Staffordshire County Council

Audit planning report

Year ended 31 March 2018

12 March 2018

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12 March 2018

Staffordshire County Council,
No 1 & 2 Staffordshire Place,
Tipping Street,
Stafford, ST16 2DH

Dear Audit & Standards Committee Members

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit & Standards Committee with a basis to review our proposed audit approach and scope for the 2017/18 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

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

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

We welcome the opportunity to discuss this report with you on 13 March 2018 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

S R Clark

Stephen Clark

For and on behalf of Ernst & Young LLP

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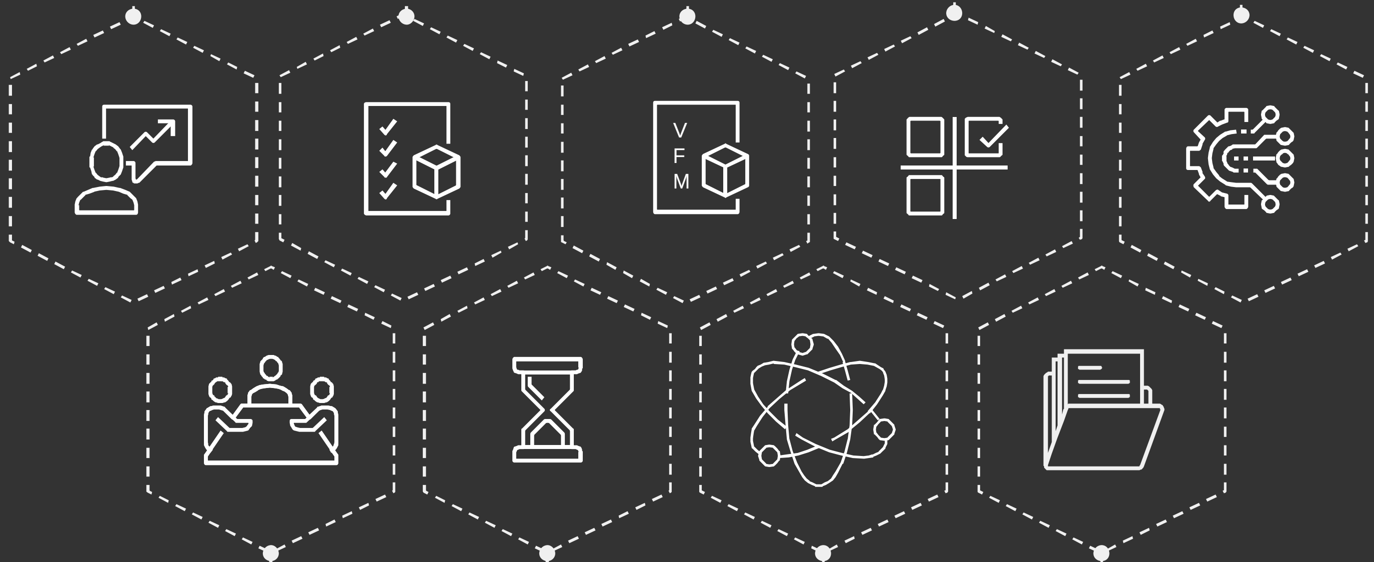
Contents



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies”. It is available from the 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 February 2017)” issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the Audit and Standards Committee and management of Staffordshire County Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Standards Committee, and management of Staffordshire County Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit and Standards Committee and management of Staffordshire County Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2017/18 audit strategy

Overview of our 2017/18 audit strategy

The following ‘dashboard’ summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit & Standards Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk level	Change from PY	Details
Risk of fraud in revenue and expenditure recognition	Fraud/Significant risk	No change in risk or focus	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.
Misstatements due to fraud or error	Fraud/Significant risk	No change in risk or focus	As identified in ISA 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 would otherwise appear to be operating effectively.
New General Ledger System	Significant Risk	New risk	The council has 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.
Valuation of Land & Buildings	Significant Risk	No change in risk or focus	Property, Plant and Equipment accounts for a significant proportion of the Council’s total assets and the rolling valuation process incorporates significant judgements, which if inappropriate could result in a material misstatement. There was a material adjustment in the 2016/17 financial statements and with a change in valuer for 2017/18, this account continues to be a significant audit risk.
New Payroll System	Other financial statement risk	New Risk	The council has implemented a new Payroll system in year (iTrent). Any significant system change creates risks associated with data migration and integrity which could result in a material misstatement.
Valuation of Investment in Entrust	Other financial statement risk	New Risk	The 2016 financial statements audit of Entrust Support Services Ltd resulted in a £44m impairment of goodwill. As the information was not available in time, the Council was unable to reflect it’s share in the 2016/17 statements. In our view a prior period adjustment is now required to be made in the 2017/18 financial statements.
Valuation of LGPS Liability	Other financial statement risk	No change in risk or focus	The Council is a member of the Local Government Pension Scheme (LGPS), administered by Staffordshire Pension Fund. The net pension liability was £979.8million as at 31 March 2017. The estimation of the defined benefit obligations is sensitive to a range of assumptions. The extent of judgement required, and resulting significant impact this has on the value in the balance sheet, means it continues to be an area of audit focus.

Overview of our 2017/18 audit strategy

Materiality

Planning materiality

£11.35m

Materiality has been set at £11.35m, which represents 1% of the forecast gross expenditure on provision of services

Performance materiality

£8.51m

Performance materiality has been set at £8.51m, which represents 75% of materiality.

Audit differences

£0.57m

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement) greater than £0.57m. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit & Standards Committee.

Audit scope

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

- Our audit opinion on whether the financial statements of Staffordshire County Council give a true and fair view of the financial position as at 31 March 2018 and of the income and expenditure for the year then ended; and

- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

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

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

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

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

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

02 Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Risk of fraud in revenue and expenditure recognition

Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts.

We consider that the risk impacts on the following account balances:

- Year-end trade payables and the calculation of estimates, accruals and provisions which impact on the completeness and valuation assertions.
- Year-end trade receivables and accruals which impacts on the existence and valuation assertions.
- Operating expenditure transactions during the financial year which impacts on both the occurrence and completeness assertions.

What is the risk?

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 (FRC), 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.

What will we do?

Having considered the factors for expenditure recognition, we believe the risk is focused on the year-end balance sheet and in particular the completeness and valuation of payables and the existence and valuation of receivables. We also believe the risk is linked to the existence of capital expenditure arising from the potential to incorrectly capitalise revenue expenditure.

We will:

- Document our understanding of the processes and controls in place to mitigate the risks identified, and walk through those processes and controls to confirm our understanding
- Review and test expenditure recognition policies.
- Review and discuss with management any accounting estimates on expenditure recognition for evidence of bias.
- Sample testing material revenue streams and operating expenditure
- Test the valuation of any provisions recorded in the financial statements and perform appropriate tests to consider whether all material provisions have been recognised.
- Develop a testing strategy to test material receivables and payables.
- Review and test cut-off at the period end date; and
- Perform a search for unrecorded trade payables at period year.

Our response to significant risks (continued)

Risk of management override

Financial statement impact

We consider that the risk impacts on the following balances in the financial statements:

- Year-end trade payables and the calculation of estimates, accruals and provisions which impacts on the completeness and valuation assertions.
- The appropriateness of capital expenditure which impacts on the classification assertion.
- The accounting adjustments processed and disclosed in the movement in reserves statements and supporting notes.

What is the risk?

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 consider the risk most focussed around items of expenditure that are non-routine and involve management's judgement and estimation to determine items such as year-end accruals and provisions.

Our audit approach

We will

- Document our understanding of the processes and controls in place to mitigate the risks identified, and walk through those processes and controls to confirm our understanding.
- Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- Review the calculation of management's material accruals, estimates and provisions for evidence of management bias;
- Evaluate the business rationale for any significant unusual transactions;
- Understand the oversight given by those charged with governance of management process over fraud;
- Sample test income and expenditure accruals and provisions based on established testing thresholds;
- Review capital expenditure on property plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.
- Review the accounting adjustments processed in the movement in reserves statement to ensure consistency with other supporting disclosure notes.

Our response to significant risks (continued)

Valuation of Land & Buildings	What is the risk?	Our audit approach
	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.	We will • Document our understanding of the processes and controls in place to mitigate the risks identified, and walk through those processes and controls to confirm our understanding • Review each class of asset and the valuation approach adopted to assess where the risk of material misstatement is higher. We will share this risk assessment with management. • Evaluate the competence, capabilities and objectivity of management's specialist. • Review any terms of engagement or instructions issued to the valuer to ensure these are consistent with accounting standards. • Engage our valuation specialists to support our testing strategy and help evaluate the work of the Council's valuer. • Perform appropriate tests over the completeness and appropriateness of information provided to the valuer. • Review the classification of assets and ensure the correct valuation methodology has been applied. • Ensure the valuer's conclusions have been appropriately recorded in the accounts.

Our response to significant risks (continued)

New General Ledger System	What is the risk?	Our audit approach
	The council has 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 will • Carry 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, review the Council's approach and execution of the transfer of data to the new system. Perform tests on data migration to gain assurance on the opening balances in Integra. • Document and walk through the IT general control, assessing the design of those controls.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	Our audit approach
New Payroll System The Council has implemented a new Payroll system during the financial year (iTrent). Any significant system change creates risks associated with data integrity which could result in a material misstatement.	We will; • Make inquiries of management about risks of fraud and the controls put in place to address those risks • Walkthrough of the new payroll system, including documentation of process and key controls • Targeted testing of processes based on the output of our analytical procedures

What is the risk/area of focus?	Our audit approach
Valuation of Investment in Entrust Support Services Ltd Entrust Support Services Ltd reported in its financial statements for 2016 that its business plans and forecasts regarding potential revenue from digital platforms had been revised. Consequently, this resulted in a £44m impairment of goodwill. This will have an impact on the Council's financial statements in 2017/18 through a prior year period adjustment. Initial calculations provided indicate that the Council's investment will reduce by £22.2m from £23.3m to £1.1m and there will be other adjustments to the comprehensive income and expenditure statement and the movement in reserves statement (unusable reserves).	We will; • Review the accuracy and completeness of the accounting treatment of the prior period adjustment. • Review the Council's group accounts test to determine if the Council's share of the investment is material require the production of group accounts. • If group accounts are required we will; § Communicate with the entity's external auditor to obtain confirmation of audit plan, risks identified and audit results § Obtaining the audited financial statements of Entrust § Overall analytical procedures on the in year profit/loss attributed to the Council § Reviewing related party disclosures § Recalculate the investment value

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
Pension Liability Valuation The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Staffordshire County Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2017 this totalled £979.8 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Pension Fund. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. 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.	• Perform appropriate tests to obtain assurance over the information provided to the actuary. • Write to the Pension Fund auditor to ascertain whether there are material concerns we need to be aware of for our audit. • Ensure accounting entries and disclosures are consistent with the actuaries report. • Assess the work of the Pension Fund actuary (Hymans) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team. • Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?

Earlier deadline for production of the financial statements
 	
The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. The timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the accounts by 31 July.
 	
These changes provide risks for both the preparers and the auditors of the financial statements.
 	
The Council now has less time to prepare the financial statements and supporting working papers. As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Slippage at one client could potentially put delivery of others at risk.
 	
To mitigate this risk we will require:
• good quality draft financial statements and supporting working papers by the agreed deadline;
• appropriate Council staff to be available throughout the agreed audit period; and
• complete and prompt responses to audit questions.
 	
If you are unable to meet key dates within our agreed timetable, we will need to be notified at the earliest opportunity in order that we can review and discuss with you the timing of the audit.
 	
Where additional work is required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify you of the impact on the fee and the timing of the audit. Such circumstances may result in a delay to your audit while we complete other work elsewhere.
	We will:
	• Work with the Council to engage early to facilitate early substantive testing where appropriate.
	• Provide an early review on the Council’s streamlining of the Statement of Accounts where non-material disclosure notes are removed.
	• Facilitate faster close workshops to provide an interactive forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for the 2017/18 financial year.
	• Work with the Council to implement EY Client Portal, this will:
	    • Streamline our audit requests through a reduction of emails and improved means of communication;
	    • Provide on –demand visibility into the status of audit requests and the overall audit status;
	    • Reduce risk of duplicate requests; and
	    • Provide better security of sensitive data.
	• Agree the team and timing of each element of our work with you.
	• Agree the supporting working papers that we require to complete our audit.

03 Value for Money Risks

Value for Money

Background

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.

For 2017/18 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

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

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

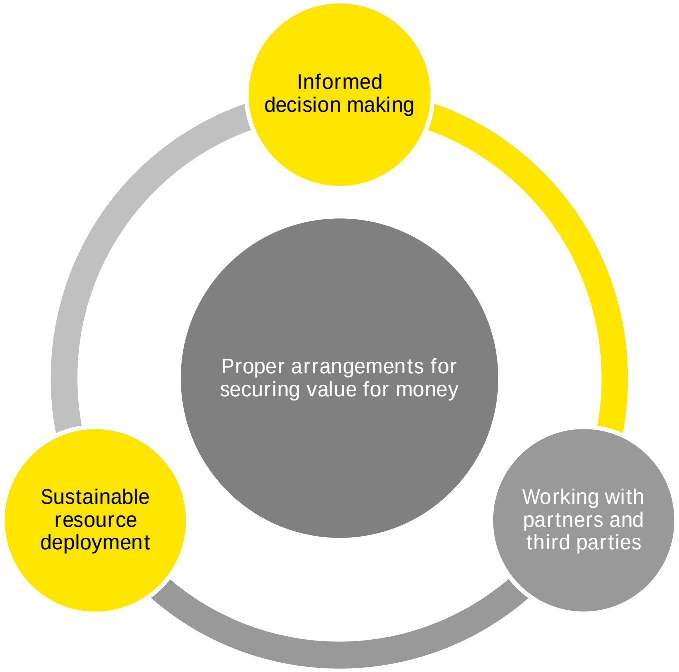
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of the significant risks noted on the following page which we view as relevant to our value for money conclusion.



Value for Money Risk

What is the significant value for money risk?	What arrangements does the risk affect?	Our audit approach
Sustainable resource deployment 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 has identified it will experience budget gaps of £35.4m in 2019/20 increasing to £37.5m in 2020/21. Going forward the Council will need to continue to scrutinise its financial plans to achieve budget savings and maintain adequate level of useable reserves.	We will focus on: § Monitoring the financial position for the remainder of 2017/18, including delivery against both revenue and capital challenges. § Reviewing the MTFS including the adequacy of major assumptions § Reviewing the Council's arrangements to develop a robust savings plan to address the future financial challenges.
Working with partners and third parties 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 will focus on; § Reviewing the Councils arrangements to monitor progress and plans to take corrective action to achieve the NHSE target. § Review the robustness of the MTFS and whether it includes contingency arrangements should the NHSE target not be achieved and funding is withdrawn.

Value for Money Risk

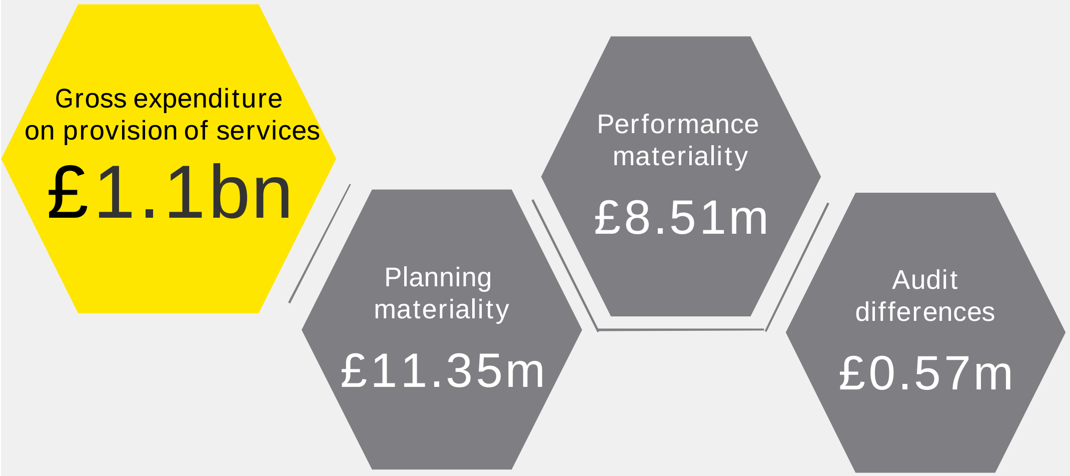
What is the significant value for money risk?	What arrangements does the risk affect?	Our audit approach
Working with partners and third parties Working with third parties effectively to deliver strategic priorities	The Council has a 49% stake in Entrust. The Council commissions Entrust to provide a 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.	We will; § Review if there is an up to date signed service level agreement/contract in place. § Review the Council's governance arrangements to include: o monitoring whether Entrust are delivering against the service specification; o the effectiveness of arrangements if performance is below expectations; and o reporting the outcomes of the contract to senior management and elected members

04 Audit materiality

Audit materiality

Materiality

For planning purposes, materiality for 2017/18 has been set at £11.3m. This represents 1% of the Council's forecast gross expenditure on provision of services, based on the risk profile. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix D.



We request that the Audit & Standards Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £8.51m which represents 75% of planning materiality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Audit & Standards committee, or are important from a qualitative perspective.

Specific materiality – We have also identified the following areas where misstatement at a lower level than our overall materiality level might influence the reader of the financial statements. The areas identified in our audit strategy applied include:

- We assess the Remuneration disclosures including any severance payments, exit packages and termination benefits as numerically sensitive and set a materiality level of £1k, being the rounding number in the financial statements.
- Related party transactions. For any errors identified in related parties we considered the concept of the materiality of transactions and balances as would relevant to the related individual or organisation.
- External audit fees: we set a materiality of £1k being the rounding number in the accounts.
- Members' allowances; a figure of £50k was judged appropriate.
- Cash and bank balances: given the inherent risk we have set a materiality level of £0

05 Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

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

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

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

Procedures required by the Code

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

2. Arrangements for securing economy, efficiency and effectiveness (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.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2017/18 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

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

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

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

Internal audit:
We will regularly meet with the Chief Internal Auditor, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

Scoping the group audit

Group scoping

Our audit strategy for performing an audit of an entity with multiple locations is risk based. We identify components as:

1. Significant components: A component is significant when it is likely to include risks of material misstatement of the group financial statements, either because of its relative financial size to the group (quantitative criteria), or because of its specific nature or circumstances (qualitative criteria). We generally assign significant components a full or specific scope given their importance to the financial statements.
2. Not significant components: The number of additional components and extent of procedures performed depended primarily on: evidence from significant components, the effectiveness of group wide controls and the results of analytical procedures.

For all other components we perform other procedures to confirm that there is no risk of material misstatement within those locations. These procedures are detailed below.

Scoping by Entity

Our preliminary audit scopes by number of locations we have adopted are set out below.

0	A	Full scope audits
0	B	Specific scope audits
0	C	Review scope audits
0	D	Specified procedures
3	E	Other procedures; Entrust Support Services Ltd (SCC owns 49%) of the joint venture). Penda Limited (a joint venture company with Kier and the County Council); and Nexxus Ltd (a wholly owned subsidiary)

Scope definitions

Full scope: locations where a full audit is performed to the materiality levels assigned by the Group audit team for purposes of the consolidated audit. Procedures performed at full scope locations support an interoffice conclusion on the reporting package. These may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements because of the materiality used and any additional procedures required to comply with local laws and regulations.

Specific scope: locations where the audit is limited to specific accounts or disclosures identified by the Group audit team based on the size and/or risk profile of those accounts.

Review scope: locations where procedures primarily consist of analytical procedures and inquiries of management. On-site or desk top reviews may be performed, according to our assessment of risk and the availability of information centrally.

Specified Procedures: locations where the component team performs procedures specified by the Group audit team in order to respond to a risk identified.

Other procedures: For those locations that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations. Individually, these components do not exceed more than 1% of the Group's Deficit on provision of services.

06 Audit team

Audit team

Audit team structure:

Stephen Clark
Lead Audit Partner

Vishal Savjani
Audit Manager

Jason Burgess
Assistant Manager

Garrik Jackson
Senior

EY Valuations Team	EY Actuaries	EY FAAS/PFI specialist	EY IT Risk Assurance (ITRA)	PPD

* Key Audit Partner

Use of specialists

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

Area	Specialists
Valuation of Land and Buildings	EY Property Valuations Team. Management specialist – external valuer.
Pensions disclosure	PSAA consulting actuary, the actuary of the Staffordshire Pension Fund and EY Pension Team.
Waste PFI	EY FAAS / PFI specialist
Implementation of new General Ledger	EY IT Risk Assurance (ITRA)
Prior year period adjustment – valuation of Entrust Support Services Ltd	Professional Practice Directorate (PPD)

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

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

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

07 Audit timeline

Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2017/18.

From time to time matters may arise that require immediate communication with the Audit & Standards Committee and we will discuss them with the Audit & Standards Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit Plan (Mar)

Reporting our independence, risk assessment, planned audit approach and the scope of our audit

Audit Results Report (Jul)

Reporting our conclusions on key judgements and estimates and confirmation of our independence

Annual Audit Letter (Aug)

The Annual Audit Letter will be provided following completion of our audit procedures

Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
		Planning	Planning	Walkthroughs	Walkthroughs	Interim Audit	Interim Audit		Substantive testing	Substantive testing	

Planning

Risk assessment and setting of scopes. Early testing of periods 1 – 6 on the old general ledger system

Walkthroughs

Walkthrough of key systems and processes

Interim Audit

Early substantive testing covering periods 7 to 10.

Year End Audit

Work begins on our year end audit. This is when we will complete any substantive testing not completed at interim

08 Independence

Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
▸ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ▸ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▸ The overall assessment of threats and safeguards; ▸ Information about the general policies and process within EY to maintain objectivity and independence. ▸ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard	▸ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▸ Details of non-audit services provided and the fees charged in relation thereto; ▸ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▸ Written confirmation that all covered persons are independent; ▸ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▸ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▸ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

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

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

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

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

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately NIL. No additional safeguards are required.

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

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

Self review threats

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

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

Management threats

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

There are no management threats at the date of this report

Relationships, services and related threats and safeguards

Other threats

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

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

EY Transparency Report 2017

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2017 and can be found here:

http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-20167

09 Appendices

Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code.

	Planned fee 2017/18	Scale fee 2017/18	Final Fee 2016/17
	£	£	£
Total Fee – Code work	109,755	109,755	109,755
Other – valuation work	TBC *	0	12,312
Other – IT risk assessment	TBC *	0	0
Total audit	TBC	109,755	122,067
Other non-audit services not covered above	0	0	0
Total other non-audit services	0	0	0
Total fees	TBC	109,755	122,067

All fees exclude VAT

* We have discussed with management that additional work by EY specialists will be required to address the risks of valuation of land and buildings and the review of the implementation of the new general ledger. The fees will be finalised on completion of the work.

All fee variations are subject to approval by PSAA.

The agreed fee presented is based on the following assumptions:

► Officers meeting the agreed timetable of deliverables;

► Our accounts opinion and value for money conclusion being unqualified;

► Appropriate quality of documentation is provided by the Council; and

► The Council has an effective control environment.

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

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

Appendix B

Regulatory update

In previous reports to the Audit and Standards Committee, we highlighted the issue of regulatory developments. The following table summarises progress on implementation:

Earlier deadline for production and audit of the financial statements from 2017/18	
Proposed effective date	Effective for annual periods beginning on or after 1 April 2017.
Details	The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.
Impact on Staffordshire County Council	These changes provide challenges for both the preparers and the auditors of the financial statements. We held a faster close workshop for clients on in November 2017 to facilitate early discussion and sharing of ideas and good practice. We are now working with the Council on ideas coming from the workshop, for example: • Streamlining the Statement of Accounts removing all non-material disclosure notes; • Bringing forward the commissioning and production of key externally provided information such as IAS 19 pension information, asset valuations; • Providing training to departmental finance staff regarding the requirements and implications of earlier closedown; • Re-ordering tasks from year-end to monthly/quarterly timing, reducing year-end pressure; • Establishing and agreeing working materiality amounts with the auditors.

Appendix C

Required communications with the Audit and Standards Committee

We have detailed the communications that we must provide to the Audit & Standards Committee.

Required communications	What is reported?	Our Reporting to you When and where
Terms of engagement	Confirmation by the Audit & Standards Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit planning report (March 2018)
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	Audit results report (July 2018)

Appendix C

Required communications with the Audit and Standards Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Public Interest Entities	For the audits of financial statements of public interest entities our written communications to the Audit & Standards Committee include: • A declaration of independence • The identity of each key audit partner • The use of non-member firms or external specialists and confirmation of their independence • The nature and frequency of communications • A description of the scope and timing of the audit • Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits • Materiality • Any going concern issues identified • Any significant deficiencies in internal control identified and whether they have been resolved by management • Actual or suspected non-compliance with laws and regulations identified relevant to the Audit & Standards Committee • The valuation methods used and any changes to these including first year audits • The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework • The identification of any non-EY component teams used in the group audit • The completeness of documentation and explanations received • Any significant difficulties encountered in the course of the audit • Any significant matters discussed with management • Any other matters considered significant	Audit planning report (March 2018) and Audit results report (July 2018)

Required communications with the Audit and Standards Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements	Audit results report (July 2018)
Misstatements	• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management	Audit results report (July 2018)
Fraud	• Enquiries of the Audit & Standards Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud	Audit results report (July 2018)
Related parties	• Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity	Audit results report (July 2018)

Required communications with the Audit and Standards Committee (continued)

Required communications	What is reported?	Our Reporting to you When and where
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2016: • Relationships between EY, the Council and senior management, its affiliates and its connected parties • Services provided by EY that may reasonably bear on the auditors' objectivity and independence • Related safeguards • Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees • A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit • Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy • Details of any contingent fee arrangements for non-audit services • Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard • The Audit and Standards Committee should also be provided an opportunity to discuss matters affecting auditor independence	Audit planning report (March 2018) and Audit results report (July 2018)

Required communications with the Audit and Standards Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report (July 2018)
Consideration of laws and regulations	• Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off • Enquiry of the Audit & Standards Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit & Standards Committee may be aware of	Audit results report (July 2018)
Internal controls	• Significant deficiencies in internal controls identified during the audit	Audit results report (July 2018)
Group audits	• An overview of the type of work to be performed on the financial information of the components • An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components • Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work • Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted • Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements	Audit planning report (March 2018) and Audit results report (July 2018)

Appendix C

Required communications with the Audit and Standards Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report (July 2018)
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report (July 2018)
Auditors report	• Key audit matters that we will include in our auditor's report • Any circumstances identified that affect the form and content of our auditor's report	Audit results report (July 2018)
Fee Reporting	• Breakdown of fee information when the audit plan is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	Audit planning report (March 2018) and Audit results report (July 2018)

Appendix D

Additional audit information

Other required procedures during the course of the audit	
In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.	
Our responsibilities required by auditing standards	• Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. • Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. • Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. • Concluding on the appropriateness of management's use of the going concern basis of accounting. • Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. • Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council's to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Audit & Standards Committee reporting appropriately addresses matters communicated by us to the Audit & Standards Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and • Maintaining auditor independence.

Appendix D

Additional audit information (continued)

Purpose and evaluation of materiality

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

Materiality determines:

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

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