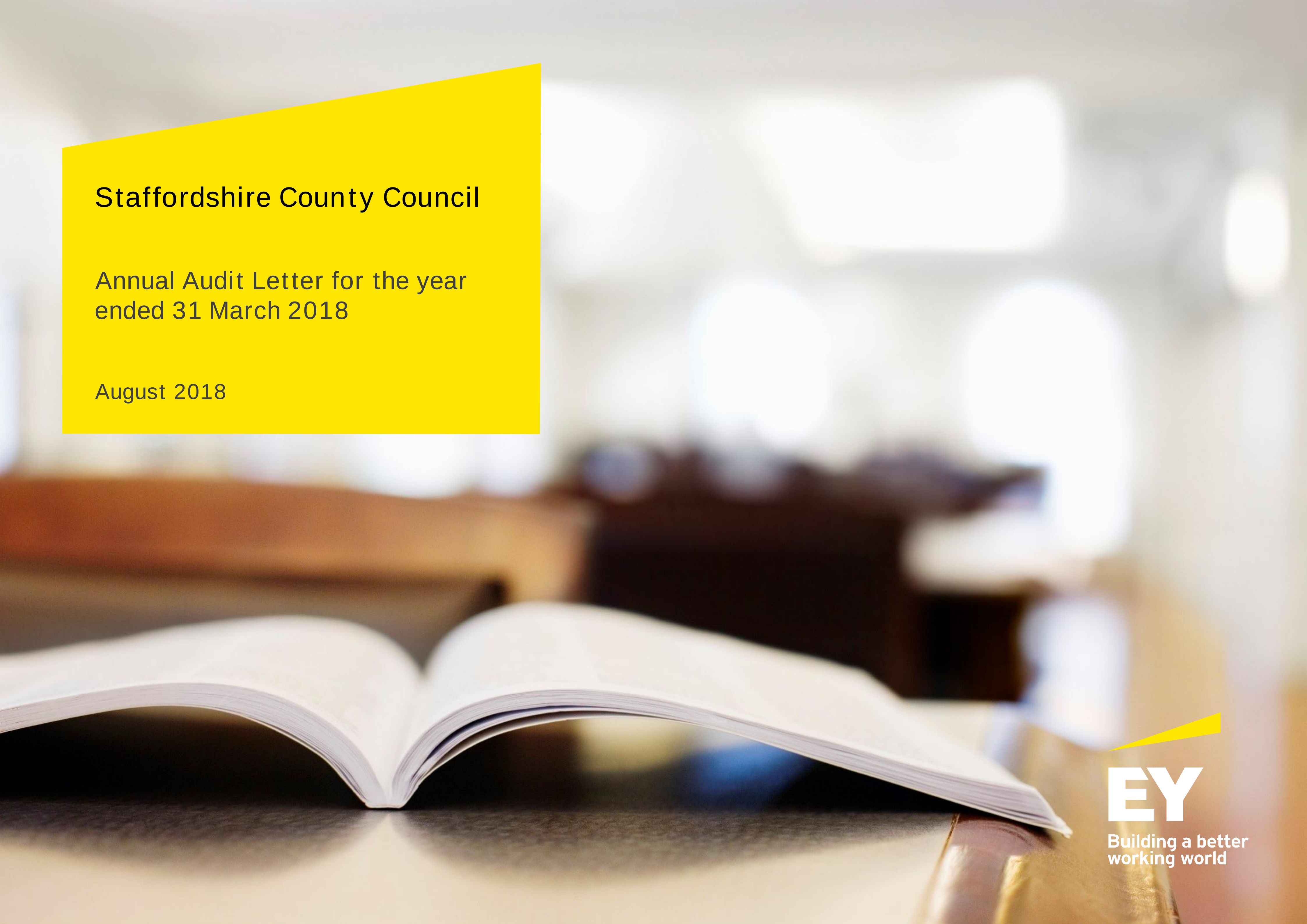

Staffordshire County Council

Annual Audit Letter for the year ended 31 March 2018

August 2018

Building a better working world

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

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

The ‘Terms of Appointment (updated 23 February 2017)’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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

01 Executive Summary

Executive Summary

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

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

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

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

Executive Summary (cont'd)

As a result of the above we have also:

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

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

Steve Clark

Partner

For and on behalf of Ernst & Young LLP

02 Purpose and Responsibilities

Purpose and Responsibilities

The Purpose of this Letter

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

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

Responsibilities of the Appointed Auditor

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

As auditors we are responsible for:

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

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

Responsibilities of the Council

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

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

03 Financial Statement Audit

Financial Statement Audit

Key Issues

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

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

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

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

Significant Risk	Conclusion
Misstatements due to fraud or error • The financial statements as a whole are not free of material misstatements whether caused by fraud or error. • As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.	We: • Documented our understanding of the processes and controls in place to mitigate the risks identified, and walked through those processes and controls to confirm our understanding. • Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; • Reviewed the calculation of management's material accruals, estimates and provisions for evidence of management bias; • Evaluated the business rationale for any significant unusual transactions; • Understood the oversight given by those charged with governance of management process over fraud; • Sample tested income and expenditure accruals and provisions based on established testing thresholds; • Reviewed capital expenditure on property plant and equipment to ensure it meets the relevant accounting requirements to be capitalised. • Reviewed the accounting adjustments processed in the movement in reserves statement to ensure consistency with other supporting disclosure notes. We did not identify any material weaknesses in controls or evidence of material management override. We did not identify any instances of inappropriate judgements being applied. We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business Our testing did not identify any expenditure which had been inappropriately capitalised.

Financial Statement Audit (cont'd)

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

Significant Risk	Conclusion
Risk of fraud in revenue and expenditure recognition Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. Due to the nature and value of income which comprises of Government Grants, income from Council Tax and Business Rates, it is our view is that the risk is not significant in this area, but is relevant to other income and operating expenditure. The risks we identified focused on: • the year-end balance sheet and in particular the completeness and valuation of payables and the existence and valuation of receivables. • the existence of capital expenditure arising from the potential to incorrectly capitalise revenue expenditure.	We: • Tested the valuation of accruals (income and expenditure) and testing provisions completeness and valuation at the year-end as these are the areas most susceptible to manipulation by management to achieve the desired expenditure levels; • Tested the completeness of liabilities and income and expenditure cut off to gain assurance that there has been no material amounts of expenditure omitted from the financial statements; • Tested the existence and valuation of debtors and accrued income; and • Completed Journal entry testing within specific parameters. Our testing has not identified any material misstatements from revenue and expenditure recognition. Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position.

Financial Statement Audit(cont'd)

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

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

Financial Statement Audit(cont’d)

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

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

Financial Statement Audit (cont'd)

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

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

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

Financial Statement Audit (cont'd)

Our application of materiality

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

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

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

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

04 Value for Money

Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

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

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

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

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

Value for Money (cont’d)

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

Value for Money (cont'd)

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

Value for Money (cont'd)

Significant Risk	Conclusion

Working with third parties effectively to deliver strategic priorities
 	
The Council has a 49% stake in Entrust.
 	
The Council commissions Entrust to provide a number of services and the 2016/17 financial statements disclosed that that the totalled £51.7m.
 	
The 2016 audit of Entrust's financial statements resulted in a £44m impairment of goodwill and consequently reduced the value of the Council's investment in this business from £23.2m to £1,1m.
 	
Given the size and timing of the impairment, the action triggers a VFM risk
 	
We:
• Reviewed if there is an up to date signed service level agreement/contract in place.
• Reviewed the Council's governance arrangements to include:
    • monitoring whether Entrust are delivering against the service specification;
    • the effectiveness of arrangements if performance is below expectations; and
    • reporting the outcomes of the contract to senior management and elected members.
	The Council has put in place adequate arrangements to address this significant risk. In forming this we reviewed two service areas, early years and property services, and established the following:
	
	• there was an updated contract in place between the Council and Entrust.
	• services procured by services departments were supported by a service agreement.
	• that there was a performance framework in place with agreed metrics in place such as KPIs which were produced on a timely basis by the contract provider. We found that the reports were reviewed by the service departments on a timely basis.
	• the Council has put in place an governance framework in place at difference levels such as a joint contract group and strategic partnerships. These meetings are minuted and provided evidence that where performance was not to the standard required this was fed back to the contract provider.
	• although contract performance is not reported to Members, there are adequate governance arrangements in place and there is member representation on the Entrust Board
	
	Going forward we recommend that the Council continues to monitor the value the investments provides and maintains arrangements to ensure the contract delivers the intended outcomes.

05 Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

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

We had no matters to report.

Annual Governance Statement

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

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

Report in the Public Interest

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

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

Written Recommendations

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

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

Objections Received

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

Other Powers and Duties

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

Independence

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

Other Reporting Issues (cont'd)

Control Themes and Observations

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

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

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

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

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

06 Focused on your future

Focused on your future

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

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

Focused on your future (cont'd)

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

07 Audit Fees

Audit Fees

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

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

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

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

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

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

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ED None

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