that Committee Members note the content of the Annual Audit Letter for the year ended 31 March 2016. It was agreed that the Committee; Note the progress against the 2016/17 Internal Audit Plan and the amendments to the original plan, including those audits which had been cancelled since its approval in June 2016. Note progress on the implementation of high level recommendations made during 2016/17.
Internal Audit Plan 2016-17 Chief Internal Auditor		Update	
National Fraud Initiative Chief Internal Auditor		Update	It was agreed that the Committee note the content of the report presented.
Fraud Briefing Counter Fraud Manager <i>and</i> Chief Internal Auditor		Briefing/Awareness Training	It was queried how Councillors could raise any concerns regarding fraud and the Chief Internal Auditor confirmed that the Internal Audit Team could be informed of any financial concerns straight away through the reporting line and through an online reporting form which would be going live shortly.
SSOTP Head of Financial Strategy and Support		Management of Risk	A verbal update was considered. It was agreed that the report and minutes of the item presented on SSOTP to the Healthy Staffordshire Select Committee on the 2 December 2016 be shared with the Audit and Standards Committee for information

Item and lead officer	Date of meeting	Detail	Action/Outcome
Internal Audit Reports – Update on Limited Assurance Review Update			It was noted that the Settlement Agreement process had been amended in response to the Committee’s letter and was now a far more robust system than what was going to be implemented.
	13 March 2017		
Pension Scheme Assets Pooling			
Director of Finance and Resources			
Annual Information Governance Statement		Annual report	
Head of Information Governance			
Members Standards		Annual Statement	.
Director of Strategy, Governance and Change			
External Audit Plan		Update	
Report of Ernst & Young			
	26 June 2017		
External Audit Plan		Progress Report	
Ernst & Young			
Internal Audit		<ul style="list-style-type: none"> • Outturn Report 2016-17 • Strategy and Plan 2017-18 	
Chief Internal Auditor			
Strategic Risk Register			

Item and lead officer	Date of meeting	Detail	Action/Outcome
Chief Internal Auditor			
SAP Replacement update Report of Chief Accountant			
Code of Corporate Governance – 2017/18 Director of Strategy, Governance and Change <i>and</i> Director of Finance and Resources			
Financial Regulations and Procurement Regulations Report of the Director of Finance and Resources			
Training of the new Audit & Standards Committee			
Effectiveness of Audit & Standards Committee	4 December 2017		
Work programme for the Audit and Standards Committee	All meetings		
Proposed changes to the Constitution	As required		
Other items:		<ul style="list-style-type: none"> • Auditing in a Commissioning environment (cybercrime) • External Assessment of Internal Audit • Local Public Audit - update • Procurement Regulations and Financial regulations. • Penda property partnership 	A development day on Penda Property Partnership will be offered to all members

Membership

Martyn Tittley (Chairman)
Mike Davis (Vice Chairman)
Derek Davies OBE
William Day
Brian Edwards
Michael Greatorex
Derrick Huckfield
Kevin Jackson
Philip Jones
Robert Marshall
David Smith
Alison Spicer
Diane Todd
Mike Worthington
Caroline Wood

Calendar of Committee Meetings

27 June 2016
12 September 2016
5 December 2016 2pm
13 March 2017

Meetings usually take place at County Buildings, Martin Street,
Stafford ST16 2LH

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of Part 1 of Schedule 12A
of the Local Government Act 1972

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