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Audit and Standards Committee

Monday, 24 September 2018
10.00 am
White Room, County Buildings, Martin Street, Stafford

John Tradewell
Director of Strategy, Governance and Change
14 September 2018

A G E N D A

1. **Apologies**

2. **Declarations of Interest**

3. **Minutes of the Meeting held on 30 July 2018** (Pages 1 - 14)

4. **Annual Audit Letter 2017-18** (Pages 15 - 42)

   Report of Ernst & Young.

5. **Local Government Sector Update Report** (Pages 43 - 54)

   Report of Ernst & Young.

6. **General Data Protection Regulation and Data Protection Act 2018** (Pages 55 - 62)

   Presentation by the Head of Business Support.

7. **National Fraud Initiative 2018** (Pages 63 - 66)

   Report of the Director of Finance and Resources.

8. **Forward Plan** (Pages 67 - 76)

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 meeting held on 30 July 2018** (Pages 77 - 82)

(Exemption paragraph 3)

11. **Prisons and Approved Premises Team – Care Assessment & Management Final Audit Report** (Pages 83 - 106)

(Exemption Paragragh 3)

Report of the Director of Finance and Resources.

12. **Special Investigation - Throughcare Cash Payments - update**

(Exemption paragraph 3)

Verbal Update by the interim Head of Audit and Financial Services

Membership

Derek Davis, OBE	Carolyn Trowbridge (Vice-Chairman)
Mike Davies	Ross Ward
Michael Greatorex	Bernard Williams
Martyn Tittley (Chairman)	Victoria Wilson
David Brookes	Jill Hood
Colin Greatorex	Paul Northcott
Ian Lawson	Susan Woodward
Jeremy Oates	

Note for Members of the Press and Public

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Minutes of the Audit and Standards Committee Meeting held on 30 July 2018

Present: Martyn Tittley (Chairman)

Attendance

Derek Davis, OBE	Ian Lawson
Mike Davies	Jeremy Oates
Michael Greatorex	Bernard Williams
David Brookes	Victoria Wilson
Colin Greatorex	Paul Northcott
Syed Hussain	

Also in attendance: Vishal, Savjani (Ernst & Young) and Stephen, Clarke (Ernst & Young, External Auditors)

Apologies: Carolyn Trowbridge, Ross Ward and Jill Hood

PART ONE

21. Declarations of Interest

There were no declarations of interest.

22. Minutes of the Meeting held on 13 June 2018

RESOLVED: That the Minutes of the meeting held on 13 June 2018 be confirmed and signed by the Chairman.

23. Annual Governance Statement 2017-18

The interim Head of Audit and Financial Services introduced her report by explaining that the Annual Governance Statement (AGS) for 2017-18. The AGS 2015 is part of the requirements of the Accounts and Audit Regulations 2015 that the Council is required to have as part of the Annual Accounts. The AGS is reviewed by the external auditors and produced on the Council's external website for information.

In the document the Council acknowledged its responsibility for ensuring that there is a sound system of governance; it summarised the key elements of the governance framework and described the roles of those responsible for the development and maintenance of the governance environment. The AGS also described how the Council had monitored and evaluated the effectiveness of its governance arrangements throughout the year and on any planned changes in the coming period and provided details of how the Council had responded to any issue(s) identified in last year's governance statement and finally, reported on any governance matters that need to be considered in 2018-19. The diagram on page 17 of the AGS described how the Council prepared the governance statement and the key elements of the Framework. The draft Statement is considered by the Corporate Governance Working Group which included key members of Council. The AGS was then presented to the Audit and Standards Committee for approval, and then goes on to the Leader of the Council and Chief Executive for approval. In preparing the Statement, reference is made to the guidance produced by the CIPFA/ Solace Framework on Good Governance. The Council's Local Code of Corporate Governance had been updated to reflect this guidance and the Council had assessed the effectiveness of the Council's governance arrangements. In reviewing the effectiveness reference was made to the governance framework, the actions that were raised last year, details of which were given in the Appendix of the pack. Where appropriate, actions had been carried forward into the 2017-18 Statement. Account had also been taken of the Chief Internal Auditor's report that was presented to the Committee at the last meeting and the issues that were identified in relation to the MyFinance and MyHR systems including the issue regarding the capacity and capability within the organisation. The AGS also took account of the External Auditor's view. In last year's accounts there was an Unqualified Opinion that was presented. Issues relating to other agencies' review inspectorates had also been taken on board. Members were asked to note the view that had been taken from the external assessor presented to the Committee in March 2018 who gave it the highest standard of compliance with the standards. The Council also reviewed whether the Section 151 and Monitoring Officer had had to use their official powers during 2017-18 (they had not had to use these powers). A review of scrutiny arrangements for Select Committees had concluded that these were effective. A system for confirming that controls are working is being developed via Corporate Directors in 2018-19. There had been no complaints investigated by the Audit and Standards Committee regarding elected Members. The Ombudsman had not upheld any complaints about governance issues. A number of whistleblowing issues were being considered by the Monitoring Officer and they would be reported to the Corporate Governance Working Group once completed. The core principles behind Staffordshire County Council's governance framework was described linking to the overarching aim that the Council is achieving the intended outcomes whilst acting in the public's interest at all times.

The core principles behind Staffordshire's Governance Framework were defined. This takes the seven principles and ensures that the relevant systems and processes are sitting underneath them in the organisation. Details of who was responsible for developing and maintaining the governance framework and their key roles was described going from the Council through to individual managers and employees responsible for ensuring that this process is embedded. The progress made with individual governance issues raised by Members last year was explained. Some of these were ongoing and would be carried forward to 2017-18.

Nine Key Governance Matters were identified by the various governance processes described earlier. These included working with the NHS bodies as part of the Sustainability and Transformation Plan in order to improve health and care provision within Staffordshire; looking at the transformational change required to achieve the Medium Term Financial Strategy; various transformation models within different services; work to develop the workforce engagement; reviewing and updating various Schemes of Delegation; work to review and monitor our Business Continuity arrangements including work with key suppliers to ensure that they are sufficiently resilient; work to ensure that we keep a watching brief over changes in this area and keeping a watching brief to ensure that all of the internal audit recommendations are achieved.

Members expressed concern regarding the detail in the report and suggested that some actions should be prioritised as they were fundamental to the wellbeing of the organisation. It was suggested that these items should be highlighted and scrutinised in more detail.

RESOLVED: a) That the report is approved. b) That the Significant Control Issues listed in the AGS Supporting Paper 2 are added to the Audit and Standards Committee Work Plan in a timely manner.

24. Statement of Accounts 2017-18

The Deputy Director of Finance (DDF) introduced the Powerpoint training session on the Statement of Accounts by giving details of the context. The Statement of Accounts were being brought to the Committee for approval.

He explained that finalising the Statement of Accounts had been a challenge this year as the Regulations had changed which had meant that three months' work had had to be completed in two months, including the audit of the accounts. This had proved to a challenge and had had resource implications for the Teams. Members were reminded that a new Finance system had gone live in November 2017 and this had had a direct impact on the Statement of Accounts. The first part of the Accounts had been run on the old system (SAP), and the second part of the year on the MyFinance system. Thirdly, the system for the valuation of fixed assets had been changed from an in house valuation team to engage the services of the District Valuer.

There have been some matters of human error, not in respect of any cash transactions, but in the notional transactions around fixed assets. No system or control or data issues had been identified in regard to the MyFinance System, but at certain points in the year such as 31 March reports had to be run off to enable the external auditors to do their job more efficiently. This had not been known in advance, so some retrospective reporting had had to be completed to enable the external auditors to do their reports. There had also been some learning in regard to the new arrangements with the District Valuer.

The **formal** accounts were placed before Members. There were many notional adjustments i.e. non-cash back transactions that the Council was required to put through the accounts in order to comply with the Regulations, but because the impact of the non-cash back transactions could fall to the taxpayer there were a number of transactions that had to be put in the accounts and then reversed out. This made reading the accounts and interpretation somewhat difficult. From the Auditors' report it was pointed out that there had been some final checks to be completed and the DDF proposed that the Audit and Standards Committee delegate to the Director of Finance and Resources (DFR) to make any final adjustments to the accounts, subject to final checks being undertaken by the external auditors, with the proviso that if there was anything significant identified the DFR would consult with the Chairman.

a) Training Session - Understanding the Statement of Accounts

The Corporate Finance Manager (CFM) gave a Training Session on Understanding the Statement of Accounts. She drew Members' attention to the concept of stewardship that lay behind bringing the Accounts to the Committee. The Council spent a considerable amount of money and it was important to show to the public, Councillors and the external auditors that the Council had accounted for this money appropriately. There were other aspects of stewardship such as inspections and value for money inspections and other systems of governance that showed how well the Council was used. The Regulations governed the Statements of Accounts and stated that they must be brought to the Audit and Standards Committee for approval every year.

Inside the accounts the main areas of interest were the statements that showed how much services cost; where the Council had got money from and what assets and liabilities the Council had at the end of the year. In preparing the accounts the readership of the accounts was borne in mind. The accounts covered the period 1.4.17-31.3.18. This had been the first year with the new statutory deadlines and had meant that the accounts had to be signed off by 31.5.18 by the DFR, and audited and approved by the Committee by 31.7.18. There had been an extended period of public inspection of six weeks this year during which there were no enquiries.

The CFM went on to explain that the Code of Practice on Local Authority Accounting must be followed in preparing the accounts. There were no significant changes in the Code this year. The accounts must be signed by the DFR and audited by the external auditors, Ernst and Young. Two of the fundamental principles that were applied in the preparation of the accounts were materiality and accruals. Materiality meant that the Council should account for large transactions and be less concerned regarding smaller transactions. Accruals meant that the Council must ensure that transactions are reflected in the correct financial year.

The Narrative Statement was an overview of the DFR setting out the financial position of the financial year. The accounting policies were quite technical and explained how the different financial elements had been accounted for. Following this the financial statements and notes and the Pension Fund accounts were included. Of particular interest was the comprehensive income and expenditure account. This showed how much services had cost in the year and where the money to fund those services had come from. The services were reported as reported to Cabinet in the outturn and quarterly budget monitoring reports. Some of the numbers may vary e.g. deficit of £25m, when the outturn said the Council were underspent. This was because of the notional transactions that must be included in Statement. In comparison with last year the deficit was smaller. The Statement also showed that the Council had paid more interest this year than last year, as the Council had done some refinancing of debt. The Council had a smaller loss on disposal this year and this was because the Council had had fewer large secondary schools converting to academy status. The net cost of services was slightly less than last year, reflecting the MTFS and the savings that were being made.

This year there had been prior period adjustments. This meant that the Council had had to go back and change some of the figures for 2016-17 from those in the 2016-17 approved accounts. The prior period adjustments were a combination of a change in accounting policy and errors. After the 2016-17 accounts were approved last year the Council received Entrust's final audited accounts and they had impaired some of their goodwill. As the Council had a 49 per cent share in Entrust, this needed to be reflected in their impairment. This adjustment is notional. It had not impacted on the cash or general balances that the Council held. There were other prior period adjustments and these were also notional e.g. adjustments for timing where schools have converted to academy status in a year and they have not been correctly reflected and accounted for in that year. Finally, where the Council had capital expenditure that did not add value to an asset. The line that it had been reported on had been changed.

The balance sheet showed the value of the Council's assets and liabilities and how the County Council was funded and how much was held in general balances and reserves at the end of the year. The main items being fixed assets and debtors and creditors, and borrowing and pension scheme borrowing. This latter figure was a hypothetical figure provided to the Council by the actuary and was a figure that the Council would have to pay out if an employee retired on 31 March. The reserves were split into usable and unusable (unusable is not cash). The usable reserves are cash and are the general balances that are held by the Council, earmarked reserves, some of which belonged to schools and some for other services that are set aside for specific purposes. This year the assets less liabilities had increased, there was a slightly reduced pension liability, and the assets - property, plant and equipment have increased by £100m. The Council had increased its usable reserves to £2.5m and general balances were £26m, an increase since the start of the year. The schools reserves had decreased slightly. The movement in reserves statements showed more detail. The Pension Fund accounts were shown towards the back of the Statement of Accounts. The Pension Fund produced a separate annual report. The cash for the Pension Fund was kept completely separate from the Council's cash. The Pension Fund's accounts had increased by 4.1 per cent, which was a positive outcome. As the audit was not quite concluded, the CFM reiterated the request that the Committee approve the Accounts, giving the DFR delegated authority to make any changes necessary in discussion with the Chairman and the external Auditors.

b) Statement of Accounts 2017-18

Members asked for an explanation of the increase in assets of £100m+ over the year. The DDF reminded Members that the total property, plant and equipment was £1.7bn so this was not a relatively massive increase. This arose as a result of the valuations being refreshed each year by the District Valuer, and also the Council had spent £120-£150m per year on its Capital Programme. A proportion of this will impact on the valuation.

Members referred to the fact that support services had overspent by £1.1m and this saving had now been removed from the budget and asked for an explanation. The DFR stated that this was due to the Council trying to renegotiate terms and conditions with the Trade Unions regarding the redundancy scheme. The Government were trying to renegotiate terms and conditions within the public sector and Cabinet took the view that it would be difficult to negotiate with the Trade Unions on a deal that would be detrimental to their members and there was a prospect in the medium term of the government making some changes. Members asked if it could be an aspiration to make these savings. The DFR stated that this was not in the current climate managerially deliverable.

RESOLVED: a) That the Members approve the 2017/2018 Statement of Accounts;
b) That the Committee approve the two management representation letters attached to the covering report;
c) That the Committee agree to give the DFR delegated authority to make any outstanding adjustments necessary to the Accounts in discussion with the Chairman of the Audit and Standards Committee and the external auditors

25. Report of those charged with governance (ISA 260)

a) Staffordshire County Council

Steve Clark, Ernst and Young, (EY) stated that there had been a significant shift in the timetable for the current year but they anticipated being able to sign the accounts within the timetable i.e. by 31 July. Mr Clark extended his thanks to the Finance and Resources team for their help. In regard to the audit a number of items had progressed since the report had been produced for the Committee. In terms of the key areas of audit focus, he anticipated issuing an unqualified audit opinion on the financial statements in the form at Section 3 of the report and value for money opinion before 31 July 2018. The DFR and Ernst and Young had concerns regarding the longer term financial standing and viability of the Council given the funding pressures that had led other upper tier local authorities into significant financial difficulty within a short space of time.

A number of audit adjustments had been identified in year. The only significant item that the Council had not proposed to adjust for at the present time was in respect of the pension valuation, an increase in the asset value of £8.175m. This had arisen for the first time as a result of the actuary making an assessment in December of what they forecast the year end position to be. The assets values had then increased in the three months from December to March. The Council had chosen not to adjust for this and Ernst and Young agreed with this decision. Mr Clark stated that this was not a Staffordshire specific issue and that some volatility was expected in the capital markets towards the end of March next year as we move towards Brexit and this may affect pension valuations at that time.

Vishal Savjani, EY, highlighted the key areas. In the Executive Summary the external auditors had identified the following risks.

Fraud in revenue and expenditure recognition. This was a standard risk that appears on all audits. E&Y were trying to focus their attention on the expenditure recognition of the Council, specifically the valuation of accruals and receivables in the accounts to ensure that the figures recorded in the balance sheet are recorded accurately. Tests had been completed and there were no issues that needed to be identified or highlighted to the Committee.
Mis-statements due to fraud and error. This is a standard risk that appeared on all audits. The focus was on non-routine journals at year end and any estimation techniques and any judgements made by management. Tests had been completed and the only adjustment that came out was one regarding £18.5m of capital expenditure which was considered to be non-enhancing and impaired in year, and should have been allocated against net cost of services.

Property, Plant and Equipment. The risk was around the change in valuation in year by the District Valuer and the Council's internal valuer. Tests had been carried out in year. Instructions and data were provided to the Valuer by the Council and EY had obtained the services of their own valuation experts to review the work of the DVO and their qualifications. EYs valuation specialist had reviewed the valuation methods and the conclusion was that overall the methods used where appropriate. The only area where there was concern was in regard to the valuation of schools, specifically the valuation of a playing field that had been valued inappropriately on a residential basis. As a result an adjustment had been agreed with management of £10.2m. These adjustments have been processed through the accounts. EY also identified some issues regarding schools converting to academy status that were highlighted in Section 4 and 7 of the report.
New General Ledger System. Work had been carried out on data migration to ensure that the data had been accurately transferred to the new system. IT specialists had been utilised and a minor control observation had been identified.
Pension Liability Valuation. This was an area of high estimation risk. Specialists had been called in to look at the assumptions that were used to ensure that the valuation on the balance sheet was accurate. As a result £8.175m had been identified which would not be adjusted as the values in the actual statement used were different to the final ones at 31 March, as explained earlier.
New Payroll System. IT specialists had been used and no issues had been identified in relation to the transfer of data from SAP to Integra.
Valuation of Entrust Support Services. The prior period adjustment had been made as a result of the impairment on receipt of the 2016 financial statements. The prior period adjustment had been reviewed and EY were satisfied that they had been correctly processed in the accounts.
Draft Audit Report. The highlight was that the audit opinion is unqualified and EY are satisfied with the Council's value for money arrangements.
Audit Differences. The summary related to the pension scheme asset valuation used by the pension actuary that resulted in an understatement of £8.175m. Members were asked to note this and there is a specific recommendation that no adjustment should be made as this has no material impact on the accounts and should not be processed in the accounts.

The key areas of audit differences were around property, plant and equipment.
Disposal of schools that converted to academy status. As a result of schools converting to academy status in 2017-18 there were £18.2m of assets that were disposed of relating to eight schools that had not been accounted for in the accounts. A review was undertaken of 2015-16 and 2016-17 to ensure that any disposals were accurately reflected in those years. This identified £17.5m that should be moved from 2017-18 to 2016-17 and £22m in 2016-17 that should be moved back to 2015-16. This was all recorded in the prior period adjustment.
Valuations in Schools. This related to the incorrect valuation of school land to the value of £10.2m.
Classification – the calculation of the gains/loss of disposal of property, plant and equipment incorrectly included the PFI life cycle costs of £3m. These had been reclassified to PFI liabilities.
Capital expenditure – this was a prior period adjustment.
Assets held for sale. A transaction had been identified that had not been processed correctly.

There were two further errors relating to **short term creditors** and **PFI.**
Value for Money Risks. Three risks were identified.
Medium Term Financial Strategy and the budget outturns. The Council had an underspend on the budget of £4.8m and a funding gap of £35m in 2019/20 and £37.5m in 2020/21 respectively and there are clear strands of work to be done in these areas to ensure that the budget gap is closed. A summary of the savings targets was detailed in the report.
Better Care Fund – EY had reviewed the arrangements. The conclusion was that there were adequate arrangements in place and the key performance targets had been met.
Entrust – EY had reviewed the arrangements and were satisfied that the contract has been updated and there was monitoring in place in respect of the contract. The Council needed to ensure that the contract continues to be monitored going forward and is delivering value for money.

Members stated that the value for money section was of particular concern and asked if EY could comment on the amount of deficit faced by Staffordshire County Council and asked if other authorities were facing similar challenges. Regarding Entrust, Members asked if there was any reason why Entrust was singled out, given that the Council had a number of similar contracts with other companies.

Stephen Clark responded that the 'ramping up' of debt was variable in authorities dependent upon how quickly authorities had taken action and what action they had taken. Staffordshire was not out of kilter with other authorities, however, there was a large savings to be made over the next three years. Concerns were expressed regarding the narrowing of time to make savings and the need to take urgent action. The matter relating to Entrust was as a result of the late adjustments to their accounts last year and the contract had not been singled out for any other reason.

RESOLVED: That Members gave approval to the Chairman to sign Appendix D, the management representation letter.

b) Staffordshire Pension Fund

Caroline Davies EY confirmed that there had been no change in scope from the risk identified in the report presented to the Committee in March 2018. An update in the materiality assessment had resulted in an updated threshold of just under £5m (adjustments made over that amount are reported to the Committee). In summary, subject to matters outstanding, EY intended to issue an unqualified opinion on the Pension Fund financial statements. The status of the audit had been set out at the time of preparing the report. A number of these statements were now in the completion stages. The review of the Pension Fund Annual Report, that is not subject to the same deadline, would be presented later in the year. The significant risks identified in the report were detailed.

Misstatements due to fraud and error – management override. This risk was mandated on every audit that EY carry out. There were no issues that had been identified to bring to the Members' attention.
New General Ledger System. The same system was in use for the Pension Fund and the work carried out on system migration from SAP to Integra also spanned the Pension Fund. There were no matters to bring to Members' attention.
Valuation of unquoted investments. This was in recognition of the often judgemental nature of these investments that were not often publicly available. Page 11 set out the balances that EY considered for level 3 investments. Details of the work undertaken by EY were given and EY concluded that no errors were found in these valuations at year end. There was a small uplift of £2m from the draft statements that fell within the reporting threshold.
Valuation of directly held properties. This is identified as a higher inherent risk in recognition of a number of assumptions and judgements and EY concluded that there was nothing that needed to be brought to Members' attention.

Page 18 of the report summarised the adjusted differences as part of the audit process. There were a small number of adjustments over the reporting threshold. None had an impact on the reported financial position of the Pension Fund and management had made the adjustments to the accounts.

Members stated that on the front page the report should be dated 30 July 2018.

With regard to the valuation of unquoted pooled investments, Members asked if a quarterly report should be available from the originator of the pool. The Head of Treasury and Pensions stated that these figures were unquoted as private equity was not publicly available on the stock market. The vehicles were a combination of values from managers and underlying fund managers. A quarterly valuation was available but there had been a delay in receiving it, so the latest value available was quoted and later updated.

EY thanked the Pension Team for their support in preparing their annual Audit results report.

The DFR reflected on the changes to the timetable for the production of the report at a time when there were significant changes taking place in the Council. He thanked his team, acknowledging that lessons would be learned, but paid tributes to the officers of the County Council and the external auditor partners for their hard work. The Chairman also congratulated staff on their efforts.

RESOLVED: That the reports of those charged with governance (ISA 260) be received.

26. Code of Corporate Governance 2018-19

The interim Head of Internal Audit and Financial Services stated that the Code of Corporate Governance had been presented following a refresh in June 2017 to take account of the CIPFA SOLACE framework 'Delivering Good Governance in Local Government published in April 2016.

The 2018 Framework had been updated to ensure that the Code was compliant with the seven core principles in the framework. Pages 54 onwards of the report described the core principles and the current arrangements that the Council had in place, together with an action plan that had been identified by the Corporate Governance Group to ensure that the Council continually reviewed the process. The actions were allocated to a responsible officer and monitored and an indicative date for completion was given. The Plan was monitored by the Corporate Governance Group and compliance would be monitored as part of next year's AGS review of effectiveness.

The document would be published on the intranet to ensure that staff were aware of this information and the requirements to comply with the detail included in the document.

With reference to the Action Plan 2018/19 column on page 54, Members asked what the "consideration of the value to support People Helping People" meant. The Head of Internal Audit and Financial Services stated that this was about how the Council could take the core principle A "Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law' and apply this to the agenda when working with volunteers.

RESOLVED: The Committee approved the Annual Governance Statement.

27. Strategic Risk Register

The interim Internal Audit and Financial Services Manager (IAFSM) gave a presentation to explain the key elements of the Corporate Risk Register (CRR), how it was developed and quality assured and how risk management fed into the overall governance arrangements.

Over time a number of risk categories had been developed and risk owners identified. Discussion and input took place with the risk owners about the risks and how they had been identified. There was discussion and challenge from the DFR and the Director of Strategy, Governance and Change and ultimately through the Corporate Governance Working Group which reported into the Senior Leadership Team. There were fourteen risk categories that were currently being reviewed to ensure they remain accurate. Categories 9 and 10 'Joint Finance' had been merged into one category. These were listed on page 72 of the pack with the inclusion of business continuity arrangements. Risk owners were listed on page 73. The risk owners were responsible for co-ordinating the identification, collection and production of their risk in their own area.

With reference to the Measurement of Risk, the risks were graded according the likelihood that the risk will occur and the impact that this would have on the organisation if it arose. CRR will only report to the Committee on high level risks with net risk scores of 15 and above. Risk Managers will manage those risks that score under 15.

A risk assessment model was detailed on page 75 of the report. This was kept under review. On a risk rating of 1-5 with a score of 1 indicating that there was a remote chance (likely to happen within 10 years) and a score of 5 indicating that a risk was highly likely to happen within a year. Risks were categorised according to the impact; health, safety and welfare; customer service; finance and reputation.

A matrix illustrating the impact of risk against the likelihood of risk was given on page 76 of the report. Risks in the red category would be included in the CRR. Managers were asked to keep medium or amber risks under review, and green risks were the lower risks. These were being regularly reviewed as low risks could be escalated to high risks.

The format used for reporting risks was described. Once the risk categories were identified and given in detail, individuals were asked to identify what current controls were in place. This fed into the risk score. This gave a risk score and details of specific actions that had been taken were detailed, and the date when mitigating actions had been completed. This led to a revised risk score being given.

The CRR were currently being updated and is a dynamic document that is kept under review. The IAFSM ran through the top ten risk areas with Members. These were MTFS pressures on service delivery/maintaining legality/legal risks whilst undergoing change; health and social care integration (including the STP); HR related risks (including capacity/workforce strategy); digital technology developments; business continuity planning and service provider failure; stakeholder engagement and community development; home and community care contract; information security including GDPR arrangements; children's system redesign and Section 53 (of the Countryside and Rights of Way Act) applications. This latter item had been added to the list at the request of the Chairman of the Countryside and Rights of Way Panel.

The internal audit top ten risk audits 2018/19 were assessed as:

1. Medium Term Financial Strategy – Delivery Plan
2. Digital Development Programme
3. Strategic Property Asset Management and Governance
4. Liberata Payroll System
5. Care Director (Adults' and Children's modules)
6. Adult and Children's Financial Services Review Programme
7. Home and Community Care Contract
8. Cyber Assurance – Data Breach Incidents & Response Plans/Patch Management
9. GDPR
10. Children and Families Systems Transformation: Family Support Contracts

These would be added to the Forward Plan and brought before the Audit and Standards Committee for consideration during the year.

The CRR would be developed with external partners. Consideration would be given to how often the CRR should be produced/refreshed and brought to the Committee, how to present the split between current and emerging risks. The link between the CRR and the Strategic Plan/Business Plan would be strengthened. Risk management would be embedded into the culture of the Council to include the monitoring and reporting of progress against mitigating actions. The Internal Audit Team would also develop the process for elected member engagement through the Audit and Standards Committee.

Members were asked if there were any top ten risk areas that had not been identified or on which they would like a detailed briefing.

Members asked if they should consider the commercial contracts that the Council has e.g. Entrust, Amey to consider if the Council was getting value for money. Reference was also made to the Children and Families Transformation System that had not taken place as quickly as expected. They asked if small or incremental changes such as the increase in the cost of energy were being picked up. They also asked if the risks of the impact of Brexit had been factored in and if significant investments in one company or service, that later failed e.g. Carillion, were considered.

The Chairman responded that the Chairman of the Corporate Review Committee/MTFS Working Group would pick up the value for money in regard to the Top Ten Risks, but further consideration should be given to those risks that just sit below the Top Ten Risks.

The DFR explained that the CRR was concerned with the strategic risks faced by the Council and this was in addition to how individual managers were dealing with risks on a day-to-day basis. It was considered that through this process most of the risks would be captured most of the time. These were reported through to their management teams. The Pension Fund takes higher risks as potentially there were greater gains, there were potentially greater risks.

RESOLVED: a) That the Chairman ask the Chairman of the Corporate Review Committee/Chair of the MTFS Working Group to consider if the Council was getting value for money from its commercial contracts
b) That the Internal Audit Top Ten Risk Areas be added to the Forward Plan

28. Financial Regulations

The interim Head of Internal Audit and Financial Services stated that there was a requirement to review and update the Financial Regulations on regular basis to ensure that they remain accurate and fit for purpose. A detailed review had been undertaken to reflect the changes that had occurred following the introduction of My Finance and MyHR financial systems, together with minor amendments reflecting changes to job titles of relevant officers. In line with Section 151 of the Local Government Act 1972, the Director of Finance and Resources was responsible for dealing with the Financial Regulations. The main areas of change in the Financial Regulations were in reference to Financial Regulation E and Financial Regulation F detailed and highlighted in the paper and a number of changes were made to the anti-money laundering strategy contained in Appendix 2 to reflect requirements of the new regulations, published in 2017.

RESOLVED: That the Committee recommends the County Council approve the revised Financial Regulations for inclusion in the Constitution.

29. Forward Plan

The interim Head of Internal Audit and Financial Services reminded Members of the items on the agenda for the next meeting. The Forward Plan included two additional meetings on 30 October 2018 and 29 January 2019. The Financial Regulations would now go forward to the next full Council meeting and the Annual Governance Statement

2017-18 would be presented to the Leader and Chief Executive for their signatures. The Top 10 Risk Areas would be added to the Work Plan.

RESOLVED: That the Work Plan be approved, with the addition of the Top 10 risk areas be added at a date to be agreed.

30. Exclusion of the Public

RESOLVED: 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 paragraphs of Part 1 of Schedule 12A (as amended) of the Local Government Act 1972 as indicated below.

31. Exempt Minutes of meeting held on 13 June 2018

(Exemption Paragraph 3)

32. Limited Assurance Report - ICT Governance

(Exemption Paragraph 3)

33. Special Investigation – Throughcare Cash Payments

(Exemption Paragraph 3)

Chairman

Staffordshire County Council

Annual Audit Letter for the year ended 31 March 2018

August 2018

Building a better working world

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Public Sector Audit Appointments Ltd (PSAA) have issued a ‘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 (updated 23 February 2017)’ 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 Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. 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.

01 Executive Summary

Executive Summary

We are required to issue an annual audit letter to Staffordshire County Council following completion of our audit procedures for the year ended 31 March 2018.
Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's: ► Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2018 and of its expenditure and income for the year then ended.
► Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources

Area of Work	Conclusion
Reports by exception:	
► Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
► Public interest report	We had no matters to report in the public interest.
► Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report.

Executive Summary (cont'd)

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 27 July 2018.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	We have not as yet issued our audit completion certificate. We are required to give an opinion on the consistency of the financial statements of the pension fund included in the Pension Fund Annual Report of Staffordshire Pension Fund. The Local Government Pension Scheme Regulations require authorities to publish the Pension Fund Annual Report by 1 December 2018. As the Council has not yet prepared the Annual Report we have not yet been able to conclude on the consistency with these financial statements and we have not issued our report on those financial statements. Until we have completed these procedures we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

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We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Steve Clark

Partner

For and on behalf of Ernst & Young LLP

02 Purpose and Responsibilities

Purpose and Responsibilities

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2017/18 Audit Results Report to the 27 July 2018 Audit and Standards Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities of the Appointed Auditor

Our 2017/18 audit work has been undertaken in accordance with the Audit Plan that we issued on 13 March 2018 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
  - On the 2017/18 financial statements; and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by thy Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on you Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office. We had no matters to report.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

03 Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 31 July 2018.

Our detailed findings were reported to the July Audit and Standards Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
Misstatements due to fraud or error • The financial statements as a whole are not free of material misstatements whether caused by fraud or error. 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.	We: • Documented our understanding of the processes and controls in place to mitigate the risks identified, and walked through those processes and controls to confirm our understanding. • Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; • Reviewed the calculation of management's material accruals, estimates and provisions for evidence of management bias; • Evaluated the business rationale for any significant unusual transactions; • Understood the oversight given by those charged with governance of management process over fraud; • Sample tested income and expenditure accruals and provisions based on established testing thresholds; • Reviewed capital expenditure on property plant and equipment to ensure it meets the relevant accounting requirements to be capitalised. • Reviewed the accounting adjustments processed in the movement in reserves statement to ensure consistency with other supporting disclosure notes. We did not identify any material weaknesses in controls or evidence of material management override. We did not identify any instances of inappropriate judgements being applied. We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business Our testing did not identify any expenditure which had been inappropriately capitalised.

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Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
Risk of fraud in revenue and expenditure recognition Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. 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. Due to the nature and value of income which comprises of Government Grants, income from Council Tax and Business Rates, it is our view is that the risk is not significant in this area, but is relevant to other income and operating expenditure. The risks we identified focused on: • the year-end balance sheet and in particular the completeness and valuation of payables and the existence and valuation of receivables. • the existence of capital expenditure arising from the potential to incorrectly capitalise revenue expenditure.	We: • Tested the valuation of accruals (income and expenditure) and testing provisions completeness and valuation at the year-end as these are the areas most susceptible to manipulation by management to achieve the desired expenditure levels; • Tested the completeness of liabilities and income and expenditure cut off to gain assurance that there has been no material amounts of expenditure omitted from the financial statements; • Tested the existence and valuation of debtors and accrued income; and • Completed Journal entry testing within specific parameters. Our testing has not identified any material misstatements from revenue and expenditure recognition. Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position.

Financial Statement Audit(cont'd)

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
Property, Plant and Equipment Valuation The fair value of Property, Plant and Equipment (PPE) represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	• The Council's PPE is valued by the District Valuation Office (DVO) and the councils internal valuer. • We reviewed the instructions and data provided to the valuer by the Council and identified no issues. • We obtained input from EY's own valuation experts to review the work of the DVO and their qualifications. We followed up all recommendations and had no issues to report. • Our valuation specialist reviewed the valuation methods used by management's specialist and identified an issue with the valuation of schools, specifically the basis of valuation of a playing field. As a result of undertaking additional procedures, an adjustment was made to reduce the value of schools, by £10.2m. • Our review of accounting entries at period end and those journals made in processing valuation adjustments did not reveal any instances of management intention to misreport the financial position, however errors were noted over the accounting of disposals, calculation of the gain /loss on disposal of PPE and surplus on revaluation of non-current assets. The errors were corrected by management.

Financial Statement Audit(cont'd)

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
New General Ledger System The council implemented a new General Ledger system in year (Integra). Any significant system change creates risks associated with data migration and integrity which could result in a material misstatement.	We: • Carried out a review of Internal Audit's planned work on the system migration to inform our risk assessment and planned audit response. • In conjunction with IT Risk Assurance (ITRA) specialists within EY, reviewed the Council's approach and execution of the transfer of data to the new system. Performed tests on data migration to gain assurance on the opening balances in Integra. • Documented and walked through the IT general control, assessing the design of those controls. • Our review and testing of the Council's approach and execution of the transfer of data to the new system did not identify any issues over the data migration from the previous general ledger system (SAP) to the new system (Integra).

Financial Statement Audit (cont’d)

The key issues identified as part of our audit were as follows: (cont’d)

Other Key Findings	Conclusion
Pension Liability Valuation	• Our work did not identify any material misstatements of the Authority’s liability or related disclosures in this regard. • We assessed and were satisfied with the competency and objectivity of the Council’s actuaries: Hymans Robertson LLP. • EY pensions team and PwC (Consulting Actuary to the NAO) reviewed the work of the actuaries. We challenged the actuarial valuation and found no indication of management bias in this estimate. We noted the investment values as at 31 March 2018, used by the actuary were lower than actual values held by the pension fund, the impact to the council pension liability was to over state the pension liability by £8.175m, and the accounts were not adjusted for this. • Our review of accounting entries at period end and those journals made in processing estimate did not reveal any instances of management intention to misreport the financial position.
New Payroll System	• Our review and testing of the Council’s approach and execution of the transfer of data to the new system did not identify any issues over the data migration from SAP to Integra.
Valuation of Investment in Entrust Support Services Ltd	• Our work over the prior period adjustment processed was in line with expectations. • Our review of the investment share, confirmed the council does not need to prepare group accounts.

The Council’s Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

Financial Statement Audit (cont’d)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	In our Audit Planning Report, we communicated that our audit procedures would be performed using a materiality of £11.35m. We updated our planning materiality assessment using the draft financial statements and also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we updated our overall materiality assessment to £13.059m. This resulted in updated performance materiality, at 75% of overall materiality, of £9.79m, and an updated threshold for reporting misstatements of £0.65m. We consider gross expenditure on provision of services to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Governance Committee that we would report to the Committee all audit differences in excess of £0.65m (2017: £0.66m)

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits: Errors in the note would be considered material, so a threshold of £1k materiality was set as this is the rounding point in the accounts;
- Related party transactions. Materiality for the Organisational element at the same level as the audit and the individuals element was considered on a case by case basis;
- We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations;

04 Value for Money

Value for Money

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. This is known as our value for money conclusion.

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.

We identified three significant risk in relation to these arrangements. The table below presents the findings of our work in response to the risks identified and any other significant weaknesses or issues to bring to your attention.

We have performed the procedures outlined in our audit plan, and our findings are set out on the following page. We have no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Value for Money (cont'd)

Significant Risk	Conclusion
Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions From the medium term financial strategy (MTFS), updated in February 2018, the Council identified it will experience budget gaps of £35.4m in 2019/20 increasing to £37.5m in 2020/21. We: • Monitored the financial position for the remainder of 2017/18, including delivery against both revenue and capital challenges. • Reviewed the Medium Term Financial Strategy (MTFS) including the adequacy of major assumptions • Reviewed the Council's arrangements to develop a robust savings plan to address the future financial challenges	The Council has put in place adequate arrangements to address this significant risk. In forming this view we noted that: • Our work confirmed that having set a budget of £503.779m the outturn was better than planned, delivering an underspend of £4.8m. after capitalising £15.8m transformational revenue expenditure in accordance with the flexible use of capital receipts direction. We note that the final outturn on planned service areas was within £0.205m and £4.6m underspend mainly reflects the unused contingency budget. In comparison, the Council overspent by £4.7m in 2016/17. • The MTFS approved by Cabinet on 1 February 2018, showed that the Council set a balanced budget, supported by a transfer of £4.403m from reserves for 2018/19, and has funding gaps of £35.4m and £37.5m in 2019/20 and 2020/21 respectively. • The Council has arrangements in place to address this gap which started six months earlier than in previous years with a MTFS session at cabinet on 28 February 2018. The MTFS sets out six work strands which are in place with the aim of reducing the gaps. One key area is the investment in the transformation programme and the challenge will be to ensure that the investment realises future savings. • We also reviewed the Council's assessment of it's ability to continue operating as a going concern reported to Cabinet on 18 July 2018 and concluded that this clearly supports the judgements made. • The Council delivered savings in 2017/18 of 35.6m against the annual target of £47.4m. The future financial position remains challenging and the current financial year budget and MTFS includes a savings target of £11.3m. Delivery of these plans and identifying solutions to bridge future funding gaps will continue to be challenging. The Audit and Standards Committee and Corporate Review Committees will need to consider how it continues to seek assurance from management that the plans are being effectively managed and delivered.

Value for Money (cont'd)

Significant Risk	Conclusion
Working with third parties effectively to deliver strategic priorities The health economy across Staffordshire remains significantly challenged, with substantial deficits across the County. Although NHS England approved the 2017-19 improved better care fund plan in November 2017, it is noted that the transfer of £19.5m is conditional on the delayed transfer of care target of 3.5% of occupied bed days being achieved. If the target is not achieved the risk to the Council is that NHS England may require all or part of the £19.5m to be repaid and that funding from the improved better care fund of £15m in 2017/18 and a further allocation of £15m across 2018/19 and 2019/20, could also be at risk. We: • Reviewed the Councils arrangements to monitor progress and plans to take corrective action to achieve the NHS England target. • Reviewed the robustness of the MTFS and whether it includes contingency arrangements should the NHS England target not be achieved and funding is withdrawn.	The Council has put in place adequate arrangements to address this significant risk. In forming this view we noted that: • Robust plans were put in place at an early stage which included the mobilisation of Nexxus Ltd, to create additional capacity in the system to assist with delivering the conditions set by NHSE. • That NHSE England confirmed on 22 March 2018, that the conditions set had been achieved resulting in the Staffordshire integrated Better Care Fund plan being approved. • The 2017/18 MTFS did include not hitting the target as a potential financial risk. However, frequent monitoring confirmed that the Council and partners were on track to meet the target by the agreed deadline.

Value for Money (cont'd)

Significant Risk	Conclusion
Working with third parties effectively to deliver strategic priorities The Council has a 49% stake in Entrust. The Council commissions Entrust to provide a number of services and the 2016/17 financial statements disclosed that that the totalled £51.7m. The 2016 audit of Entrust's financial statements resulted in a £44m impairment of goodwill and consequently reduced the value of the Council's investment in this business from £23.2m to £1,1m. Given the size and timing of the impairment, the action triggers a VFM risk	The Council has put in place adequate arrangements to address this significant risk. In forming this we reviewed two service areas, early years and property services, and established the following: • there was an updated contract in place between the Council and Entrust. • services procured by services departments were supported by a service agreement. • that there was a performance framework in place with agreed metrics in place such as KPIs which were produced on a timely basis by the contract provider. We found that the reports were reviewed by the service departments on a timely basis. • the Council has put in place an governance framework in place at difference levels such as a joint contract group and strategic partnerships. These meetings are minuted and provided evidence that where performance was not to the standard required this was fed back to the contract provider. • although contract performance is not reported to Members, there are adequate governance arrangements in place and there is member representation on the Entrust Board

We:
• Reviewed if there is an up to date signed service level agreement/contract in place.
• Reviewed the Council's governance arrangements to include:
    • monitoring whether Entrust are delivering against the service specification;
    • the effectiveness of arrangements if performance is below expectations; and
    • reporting the outcomes of the contract to senior management and elected members.
	Going forward we recommend that the Council continues to monitor the value the investments provides and maintains arrangements to ensure the contract delivers the intended outcomes.

05 Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

We had no matters to report.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council’s annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2017/18 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit and Standards Committee on 30 July 2018. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Other Reporting Issues (cont'd)

Control Themes and Observations

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

As a result of the work undertaken we have identified some deficiencies in internal control as follows:

- Although our testing of property, plant, equipment disposals is not finalised, we have summarised our findings to date.
  We have identified 3 schools that converted to Academy in 2016/17, which were accounted for during 2017/18. We are currently working with the finance team to determine the total value of the schools that converted to Academy in 2016/17, and accounted for in 2017/18, and whether a prior period adjustment to the financial statements would be required. Additional testing to identify schools which had been disposed before 31 March 2018, and not accounted for in the 2017/18 financial statements, has already been carried out, this identified a further 8 schools which had not been accounted for, as the disposal notification from legal, had not been received until May 2018, being after the financial period ended. The total adjustment required for the 8 schools in the 2017/18 financial statements is £18.2m.
  We recommend as part of the closedown process the finance team make inquires with legal to ensure disposals are accounted for in the correct financial period.
- We noted that receipts from sale of vehicles totalling £10k were not accounted for as capital. This was not accordance with the Council's accounting policy which set de-minimus level of £10k. We recommend a review is carried undertaken to ensure all receipts from all asset sales are accurately accounted for.
- The accounts payable and receivable systems are integral to the ledger system, and the reconciliation between the accounts payable and receivable system to the general ledger system is an automated process. There is no evidence maintained that a review of the reconciliation has been carried out by the Council, and additional work was carried out by the Council to recreate aged listing from the sub ledgers as at 31 March 2018, which involved cleansing the data within the general ledger, to match the balance reported in the statement of accounts. We recommend a document trail is maintained of the review being undertaken and system reports as at 31 March are retained for audit purposes.
- Members and senior management are required to complete a declaration of interest form at year-end. Our testing identified that there were seven members who had not completed a declaration of interest form at year-end. As there is an inherent risk that the related party transaction disclosure note could be incomplete we undertook additional audit procedures. The results of this work did not identify any matters to bring to your attention. We acknowledge that all efforts are made to ensure returns are completed, however, we recommend that management undertake inquiries to provide assurance that all material related parties are identified.

The matters reported here are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.

06 Focused on your future

Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below:

Standard	Issue	Impact
IFRS 9 Financial Instruments	Applicable for local authority accounts from the 2018/19 financial year and will change: • How financial assets are classified and measured; • How the impairment of financial assets are calculated; and • The disclosure requirements for financial assets. There are transitional arrangements within the standard and the 2018/19 Accounting Code of Practice for Local Authorities has now been issued, providing guidance on the application of IFRS 9. In advance of the Guidance Notes being issued, CIPFA have issued some provisional information providing detail on the impact on local authority accounting of IFRS 9, however the key outstanding issue is whether any accounting statutory overrides will be introduced to mitigate any impact.	The 2018/19 Code introduces IFRS 9 on financial instruments. Management's view is that the impact on the Authority's financial statements will be immaterial. The Council will need to keep this standard under continued focus during 2018/19 because statutory overrides may be introduced by Central Government.
IFRS 15 Revenue from Contracts with Customers	Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except: • Leases; • Financial instruments; • Insurance contracts; and • For local authorities; Council Tax and NDR income. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations. Now that the 2018/19 Accounting Code of Practice for Local Authorities has been issued it is becoming clear what the impact on local authority accounting will be. As the vast majority of revenue streams of Local Authorities fall outside the scope of IFRS 15, the impact of this standard is likely to be limited.	This standard relates to revenue from customers with contracts. In our 2016/17 Audit Results Report we highlighted that the Code of Practice on Local Authority Accounting in the UK, would adopt IFRS 15 for 2018/19 and apply for accounting periods starting on or after 1 April 2018/19. For Staffordshire County Council, the income streams in scope are fees and charges, sale of goods and charges for services provided. It should noted that income from Council Tax and Business rates is not in the scope of the standard. Our review confirms the Council has as yet taken any actions to prepare for the new standard. Management has advised that the required procedures will commence after the statutory audit of the 2017/18 financial statements has been completed.

Focused on your future (cont'd)

Standard	Issue	Impact
IFRS 16 Leases	It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year. Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet. There are transitional arrangements within the standard and although the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.	Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area. However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.

07 Audit Fees

Audit Fees

Our fee for 2017/18 is in line with the scale fee set by the PSAA and reported in our 27 July 2018 Audit Plan/Annual Results Report.

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018.

Description	Final Fee 2017/18 £	Planned Fee 2017/18 £	Scale Fee 2017/18 £	Final Fee 2017/18 £
Audit Fee – Code work	109,755	109,755	109,755	109,755
Other – valuation work*	10,285	TBC	TBC	12,312
Other – IT risk assessment*	18,270	TBC	TBC	0
Other – additional fees**	6,000	0	0	0
Total Audit Fee – Code work	144,310	TBC	TBC	122,067
Non-audit services	0	0	0	0
TOTAL	144,310	TBC	TBC	122,067

*We have agreed with management the fee for the additional work carried out by EY specialists to address the risks of valuation of land and buildings and the review of the implementation of the new general ledger.

** We have agreed with management the fee in relation to additional audit work carried out over the asset disposals, PFI and prior period adjustments

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

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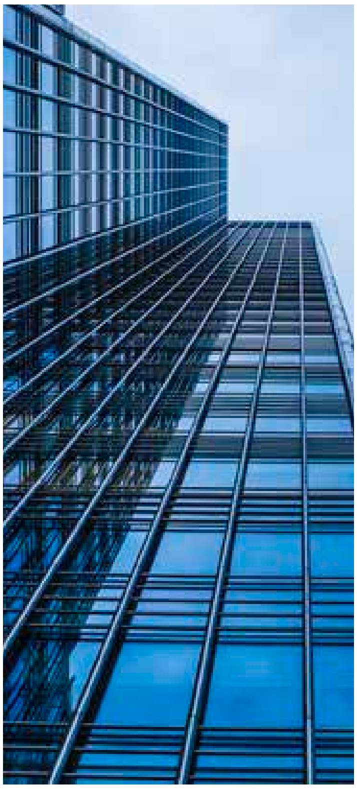
Local government audit committee briefing

Building a better working world

Contents at a glance



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This sector briefing is one of the ways that we support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the Local Government sector, and the audits that we undertake.

The briefings are produced by our public sector audit specialists within EY's national Government and Public Sector (GPS) team, using our public sector knowledge, and EY's wider expertise across UK and international business.

The briefings bring together not only technical issues relevant to the Local Government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing.

We hope that you find the briefing informative and should this raise any issues that you would like to discuss further, please contact your local audit team.

Government and economic news

EY ITEM Club — Local Government Economic Briefing Q2, May 2018

The EY ITEM Club has produced a briefing that provides a view of economic shifts and trends for local authorities to consider. It suggests that 2018 will see a continuation of the mediocre economic performance seen in 2017. This will provide a number of challenges for local authorities at a time when the need to achieve key objectives, such as driving economic growth locally, become ever more important. The briefing covers three main areas:

Continued economic pressures in 2018

Local authorities are likely to find the UK's economic performance stumbling through 2018, with GDP growth now failing to keep up with a rosier outlook for the global economy.

The UK's GDP growth averaged 1.7% throughout 2017, outperformed by growth across the G7 economies. This reflects an economy that has displayed a degree of stability in recent quarters, but also a lack of momentum in both absolute and relative terms. GDP growth is forecasted to remain consistent at 1.7% 2018 and 2019, representing a sub-par growth by the standards of both history and the UK's international peers.

A number of economic metrics are likely to influence local authority decision making in the year ahead:

- The CIPS/Markit Index indicated a tough few months for the UK economy at the start of 2018, influenced by a prolonged bout of bad weather. The construction sector was worst hit, with the Index suggesting a slump in March to 47.0 from the previous month's 51.4, suggesting a contraction in activity. This could impact both infrastructure and house building activity
- 2017's increasing inflation rate created the chief headwind to growth in the year. However from a consumer's point of view, the growth in average earnings will likely outpace the inflation rate. Local authorities will need to consider the impact on their workforce, including consideration towards workforce retention
- The economy faces a headwind from the prospect of rising interest rates, caused by inflation likely to stay above the 2% target and the tone of the Bank of England Monetary Policy Committee. The EY ITEM Club forecasts two further interest rate rises of 0.25% in the coming year. Local authorities need to consider the impact of this, for example on variable rate borrowing costs and also on broader treasury management plans

Positive Signs for some on business Rates Retention

A recent study by the Institute for Fiscal Studies (IFS) has reignited the debate about the potential financial implications associated with 100% business rates retention. The IFS study forecasts that councils included in the 100% retention pilot scheme will gain an additional £870mn in funding next year as a result, representing an approximate 3.6% increase in their collective spending power.

Whilst this provides an incentive to councils for growing their local economies, critics argue that areas less able to generate business income may become vulnerable to funding constraints. For example, the IFS forecasts suggest that London councils could gain £430mn (£49 per person, or 4.9% of core spending power) from the scheme, compared to a gain of just £2.5mn (£5 per person, or 0.6% of core spending power) in Liverpool. As a result, these estimates suggest that Liverpool City Council would have derived a greater financial benefit if total gains made by pilot authorities had been distributed nationally on the basis of relative needs.

One of the primary concerns regarding distributional impacts is the potential lack of correlation between local authority spending needs and the perceived potential for business rates growth. Further analysis is required to determine the potential impact of rate retention in light of where local authority funding needs may emerge in the years to come.

Mitigating the risk of market failure in health and care systems

Allied Healthcare, one of the country's largest home care providers, has successfully agreed a Company Voluntary Arrangement (CVA) allowing it to agree a payment plan with its creditors.

Changes to the Care Act, which came into effect in 2015, means that if a provider like Allied were to stop trading, local authorities would need step in to protect individuals receiving care. This demonstrates the need for a continued focus on the successful integration of care and the role of local authorities in leading this transformation is paramount.

Data is a fundamental enabler to the successful integration of health and social care; it also presents one of the areas of greatest complexity. Key stakeholders across health and social care systems should recognise the role of sharing data in minimising the risk of information asymmetry. Focus is already being applied to establishing platforms that allow market participants to share data not just on an individual's care needs, but also on broader lifestyle data. Whilst this has the potential to allow for the use of transformative technologies such as artificial intelligence, it also has the potential to support more effective pricing and resource allocation, leading to the better functioning of the health and care market.

NAO Report Financial sustainability of local authorities 2018

In March 2018 the National Audit Office (NAO) published a report Financial sustainability of local authorities 2018. The scope of the report was to review developments within the sector and to understand the impact of funding reductions on the service and financial sustainability for local authorities. One of the key findings of the report was that there had been a real-terms reduction in local authority spending power by 29% between 2010–11 and 2017–18.

Spending on services that have significant statutory responsibilities, such as adult social care have only seen a reduction in spending of 3% in real terms; whereas in contrast spending on more discretionary areas, such as planning, housing services, highways and cultural related services, have seen a greater reduction of spending between 35% to 53% in real terms. These spending reductions have seen reductions in front lines services such as weekly domestic waste collection (reduced by 34% between 2010–11 and 2016–17) and numbers of libraries (reduced by 10% between 2010–11 and 2016–17).

Another key finding of the NAO report is that the many local authorities are relying on using their reserves to fund the provision of services, which is not sustainable. The report found that 11% of single-tiered and county councils had the equivalent of less than three years' worth of total reserves if they continued to use their reserves at the rate they did in 2016–17. Therefore achieving strong financial resilience is imperative to maintaining the financial sustainable of the provision of services by local authorities. Northamptonshire County Council issued a s114 notice in February 2018, indicating that it was at risk of spending more in the financial year than it had resources available. This highlights the increased risk of financial sustainability for local authorities.

Accounting, auditing and governance

IFRS 9: Financial Instruments … just an accounting change isn't it?

On 4 April 2018 the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2018/19 was issued by a joint board of CIPFA/LASAAC. The updated Code of Practice for 2018/19 introduces two new reporting standards, IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers, which was discussed in detail in the last briefing.

The implementation of IFRS 9 in the Code could well have an impact on Local Authority budgets and ultimately General Fund reserve levels.

The IFRS impacts on an authority's financial assets: the investments it holds; the amounts it has lent to others; and other monetary based assets it may have. It changes how these financial assets are classified and how movements in their value are accounted for. It also changes how these assets are impaired; based on the risk that the assets may not be recovered in full, or at all.

Classification changes

Currently, many authority financial assets are classified as 'Available for Sale'. For these assets, an accounting adjustment is permitted to ensure that movements in the value of these assets does not impact on the General Fund. Under IFRS 9, the 'Available for Sale' classification no longer exists. Authorities will therefore have to reclassify their financial assets into one of the three classifications allowed under the standard: amortised costs; fair value movement through other comprehensive income; and fair value movement through profit and loss. It is this final category which is causing authorities concern, as any movement in the value of assets in that classification will impact directly on General Fund balances, and at present there is no permitted accounting adjustment to remove that impact.

Collective Investment Schemes

Many authorities are now investing significant amounts in a range of collective investment schemes, such as the CCLA Local Authority Property Fund. At present there is significant debate about the classification of these funds, with the majority view being that they would be classified as fair value movement through profit and loss, with those movements therefore impacting on General Fund. The alternative view is that these funds meet the definition of equity and could therefore be reclassified to fair value movement through other comprehensive income, with the value movements not impacting General Fund. This specific issue is being considered by central government and CIPFA, and it is likely that a permitted accounting entry will be introduced to allow the impact of value movements for these type of funds to be removed from the General Fund.

Impairment of financial assets

Under the current approach, Local Authorities only have to provide for impairments to financial assets when there is objective evidence that all of the value of the asset may not be recovered; IFRS 9 introduces a new model for financial asset impairment. Under the new impairment model, Local Authorities will need to make an estimate of the potential loss on all financial assets at the inception of that asset, even if there is no objective evidence that a loss will occur. This will obviously result in a higher impairment charge for financial assets going forward, and that charge will impact on General Fund.

In summary, the introduction of IFRS 9 into the Code is more than just an accounting change and authorities will have to keep a very close eye on the budgetary.

CIPFA/LASAAC consultation on IFRS 16 Leases

CIPFA has issued the first of a series of briefings intended to assist practitioners engage in the consultation process for the adoption of IFRS 16 in the 2019/20 Code. Each briefing will focus on particular aspects of the standard whilst also updating stakeholders on latest developments. The first briefing focuses on recognition and measurement and the adaptations to the Code for the adoption of IFRS 16.

IFRS 16 replaces IAS 17 Leases and its related interpretations. It will apply to the 2019/20 financial statements subject to the consultation process and CIPFA/LASAAC's decisions for adoption in the 2019/20 Code. The changes introduced by the standard will have substantial practical implications for local authorities that currently have material operating leases, and are also likely to have an effect on the capital financing arrangements of the authority.

The new leasing standard will lead to a significant change in accounting practice for lessees for whom the current distinction between operating and finance leases will be removed. Instead it requires that a lessee recognises assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. At the commencement date of the lease, a lessee will recognise a right-of-use asset representing its right to use the underlying leased property, and a lease liability representing the lessee's obligation to make lease payments for the asset.

The lease liability is initially measured at the present value of the lease payments to be made over the lease term. Subsequently, lessees increase the lease liability to reflect interest, and reduce the liability to reflect lease payments made (as with finance leases under IAS 17).

The right of use asset is initially measured at the amount of the lease liability, adjusted for lease prepayments, lease incentives received, the lessee's initial direct costs (e.g., commissions), and an estimate of restoration, removal and dismantling costs. Subsequently, the right of use asset is depreciated in accordance with IAS 16. (In certain circumstances, alternative subsequent measurement bases for the ROU asset may apply (in accordance with IAS 16 and IAS 40 Investment Property).

The standard has a set of specific mandatory disclosure requirements (e.g., expenses, cash flows), and also an additional requirement for a lessee to disclosure any further information a user would need to assess effect leases have on the financial statements.

CIPFA will be liaising with a number of authorities across the UK to consider the cost and benefit implication of adoption of IFRS 16, as well as the impact on information requirements, the processes and systems used by local authorities.

Future briefings to support the implementation of this new standard will cover topics such as identifying the lease, recognition exemption, issues for lessors and transitional reporting arrangement, to name a few. A readiness assessment questionnaire has been included in the consultation to help local authorities in their preparations. CIPFA/LASAAC is requesting authorities to share this information in order to assess the overall preparedness for adoption on a larger scale.

Audit Committee Effectiveness Toolkit

Audit Committees are a vital part of any entity as they are charged with overseeing governance arrangements throughout their organisations. Over the past few years Audit Committees have experienced enhanced scrutiny from regulators and stakeholders with new guidance on good governance arrangements, public sector internal audit standards, managing risk and preventing fraud; whilst at the same time there has been the need to deliver better value for money for taxpayers.

Therefore it is vital that every Audit Committee is prepared, ready and are able to fulfil their role in an effective manner. In order to assist Audit Committees in monitoring their performance, and assessing their effectiveness, EY has developed a Government and Public Sector specific 'Audit Committee Effectiveness Toolkit'.

The toolkit provides an opportunity for Audit Committees to critically assess their own effectiveness to determine if they meet the minimum standards as set out in CIPFA's Position Statement for Audit Committees. The toolkit will also help all members to understand their respective roles and responsibilities of being a member of an Audit Committee.

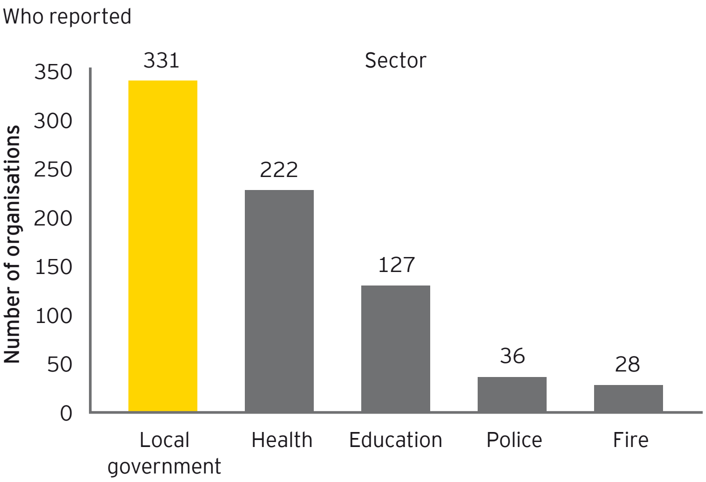
This toolkit is available as an additional service that can be provided. Further information regarding the Audit Committee Effectiveness Toolkit is available upon request through your local audit team.

Regulation news

Gender pay gap reporting

On 4 April 2018, employers in Great Britain with more than 250 staff were required by law to publish data on Gender Pay Gap for the first time. EY has analysed the gender pay gap data reported by 744 public sector bodies, including 331 local authorities (see Figure 1 below).

Figure 1: Government and Public sector bodies reported on gender pay gap



The gender pay gap is calculated by determining the difference between the mean or median hourly earnings for men and women, as a percentage of men's hourly earnings. We have analysed the mean gender pay gap and the median gender pay gap below.

The education sector reported the largest average median pay gap (15.3%), whilst Local Government reported the lowest average median pay gap (5.8%), see Figure 2 below.

Figure 2: Average median pay gap

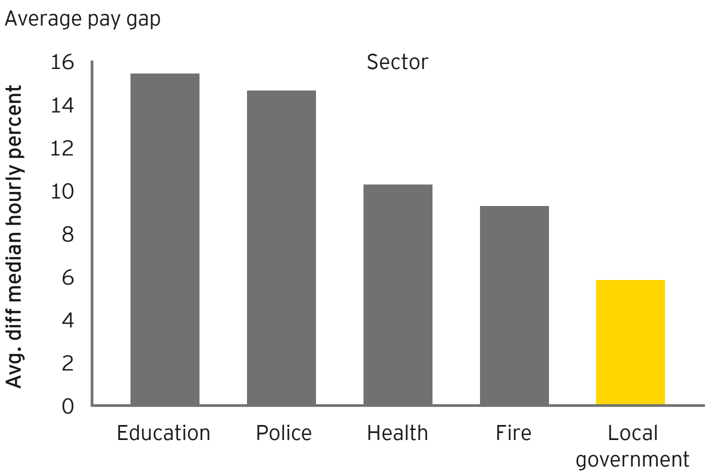
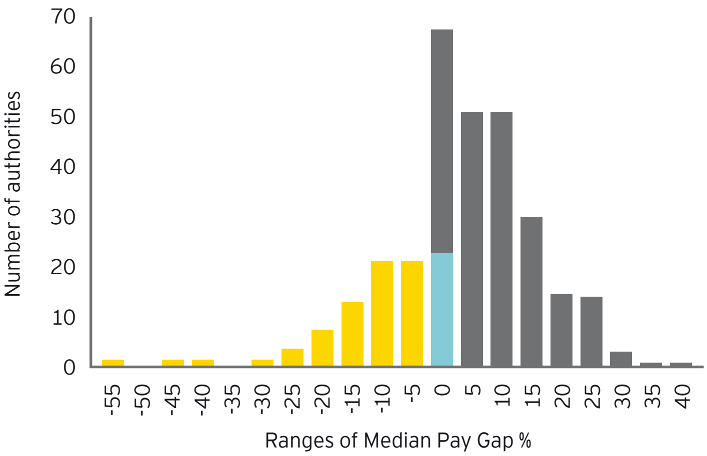


Figure 3 below sets out the % gap in median hourly pay between men and women reported by local authorities. This shows that 25 authorities reported a zero pay gap, 77 authorities reported a higher median pay for women than men, and the remaining 227 authorities reported men receiving a higher median pay for men than women.

Figure 3: Difference in median hourly pay in LG

Difference in median hourly pay in fire sector, %

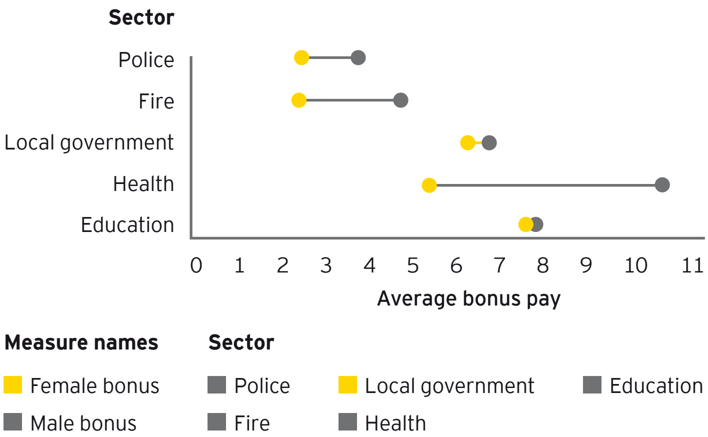


Difference in Median hourly pay as report by each organisation. Yellow represents instances where the median hourly pay was higher for women, Blue represents instances were there was no gender pay gap and grey corresponds to a median hourly pay gap where men are paid higher.

Figure 4 below compares the bonus pay gap between men and women across different sectors. This shows that local authorities have the second lowest bonus pay gap.

Figure 4: Bonus pay gap in the public sector

Bonus pay gap



Making Tax Digital (MTD) for VAT: changes from April 2019

From April 2019 it will be compulsory for VAT registered local authorities to comply with new requirements to be in line with HMRC regulations. Local authorities will need to:

- Keep and preserve digital tax records
- File VAT returns directly with HMRC using MTD compatible software

Whilst these requirements may not initially seem too burdensome, where a local authority is preparing VAT returns manually from legacy systems or multiple unconnected systems it may be a challenge (and time consuming) to fully understand and implement the necessary changes to be compliant with the MTD requirements.

With around only nine months before the new regulation comes into force local authorities will need to make sure that they have an appropriate readiness plan in place in order to comply with the new MTD obligations.

EY is recommending that local authorities prepare for MTD by creating a 'roadmap to April 2019' as soon as possible to allow for suitable time to implement changes before the deadline. This 'roadmap' should include:

1. An assessment of the current state and readiness for change
2. Evaluation of available technology solutions

Further information can be found at the end of this briefing although where EY is the appointed auditor to an authority; it is prohibited from providing tax advice.

National Minimum/Living Wage legislation

Recent investigations from HMRC have seen an increase in Public Sector employers struggling to comply with the National Minimum/Living Wage (NMW/NLW) legislation. The NMW/NLW minimum wage for those over 25 is currently £7.83. Lower rates exist for those aged under 25 and apprentices. Whilst the NMW/NLW rates have been well publicised a number of public sector employers have been struggling to comply. A report by the Low Pay Commission, published in September 2017, raised concerns regarding the high rate of NMW/NLW breaches and specifically highlighted education support assistants and teaching assistants. Given the diverse nature of work undertaken by local authority employees it is important to review contracts and working practices across the different activities undertaken. One notable example of HMRC focus has been the payments to care workers for sleeping time. This has resulted in an increase in enforcement activity in this sector. Other significant areas of focus include:

- Salaried workers whose hours are not actively monitored
- Defined dress code policies which may reduce the NMW/NLW pay
- Deductions, such car parking charges paid by employees on facilities owned by the local authority
- Salary Sacrifice which may in turn reduce the base pay for NMW/NLW

The impact of reputational damage from being publically named may outweigh any financial impact, which includes penalties of up to 200% of any arrears and lengthy HMRC investigations which could cover a period of six years.

EY have employed a number of former NMW/NLW Compliance Investigators, with significant knowledge and experience that will be able to provide insights on developing an effective approach to achieve compliance with legislation and improve monitoring procedures.

Further information can be found at the end of this briefing although where EY is the appointed auditor to an authority, it is prohibited from providing tax advice.

Key questions for the Audit Committee

- Has your authority assessed the impact of inflation and earnings growth on employee retention?
- Has your authority considered the impact of potential rises in interest rates over the next year or so, and reflected this in estimated costs of borrowing and on its broader treasury management strategy and medium term financial planning?
- How has the authority considered the impact of changes to the business rates system, and reflected these changes in its budget and financial planning?
- In the light of the NAO report on the financial sustainability of local authorities, how financially resilient is your authority? Are you confident that the authority has an appropriate policy on the level of reserves?
- Has your authority assessed the impact of the new accounting standards IFRS 9 Financial Instruments on your budgets?
- Has your authority assessed the impact IFRS 16 will have on cost, processes and system information?
- How is the effectiveness of your Audit Committee assessed and monitored?
- Have you considered the gender pay gap at your authority? Where there is a gender pay gap, what actions are being taken to reduce the gap?
- How prepared is your authority for the new Making Tax Digital (MTD) VAT requirements that will come into force from April 2019?
- How does your authority ensure that it complies with the National Minimum/Living Wage (NMW/NLW) legislation?

Find out more

EY Item Club forecast

https://www.ey.com/uk/en/issues/business-environment/financial-markets-and-economy#section1

Financial Sustainability: NAO Report

https://www.nao.org.uk/press-release/financial-sustainability-of-local-authorities-2018/

https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-2018/

Code of Practice Improvements

http://www.cipfa.org/policy-and-guidance/publications/c/code-of-practice-on-local-authority-accounting-in-the-united-kingdom-201819-online

http://www.cipfa.org/about-cipfa/press-office/latest-press-releases/new-code-improves-transparency-of-transactions-in-local-government-finances

http://www.cipfa.org/policy-and-guidance/consultations/code-of-practice-on-local-authority-accounting-in-the-united-kingdom,-c-,-consultation-on-ifrs-16-leases

http://www.cipfa.org/policy-and-guidance/technical-panels-and-boards/cipfa-lasaac-local-authority-code-board/local-authority-leasing-briefings

https://www.gov.uk/government/consultations/ifrs-16-leases-exposure-draft-1801

Audit Committee Effectiveness Toolkit

Please contact your local audit team

Making Tax Digital (MTD) for VAT: changes from April 2019

https://www.ey.com/gl/en/services/tax/digital-tax---why-digital-tax

https://www.gov.uk/government/publications/making-tax-digital/overview-of-making-tax-digital

https://www.icaew.com/en/technical/tax/making-tax-digital

National Minimum/Living Wage legislation Compliance

https://www.gov.uk/government/publications/enforcing-national-minimum-wage-law

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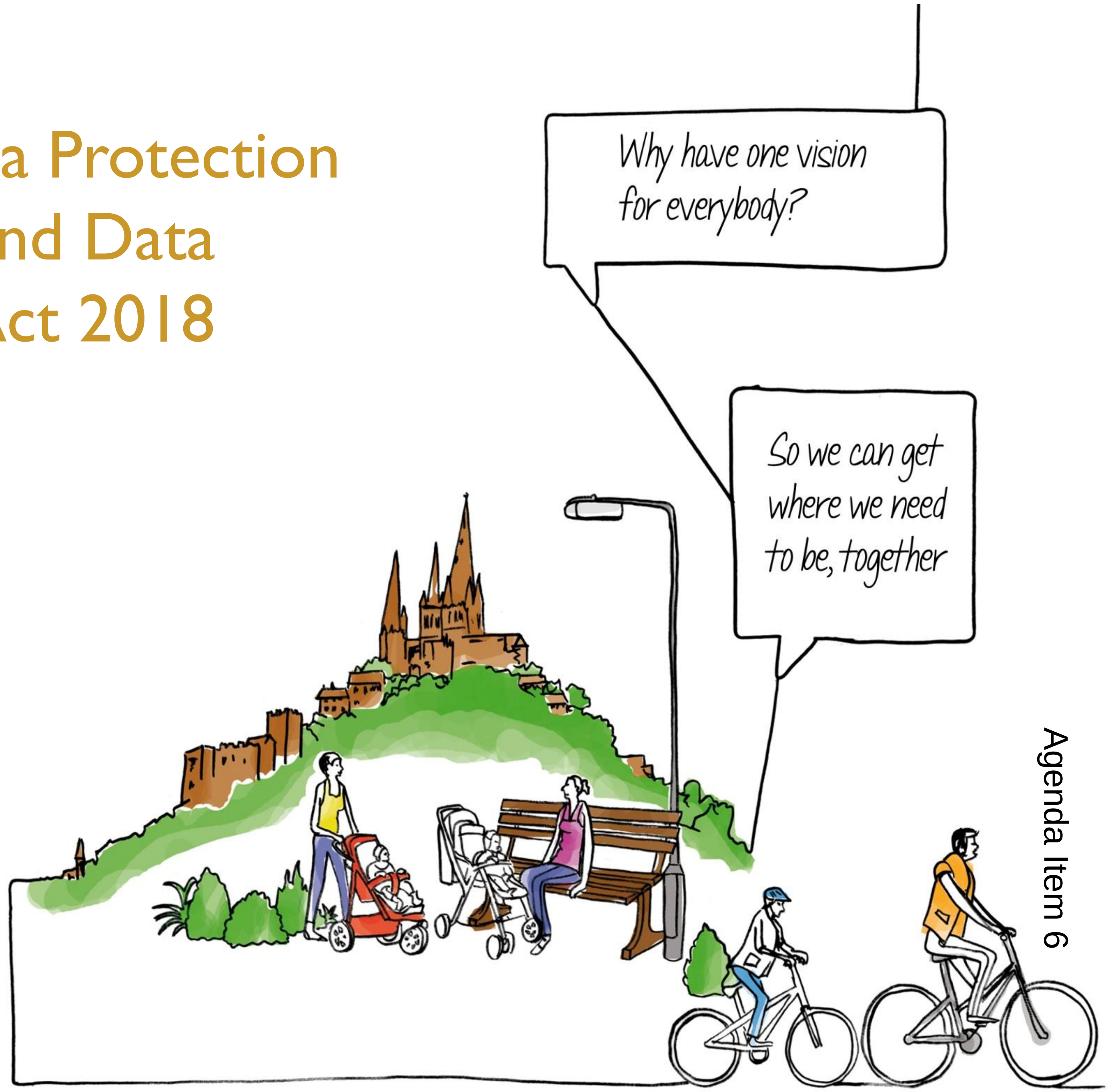
General Data Protection Regulation and Data Protection Act 2018



Staffordshire County Council

The Legislation

- The GDPR came in to force on 25 May
- The Data Protection Act 2018 is also in force
- Replaces the existing legislation and makes us ready for the digital age
- Fines, transparency and increased rights particularly in a digital world are key changes
- Many original rights and responsibilities are still in there

Fines

- Fines have increased to up to £17 million
- Breaches are more regulated, reporting changes have come in and contracts and internal and partnership working needs to have changed
- Data Protection Officer role to make decisions
- DPO is Tracy Thorley

Transparency

- Greater transparency in what we do with information
- Consent is now explicit
- Fair processing notices must be clearer
- Increased rights in relation to asking for your information or requesting processing stops

Getting ready and review

- GAP
- Communications
- Project Leads
- Q and A sessions
- Members Training
- ICO guidance slow – we don't have all the answers yet
- Review and reengagement planned
- We are not 100% there yet everyone is on a journey to compliance

How did we flag the risks?

- ICO 12 Steps to Prepare for GDPR
- Discussion with partners
- GDPR and new DPA text was studied
- ICO guidance was studied and more is due to be published
- GAP analysis and project leads
- RAG rating

Ongoing Work

- Staff training must be monitored
- Contracts need to be changed – ongoing
- Review internal fair processing and consent to ensure everything has been amended
- Complex subject access request clarification is required from the ICO

THANK YOU

Staffordshire County Council

Local Members Interest
N/A

Audit and Standards Committee – 24th September 2018

Cabinet Office – National Fraud Initiative 2018

Recommendations

1. To receive the report on the requirements of the Cabinet Office's National Fraud Initiative (NFI) 2018.

Report of Director of Finance and Resources

Background

1. The NFI is a data matching exercise conducted by the Cabinet Office under its data matching powers set out in the Local Accountability and Audit Act 2014. The NFI which started in 1996 continues to prove an effective tool for detecting and preventing fraud and error across the UK. Analysis of the financial outcomes from the most recent NFI 2016/17 data matching exercise shows that the NFI exceeded its highest level of fraud, error and overpayments achieved in any two year reporting period since it began in 1996. Cumulatively the NFI has now enabled participants to prevent and detect fraud and overpayments totalling £1.69billion At Staffordshire County Council, the 2016 NFI exercise resulted in recovery being sought for £145,994 of errors identified.
2. The NFI matches data provided by over 1,300 participating organisations from across the public and private sectors against data provided by other participants and key data sets provided by government departments and other national agencies to help prevent and detect fraud.
3. The NFI 2018 exercise will involve the County Council submitting payroll (and pension payroll) and other relevant data to the Cabinet Office on behalf of the County Council. Potential matches are then referred back to authorities for investigation.
4. The remainder of this committee report provides details of Internal Audit's work in relation to the notification and data extraction processes that underpin the NFI 2018 exercise.

Notification

5. Participants in the data matching exercise are required to inform individuals that their data will be processed; as required by Part 6 of the Local Audit and Accountability Act 2014, which is referred to as the 'fair processing' notice. For the NFI 2018 exercise, the fair processing notice is 'layered', which comprised of 3 layers of notices as follows:

   a. **Summary Notice** – to provide individuals whose data is to be matched, with the minimum of information but with links to where more detailed information can be found. Employees have been/will be notified of our participation in the

NFI via Business brief and Team Talk (July 2018 edition), an all staff email (planned for September 2018), and the Chief Executive's Bulletin (planned for August 2018). School employees will be notified via the "School Bag" in September 2018. Pensioners were notified in the spring "In-Contact Magazine" distributed to all Local Government Pension Scheme (LGPS) members.

b. **Condensed Text** - A summary of the Cabinet Office's data matching exercise is located on the County Council's intranet and website (links/references to these are given in the summary notices) as well as in hard copy on request; and

c. **Full Text** – is on the Cabinet Office's website and includes an explanation of the legal basis for the data matching exercise.

6. The benefit of applying the layered approach is to provide different audiences with appropriate fair processing information, for example individuals who require more than the summary explanations can access the 'condensed text' notices' or full details as required.

Data Submission

7. The Cabinet Office released guidance / instructions for the NFI 2018 data matching exercise and required submission of the following data from the County Council to perform the NFI exercise:

   a. Payroll (which includes members' allowances and expenses);
   b. Pension payroll;
   c. Private supported care home residents;
   d. Transport passes & permits (Blue Badges);
   e. Direct payments; and
   f. Trade creditor's payment history and standing data.

8. Both the payroll and pension data will be collected for the period 1st April to 30th September 2018.

9. The payroll data will be used to identify individuals who may be committing employment fraud by failing to work their contracted hours because they are employed elsewhere or are taking long-term sickness absence from one employer and working at another employer at the same time. Payroll data will also be matched against visitors with UK Visas. The aim of this match is to identify any instances of overseas persons working in this country where the UK visa has expired or does not permit them to be in employment.

10. The pension data will be used to identify instances where an occupational pensioner has died but the pension is still being paid.

11. Private supported care home residents data will be collected as at 30th September 2018 and will be used to identify individuals shown on the Care Director system as having their accommodation funded by the Authority but are shown as deceased on the DWP records.

12. Transport pass data will be collected as at 30th September 2018 from the County Council's Smartcitizen System. The data will be used to identify instances where the pass/permit holder has died.

13. Blue Badge holder data will be submitted directly to the Cabinet Office by the badge issuing body, Northgate Public Services. The Blue Badge holder data will be matched against DWP records to identify blue badge holders who have died, or who hold more than one Blue Badge.

14. Direct payments data will be collected from the Council's Care Director System and Financial Information System, My Finance for the period 1st April to 30th September 2018. The data will be used to identify service users receiving funding from the authority matched against a range of Housing Benefit, DWP death records and other records. We will also seek to match this data internally against Pensions data.

15. Trade Creditors data will be collected from the Council's Financial Information System, My Finance for the period 1st October 2017 (when My Finance was implemented) to 30th September 2018. The data will be checked to identify instances of duplicate payments being made, duplicate creditor records and VAT overpayments. This data is also checked against payroll data to identify employees who have interests in businesses which may cause a conflict of interest.

16. Following completion of each data extraction, the data files will be uploaded to the Cabinet Office via a secure link from 8 October 2018.

17. It is envisaged that the output will be returned to the County Council for filtering and examination on 31st January 2019 via the secure NFI software. Detailed enquiries on the matches identified will be undertaken by the County Council's staff. This work will be monitored on an on-going basis and progress reports will be presented to the Audit and Standards Committee at regular intervals.

Equalities Implications and Climate Change Implications

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

Legal Implications

19. Participation in the 2018 data matching exercise is mandatory under Part 6 of the Audit and Accountability Act 2014.

Resource and Value for Money Implications

20. The Cabinet Office fee for participating in the exercise remains at £3,750, excluding VAT. This will be billed in one instalment in December 2018. Internal Audit has allocated 8 days within the Council's Counter fraud work plan 2018/19 for the facilitation of fair processing notices and data uploads prior to upload on 8th October 2018, and 12 days from 31st January 2019 to commence the processing and investigation of potential data matches.

Risk Implications

21. This work supports the Council's risk management processes.

Report Authors:

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List of Background Papers

Code of data matching practice for the National Fraud Initiative
National Fraud Initiative 2018 – Programme of work and scale of fees

Staffordshire County Council

Audit and Standards Committee Forward Plan 2018/19

If you would like to know more about our work programme, please get in touch with Tina Gould, Scrutiny and Support Manager, 01785 276148 or tina.gould@staffordshire.gov.uk

Item and lead officer	Date of meeting	Links with Council strategic commissioning priorities	Detail	Action/Outcome
	12 March 2018			
Strategic Risk Register Director of Strategy Governance and Change and Director of Finance and Resources				Item deferred from 12 December 2017 Item deferred to June 2018
Annual Information Governance Statement Head of Business Support			Annual report	Further information (for clarification) on Appendices C and D of Statement requested and on the drop in incidents reported in April and July 2017.
Review of the effectiveness of the Audit & Standards Committee (including feedback on outcome of Members' workshop on 12 February) Director of Finance and Resources			Members will receive a questionnaire from the Head of Audit and Financial Services. This item will take the form of a Workshop to be arranged in early February 2018 with feedback to the 12 March meeting.	Workshop took place on 12 February and outcomes fed into the Review of the effectiveness of Audit and Standards report. The Head of Audit and Financial Services agreed to investigate if there was any relevant information on the Better Governance Forum on benchmarking that could be shared with Members.

Item and lead officer	Date of meeting	Links with Council strategic commissioning priorities	Detail	Action/Outcome
Annual Report of the Management of Complaints made under the Members' Code of Conduct Director of Strategy, Governance and Change			Annual statement	The Committee noted the report. The Community Infrastructure Manager be asked to share with Members best practice on how to spend their Divisional Highways Budgets.
External Audit Plan 2017/18 Report of Ernst & Young				The report was received. The Chairman to write to the Cabinet Member for Finance (with a copy to the Chair of the Pensions Board) regarding staffing resources within the Pensions Team.
Interim Update Report 2017/18 Report of Ernst & Young				Deferred to June 2018
Local Government Sector Update Report Report of Ernst & Young				The report was received.
Part Two - Cyber Essentials - Limited Assurance Review – Presentation by the interim Head of ICT and Head of Business Support			Update against recommendations.	The report was received. It was agreed that a further update was required in due course.
New item: Part Two: Fairer Charging and Welfare Benefits – limited assurance report Report of the Director of				The report was received.

Item and lead officer	Date of meeting	Links with Council strategic commissioning priorities	Detail	Action/Outcome
Finance and Resources				
Forward Plan				A further meeting to be added to the Work Programme in May 2018.
	13 June 2018			
New item: Appointment of Independent Remuneration Panel Members 2018-19 Report of Director of Strategy Governance and Change Officer: Ann-Marie Davidson				Councillors Trowbridge, Brookes, Oates, Wilson and Davis were appointed to the Panel.
New item: Correspondence received from Ernst & Young re audit fee 2018-2019				The correspondence was received.
Internal Audit Plan 2018-19 Report of the Director of Finance and Resources				The report was received.
Internal Outturn Report 2017-18 Report of the Director of Finance and Resources				Part 2 item - Exemption paragraph 3.
Internal Audit Special Investigations/Reports of Limited Assurance/Top Ten Risk Areas *(Part 2 of agenda)* Report of Director of				Part 2 items - Exemption paragraph 3.

Item and lead officer	Date of meeting	Links with Council strategic commissioning priorities	Detail	Action/Outcome
Finance and Resources				
Audit Charter 2018 Report of Director of Finance and Resources				The report was received.
Interim update report 2017/18 Report of Ernst & Young				The report was received.
	30 July 2018			
Strategic Risk Register Joint Report of the Director of Strategy Governance and Change and Director of Finance and Resources Lead officer: Lisa Andrews			Deferred from 13 June 2018	a) That the Chairman ask the Chairman of the Corporate Review Committee/Chair of the MTFS Working Group to consider if the Council was getting value for money from its commercial contracts. b) That the Internal Audit Top Ten Risk Areas be added to the Forward Plan (see below)
Annual Governance Statement 2017-18 Report of Director of Finance and Resources Lead officer: Lisa Andrews				a) That the report is approved. b) That the Significant Control Issues listed in the AGS Supporting Paper 2 are added to the Audit and Standards Committee Work Plan in a timely manner.
Statement of Accounts 2017-18 Presentation and Report of Director of Finance and Resources Lead officer: Rachel Spain				Members approved the 2017/2018 Statement of Accounts; b) That the Committee approve the two management representation letters attached to the covering report.

Item and lead officer	Date of meeting	Links with Council strategic commissioning priorities	Detail	Action/Outcome
Report to those charged with Governance (ISA 260) Report of Ernst & Young				Members gave approval to the Chairman to sign Appendix D, the management representation letter.
Code of Corporate Governance 2018/19 Joint Report of the Director of Strategy, Governance & Change and The Director of Finance & Resources Lead officer: Lisa Andrews				The Committee approved the Annual Governance Statement.
Financial Regulations Report of the Director of Finance and Resources Lead officer: Rachel Spain				That the Committee recommend the County Council approve the revised Financial Regulations for inclusion in the Constitution.
Internal Audit – Special Investigations/Limited Assurance reports/Top ten risk areas (Part 2) Report of the Director of Finance and Resources Lead officer: Debbie Harris				Part 2 items – Exempt paragraph 3
	24 September 2018			
Annual Audit Letter 2017-18 Report of Ernst & Young				
Local Government Sector				

Item and lead officer	Date of meeting	Links with Council strategic commissioning priorities	Detail	Action/Outcome
Update Report Report of Ernst & Young				
New item: General Data Protection Regulation (GDPR) Joint Report of the Directors of Strategy, Governance and Change and Finance and Resources Lead officers: Tracey Thorley/Vic Falcus			Report of Substantial Assurance	
New item: National Fraud Initiative 2018/19 Report of Director of Finance and Resources Report author: Debbie Harris			New criteria and processes	
New item: Amendments to the Risk Register Lead officer: Lisa Andrews (other officers to be advised)			The Chairman requested that lead officers be invited to discuss any amendments with the Committee	
	30 October 2018			
New item: Pensions Pooling Arrangements - Development of an Assurance Framework Report of the Director of Finance and Resources Lead officer: Debbie Harris			Item proposed by Chairman	
Internal Audit Special	As required			

Item and lead officer	Date of meeting	Links with Council strategic commissioning priorities	Detail	Action/Outcome
Investigation/limited/ Top Ten Risk Areas reports Report of Director of Finance and Resources Lead officer: Debbie Harris				
New item: CIPFA Publication on the Effectiveness of Audit Committees – implications for Staffordshire County Council Report of Director of Finance and Resources Lead officer: Debbie Harris				
	3 December 2018			
Health, Safety and Wellbeing Performance Annual Report 2017/18 Report of Director of Strategy, Governance and Change Lead Officer: Becky Lee			Annual update	
Part Two - Cyber Essentials Update – Presentation by the interim Head of ICT and Head of Business Support Lead officers: Vic Falcus and Tracy Thorley			At their meeting on 12 March 2018 Members requested a further update	
	29 January 2019			

Item and lead officer	Date of meeting	Links with Council strategic commissioning priorities	Detail	Action/Outcome
Internal Audit Special Investigation/limited/ Top Risk Areas reports Report of Director of Finance and Resources Lead officer: Debbie Harris	As required			
	11 March 2019			
New item: Management Controls – development of an assurance framework			Item proposed by Chairman	
Work programme for the Audit and Standards Committee	All meetings			
Proposed changes to the Constitution	As required			
Internal Audit Special Investigation/limited/ Top Risk Areas reports	As required			
Other items: Potential use of automation in audit			Item proposed by Chairman	
Strategic Risk Register: Top Ten Risk Areas: 1. Medium Term Financial Strategy – Delivery Plan 2. Digital Development Programme 3. Strategic Property Asset Management and Governance	To be agreed		Item agreed for inclusion at 30 July 2018 meeting.	

Item and lead officer	Date of meeting	Links with Council strategic commissioning priorities	Detail	Action/Outcome
4. Liberata Payroll System				
5. Care Director (Adults and Children's modules)				
6. Adults and Children's Financial Services Review Programme				
7. Home and Community Care Contract				
8. Cyber Assurance Data Breach Incidents & Response Plans/Patch Management			Item considered on March 2018	
9. GDPR				
10. Children and Families Systems Transformation: Family Support Contracts				

Membership		**Calendar of Committee Meetings (All meetings at 10.00 a.m. unless otherwise stated)**
Derek Davis, OBE	Paul Northcott	26 June 2017
Mike Davies	Jeremy Oates	25 September 2017
Michael Greatorex	Carolyn Trowbridge (Vice-Chairman)	4 December 2017 – meeting cancelled
Martyn Tittley (Chairman)	Ross Ward	12 December 2017
David Brookes	Bernard Williams	12 March 2018
Colin Greatorex	Victoria Wilson	13 June 2018
Jill Hood		

Ian Lawson	Susan Woodward	30 July 2018 24 September 2018 30 October 2018 3 December 2018 at 2.00 p.m. 29 January 2019 11 March 2019 Meetings usually take place at County Buildings, Martin Street, Stafford ST16 2LH

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