

# **Staffordshire County Council**

## **Audit results report**

Year Ended 31st March 2020

26 November 2020



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working world



Private and Confidential

26 November 2020

Dear Audit and Standards Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit and Standards Committee. This report summarises our preliminary audit conclusion in relation to the audit of Staffordshire County Council for 2019/20. We will issue our final report at the first Audit and Standards Committee meeting scheduled for 2021.

Our audit of Staffordshire County Council and Staffordshire Pension Fund for the Year Ended 31st March 2020 are both well progressed.

Staff sickness has caused some delays in our ability to deliver the external audits to the target timescales, and we continue to work with management to minimise the impact of this.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit report on the financial statements in the form at Appendix D.

We are reporting matters about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Audit and 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 and Standards Committee meeting on 9 December 2020.

Yours faithfully

Stephen Clark

Partner

For and on behalf of Ernst & Young LLP

Encl

# Contents



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.psa.co.uk](http://www.psa.co.uk)). This 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 April 2018)' 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 Audit Results Report 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 Hywel Ball, 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

## Scope update

In our Audit Planning Report dated 8 June 2020 tabled at the 22 June Audit and 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 to reporting timescales:

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.

### Changes in materiality:

In our Audit and Standards Committee Planning Report, we communicated that our audit procedures would be performed using a materiality of £11.59m, with performance materiality, at 50% of overall materiality, of £5.79m, and a threshold for reporting misstatements of £0.57m. We have considered whether any change to our materiality is required in light of Covid-19. Following this consideration we remain satisfied that the basis for planning materiality, performance materiality and our audit threshold for reporting differences reported to you in our Audit Planning Report dated 8 June 2020 remain appropriate.

We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of 1% of gross revenue expenditure we have updated our overall materiality assessment to £10.90m. This results in updated performance materiality, at 50% of overall materiality, of £5.45m, and an updated threshold for reporting misstatements of £0.55m.

A summary of our approach to the audit of the balance sheet is included in Appendix A. There have been no changes to our approach from the prior year audit.

### Information Produced by the Entity (IPE):

We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.

### Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19:

The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform. We have set out the impact on our audit fee on page 39.

# Executive Summary

## Status of the audit

Our audit of Staffordshire County Council's financial statements for the Year Ended 31st March 2020 is well progressed and we have performed the procedures outlined in our Audit Planning Report dated 8 June 2020. Subject to satisfactory completion of the outstanding matters set out in Appendix D we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise.

## Audit differences

There were 3 audit differences over our performance materiality level of £5.45m which have been adjusted in the financial statements. These had no impact on the Comprehensive Income and Expenditure Statement and are set out in section 4.

At the time of writing there are 2 unadjusted audit differences over our reporting threshold of £0.55m which relate to disclosure misclassifications in the prior year. These are detailed in section 4.

## Objections

We have received no objections to the 2019/20 accounts from members of the public.

## Areas of audit focus

Our Audit Planning Report dated 8 June 2020 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 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 and Standards Committee.

## Independence

Please refer to Section 9 for our update on Independence.

# Executive Summary

## Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls. However, during the audit we identified a number of observations and improvement recommendations in relation to management's financial processes and controls. We have set out our observations at section 7 of the report, together with an update on previous recommendations.

## 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 dated 8 June 2020 we identified the following significant risks:

- ▶ Sustainable resource deployment; and
- ▶ Working with partners and third parties.

As a result of our procedures, we conclude that a qualified 'except-for' conclusion with respect to your arrangements to secure economy, efficiency and effectiveness in your use of resources is appropriate.

In January 2019, a joint report was issued by OFSTED and the CQC relating to the joint inspection of the local area of Staffordshire to assess the effectiveness of the area in implementing the special educational needs and disability (SEND) reforms as required by the Children and Families Act 2014. The joint report highlighted significant weaknesses in terms of working with third parties effectively to deliver strategic priorities.

Our review in 2019 concluded that the Council had an action plan in place to address the weaknesses identified. However, as the inspectorates have yet to complete their follow-up review and conclude that the recommendations have been fully implemented, the matter is retained as a significant risk for 2019/20.

During 2019/20 the County Council requested internal audit to conduct a review to identify the progress that had been made in completing actions within the WSOA. The internal audit report, published May 2020, provided limited assurance noting "The review of the written statement as at January 2020 showed that overall the situation across all eight priority areas had remained broadly similar since October 2019, with the majority (at least five/six) recorded as Amber (work is progressing and expected to be completed within the timescales set)."

## Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work.

We have currently concluding the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We will update the Audit and Standards Committee with progress.

We have no other matters to report.



## Executive Summary

### Pension Fund Audit Progress Update

The audit of the Pension Fund is well progressed. There are a small number of outstanding audit procedures as follows:

- Contributions Receivable - we are awaiting a small number confirmations from some admitted/scheduled bodies which we have circularised (i.e. we have asked them to confirm the contributions that they have made);
- Disclosures on Related Parties - we need to review the register of interest and officer/member returns;
- Going concern assessment and revised disclosure - with EY for review and internal consultation; and
- Final manager and partner review and approval of the audit procedures.

Note that we will be including an emphasis of matter paragraph in the audit report for the Pension Fund. This is to highlight the fact that the valuation of directly held property includes the material uncertainty caveat arising from the impact of C-19 on market data at the 31 March 2020.

A separate Audit Results Report for the Pension Fund will be provided on conclusion of all audit procedures.





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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.

#### What judgements are we focused on?

Taking into account the results of the 2018/19 we considered the risk to manifest itself in the following areas;

- ▶ Occurrence of income and expenditure in relation to disabled facilities grants, dedicated schools grants and public health grants, which resulted in the double-counting in the financial statements;
- ▶ Inappropriate cut-off of revenue expenditure and non-grant income at the year-end date resulting in transactions being recorded in the wrong financial period; and
- ▶ Inappropriate capitalisation of revenue expenditure which could result in a misstatement of the cost of services reported in the comprehensive income and expenditure statement.

#### What did we do?

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

- ▶ Testing the year end cut-off of expenditure and non-grant income to ensure that transactions have been recorded in the appropriate financial period;
- ▶ Using our data analytics tool to identify and test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, specifically to;
  - i. the accounting entries for pass through grants; and
  - ii. those that move expenditure to PPE balance sheet general ledger codes;
- ▶ Performing sample testing on additions to PPE to ensure that they have been correctly classified as capital and included at the correct value to confirm recognition is in accordance with accounting policies.

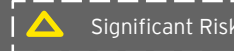


## Areas of Audit Focus

# Risk of fraud in revenue and expenditure recognition (continued)



### What are our conclusions



#### Cut-off testing

We have tested all expenditure transactions over £272k in the month immediately before and after the balance sheet date. In addition, we have reviewed all bank payments over £272k in the month of April 2020 to identify any unrecorded liabilities at the balance sheet date. We found no instances of transactions being recorded in the wrong financial year, and no omitted items of expenditure.

#### Appropriateness of journals

We have a small number of queries outstanding in relation to our journal entry testing. Until these are resolved, we cannot conclude our procedures. However, from the work performed to date, no instances of inappropriate revenue and expenditure recognition have been identified.

#### Sample testing on PPE additions:

We have tested 75 transactions impacting PPE additions. All had been recorded at an appropriate value, and we have found no instances of inappropriate capitalisation of expenditure.

#### Classification of income

Whilst testing the recognition of income we queried £15.8m of income disclosed as Government Grants and Contributions in note 11 to the draft financial statements. Upon further investigation management determined that this is actually 'fees charges and other service income', and had therefore been misclassified. This was corrected by management in the final financial statements. It should also be noted that the same misclassification error was present in the prior year financial statements, and the equivalent figure was £43.2m. Since this is merely a reclassification between different categories of income within the same note, management concluded (and we agree) that this is not qualitatively material to the reader's understanding of the financial statements and therefore a prior period adjustment to correct this error was not required.



## Areas of Audit Focus

### 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) 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 did we do?

- ▶ Identified fraud risks during the planning stage;
- ▶ Inquired of management about risks of fraud and the controls put in place to address those risks;
- ▶ Understood the oversight given by those charged with governance of management's processes over fraud;
- ▶ Considered the effectiveness of management's controls designed to address the risk of fraud;
- ▶ Determined an appropriate strategy to address those identified risks of fraud;
- ▶ Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements; and
- ▶ Reviewed and discussed with management any changes the methodologies of existing and new accounting estimates, which include accruals and provisions, for evidence of bias.

##### What are our conclusions?

From the work performed to date, we have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We have not identified any other transactions during our audit which appeared unusual or outside the Authority's normal course of business

As mentioned on the previous page, our journals testing is not yet complete. Until this work is complete we are unable to conclude in respect of the significant risk of misstatements due to fraud or error.



## Areas of Audit Focus

### Significant risk

#### Valuation of land and buildings

##### What is the risk?

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 fair value of other land and buildings represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.

The Council has a rolling valuation process, annually valuing 20% of the land and building assets, that is subject to a number of assumptions and judgements, which if inappropriate could result in a material impact on the financial statements.

The audit risk relates to valuation of land and buildings at 31 March 2020. There is also a potential that the remaining 80% of unvalued assets may have experienced a material change in value which has not been identified and accounted for correctly.

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

We are focused on the reasonableness of the assumptions applied in the valuations undertaken in the year, including the basis of valuation and whether that is appropriate for the nature of the asset, and the valuation inputs (such as floor/site areas).

##### 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;
- Evaluated the competence, capabilities and objectivity of management's specialist;
- Reviewed the instructions issued to the valuer to ensure these are consistent with accounting standards, and assessed if the instruction include a specific instruction from the council to the valuer relating to an assessment on the unvalued population;
- 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 ensured an appropriate valuation methodology has been applied;
- Ensured the valuer's conclusions have been appropriately recorded in the accounts; and
- Review assets not subject to valuation in 2019/20, with specific focus on assets subject to a BCIS indexation, to confirm that the remaining asset base is not materially misstated.



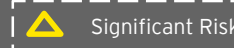


## Areas of Audit Focus

# Valuation of land and buildings (continued)



### What are our conclusions



We have engaged our EY Real Estates specialists to review in detail a sample of 10 assets which have been revalued in the year. As a result of this work, and questioning by EY Real Estates, management's valuer acknowledged that errors were present in 2 of the sampled valuations and that revised valuations would be provided. The impact of these corrections are shown in the table below. The Council has corrected the financial statements for each of these valuation movements.

Asset	Original valuation	Revised valuation	Difference
Stafford household Waste Site	1,923,000	1,306,000	617,000 decrease
Amberwood Care Home	6,879,000	7,339,000	460,000 increase

We are currently working through the implications of the above errors on the extent of any additional testing required.

Our work on examining the assets not subject to revaluation in the year has not yet commenced.

Until our procedures are complete, we are unable to draw a conclusion in respect of the signification risk over the valuation of land and buildings.



## Areas of Audit Focus

### Significant risk

#### Accounting for disposals of schools converting to academies

##### What is the risk?

In previous years the Council has seen a number of schools convert to academy status and move outside the Local Education Authority's control.

Since 2017/18, material accounting errors, relating to 37 schools have been identified due to the disposal being recorded in the wrong financial year.

The audit risk relates to the existence of schools assets included in the Council's statement of financial position at 31 March 2020.

##### What did we do?

- Assessed with Council officers what improvements have been made during 2019/20 to processes and controls; and
- Used the Department for Education academy school conversions listing to test a sample of schools to confirm if the disposal has been accounted for in the correct financial year.

##### What are our conclusions?

We noted no errors as a result of our testing.

We are therefore assured that there are no material misstatements arising from schools converting to academies in the 2019/20 financial year.



## Areas of Audit Focus

### Significant risk

#### Pension Valuation Liability - LGPS

##### What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Staffordshire County Council.

The Council's pension fund deficit is a material estimated balance and the Code requires that the net liability be disclosed on the Council's balance sheet. At 31 March 2019 this totalled £1.128 million.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Pension Fund. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates

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

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISA (UK) 500 and 540 requires us to undertake procedures on the use of management's experts and the assumptions underlying fair value estimates.

##### What did we do?

- ▶ Performed appropriate tests to obtain assurance over the information provided to the actuary;
- ▶ Wrote to the Pension Fund auditor to ascertain whether there are material concerns we need to be aware of for our audit;
- ▶ Ensured accounting entries and disclosures are consistent with the actuaries report;
- ▶ Assessed the work of the Pension Fund actuary (Hymans) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team;
- ▶ Reviewed the outcome from the second report from the Actuary in conjunction with a review and testing of the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

##### What are our conclusions?

Management obtained revised actuarial reports to reflect the recent McCloud remedy consultation which resulted in changes to the draft financial statements. The net liability moved from £1,128.2m in the initial draft financial statements to £793.37m in the final draft financial statements.

Our procedures in this area remain ongoing. Until they are complete we are unable to conclude.



## Other Areas of Audit Focus



### Accounting for PFI Waste scheme

The Council has four PFI Schemes, the most significant of which is the Waste to Energy PFI Scheme and was subject to material audit adjustments in 2015/16 and 2017/18, where the outputs from the operating model had not been consistently accounted for in the financial statements.

We did not identify the need for material audit adjustments in 2018/19 but accounting for PFI remains a highly complex and judgemental area of the financial statements.

We have tested the completeness and accuracy of the inputs to the financial model and the subsequent application of the outputs to the financial statements. No material issues have been noted as a result of our work.



### Going Concern

Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Local Authority would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Local Authority's actual year end financial position and performance.

Our work has focused on key assumptions underlying Management's going concern assessment; in particular the impact on the liquidity and use of reserves for the Authority over the period of at least 12 months from the date of approving the final audited financial statements for the year ended 31 March 2020 (presently this has covered the period out to 31 December 2021 but will be updated prior to signing the audit opinion if necessary).

We have:

- Reviewed Management's going concern assessment, including the cash flow forecast. We challenged key assumptions and sensitivity analysis performed.
- Reviewed the Authority's need to borrow over the going concern period.
- Reviewed and challenged the disclosures Management have made in the financial statements with respect to the applicability of the going concern basis of accounting and the impact of Covid-19 on the Authority.
- Complied with EY's internal risk management consultation arrangements which have been put in place in response to the increased risk posed by the C-19 pandemic.

Based on our review of management's assessment and consideration of cash/liquidity throughout the period to 31 December 2021 (and subject to any extension of that date required as referenced above) and the available reserves, we conclude that the going concern basis of accounting in the production of the 31 March 2020 financial statements is appropriate and there is no material uncertainty in this regard.



# 03 Audit Report





# Audit Report

## Draft audit report

### Our opinion on the financial statements

#### 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 2020 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 1 to 46.

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 2019/20.

In our opinion the financial statements: give a true and fair view of the financial position of Staffordshire County Council as at 31 March 2020 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 2019/20.

##### 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 authority 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 (C&AG) 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 Treasurer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or the Treasurer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority'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 set out on pages X to X, other than the financial statements and our auditor's report thereon. The Treasurer 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 (continued)

### Our opinion on the financial statements

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

##### *Arrangements to secure economy, efficiency and effectiveness in the use of resources*

##### *Basis for Qualified Conclusion*

Working with partners and other third parties

During November 2018, a joint Ofsted and CQC inspection of the local Staffordshire area was carried out to judge the effectiveness of implementation of special educational needs reforms following the Children and Families Act 2014. This inspection identified a number of significant areas of weakness in practice, resulting in the requirement for the County Council and CCGs to issue a Written Statement of Action (WSOA). During 2019/20 the County Council requested internal audit to conduct a review to identify how progress had been made in completing actions within the WSOA. The internal audit report, published May 2020, provided limited assurance noting "The review of the written statement as at January 2020 showed that overall the situation across all eight priority areas had remained broadly similar since October 2019, with the majority (at least five/six) recorded as Amber (work is progressing and expected to be completed within the timescales set)."

This issue is evidence of weaknesses in proper arrangements for: partnership working in the local area and the ability of organisations to work together to effectively deliver strategic priorities, improving the health and experiences of the local population. Actions to address the identified weaknesses have not progressed with appropriate urgency during the 2019/20 financial year.

#### *Qualified conclusion (Except for)*

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in April 2020, with the exception of the matter reported in the basis for qualified conclusion paragraph above, 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 2020.

#### **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 Council;
- 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



# Audit Report

## Draft audit report (continued)

### Our opinion on the financial statements

#### Responsibility of the Treasurer

As explained more fully in the Statement of the Treasurer's Responsibilities set out on page 14, the Treasurer 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 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Treasurer 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.

The Authority 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 (C&AG) in April 2020, as to whether Staffordshire County 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. 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 2020.

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, Staffordshire County Council 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 the Authority 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 the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



# Audit Report

## Draft audit report (continued)

### Our opinion on the financial statements

#### Pension Fund financial statements

On [date] we issued our opinion on the Pension Fund financial statements for the year ended 31 March 2020 included within the Statement of Accounts. *[Include this cross-reference only if pension fund opinion is not signed and issued on the same date and within same document as the Authority's financial statements].*

#### Certificate

We certify that we have completed the audit of the accounts of Staffordshire County Council 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, as a body, 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 Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

*Stephen Clark (Key Audit Partner)*  
*Ernst & Young LLP (Local Auditor)*  
*Birmingham*  
*Date*





# 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 adjusted differences

We highlight the following misstatements greater than £5.45m which have been corrected by management that were identified during the course of our audit.

Reclassification misstatements:

- Misclassification of money market funds in relation to short term investments with local authorities £64.0m. This is a disclosure issue only and doesn't affect the Comprehensive Income and Expenditure statement.
- Income from fees, charges and other service income misclassified as grant income £15.8m (prior year £43.2m, see below). This is a disclosure issue only and doesn't affect the Comprehensive Income and Expenditure statement.
- £8.8m income relating to the Disabled Facilities Grant incorrectly included in the line 'MHCLG' in Note 33 'Grants Credited for Services'. This is a disclosure issue only and doesn't affect the Comprehensive Income and Expenditure statement, but does mean the MHCLG figure has been amended from £14m to £5.2m.
- Disclosure misstatements
- Capital Financing Requirement - The opening and closing capital financing requirements disclosed in the draft financial statements have not been calculated in accordance with the CIPFA Practitioner's Guide to Capital Finance in Local Government, 2019. This results in a current year understatement of the disclosed capital financing requirement of £78m.

## Summary of uncorrected misstatements

We highlight the following misstatements greater than £0.55m which have not been corrected by management that were identified during the course of our audit.

Prior year disclosure misclassification misstatement:

- Income from fees, charges and other service income misclassified as grant income in 2018/19 of £43.2m. This is a disclosure issue only and doesn't affect the Comprehensive Income and Expenditure statement.

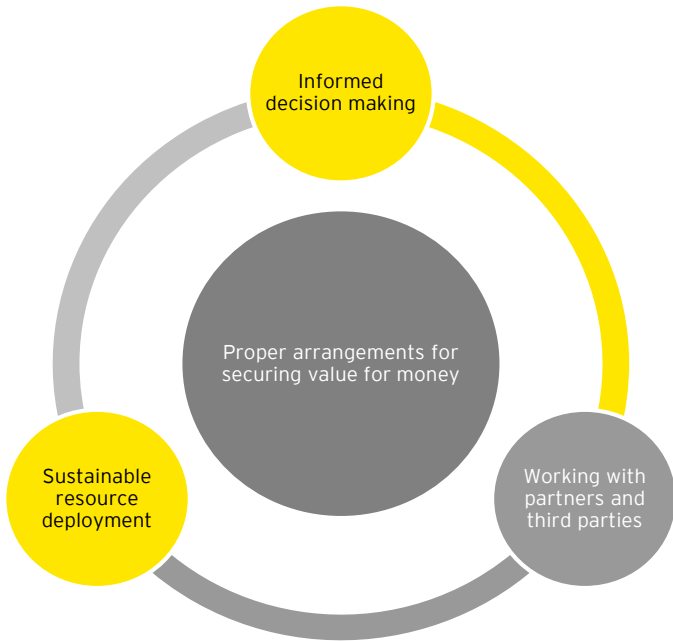


05

## Value for Money



# 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 2019/20 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.

## Impact of covid-19 on our Value for Money assessment

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Authorities' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

## Overall conclusion

We identified 2 significant risks around these arrangements. The tables below present our findings in response to the risks in our Audit Planning Report dated 8 June 2020 and any other significant weaknesses or issues we want to bring to your attention.

As a result of our procedures, we conclude that a qualified 'except-for' conclusion with respect to your arrangements to secure economy, efficiency and effectiveness in your use of resources is appropriate.

## Value for Money Risks

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 table below presents the findings of our work in response to the risks areas in our Audit Planning Report dated 8 June 2020.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
<p><b>Sustainable resource deployment</b></p> <p>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions</p>	<p>From the medium term financial strategy (MTFS), updated in January 2019, has proposed balanced budget budgets for 2020/21 and 2021/22. However, the MTFS has identified the Council will experience budget gaps from 2022/23 to 2024/25 ranging from £1.1m to £6.8m, respectively.</p> <p>Going forward the Council will need to continue to scrutinise its financial plans to achieve budget savings in order maintain delivery of Council services to enable it to hold an adequate level of useable reserves.</p>	<p>At 31 March 2020 key balances were as follows:</p> <ul style="list-style-type: none"> <li>• Cash and Cash equivalents £79m</li> <li>• General Fund £35.5m</li> <li>• Total usable reserves £240m</li> <li>• Borrowing £452.5m (of which £413.1m is payable &gt; 1 year).</li> </ul> <p>Therefore Staffordshire County Council has significant cash and cash equivalents balances and usable reserves. There is no indication that statutory services will not be maintained at least for the next 12 months. Government funding received to date has reimbursed almost all C-19 expenditure, lost income and savings delays (with a £2m shortfall which is immaterial).</p> <p>The MTFS (February 2020), identified headroom of £1.1m in 22/23, £3.3m in 23/24 and £6.8m in 24/25, however this was after significant savings, rising to £62.7m by 2024/25.</p> <p>We have reviewed Management’s assessment of how quickly general balances would be used up if the council did nothing to address matters e.g. no savings programme in place. This shows that all general balances would be fully utilised by the end of 23/24 if costs increase at their assumed ‘worst case’ levels.</p> <p>Our work on reviewing the assumptions within the MTFS and the arrangements to develop robust savings plans is ongoing but at this stage we do not anticipate having matters to report in our audit opinion in relation to this significant value for money risk.</p>



## Value for Money Risks (continued)

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
<p><b>Working with partners and third parties</b></p> <p>Working with third parties effectively to deliver strategic priorities</p>	<p>In January 2019, a joint report was issued by OFSTED and the CQC relating to the joint inspection of the local area of Staffordshire to assess the effectiveness of the area in implementing the special educational needs and disability (SEND) reforms as required by the Children and Families Act 2014. The joint report highlighted significant weaknesses which was significant VFM risk in terms of working with third parties effectively to deliver strategic priorities.</p> <p>Our review in 2019 concluded that the Council had an action plan in place to address the weaknesses identified. However, as the inspectorates have yet to complete their follow-up review and conclude that the recommendations have been fully implemented, the matter is retained as a significant risk for 2019/20.</p>	<p>During 2019/20 the County Council requested internal audit to conduct a review to identify how progress had been made in completing actions within the WSOA. The internal audit report, published May 2020, provided limited assurance noting “The review of the written statement as at January 2020 showed that overall the situation across all eight priority areas had remained broadly similar since October 2019, with the majority (at least five/six) recorded as Amber (work is progressing and expected to be completed within the timescales set).”</p> <p>This issue is evidence of weaknesses in proper arrangements for:</p> <ul style="list-style-type: none"> <li>• partnership working in the local area and the ability of organisations to work together to effectively deliver strategic priorities, improving the health and experiences of the local population.</li> </ul> <p>Actions to address the identified weaknesses have not progressed with appropriate urgency during the 2019/20 financial year.</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 2019/20 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 2019/20 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 currently concluding our work in this area and will report any matters arising to the Audit and Standards Committee.

## Other reporting issues

# Other reporting issues

### 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 matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority’s financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations.

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 and Standards Committee.



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.

We have not identified any additional significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

We considered whether circumstances arising from COVID-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.

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



# Assessment of Control Environment

## Status of previous year's recommendations

Description	Update	Management comments
<p><b>Accounting for schools converting to Academies</b></p> <p>Due to the volume of errors noted in previous years we recommended the finance team continues to make regular enquires with both the legal and property services teams ensure disposals are accounted for in the correct financial year.</p>	<p>No errors were noted in our testing for 2019/20 and we therefore consider that this matter is now satisfactorily resolved.</p>	
<p><b>Reconciliation of detailed accounts receivable and payable systems to the general ledger</b></p> <p>In previous years we highlighted a lack of documentary evidence showing that a review of the reconciliations between the sub-ledgers and general ledger had taken place and a lack of audit trail back to detailed aged listings of supplier/customer balances at the balance sheet date.</p>	<p>We have noted no change to the previous observations during the course of our procedures in the current year.</p>	<p>A lot of work has been performed on the accounts payable reconciliation and this was significantly improved from 18/19. We also worked on the accounts receivable reconciliation and although progress was made, we recognise there is still work to do in this area.</p>
<p><b>Missing declaration of interest forms</b></p> <p>In previous years we have noted several Members had not returned declaration of interest forms at the balance sheet date. Absent the signed declarations, we recommended that management undertake inquiries to provide assurance that all material related parties are identified and disclosed in the financial statements.</p>	<p>At the time of writing there are still 2 declarations of interest outstanding in relation to the 2019/20 financial year from Members. We therefore consider that this issue remains, and Members should be reminded of their legal obligation under the Localism Act 2011 which states that it is a criminal offence not to register interests within 28 days. Therefore the year end declaration for the purposes of completing the financial statements should be no additional burden to the process they are already following.</p>	<p>We have improved on the number returned this year and also provided reasons for those that were not returned, in all cases this was due to the Member concerned suffering from a serious illness. These declarations of interest are for the period of time requested by the accounts, they are not the same as the declarations made by Members to Member and Democratic Services, for their use during meetings. Those are always completed and comply with the Localism Act.</p>
<p><b>Quality of the financial statement preparation process</b></p> <p>For the past two years we have reported on the quality of the financial statement preparation process, which led to several audit differences. These issues could be mitigated in the future by making improvements to the quality review arrangements before the financial statements are presented for audit.</p>	<p>We continue to find errors in the working papers provided for audit, as basic checks are not being carried out and there is heavy reliance on the use of spreadsheets to accumulate and categorise data makes a clear audit trail difficult to create and maintain.</p>	<p>As a large and complex organisation, we will always have to rely on spreadsheets to produce notes and statements, not least because the Code requires so many notional transactions which are not needed for internal reporting which will not necessarily be entered into the finance system. We will keep this point under review as we begin preparations for the 2020/21 accounts.</p>



# Assessment of Control Environment

## Status of previous year's recommendations (continued)

Description	Update
<p><b>Whistleblowing</b></p> <p>We noted weaknesses in the way the Authority monitors whistleblowing allegations, and recommended that all whistleblowing allegation are logged centrally to ensure a complete list is maintained and assist the monitoring, progress against the allegations.</p>	<p>We have noted no change to the previous observations during the course of our procedures in the current year.</p>
<p><b>Annual Governance Statement Publication</b></p> <p>The annual governance statement had not been made available alongside the draft accounts for the inspection period.</p>	<p>The annual governance statement for 2019/20 was also not made available alongside the draft accounts for the inspections period.</p> <p>For 2019/20 we also noted that there was an error in the published inspection period.</p> <p>For 2019/20 a statutory instrument (SI) amending the Accounts and Audit Regulations was passed. For both Category 1 and Category 2 authorities, the requirement for a 'common' inspection period has been removed. The requirement to hold a 30-working-day inspection period remains, but for 2019-20 both Category 1 and Category 2 authorities can commence the inspection period at any time, except it must commence no later than 1 September 2020.</p> <p>The Council published its draft financial statements on 16 July 2020. The inspection period was clearly announced by the Authority and covered the period 3 August 2020 to the 11 September 2020. This does not cover the required 30 working day period because 31 August 2020 was a bank holiday (and therefore not a working day).</p> <p>We also note that within the draft statement of accounts presented for audit (page 1), a different inspection period was quoted (1 September to 29 September 2020). This period also does not cover the required 30 days.</p>

## Additional observations in the current year

Description	Impact
<p><b>No formal approval process for earmarked reserves</b></p> <p>There is no formal approval process for Members to review and approve transfers to and from earmarked reserves</p>	<p>This can give rise to a lack of transparency and accountability in respect of the reserves strategy for the Council.</p>





# 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 2019/20, 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 dated 8 June 2020.

#### 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 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.



09

Independence

# Independence

## Confirmation and analysis of Audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning report dated 8 June 2020.

We complied with the APB Ethical Standards. 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 that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit and Standards Committee on 9 December 2020.

We confirm we have not undertaken non-audit work outside of the Statement of responsibilities of auditors and audited bodies as issued by the Public Sector Audit Appointments Ltd OR our external audit engagement letter.

As part of our reporting on our independence, we set out below a summary of the fees you have paid us in the Year Ended 31st March 2020.


Description	Final Fee 2019/20 £	Planned Fee 2019/20 £	Final Fee 2018/19 £
Audit Fee - Code work - scale fee	84,511	84,511	84,511
Audit Fee - Code work - scale fee variation*	114,980	98,495	77,500
Total Audit fee - Code work	199,491	183,006	162,011
Non-audit work	nil	nil	nil
Total non-audit services	nil	nil	nil

\* In our Audit Planning Report we identified and reported areas where audit work will be required over and above the level of the scale fee previously set.

This excluded the additional costs associated with Covid-19.

We will discuss these additional costs in detail with management. All scale fee variations are subject to approval from PSAA Ltd.

## 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, senior management and its affiliates, including all services provided by us and our network to your Authority, 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 2019 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

The previous page sets out the fees that you have paid to us in the Year Ended 31st March 2020 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that no services have been provided on a contingent fee basis.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

## New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

### Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
  - Tax advocacy services
  - Remuneration advisory services
  - Internal audit services
  - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit and Standards Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the Audit and Standards Committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

### Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2016 which will continue to apply until 31 March 2020 as well as the recently released FRC Revised Ethical Standard 2019 which will be effective from 1 April 2020. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

We do not provide any non-audit services which would be prohibited under the new standard.



## Independence

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### 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 end 30 June 2020:

[https://www.ey.com/en\\_uk/who-we-are/transparency-report-2020](https://www.ey.com/en_uk/who-we-are/transparency-report-2020)

A close-up photograph of a person's hand reaching into a filing cabinet to touch a folder. The cabinet is filled with numerous folders of various colors (yellow, blue, white) and sizes, each containing stacks of papers. The background is a textured, light-colored wall.

# 10 Appendices

## Appendix A

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# Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.




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

We take a substantive approach to the audit and do not test controls. Our approach to the audit of the balance sheet has not changed from the prior year audit.

## Appendix B

# Summary of communications





Date 	Nature 	Summary 
29 January 2020	Meeting	The partner in charge of the engagement, along with other senior members of the audit team, met with the management team to discuss audit planning matters.
8 June 2020	Report	The Audit Planning Report dated 8 June 2020, including confirmation of independence, was issued to the Audit and Standards Committee.
22 June 2020	Meeting	The partner in charge of the engagement, accompanied by other senior members of the audit team, met with the Audit and Standards Committee and senior members of the management team to discuss the Audit Planning Report dated 8 June 2020.
30 October 2020	Meeting	The partner in charge of the engagement, along with other senior members of the audit team, met with the management to discuss matters arising during the course of the audit.
28 November 2020	Report	The audit results report, including confirmation of independence, was issued to the Audit and Standards Committee.
9 December 2020	Meeting	The partner in charge of the engagement is scheduled to meet with the Audit and 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 and Standards Committee

There are certain communications that we must provide to the Audit and 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 and 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.	Audit Planning Report dated 8 June 2020
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report dated 8 June 2020
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> <li>▶ Findings and issues regarding the opening balance on initial audits</li> </ul>	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 and 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>▶ For joint audits – the distribution of tasks</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 and 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> <li>▶ Any disagreements with joint auditors</li> </ul>	<p>Audit Planning Report dated 8 June 2020 and Audit results report</p>







## Appendix C

		 Our Reporting to you
<b>Required communications</b>	 <b>What is reported?</b>	 <b>When and where</b>
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
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>	Audit results report
Subsequent events	<ul style="list-style-type: none"> <li>▶ Enquiry of the Audit and Standards Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	Audit results report
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the Audit and 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 and Standards Committee responsibility.</li> </ul>	Audit results report




## 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>	Audit results report
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>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:</p> <ul style="list-style-type: none"> <li>▶ Relationships between EY, the company 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</li> <li>▶ 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> </ul>	Audit Planning Report dated 8 June 2020 and Audit results report

## Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
	<ul style="list-style-type: none"> <li>▶ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy</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 and Standards Committee should also be provided an opportunity to discuss matters affecting auditor independence</li> </ul>	
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>	We have received all requested confirmations.
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 and 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 and Standards Committee may be aware of</li> </ul>	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.
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>	Audit results report.




## Appendix C

		Our Reporting to you
Required communications	 What is reported?	  When and where
Group Audits	<ul style="list-style-type: none"> <li>▶ An overview of the type of work to be performed on the financial information of the components</li> <li>▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components</li> <li>▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work</li> <li>▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted</li> <li>▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.</li> </ul>	Audit Planning Report dated 8 June 2020
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>	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>	Audit results 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>	Audit results report
Fee Reporting	<ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the Audit Planning Report dated 8 June 2020 is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>	Audit Planning Report dated 8 June 2020 Audit results report

## Appendix D

# Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item 	Actions to resolve 	Responsibility 
Final Statement of accounts	Review of the final statement of accounts for correction of misstatements and correct incorporation of EY review comments on disclosure notes	EY and management
Finalisation of financial statement pre-issuance review	All comments/observations to be appropriately addressed and corrected (where appropriate) in the financial statements	EY and management
Closure of audit work and internal review procedures, with the most significant areas being in relation to:	Valuation of property, plant and equipment Journal testing Pension liability Value for money conclusion	EY and management
Whole of government accounts	Completion of required procedures to report to the National Audit Office in respect of Whole of Government Accounts.	EY
Final Annual Governance Statement	Review of the final annual governance statement for appropriate incorporation of EY review comments	EY and management
Engagement quality review	Completion of engagement quality review procedures	EY
Signed management representation letter	Receipt of signed management representation letter	Management and Audit and Standards Committee
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report	EY and management

# Management representation letter

## Draft Management Rep Letter

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

Ernst & Young LLP  
1 Colmore Square  
Birmingham B4 6HQ

Dear Mr. Clark

This letter of representations is provided in connection with your audit of the consolidated and council financial statements of Staffordshire County Council ("the Group and Council") for the year ended 31 March 2020. 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 consolidated and council financial statements give a true and fair view of the Group and Council financial position of Staffordshire County Council as of 31 March 2020 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the Group and the Council, CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

We understand that the purpose of your audit of our consolidated and council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, 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, for the Group and the Council, the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and council financial statements. We believe the consolidated and council 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 Group and the Council, the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and are free of material misstatements, including omissions. We have approved the consolidated and council financial statements.

3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.
4. As members of management of the Group and Council, we believe that the Group and Council have 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 2019/20 for the Group and the Council that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated and council financial statements taken as a whole. We have not corrected these differences identified and brought to our attention by the auditor because [specify reasons for not correcting misstatement].

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

1. We acknowledge that we are responsible for determining that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing 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 Group or 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 Group or 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.



# Management representation letter (continued)

## Draft Management Rep Letter

### 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 all material transactions, events and conditions are reflected in the consolidated and council financial statements, including those related to the COVID-19 pandemic.
3. We have made available to you all minutes of the meetings of the Cabinet, Full Council, and Audit and Standards Committees (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: *[date to be added prior to signing]*.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and 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 consolidated and council financial statements.
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 Group and 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.
7. We have disclosed to you any cybersecurity breach that either occurred or that third parties (including regulatory agencies, law enforcement agencies and security consultants) had brought to our attention during the period under audit that could potentially be material to the financial statements.

### 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. We have given no guarantees to third parties.
4. No claims in connection with litigation have been or are expected to be received.

### E. Subsequent Events

1. Other than described in Note 3 to the consolidated and council financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to year end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

### F. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.
2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst council, subsidiary undertakings and associated undertakings.

### G. Other information

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

### H. Going Concern

1. Statement of Accounting Policy number 1 to the consolidated and council financial statements discloses all the matters of which we are aware that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

# Management representation letter (continued)

## Draft Management Rep Letter

### I. Reserves

1. We have properly recorded or disclosed in the consolidated and council financial statements the useable and unusable reserves.

### J. Contingent Liabilities

1. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the consolidated and council financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the consolidated and council financial statements).
2. We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance.

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

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of property, plant and equipment and the pension liability 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.

### L. Estimates

1. Valuation of property, plant and equipment and pension liability:
2. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
3. We confirm that the significant assumptions used in making the estimates appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
4. We confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimates are complete, including the effects of the COVID-19 pandemic on the estimates and made in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
5. We confirm that no adjustments are required to the accounting estimates and disclosures in the consolidated and council financial statements due to subsequent events, including due to the COVID-19 pandemic.

### M. 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.

*Yours faithfully,*

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County Treasurer

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Chairman of the Audit and Standards Committee

## Appendix F

# Accounting and regulatory update



## Future accounting developments

Since the date of our last report to the Ethics, Transparency and Audit Panel, there have been a number of exposure drafts, discussion papers and other projects issues. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact on Staffordshire County Council 
IFRS 16	<ul style="list-style-type: none"> <li>▶ The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Staffordshire County Council will need to ensure that all lease arrangements entered into are identified and quantified (including for the comparative period) prior to the new implementation date</li> <li>▶ Consider whether appropriate systems and processes are in place to embed the requirements of the new accounting standard going forward.</li> </ul>

## Regulatory update

Since the date of our last report to the Ethics, Transparency and Audit Panel, there have been a number of regulatory developments. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact on Staffordshire County Council 
Code of Audit Practice 2020	<ul style="list-style-type: none"> <li>▶ The updated Code of Audit Practice issued by the National Audit Office has introduced some significant changes to the requirements regarding auditors' work on the value for money conclusion, which will be applicable from 2020/21.</li> </ul>	<ul style="list-style-type: none"> <li>▶ The NAO are currently updating the Auditor Guidance Notes which will set out how the new Code of Audit Practice should be applied when carrying out value for money work. As such, the impact remains to be confirmed.</li> <li>▶ Further updates will be provided when possible.</li> </ul>

## Appendix E

# Reflections from the Redmond Review

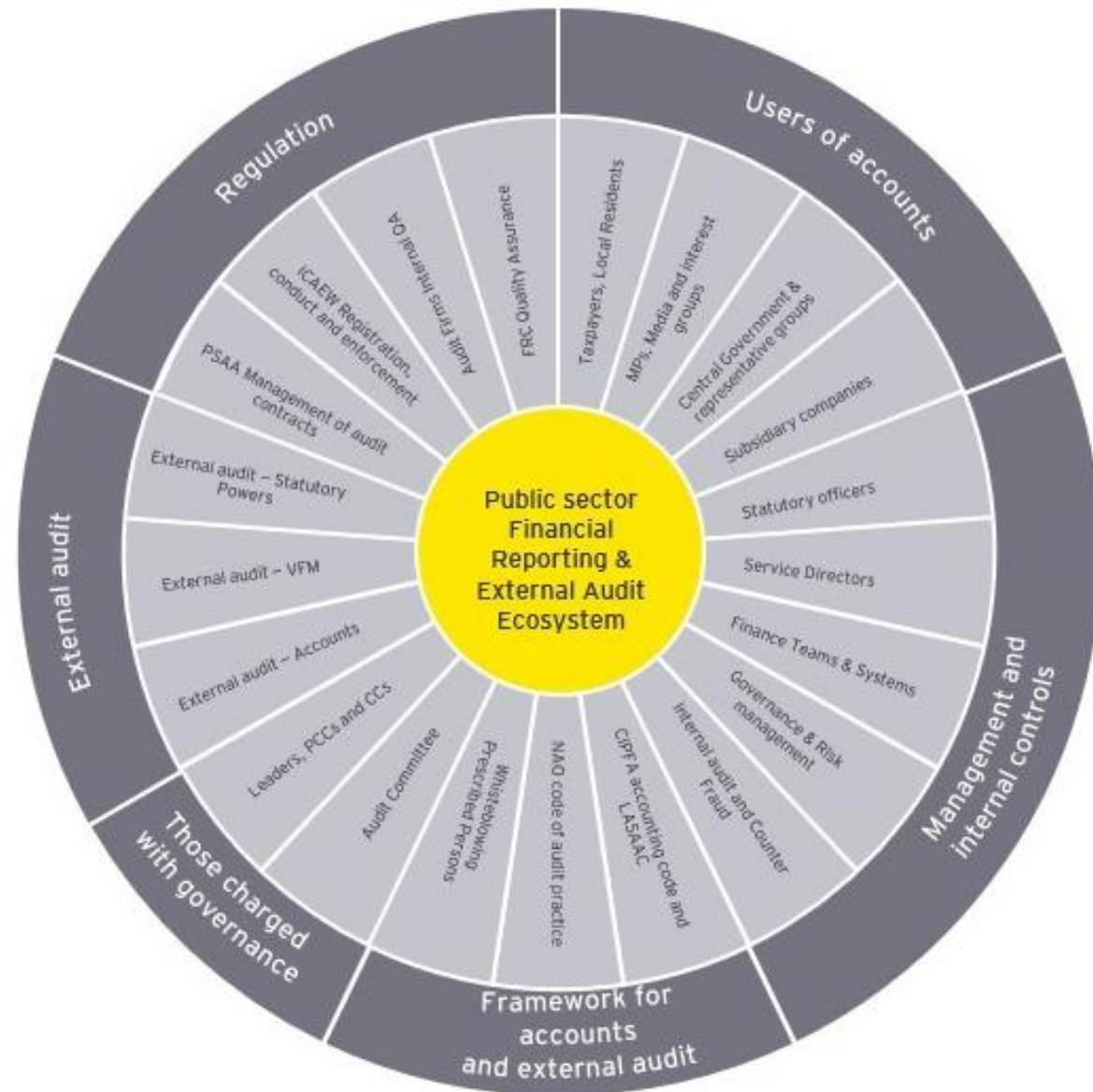
## Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting

Published on the 8<sup>th</sup> September 2020, Sir Tony Redmond's findings and recommendations from his independent review provides a significant opportunity to shape the future sustainability of local government financial reporting and auditing. We believe this will help ensure audit continues to meet the evolving needs of local authorities, the public, and the public interest.

### Guiding principles for reform

We believe reforms should be guided by the following principles:

- Reforms should enhance, or at least should not create risks to, the quality of financial reporting and external audit.
- The importance of the multidisciplinary audit firm model, to enable local auditors to respond efficiently and effectively to the increased reporting complexity, risks and financial resilience pressures we have seen facing the public sector pre and post Covid-19.
- There should not be a two-tier system of generally accepted accounting and auditing standards between the public and corporate sectors.
- To be effective and sustainable, reforms need to focus on the public sector financial reporting and external audit ecosystem as a whole.



## Reflections from the Redmond Review (continued)

Taking our guiding principles, we broadly welcome the Redmond review and proposals, in particular:

### ***Quality of financial reporting and external audit***

- The recognition that all stakeholders in the ecosystem have a role to play to improve accountability, transparency and sustainability. This includes improving the effectiveness of Audit Committees, strengthening the training skills, capacity capability and attractiveness of the public sector finance and audit professions.
- His conclusion that the current procurement and fee structure does not support sustainable audit quality. We have provided you with our perspectives on how baseline audit fees need to change to take account of your risk profile, complexity as well as the regulatory and professional context which drive our audits.

### ***Reforming the public sector financial reporting and external audit ecosystem***

- Establishing the Office for Local Audit Regulation (OLAR), which provides a “system leader” and will bring clarity to the existing framework for local authority audit.
- The importance of MHCLG establishing a liaison committee of all key stakeholders to oversee reforms. To begin with MHCLG should take urgent action to implement primary legislation to establish OLAR, revise the timetable for financial reporting and revisit the procurement and fee structure for public sector audit.

### ***Multidisciplinary audit firm model***

- The importance of the auditors work to critically assess the financial resilience and viability of public sector bodies and his proposals on how this assessment could be enhanced within the NAOs code of audit practice.

### ***Safeguarding professional accounting and auditing standards***

- The need for CIPFA/LASAAC to revisit the accounting code and introduce summarised accounts. We agree that there is a need for more proportionality in the Code which also sets out the expectations of practitioners and auditors and how this could be applied in areas such as pensions and asset valuations. However, we believe that any future proposals on the accounting code should not create a two-tier system.



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## Reflections from the Redmond Review (continued)

### What are we doing in the meantime?

1. Planning for a 30 September financial reporting target date for 2020/2021 accounts, integrated with our NHS work.
2. Implementing the new NAO code and changes to our VFM conclusion work and reporting for 2020/2021 audits. We will also work with the NAO and other audit suppliers on any refinements to how auditors assess financial resilience.
3. Continuing to engage with and influence MHCLG, NAO, PSAA CIPFA/LASAAC, FRC and other key stakeholders on the actions required to implement the Redmond proposals as swiftly as possible and how these effectively align to the broader package of audit reforms which BIES will consult on later this year.

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ED None

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