

Staffordshire County Council

## Audit results report

Year ended 31 March 2018

27 July 2018

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

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27 July 2018



Dear Audit & Standards Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit & Standards Committee. This report summarises our preliminary audit conclusion in relation to the audit of Staffordshire County Council for 2017/18.

We have substantially completed our audit of Staffordshire County Council (the Authority) for the year ended 31 March 2018. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3, before the statutory deadline of 31 July 2018. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources

This report is intended solely for the use of the Audit & Standards Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit & Standards Committee meeting on 30 July 2018.

Yours faithfully

Steve Clark

Partner

For and on behalf of Ernst & Young LLP

Encl

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website ([www.PSAA.co.uk](http://www.PSAA.co.uk)). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The "Terms of Appointment (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 & 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 & 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 & 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

## Executive Summary

# Executive Summary

## Scope update

In our audit planning report presented at the 13 March 2018 Audit & Standards Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

- Changes in materiality: We updated our planning materiality assessment using the draft consolidated results and have also reconsidered our risk assessment.
- Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £13.059m (Audit Planning Report – £11.35m).
- This results in updated performance materiality, at 75% of overall materiality, of £9.79m (Audit Planning Report – £8.51m), and an updated threshold for reporting misstatements of £0.65m (Audit Planning Report – £0.57m).

## Status of the audit

We have substantially completed our audit of Staffordshire County Council's financial statements for the year ended 31 March 2018 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 3:

- Conclude on the pensions disclosures (IAS 19)
- Conclude on income, expenditure, receivables, payable procedures
- Conclude on property, plant and equipment procedures
- Completion of the PFI disclosures review
- Receipt of a signed letter of management representation
- Completion of Subsequent event review procedures
- Final review of the Narrative Report and financial statements
- Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts (WGA) submission. It should be noted that we cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's WGA consolidation pack.



# Executive Summary

## Audit differences

We found one unadjusted audit difference, an understatement of £8.175m in relation to the pension scheme asset valuation used by the scheme actuary, which management has chosen not to adjust, as not material.

We identified a number of audit differences and disclosure errors which management adjusted for in the revised financial statements. Further details provided at section 4 .

Until our work is complete, further amendments may arise. We will update the Committee should any further adjustments be identified from our remaining work.

## Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Staffordshire County Council's financial statements. This report sets out our observations and conclusions, including our views, if any, on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit & Standards Committee.

# Executive Summary

## Control observations

Our audit was not designed to express an opinion on the effectiveness of internal control and as we have adopted a fully substantive approach, we have therefore not tested the operation of controls. 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 identified 3 schools that converted to Academy status in 2016/17, which were accounted for during 2017/18. We worked with the finance team to determine whether a prior period adjustment to the financial statements would be required, and noted that the total value of the schools that converted to Academy status in 2016/17, and accounted for in 2017/18 was £17.5m, and the total value of the schools that converted to Academy status in 2015/16, and accounted for in 2016/17, was £22m. As the values are material to the accounts, it was concluded a prior period adjustment to the financial statements is required.
  - Additional testing was also carried out to identify schools which had been disposed before 31 March 2018, and not accounted for in the 2017/18 financial statements. 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 inquiries 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 out 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.

Further details provided at section 7.

# Executive Summary

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## Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified 3 significant risk, 1 over deploying resources in a sustainable manner and 2 over working with partners and other third parties.

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

## Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We noted that the Internal Audit reports issued with limited assurance were not included in the action plan for 2018/19. Management has agreed to amend the statement. We have no further matters to report as a result of this work.

We are currently conducting the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission and will report any matters that arise to the Audit and Standards Committee

We have no other matters to report.

## Independence

Please refer to Section 9 for our update on Independence.





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## Areas of Audit Focus



## Areas of Audit Focus

# Significant risk

### Risk of fraud in revenue and expenditure recognition

#### 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, 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 judgements are we focused on?

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.

#### What did we do?

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

#### What are our conclusions?

Our work over the risk is not complete. We are currently concluding our work in this area and will provide our final conclusion at the Audit & Standards Committee meeting. However:

- Our testing to date has not identified any material misstatements from revenue and expenditure recognition.
- Overall our audit work has not identified any material issues or unusual transactions to indicate any misreporting of the Council's financial position.



## Significant risk

### Misstatements due to fraud or error

#### 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.

#### What judgements are we focused on?

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.

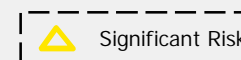
#### What did we do?

- 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.

#### What are our conclusions?

Our work over the risk is not complete.

- Our review of capital expenditure on property plant and equipment is on going, we have identified £18.5m of capital expenditure was considered to be non-enhancing, and impaired in year by the Council, on further analysis, some of the capital expenditure was enhancing the property plant and equipment, this error extends into the prior year.
- We are currently reviewing that the treatment adopted by the Council is compliant with the Code of practice and accounting standards.
- We will provide our final conclusion at the Audit & Standards Committee meeting.





## Areas of Audit Focus

# Significant risk

### Property, Plant and Equipment Valuation

#### What is the risk?

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.

#### What judgements are we focused on?

We focused on the following:

- The adequacy of the scope of the work performed by the valuer including their professional capabilities
- The reasonableness of the underlying assumptions used by the Authority's expert valuer

#### What did we do?

- 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
- Reviewed each class of asset and the valuation approach adopted to assess where the risk of material misstatement is higher.
- Evaluated the competence, capabilities and objectivity of management's specialist.
- Reviewed any terms of engagement or instructions issued to the valuer to ensure these are consistent with accounting standards.
- Engaged our valuation specialists to support our testing strategy and help evaluate the work of the Council's valuer.
- Performed appropriate tests over the completeness and appropriateness of information provided to the valuer.
- Reviewed the classification of assets and ensure the correct valuation methodology has been applied.
- Ensured the valuer's conclusions have been appropriately recorded in the accounts.

#### What are our conclusions?

- The Council's PPE is valued by the District Valuation Office (DVO) and the councils internal valuer.
- We have reviewed the instructions and data provided to the valuer by the Council. We identified no issues.
- We have obtained input from EY's own valuation experts to review the work of the DVO and their qualifications. We have followed up all recommendations and have no issues to report.
- Our valuation specialist has 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 agreed with management, 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 are detailed at section 4.



## Areas of Audit Focus

### Significant risk

#### New General Ledger System

##### What is the 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.

##### What did we do?

- 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.

##### What are our conclusions?

- Our review and testing of the Council's approach and execution of the transfer of data to the new system has not identified any issues over the data migration from the previous general ledger system (SAP) to the new system (Integra).
- We have raised control observations on the general ledger system at section 7



## Areas of Audit Focus

### Other areas of audit focus

#### Pension Liability Valuation

##### What is the risk?

The Code of Practice on Local Authority Accounting and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is a scheduled body.

The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body. Accounting for this scheme involves significant estimation and judgement.

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.

##### What judgements are we focused on?

We focused on the following:

- The reasonableness of the underlying assumptions used by the Authority's expert.
- Ensuring the information supplied to the actuary in relation to Staffordshire County Council was complete and accurate
- Ensuring the accounting entries and disclosures made in the financial statements were consistent with the report from Hymans Robertson.

##### What did we do?

- Obtained assurances over the information supplied to the actuary in relation to Staffordshire County Council;
- Assessed the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PwC - Consulting Actuaries commissioned by National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team;
- Reviewed the outturn, where available, of the actuarial estimates; and
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

##### What are our conclusions?

Our work has not identified any material misstatements of the Authority's liability or related disclosures in this regard.

- We have assessed and are satisfied with the competency and objectivity of the Council's actuaries: Hymans Robertson LLP.
- EY pensions team and PwC (Consulting Actuary to the NAO) have reviewed the work of the actuaries. We challenged the actuarial valuation and found no indication of management bias in this estimate. We did note that 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 is to over state the pension liability by £8.175m, and the accounts have not been adjusted for this, see section 4 for further details.
- 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



## Areas of Audit Focus

### Other areas of audit focus

#### New Payroll System

##### What are our conclusions?

- Our review and testing of the Council's approach and execution of the transfer of data to the new system has not identified any issues over the data migration from SAP to Integra.

##### What is the risk?

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.

##### What did we do?

- Made inquiries of management about risks of fraud and the controls put in place to address those risks
- Walked through the new payroll system, including documentation of process and key controls
- Targeted testing of processes based on the output of our analytical procedures

#### Valuation of Investment in Entrust Support Services Ltd

##### What are our conclusions?

- 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.

##### What is the risk?

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).

##### What did we do?

- Reviewed the accuracy and completeness of the accounting treatment of the prior period adjustment.
- Reviewed the Council's group accounts test to determine if the Council's share of the investment is material require the production of group accounts.



## 03 Audit Report





# Audit Report

## Draft audit report

### Our proposed audit report

#### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STAFFORDSHIRE COUNTY COUNCIL

##### Opinion

We have audited the financial statements of Staffordshire County Council for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement;
- Comprehensive Income and Expenditure Statement;
- Balance Sheet;
- Cash Flow Statement;
- and the related notes to the Core Financial statements 1 to 47

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of Staffordshire County Council as at 31 March 2018 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

##### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance and Resources's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance and Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

##### Other information

The other information comprises the information included in the Statement of Accounts 2017/18, other than the financial statements and our auditor's report thereon. The Director of Finance and Resources is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.



# Audit Report

## Draft audit report

### Our proposed audit report

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller & Auditor General in November 2017, we are satisfied that, in all significant respects, Staffordshire County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the entity;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Responsibilities of the Director of Finance and Resources

As explained more fully in the Statement of Responsibilities set out on page 12, the Director of Finance and Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Director of Finance and Resources is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

Staffordshire County Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.



# Audit Report

## Draft audit report

### Our proposed audit report

The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Staffordshire County Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that Staffordshire County Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of Staffordshire County Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

#### Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

In addition 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 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2018. As the Authority 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

#### Use of our report

This report is made solely to the members of Staffordshire County Council, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority for Staffordshire County Council, for our audit work, for this report, or for the opinions we have formed.

Steve Clark, (Key Audit Partner)  
Ernst & Young LLP (Local Auditor)  
Birmingham  
xx July 2018

The maintenance and integrity of the Staffordshire County Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



04

## Audit Differences



# Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

## Summary of unadjusted differences

We found one unadjusted audit difference, an understatement of £8.175m in relation to the pension scheme asset valuation used by the scheme actuary, which management has chosen not to adjust, as not material. Further details are provided on page 24.

## Summary of adjusted differences

- We identified a number of misstatements greater than £0.65m during the course of our audit which was adjusted in the Council's financial statements as follows:
  - Property, plant and equipment (PPE) - our disposal testing identified 8 schools which were not accounted for in 2017/18, an adjustment of £18.2m has been made, in addition, a prior period adjustment was made to correct the schools that converted to Academy status in 2016/17, and accounted for in 2017/18 of £17.5m, and schools that converted to Academy status in 2015/16, and accounted for in 2016/17, of £22m.
  - Property, plant and equipment (PPE) – valuations – our review of the valuations identified school land had been incorrectly valued, as a result the valuation was updated, which resulted in a decrease in value of PPE of £10.2m.
  - The calculation of the gains / loss on disposal of PPE incorrectly included the PFI life cycle costs of £2.99m, these have been reclassified to PFI liabilities
  - The surplus on revaluations of non current assets includes capital expenditure which has been impaired, of £18.5m, and PFI prepayments of £3.7m, these have been reclassified to net cost of services.
  - Assets held for sale – in 2016/17 a portion an property asset sold for £1.9m, however the transaction was not processed. Subsequently, the property was then downward revaluation for £1.52m. We have not identified any further transactions of this nature.
  - Short-term creditors. We identified that creditors included in error a liability of £1m which was paid before 31 March 2018, overstating creditors and debtors by the same amount.
  - Private Finance initiative.

Our review of the waste PFI scheme identified that the liability initially recorded at £73.946m was overstated by £6.2m. Consequently, there was a resulting classification error between short and long term liabilities. An adjustment of £2.344m has been agreed to increase the short term and decrease long term liabilities to £6.1m and £80.7m, respectively.

There was an error in the profiling split in the Council's calculations. This has resulted in a disclosure error resulting in an adjustment to disclosure note 37. The disclosure detailing the payment due on the Waste PFI scheme requires adjustment to take into account this profiling error. Note that we are concluding the final adjustments to agree with Council. We will provide our final conclusion at the Audit & Standards Committee meeting.



# Audit Differences

## Disclosure amendments

There were a number of disclosure amendments made, following the audit, which included:

- Note 1: Accounting policies – we identified that some accounting policies could be made more comprehensive. The main change was to expand the Council's property, plant and equipment policy to ensure that arrangements to recognise and measure these assets in accordance with accounting standards.
- Note 8: Taxation and Non Specific Grant income – The prior year council tax debtor totalling has been incorrectly reversed into the business rates income, therefore overstating the council tax income and understating the business rates income in the year by £5m;
- Note 11: Expenditure and Income Analysed by Nature - Employee benefits expenses is overstated by £7m due to miscoding of internal recharges, which should have been coded to other service expenses.
- Note 13: Heritage assets – the amount disclosed for the Sutherland papers, was understated by £0.2m, the amount has been updated to £1.4m, from £1.2m,
- Note 21: Provisions – the movements shown for the insurance provision were shown on a net basis. The disclosures have been updated to show the movements in the year of £3.5m;
- Note 29: Senior officers remuneration note – we identified that the performance related pay for 2016/17 and 2017/18 in respect of three senior officers were incorrectly included in the disclosures for salary, fees and allowances. The Code of practice requires this information to be separately disclosed.
- Note 44: Financial instruments – The disclosure of bad debt provision was been updated from £69m, to £52m, and the amount of debt past due date as a result has changed from £54m to £35m.

Management has agreed to adjust the above issues.




We will also update Audit and Standards Committee if there are any further issues arising from our incomplete audit procedures.



# Audit Differences

## Summary of unadjusted differences

In addition we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Audit & Standards Committee and provided within the Letter of Representation:

Uncorrected misstatements 31 March 2018 (£m)	Effect on the current period:	Balance Sheet (Decrease)/Increase				
	 Comprehensive income and expenditure statement Debit/(Credit)	 Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non- current Debit/ (Credit)	Reserves Debit/(credit)
Errors						
Known differences:						
<ul style="list-style-type: none"> <li>Understatement of pension scheme asset valuations</li> </ul>					8.175	(8.175)



05

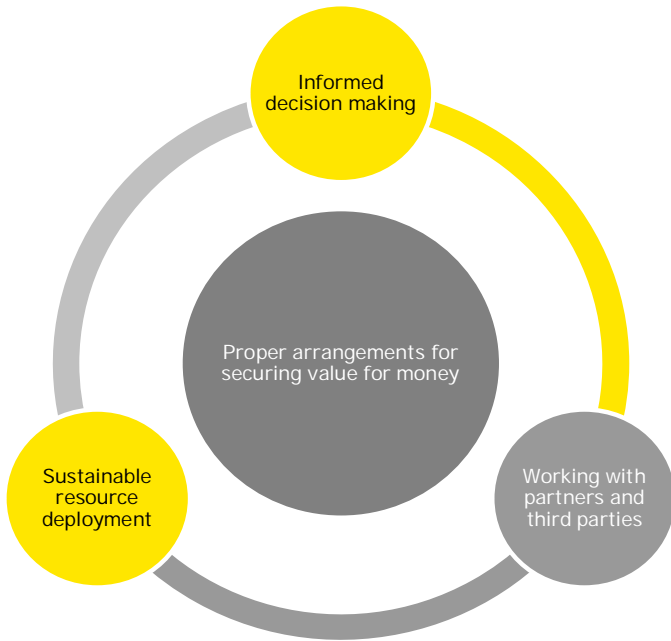
# Value for Money Risks







# 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.

## Overall conclusion

We identified 3 significant risk around these arrangements and present our findings of our resultant work on pages 26 to 28.

We have no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined 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 enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The tables on pages 26 to 28 presents the findings of our work in response to the risks areas in our Audit Planning Report |



# Value for Money

## Significant risk: 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.

Work carried out on the significant VFM risk	What arrangements did this affect?	What are our findings?
<ul style="list-style-type: none"> <li>Monitored the financial position for the remainder of 2017/18, including delivery against both revenue and capital challenges.</li> <li>Reviewed the Medium Term Financial Strategy (MTFS) including the adequacy of major assumptions</li> <li>Reviewed the Council's arrangements to develop a robust savings plan to address the future financial challenges.</li> </ul>	<ul style="list-style-type: none"> <li>Deploying resources in a sustainable manner</li> </ul>	<p>We have performed the work as set out in our Audit Plan and are satisfied that based on the evidence reviewed, that the Council has put in place adequate arrangements to address this significant risk. In forming this view we noted that;</p> <ul style="list-style-type: none"> <li>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. In comparison, the Council overspent by £4.7m in 2016/17.</li> <li>The MTFS was approved by Cabinet on 1 February 2018, and shows that the Council set a balanced budget, supported by a transfer of £4.403m from reserves. However, the MTFS shows that the Council still has funding gaps of £35.4m and £37.5m in 2019/20 and 2020/21 respectively. We note that 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 clearly 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.</li> <li>In addition we have 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.</li> <li>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 will need to consider how it continues to seek assurance from management that the plans are being effectively managed and delivered.</li> </ul>



## Significant risk: 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

Work carried out on the significant VFM risk	What arrangements did this affect?	What are our findings?
<ul style="list-style-type: none"> <li>Reviewed the Councils arrangements to monitor progress and plans to take corrective action to achieve the NHS England target.</li> <li>Reviewed the robustness of the MTFS and whether it includes contingency arrangements should the NHS England target not be achieved and funding is withdrawn.</li> </ul>	<ul style="list-style-type: none"> <li>Working with partners and third parties</li> </ul>	<p>We have performed the work as set out in our Audit Plan and on the evidence reviewed, that the Council has put in place adequate arrangements to address this significant risk. In forming this view we noted that;</p> <ul style="list-style-type: none"> <li>Robust plans were put in place at an early stage which included the mobilisation of Nexus Ltd, to create additional capacity in the system to assist with delivering the conditions set by NHSE.</li> <li>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.</li> <li>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.</li> </ul>



# Value for Money

## Significant risk: 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

Work carried out on the significant VFM risk	What arrangements did this affect?	What are our findings?
<ul style="list-style-type: none"> <li>Reviewed if there is an up to date signed service level agreement/contract in place.</li> <li>Reviewed the Council's governance arrangements to include:               <ul style="list-style-type: none"> <li>monitoring whether Entrust are delivering against the service specification;</li> <li>the effectiveness of arrangements if performance is below expectations; and</li> <li>reporting the outcomes of the contract to senior management and elected members.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Working with partners and third parties</li> </ul>	<p>We have performed the work as set out in our Audit Plan and are satisfied that based on the evidence reviewed, that 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;</p> <ul style="list-style-type: none"> <li>there was an updated contract in place between the Council and Entrust.</li> <li>Services procured by services departments were supported by a service agreement.</li> <li>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.</li> <li>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.</li> <li>Although contract performance is not reported to Members, there are adequate governance arrangements in place and there is member representation on the Entrust Board</li> </ul> <p>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.</p>



## 06 Other reporting issues



## Other reporting issues

### Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2017/18 with the audited financial statements

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2017/18 and published with the financial statements was consistent with the audited financial statements.

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.

### Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We are yet to conclude our work in this area.

### Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

# Other reporting issues



### Other matters

#### Quality of the financial statement preparation process

We identified several audit differences during the course of our audit which are fully detailed in section 4. In our review some of the errors are a reflection of the financial statement preparation process that the Authority has in place together with the fact that 2017/18 is the first year of the faster close. These issues could be mitigated in the future by making improvements to the quality review arrangements before the financial statements are presented for audit.

We thank officers for their hard work in the preparation and supply of working papers requested in advance of and during our year-end audit visit.

As part of our audit approach we use data analytical tools which give us the easy ability to analyse and investigate the whole of the Authority's general ledger data. Our findings from data analytics are highlighted in section 8 of this report.

#### Assessment of new Accounting Standards

- IFRS 9 Financial Instruments: 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: 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 be 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.

A blurred office desk with a laptop, papers, and glasses of water. The scene is brightly lit, likely from a window with blinds in the background. The focus is on the foreground elements, which are slightly out of focus, creating a sense of depth. The overall atmosphere is professional and busy.

07

## Assessment of Control Environment



# Assessment of Control Environment

## Financial controls

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 inquiries 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 in accordance with the Council's accounting policy which set a de-minimus level of £10k. We recommend a review is carried out 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.



08 Data Analytics





# Use of Data Analytics in the Audit

## Analytics Driven Audit

### Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2017/18, our use of these analysers in the authority's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

#### Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

#### Payroll Analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We can then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.



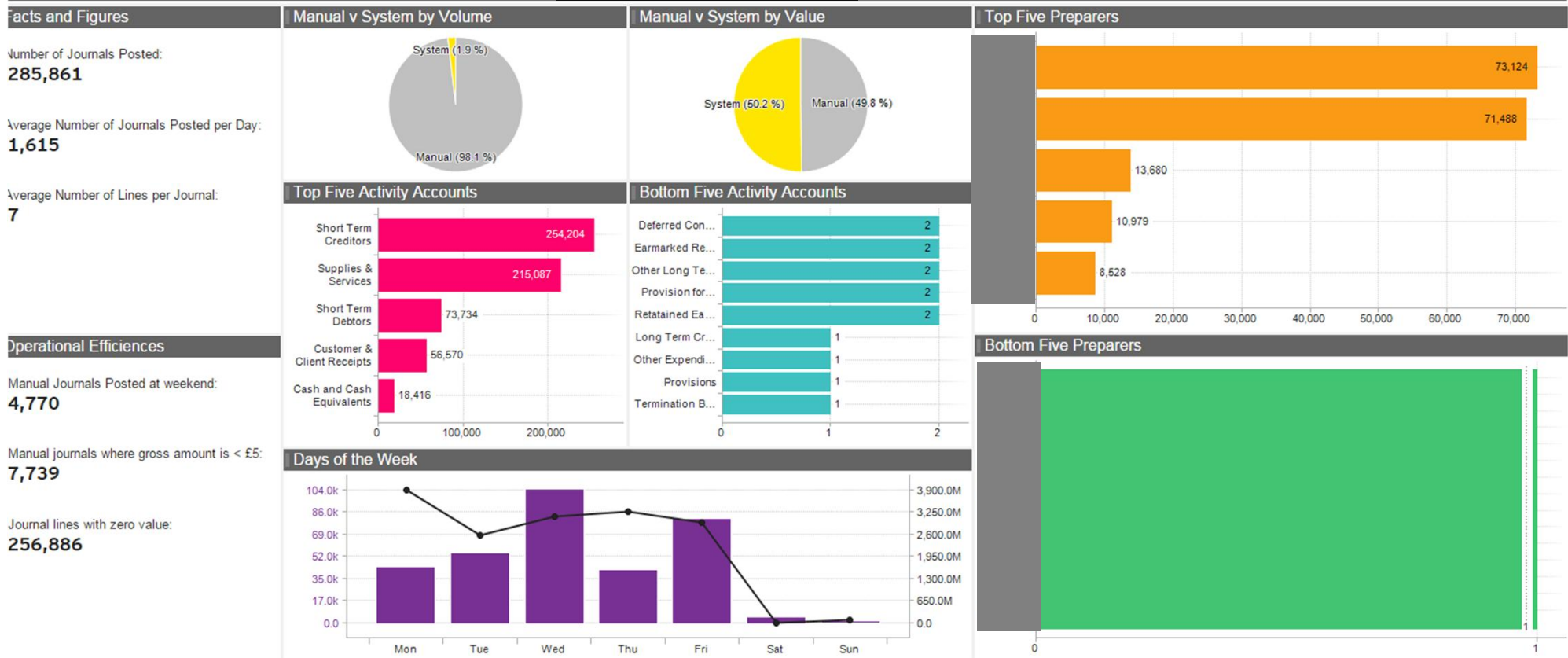
# Data Analytics

## Journal Entry Data Insights

The graphic outlined below summarises the journal population for 2017/18. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples.

### EY Helix - GLASS: Journal Entry Data Insights - 31/03/2018



#### Operational Efficiencies

Manual Journals Posted at weekend:  
**4,770**

Manual journals where gross amount is < £5:  
**7,739**

Journal lines with zero value:  
**256,886**



## Journal Entry Testing

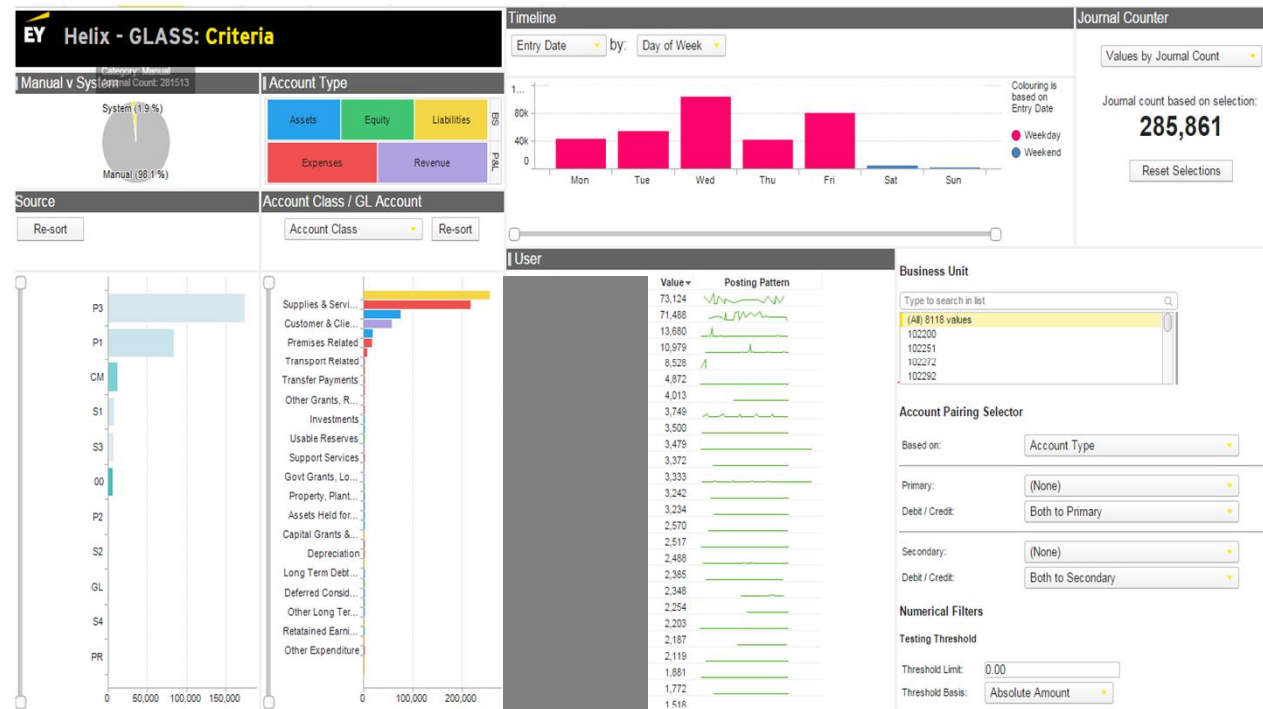
### What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

Journal entry data criteria – 31 March 2018

### What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.



### What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

The graphic shows journals made at the weekend only.

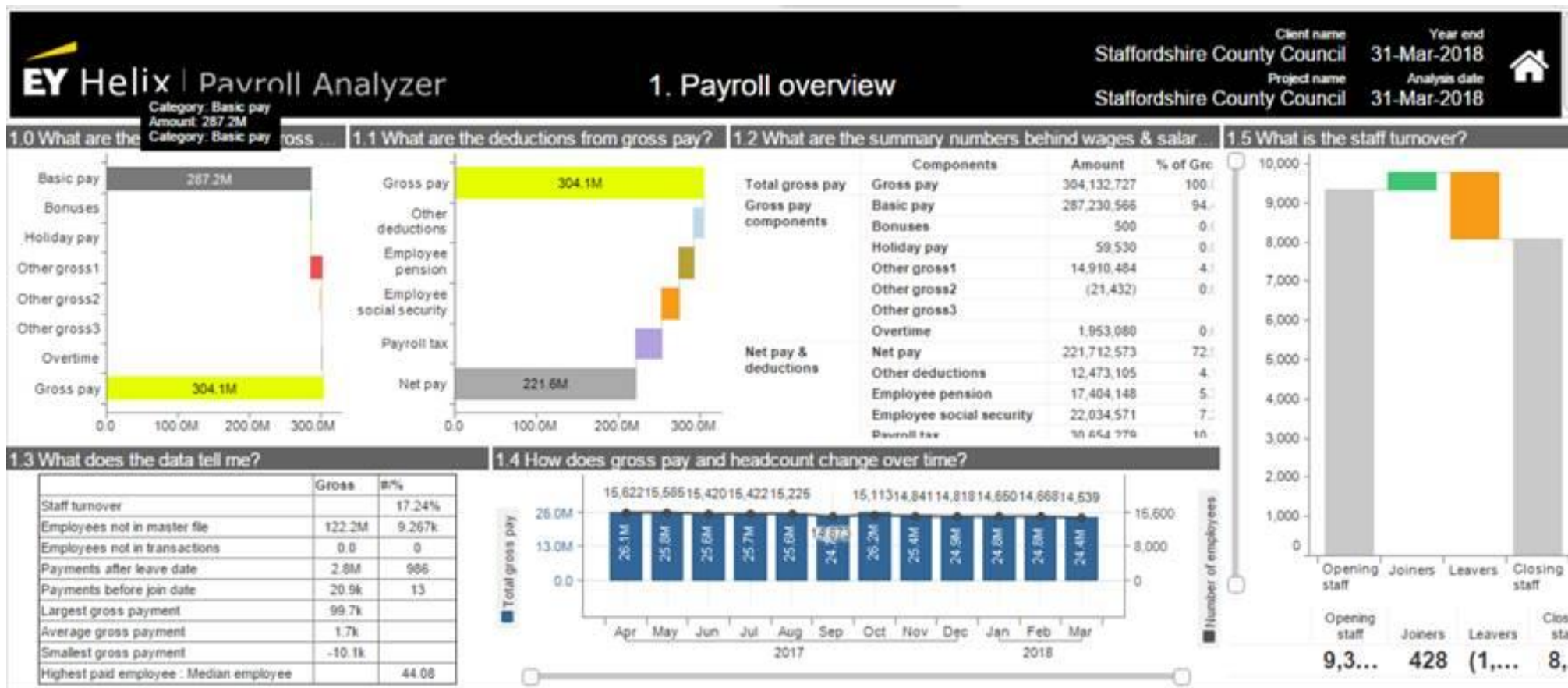
### What are our conclusions?

We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.



## Payroll Analyser Insights

The graphic outlined below summarises the Authority's payroll data for 2017/18. We review transactions for payroll at a more granular level, which allows us to identify items with a higher likelihood of containing material misstatements or to identify unusual patterns within a population of data and to design tests of details. This allows us to provide a more effective and risk focused audit on payroll, improving efficiency for both audit and the management as we reduce the need for evidence support for larger random sample.





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Independence

## Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated March 2018.

We complied with the APB Ethical Standards and the requirements of the PSAA's Terms of Appointment. 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 of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit & Standards Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit & Standards Committee on 30 July 2018.

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



# Independence

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## Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

### Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2018 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the services listed in the audit fee table on the next page has been provided on a contingent fee basis.

# Independence

## Fee analysis

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.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements.

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£	£	£	£
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
Total Audit Fee – Code work	138,310	TBC	TBC	122,067
Non-audit services	0	0	0	0
TOTAL	138,310	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.



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## Appendices

## Audit approach update




Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

Our approach to the audit of the balance sheet has not change from the prior year audit.

## Appendix B

# Summary of communications

Date 	Nature 	Summary 
4 December 2017	Meeting	The partner in charge of the engagement, along with other senior members of the audit team, met with the Deputy Director of Finance and to discuss the matters identified as part of the first quarter review.
9 February 2018	Meeting	The partner in charge of the engagement, along with the senior manager and manager met with the chief executive to discuss the councils progress against strategic objectives
9 February 2018	Meeting	The partner in charge of the engagement, along with the senior manager and manager met with the Finance team to discuss the councils progress against budget and matters identified
27 February 2018	Meeting	The assistant manager, met with the Chair of Audit and Standards Committee to discuss the audit planning report.
13 March 2018	Report and meeting	The audit planning report, including confirmation of independence, was issued to the Audit & Standards Committee.
19 July 2018	Meeting	The partner in charge of the engagement, along with the senior manager and manager met with the chief executive to discuss the councils progress against strategic objectives
19 July 2018	Meeting	Audit close meeting with the management team to discuss the preliminary findings of the audit.
25 July 2018	Report	The audit results report, including confirmation of independence, was issued to the Audit & Standards Committee.
	Management letter	The management team and the Audit & Standards Committee were provided details of internal control observations made in respect of the current year.
30 July 2018	Meeting	The partner in charge of the engagement, accompanied by other senior members of the audit team, met with the Audit & Standards Committee and senior members of the management team to discuss the audit results report.

In addition to the above specific meetings and letters the audit team met with the management team multiple times throughout the audit to discuss audit findings.

## Appendix C

# Required communications with the Audit & Standards Committee

There are certain communications that we must provide to the Audit & Standards Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

 Our Reporting to you		
Required communications	 What is reported?	  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.	March 2018 - Audit planning report
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	March 2018 - Audit planning report
Significant findings from the audit	<ul style="list-style-type: none"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Significant difficulties, if any, encountered during the audit</li> <li>• Significant matters, if any, arising from the audit that were discussed with management</li> <li>• Written representations that we are seeking</li> <li>• Expected modifications to the audit report</li> <li>• Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	July 2018 - Audit results report

# Appendix C




		Our Reporting to you
Required communications	What is reported?	When and where
Public Interest Entities	<p>For the audits of financial statements of public interest entities our written communications to the Audit &amp; Standards Committee include:</p> <ul style="list-style-type: none"> <li>• A declaration of independence</li> <li>• The identity of each key audit partner</li> <li>• The use of non-member firms or external specialists and confirmation of their independence</li> <li>• The nature and frequency of communications</li> <li>• A description of the scope and timing of the audit</li> <li>• 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</li> <li>• Materiality</li> <li>• Any going concern issues identified</li> <li>• Any significant deficiencies in internal control identified and whether they have been resolved by management</li> <li>• Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to the Audit &amp; Standards Committee</li> <li>• Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof</li> <li>• The valuation methods used and any changes to these including first year audits</li> <li>• The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework</li> <li>• The identification of any non-EY component teams used in the group audit</li> <li>• The completeness of documentation and explanations received</li> <li>• Any significant difficulties encountered in the course of the audit</li> <li>• Any significant matters discussed with management</li> <li>• Any other matters considered significant</li> </ul>	<p>March 2018 - Audit planning report July 2018 - Audit results report</p>

# Appendix C





		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>• Whether the events or conditions constitute a material uncertainty</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>• The adequacy of related disclosures in the financial statements</li> </ul>	No conditions or events were identified, either individually or together to raise any doubt about Staffordshire County Council's ability to continue for the 12 months from the date of our report
Misstatements	<ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request that any uncorrected misstatement be corrected</li> <li>• Material misstatements corrected by management</li> </ul>	July 2018 - Audit results report
Subsequent events	<ul style="list-style-type: none"> <li>• Enquiry of the Audit &amp; Standards Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	July 2018 - Audit results report
Fraud	<ul style="list-style-type: none"> <li>• Enquiries of the Audit &amp; Standards Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>• Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>• The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>• Any other matters related to fraud, relevant to Audit &amp; Standards Committee responsibility.</li> </ul>	<p>July 2018 - Audit results report</p> <p>Enquiries were made during the audit, and there are no issues to report to you.</p>



## Appendix C

		Our Reporting to you
Required communications	 What is reported?	  When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>• Non-disclosure by management</li> <li>• Inappropriate authorisation and approval of transactions</li> <li>• Disagreement over disclosures</li> <li>• Non-compliance with laws and regulations</li> <li>• Difficulty in identifying the party that ultimately controls the Authority</li> </ul>	<p>July 2018 - Audit results report</p> <p>No issues to report</p>
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>• The principal threats</li> <li>• Safeguards adopted and their effectiveness</li> <li>• An overall assessment of threats and safeguards</li> <li>• Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>March 2018 - Audit planning report</p> <p>July 2018 - Audit results report</p>
External confirmations	<ul style="list-style-type: none"> <li>• Management's refusal for us to request confirmations</li> <li>• Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	<p>We have received all requested confirmations</p>
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>• Enquiry of the Audit &amp; 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 &amp; Standards Committee may be aware of</li> </ul>	<p>We have made inquiries of management, the Monitoring Officer and those charged with governance.</p> <p>We have not identified any material instances or non-compliance with laws and regulations.</p>
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>• Significant deficiencies in internal controls identified during the audit.</li> </ul>	<p>We have not identified any significant deficiencies in internal controls.</p>

# Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>Written representations we are requesting from management and/or those charged with governance</li> </ul>	July 2018 - Audit results report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	July 2018 - Audit results report  No issues to report.
Auditors report	<ul style="list-style-type: none"> <li>Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	July 2018 - Audit results report  No circumstances.
Fee Reporting	<ul style="list-style-type: none"> <li>Breakdown of fee information when the audit planning report is agreed</li> <li>Breakdown of fee information at the completion of the audit</li> <li>Any non-audit work</li> </ul>	March 2018 -Audit Planning Report July 2018 - Audit results report
Certification work	<ul style="list-style-type: none"> <li>Summary of certification work</li> </ul>	No certification work carried out.

# Management representation letter

## Management Rep Letter

To be prepared on the entity's letterhead]  
[Date]

Ernst & Young LLP  
1 Colmore Square  
Birmingham B4 6HQ

This letter of representations is provided in connection with your audit of the financial statements of Staffordshire County Council ("the Council") for the year ended 31 March 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Staffordshire County Council as of 31 March 2018 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

### A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of any unadjusted audit differences, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. More specifically, there was an error totalling £8.175m caused by the difference in estimate of Local Government Pension Fund asset value to the actual. Due to the impact affecting both side of the balance sheet only, and so not the cost of services, no adjustment was made. We are comfortable that the estimates used this year are adequate for the purpose.

# Management representation letter

## Management Rep Letter

### B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the consolidated and Council financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
  - involving financial statements;
  - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated or Council's financial statements;
  - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
  - involving management, or employees who have significant roles in internal controls, or others; or
  - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

### C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the consolidated and council financial statements.
3. We have made available to you all minutes of the meetings of the County Council, Cabinet and Audit & Standards Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 30 July 2018.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

# Management representation letter

## Management Rep Letter

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

### D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and council financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed to you all guarantees that we have given to third parties.
4. No claims in connection with litigation have been or are expected to be received.

### E. Subsequent Events

1. There have been no events subsequent to year end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

### F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Annual Governance Statement and Narrative Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

### G. Comparative information – prior period adjustment

We represent, to the best of our knowledge and belief, the financial statements have been adjusted to reflect the following changes:

- changes in the valuation of our long term investment in Entrust. The amounts involved are set out in Note 47 to the financial statements.
- to remove accumulated depreciation on assets revalued and disposed of in prior years.
- To correct the timing of disposals of assets that were accounted for in the wrong financial year .
- to remove non-enhancing expenditure accounted for incorrectly in surplus on revaluation of non-current assets and re-classify in net cost of services.
- to reclassify salary fees and allowances to separately disclose performance related pay in the senior officers remuneration note.

# Management representation letter

## Management Rep Letter

### H. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

### I. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of non-current assets and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

### J. Accounting Estimates

#### Valuation of Pension Asset/Liabilities and Property, Plant and Equipment

1. We believe that the measurement processes, including related assumptions and models, used to determine the above accounting estimates have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We confirm that the significant assumptions used in making the estimated valuations of Pension Asset/Liabilities and Property, Plant and Equipment appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Council.

3. We confirm that the disclosures made in the council financial statements with respect to the accounting estimates are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the council financial statements due to subsequent events.

Yours faithfully,

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Andrew Burns  
Director of Finance and Resources

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Martyn Tittley  
(Chair of the Audit & Standards Committee)

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