



# Staffordshire Pension Fund

## Audit planning report

Year ended 31 March 2020

26 June 2020

26 June 2020



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

Dear Audit and Standards Committee/Pension Committee Members

### **Staffordshire Pension Fund - Audit planning report**

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as your auditor of the Staffordshire Pension Fund (the 'Fund'). Its purpose is to provide the Audit and Standards Committee and Pension Committee with a basis to review our proposed audit approach and scope for the 2019/20 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving an effective audit for the Pension Fund, and outlines our planned audit strategy in response to them. We will update the Committees if we identify any further risks during the year. This report is intended solely for the information and use of the Audit and Standards Committee and Pension Committee and management, and is not intended to be, and should not be, used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with the Audit and Standards Committee on 20 April 2020 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

A handwritten signature in black ink, appearing to read 'S Patel', written over a white background.

Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP

# Contents



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). 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 and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit and Standards Committee, Pension Committee and management of Staffordshire County Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Standards Committee, Pension Committee and management of Staffordshire County Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit and Standards Committee, Pension 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.



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# Overview of our 2019/20 audit strategy



## Overview of our 2019/20 audit strategy

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

### Audit risks and areas of focus

Risk	Risk identified	Change from PY	Details
Management Override: Misstatements due to fraud or error	Fraud risk	No change in risk	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.
Investment Income and Assets - Investment Journals	Fraud risk	No change in risk,	Linking to the management override risk above we have identified the most likely area is to affect investment income and assets in the year, specifically through journal postings.
Valuation of unquoted investments	Significant risk	No change in risk	The Fund's investments include unquoted pooled investment vehicles and private equity funds (10% of the total Funds assets at September 2019). Judgements are taken by the Investment Managers to value those investments whose prices are not publically available. The material nature of Investments means that any error in judgement and estimates could result in a material valuation error.
Valuation of directly held properties	Other financial statement risk	No change in risk	The Fund has a significant portfolio of directly held property investments (8% of the total Fund assets at September 2019). The valuation of land and buildings is subject to a number of assumptions and judgements. A small movement in these assumptions could have a material impact on the financial statements.
Local Government Pension Scheme (LGPS) Asset Pooling Arrangements	Other financial statement risk	No change in risk	<p>The Fund is one of the eight Partner Funds of LGPS Central Ltd, which has been established to manage the pooled investment assets of nine Local Government Pension Scheme Fund across the centre of England. The Fund allocated 10% of its Strategic Asset Allocation (SAA) (approximately £500 million) to the LGPS Central Active External Global Equity Multi Manager Sub-Fund (GE Sub-Fund) in 2019 and expects to allocate further funds to the pool by 31 March 2020.</p> <p>The Fund needs to ensure an effective transfer of assets and ensure the accounting treatment and disclosure in the accounts is appropriate.</p>

## Overview of our 2019/20 audit strategy

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We will also take into consideration the steps taken by the Fund to consider the impact of EU Exit on its preparation of the accounts, including any significant changes in the valuation of assets post EU Exit. Although the precise impact cannot yet be modelled, we anticipate that Authorities will be carrying out scenario planning to assess the funding strategy to deliver and to manage the Fund in longer term.

### Materiality

Planning  
materiality

£47.4m

We have set materiality at £47.4 million, which represents 1% of the prior year's net assets of the scheme available to fund benefits. The Staffordshire Pension Fund meets the criteria for being classified as a major local audit. The basis on which materiality has been set for 2019/20 is consistent with that used in 2018/19.

Performance  
materiality

£23.7m

We have set performance materiality at £23.7 million, which represents 50% of materiality.

Audit  
differences

£2.4m

We will report all uncorrected misstatements relating to the primary statements (Net Assets Statement and Pension Fund Accounts) greater than £2.6 million. We will communicate other misstatements we identify to the extent that they merit the attention of the Audit and Standards Committee and Pension Committee.

# Overview of our 2019/20 audit strategy

## Audit scope

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

- Our audit opinion on whether the financial statements of Staffordshire Pension Fund give a true and fair view of the financial position as at 31 March 2020 and of the income and expenditure for the year then ended.

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

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

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

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

## Triennial valuation as at 31 March 2019

In addition to the above, we also perform procedures in relation to the IAS 19 report for the Staffordshire Pension Fund. Our work specifically focuses on gaining assurance that the data submitted to the actuary agrees to the Pension Fund's systems. For 2019/20 we will carry out specific procedures relating the data submitted to inform the triennial valuation of the fund.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks of providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with Public Sector Audit Appointments (PSAA) allow them to vary the fee dependent on 'the auditors assessment of risk and the work needed to meet their professional responsibilities'. PSAA are aware that the setting of scale fees has not kept up to date with the changing requirements of external audit with increased focused on, for example, pension obligations and management judgements as well as the introduction of new accounting standards such as IFRS 16. Therefore to the extent any of these are relevant in the context of Staffordshire Pension Fund's audit we will discuss with management as to the impact on the scale fee.

## Audit team changes

Suresh Patel will continue as your Engagement Lead operating remotely but working closely with Stephen Clark who is the Engagement Lead for the County Council audit. Andy Reid is replacing Vicky Chong as audit manager. Andy is a Senior Manager with over 20 years experience of auditing local authorities and local government pension funds. He is a fellow of the Institute of Chartered Accountants in England and Wales and has already established a good working relationship with the Pension Fund manager.



# 02 Audit risks



# Audit risks

## Our response to significant risks

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

Management Override:  
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) 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.

Linking to our risk of management override we have considered the Investment Journals (see below).

### What will we do?

In order to address this risk we will carry out a range of procedures including:

- ▶ Identifying fraud risks during the planning stages.
- ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud.
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determining an appropriate strategy to address those identified risks of fraud.
- ▶ Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.
- ▶ Assess the nature of any significantly unusual transactions identified.
- ▶ Consider if management bias is present in the key accounting estimates and judgements in the financial statements.

## Audit risks

### Our response to significant risks (continued)

Investment Income and Assets - Investment Journals\*

#### What is the risk?

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 (see above).

We have therefore considered the key areas where management has the opportunity and incentive to override controls that could affect the Fund Account and the Net Asset Statement.

We have identified the main area being investment income and asset valuations where figures taken from custodian/fund managers reports are incorrectly posted to the general ledger in the year, specifically through journal postings.

#### What will we do?

Our approach will focus on:

- Test journals at year-end to ensure there are no unexpected or unusual postings;
- Undertake a review of reconciliation to the fund manager and custodian reports and investigate any reconciling differences;
- Re-perform the detailed investment note using the reports we have acquired directly from the custodian or fund managers;
- Check that reconciliation of holdings included in the Net Assets Statement back to source reports;
- For quoted investment income we will agree the reconciliation between fund managers and custodian back to source reports.

## Our response to significant risks (continued)

<p>Valuation of unquoted investments*</p>	<p><b>What is the risk?</b></p>	<p><b>What will we do?</b></p>
<p><b>Financial statement impact</b></p> <p>Misstatements that occur in relation to the valuation of unquoted investments could affect the Net Assets of the Fund.</p> <p>The values of unquoted investments at September 2019 were:</p> <p>Private Equity: £193.3 million</p> <p>Private Debt: £229.6 million</p> <p>Hedge Funds: £89.7 million</p>	<p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively (see above).</p> <p>The Fund's investments include unquoted pooled investment vehicles and limited partnerships. Judgements are taken by the Investment Managers to value those investments whose prices are not publically available. The material nature of investments means that any error in judgement and estimate could result in a material valuation error.</p> <p>Current market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the Fund year end. Such variations could have a material impact on the financial statements.</p> <p>The proportion of the fund comprising of these investment types at September 2019 is at circa 10%, and as these investments are more complex to value, even a small movement in these assumptions could have an impact on the financial statements.</p>	<p>In order to address this risk we will carry out a range of procedures including:</p> <ul style="list-style-type: none"> <li>▶ Document and walkthrough the process and design of the controls over the valuation process.</li> <li>▶ Review the relevant investment manager controls' reports for qualifications or exceptions that may affect the audit risk.</li> <li>▶ Review the basis of valuation for unquoted investments and ensure it is in line with the accounting policy.</li> <li>▶ Perform tests of valuation by obtaining the latest available audited accounts and agreeing the net asset value per the confirmation received to the audited accounts provided.</li> <li>▶ Where the audited accounts do not have the same year end as the Fund we will perform other procedures to obtain assurance that the movement to 31 March 2020 is reasonable.</li> </ul>

## Audit risks

### Other areas of audit focus

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

#### What is the risk/area of focus?

#### What will we do?

##### **Valuation of directly held properties**

The Fund has a significant portfolio of directly held property investments. The valuation of land and buildings is subject to a number of assumptions and judgements. A small movement in these assumptions could have a material impact on the financial statements.

We will:

- ▶ Assess the competence of management experts;
- ▶ Review the basis of valuation for properties and assessing the appropriateness of the valuation methods used; and
- ▶ Perform analytical procedures and checking the valuation output for reasonableness against our own expectations
- ▶ Consider what impact, if any, the introduction of IFRS16 Lease Accounting for 2020/21 may have on the Funds' accounting and disclosures for directly held properties.

##### **LGPS Asset Pooling Arrangements**

Staffordshire Pension Fund is one of the eight Partner Funds of LGPS Central Ltd, which has been established to manage the pooled investment assets of nine Local Government Pension Scheme Fund across the centre of England. The Fund allocated 10% of its Strategic Asset Allocation (SAA) approximately £500 million to the LGPS Central Active External Global Equity Multi Manager Sub-Fund (GE Sub-Fund) in 2019 and is expected to transfer further investments to the pool in 2019/20.

We will:

- ▶ Review how the transfers have been accounted for, including the external confirmation and the valuation received from fund managers at year-end;
- ▶ Review and test accounting entries and disclosures made within the Fund's financial statements in relation to the asset pooling;
- ▶ Review the governance arrangements in place to manage the costs and savings;
- ▶ Obtain the relevant service auditor (ISAE 3402) reports relating to the fund managers and custodian.

The Fund needs to ensure an effective transfer of the assets and that the costs and savings are managed in accordance with the agreed business case. In addition, the Fund needs to ensure it obtains the relevant assurances over the fund manager and custodian arrangements.



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## Audit materiality



## Materiality

### Materiality

For planning purposes, we have set planning materiality for 2019/20 at £47.4m. This represents 1% of the Pension Fund's prior year net assets. We will reassess this throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.



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

### Key definitions

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

**Performance materiality** - the amount we use to determine the extent of our audit procedures. We have set performance materiality at 50% of planning materiality.

**Audit difference threshold** - we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the fund account and net asset statement. This was calculated as 5% of planning materiality, which is consistent year on year.

Other uncorrected misstatements, such as reclassifications and misstatements in the disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Committees, or are important from a qualitative perspective.



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## Scope of our audit



# Scope of our audit

## Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Pension Fund's financial statements to the extent required by the relevant legislation and the requirements of the Code. We issue an audit report that covers:

### Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland). We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

### Procedures required by standards

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

### Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements.

## Audit Process Overview

Our audit involves:

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

For 2019/20 we plan to follow a substantive approach to the audit, as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

### Analytics:

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

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

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

### Internal audit:

We will meet regularly with the Head of Internal Audit, and review internal audit plans and the results of the team's work. We will reflect any findings in our audit plan, where they raise issues that could have an impact on the financial statements.



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## Audit team



## Audit team

# Audit team

The engagement team is led by Suresh Patel, who has significant experience on local government audits. Suresh is supported by Andy Reid, Senior Manager, who has replaced Vicky Chong as the audit manager. He is responsible for the day-to-day direction of audit work and is the key point of contact for the Chief Accountant.

# Use of specialists

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

Area	Specialists
Valuation of directly held properties	Savills (Staffordshire Pension Fund valuer) EY Real Estates Team if we deem it necessary
Pensions disclosure	Hymans Robertson (Staffordshire Pension Fund actuary) PwC (Consulting Actuary to the NAO) EY Pensions Advisory Team if we deem it necessary
Investment Valuation	The Pension Fund's custodian (Northern Trust) and fund managers EY Derivatives and Valuation Centre if we deem it necessary

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

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

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



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## Audit timeline





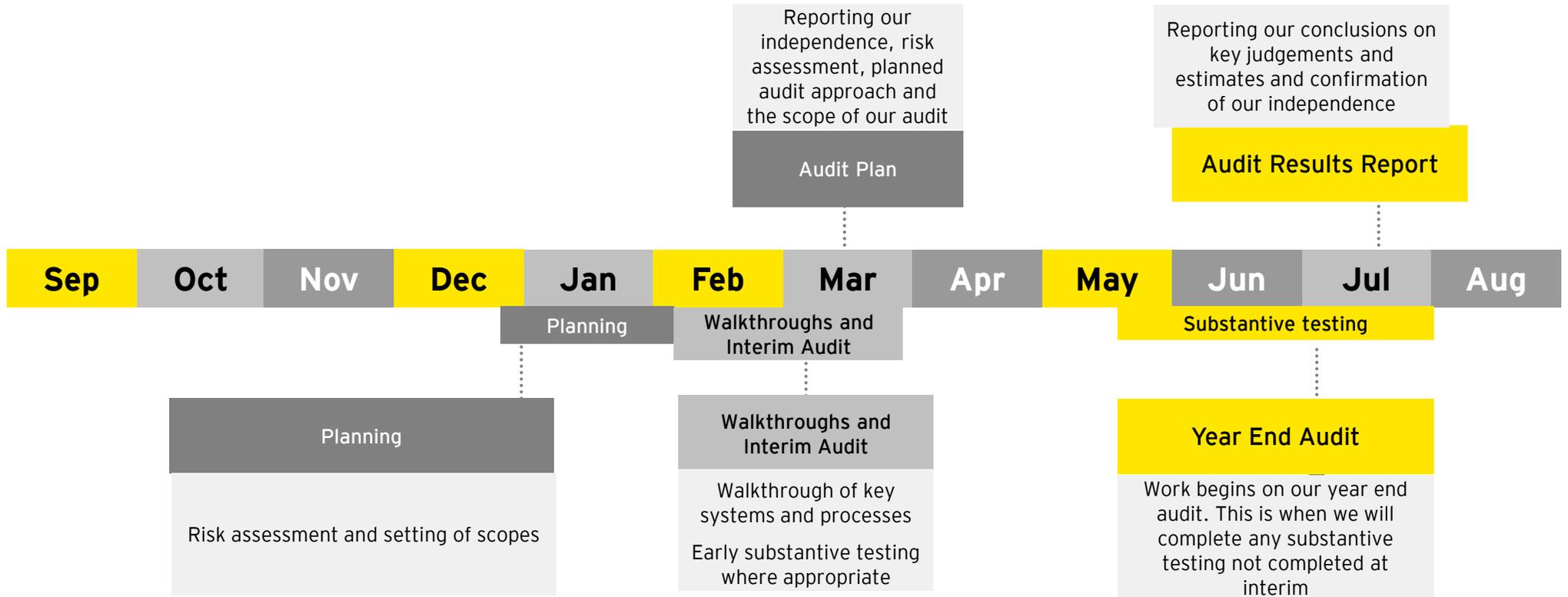
# Audit timeline

## Timetable of communication and deliverables

### Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2019/20. We have discussed this timetable with the Pension Fund to assess the potential impact of the covid-19 emergency on the Fund's ability to deliver draft financial statements by 31 May 2020 and to support an audit process throughout June and July 2020. At the current time we have agreed to adhere to the timetable as set out which had previously been agreed with the Council, but will continue to assess the appropriateness of this timetable through regular discussions with Council staff

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





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Independence



## Introduction

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

### Required communications

Planning stage	Final stage
<ul style="list-style-type: none"> <li>▶ Any principal threats to objectivity and independence identified by Ernst &amp; Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;</li> <li>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</li> <li>▶ The overall assessment of threats and safeguards;</li> <li>▶ Information about the general policies and process within EY to maintain objectivity and independence.</li> </ul>	<ul style="list-style-type: none"> <li>▶ In order for you to assess the integrity, objectivity and independence of the firm and your audit team, we must provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to consider relationships with the Council, its directors and senior management, its affiliates, and its connected parties and any threats to integrity or objectivity, including those that could compromise independence. We are also required to disclose any safeguards that we have, and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</li> <li>▶ Details of non-audit services provided and the fees charged for them;</li> <li>▶ Written confirmation that all team members are independent;</li> <li>▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;</li> <li>▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and</li> <li>▶ An opportunity to discuss auditor independence issues.</li> </ul>

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

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

We ensure that the total amount of fees that EY and our network firms have charged for the provision of services during the reporting period are disclosed.

## Relationships, services and related threats and safeguards

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

### Overall Assessment

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

### Self interest threats

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

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved. None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non-audit fees to audit fees is not permitted to exceed 70%. At the time of writing, there are no non-audit services provided by us to Pension Fund.

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

### Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements. There are no self review threats at the date of this report.

### Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Fund. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work. There are no management threats at the date of this report.

### Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise. There are no other threats at the date of this report.

## Other communications

### EY Transparency Report 2019

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2019 and can be found here:

[https://www.ey.com/en\\_uk/who-we-are/transparency-report-2019](https://www.ey.com/en_uk/who-we-are/transparency-report-2019)



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## Appendices



## Appendix A

### Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code, the financial reporting requirements set out in the Code of Practice on Local Fund Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2019/20	Final Fee 2018/19
	£	£
Scale Fee - Code work (1)	22,050	22,050
Rebasing of pension fund audit fee (3)	TBC	-
IAS19 and assurances	6,000	5,500
Additional fee for work on the 2019 triennial valuation of the Fund that has yet to be determined and agreed by PSAA (2)	12,000	-
Total indicative Pension Fund fee	TBC	27,550

The agreed fee presented is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Pension Fund; and
- ▶ The Pension Fund has an effective control environment.

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

#### *All fees exclude VAT*

1. For 2019/20 the scale fee may be impacted by a range of factors (see page 7), which we will update the Committee on, as the audit progresses
2. For 2019/20 we will need to undertake some further work to gain assurance over the 2019 triennial valuation of the Fund. The triennial valuation informs both the assessment of the IAS19 liabilities in the Council's financial statements and the actuarial present value of promised retirement benefits in the Pension Fund financial statements. We will update the Committee with further details of the additional fee in due course.
3. We have rebased our 2019/20 audit fee to take full account of the impact of a range of sector wide factors as set out on pages 27.

## Appendix A

# Fees

We do not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity. For an organisation such as Staffordshire Pension Fund the extent of audit procedures now required mean it will take around 700 hours to complete a quality audit. Based on our own modelling of the inputs required to complete an external audit of the Pension Fund concludes that a more appropriate scale fee for the delivery of an external audit to the Pension Fund would be in the region of £52,500. This does not include any potential impact of covid-19 on the audit process for 2019/20.

### Summary of key factors impacting on base fee assessment

1. **Status of sector.** Financial reporting and decision making in local government pension funds has become increasingly complex. This has also brought increasing risk about the financial sustainability / going concern of bodies given the current status of the sector.
  - To address this risk our procedures now entail higher samples sizes of transactions, the need to increase our use of analytics data to test more transactions at a greater level of depth. This requires a continual investment in our data analytics tools and audit technology to enhance audit quality. This also has an impact on local government with the need to also keep pace with technological advancement in data management and processing for audit.
2. **Audit of estimates.** There has been a significant increase in the focus on areas of the financial statements where judgemental estimates are made. This is to address regulatory expectations from FRC reviews on the extent of audit procedures performed in areas such as the valuation of land and buildings and pension assets and liabilities. Local government pension funds hold significant levels of hard to value investments for which the valuation is based on estimates and judgements.
  - To address these findings, our required procedures now entail higher samples sizes, increased requirements for corroborative evidence to support the assumptions and use of our internal specialists.
3. **Regulatory environment.** Other pressures come from the changing regulatory landscape and audit market dynamics:
  - Parliamentary select committee reports, the Brydon and Kingman reviews, plus within the public sector the Redmond review and the new NAO Code of Audit practice are all shaping the future of Local Audit. These regulatory pressures all have a focus on audit quality and what is required of external auditors, with the potential for increased financial penalties should audit firms fail to meet the increased regulatory requirements
  - This means continual investment in our audit quality infrastructure in response to these regulatory reviews and to changes in auditing and accounting standards. As a firm our compliance costs have now doubled as a proportion of revenue in the last five years. The regulatory lens on Local Audit specifically, is greater. We are three times more likely to be reviewed by a quality regulator than other audits, again increasing our compliance costs of being within this market.

## Fees

### Summary of key factors impacting on base fee assessment (cont'd)

4. As a result of the above factors, Public sector auditing has become less attractive as a profession, especially due to the compressed timetable, regulatory pressure and greater compliance requirements. This has contributed to higher attrition rates in our profession over the past year and the shortage of specialist public sector audit staff and multidisciplinary teams (for example valuation, pensions, tax and accounting) during the compressed timetables. We need to invest over a five to ten-year cycle to recruit, train and develop a sustainable specialist team of public sector audit staff to enable us to provide the highest performing audit teams, maintain the high standard of client service which you would expect and protect audit quality.

## Appendix B

# Required communications with the Audit & Standards Committee

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

 Our Reporting to you		
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit planning report - March 2020
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Any significant difficulties encountered during the audit</li> <li>▶ Any significant matters arising from the audit which were discussed with management</li> <li>▶ Written representations we have requested</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Any other matters significant to the oversight of the financial reporting process</li> </ul>	Audit results report - July 2020

## Appendix B

# Required communications with the Audit & Standards Committee (continued)

 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>	Audit results report - July 2020
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Corrected misstatements that are significant</li> <li>▶ Material misstatements corrected by management</li> </ul>	Audit results report - July 2020
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 entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	Audit results report - July 2020
Related parties	<ul style="list-style-type: none"> <li>▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</li> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures, Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Audit results report - July 2020

## Appendix B

# Required communications with the Audit & Standards Committee (continued)

 Our Reporting to you		
Required communications	 What is reported?	  When and where
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>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2016:</p> <ul style="list-style-type: none"> <li>▶ Relationships between EY, the Council and senior management, its affiliates and its connected parties</li> <li>▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence and related safeguards</li> <li>▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees</li> <li>▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit</li> <li>▶ Details of any inconsistencies between the Ethical Standard and the Council's policy for the provision of non-audit services, and any apparent breach</li> <li>▶ Details of any contingent fee arrangements for non-audit services</li> <li>▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard</li> <li>▶ The Audit &amp; Standards Committee should also be provided an opportunity to discuss matters affecting auditor independence</li> </ul>	<p>Audit planning report - March 2020</p> <p>Audit results report - July 2020</p>

## Appendix B

# Required communications with the Audit & Standards Committee (continued)

		 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>▶ Actual or suspected non-compliance with laws and regulations identified relevant to the Audit &amp; Standards Committee</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 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>Audit planning report - March 2020 Audit results report - July 2020</p>

## Appendix B

# Required communications with the Audit & Standards Committee (continued)

 Our Reporting to you		
Required communications	 What is reported?	  When and where
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>	Audit results report - July 2020.
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Asking the Audit &amp; Standards Committee about possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that they may know about</li> </ul>	Audit results report - July 2020.
Internal controls	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit</li> </ul>	Audit results report - July 2020.
Representations	Written representations from management and/or those charged with governance	Audit results report - July 2020.
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report - July 2020.
Auditors report	<ul style="list-style-type: none"> <li>▶ Key audit matters which we will include in our auditor's report</li> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit results report - July 2020. ..
Fee Reporting	<ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit plan is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>	Audit results report - July 2020.

## Additional audit information

### Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

#### Our responsibilities required by auditing standards

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pension Fund's internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting.
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Pension Fund to express an opinion on the financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the S&GP Committee reporting appropriately addresses matters communicated by us to the Audit & Standards Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- ▶ Maintaining auditor independence.

## Additional audit information (continued)

### Purpose and evaluation of materiality

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

Materiality determines the level of work performed on individual account balances and financial statement disclosures.

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

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### About EY

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