Staffordshire County Council

Year ending 31 March 2016

7 December 2015

Ernst & Young LLP

EY
Building a better
working world

Contents

This report is made solely to the Audit and Standards Committee of Staffordshire County Council in accordance with our terms of engagement. Our work has been undertaken so that we might state to the Audit and Standards Committee and management of Staffordshire County Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit and Standards Committee and management of Staffordshire County Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

The Terms of Appointment for auditors are issued by Public Sector Audit Appointments under powers delegated by the Secretary of State for Communities and Local Government. The Terms set out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice issued by the National Audit Office.

1. Innovating your audit to drive quality and value

At the heart of the EY audit is a relentless focus on quality

The EY audit is focused on quality and is bound by a service approach that is connected, responsive and insightful.

- ► *Connected* – with the right people in the right locations, building trust and enriching relationships.
- ► *Responsive* – a desire and commitment to be proactive, visible and timely.
- ► *Insightful* – sharing EY experiences and a point of view tailored to our clients, thereby advancing their thinking.
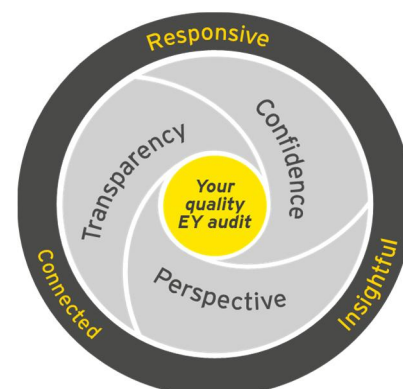
Your EY audit will bring you the confidence, transparency and perspective critical in today's complex and challenging public sector environment.

Confidence

Feel confident in your financial reporting through a high quality audit that is tailored to the local government and sector and is focused on identifying risk.

- ► *Feel confident in your financial reporting:* deliver high-quality, reliable and relevant reporting enabled by EY Canvas, our state-of-the-art global on-line audit platform that supports our teams to focus on your risks.
- ► *Understand your business risks:* gain a clearer view and understanding of your risks, brought to you by our teams using EY Helix, our suite of data analytics discussed in the following page.
- ► *Increase your stakeholders' confidence:* safeguard your reputation and increase the confidence of stakeholders as you make decisions based on risk-focused information, provided by our consistent audit.

Transparency

Have visibility of the audit with our transparent audit approach.

- ► *Enhanced efficiency:* updates on the status of the audit and improved means of communication, delivered through one on-line platform, EY Canvas.
- ► *Manage audit risk:* a clearer view of the audit and identified risks, by teams using a consistent methodology and one on-line audit platform.
- ► *Prompt issue resolution:* deal with issues with a no surprises approach.

Perspective

We use our audit tools to deliver meaningful insights.

- ► *Anticipate and respond to market trends:* leverage the strength of EY's global networks through our Government and Public Sector insights.
- ► *Meaningful insights into your business* - delivered by our teams using EY Helix - our suite of data analytics.
- ► *Gain another perspective:* understand business improvement opportunities identified through our benchmarking capabilities, expertise and constructive challenge.

► *Evolve for the future:* receive insights and perspectives on matters such as culture, sustainability and corporate governance to help to shape your reporting and business for the future.

Making the audit even better and more relevant

EY Canvas

EY Canvas links all team members through one global methodology and one global audit platform to deliver one seamless audit. In addition, EY Canvas enables us to deliver you a high quality audit by:


► Allowing us to better identify your risks, appropriately respond to those risks so we can report findings back to you promptly.
► Supporting centralised planning and monitoring of the audit.
► Quickly customising our audit approach to support the ever-evolving regulatory environment.
► Providing us with the ability to show you a dashboard of the audit status in real-time.
► Allowing us to capture, flag and share audit findings as they arise.
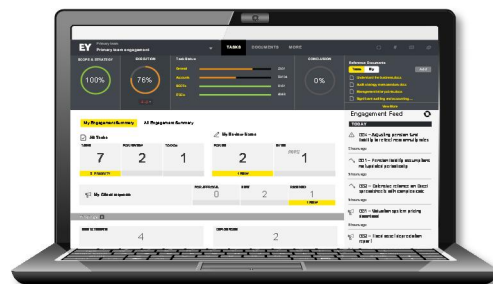
EY Helix - our global suite of data analytics

EY Helix, our suite of analytics, enables us to deliver you a high quality audit by:

► Providing you with *greater confidence in your financial reporting* as we identify business insights, hidden patterns and trends in your financial data.
► Allowing us *a deeper understanding of your business* by analysing larger populations of audit relevant data, to present a fuller picture of what happened and identify the risks that matter.
► Identifying *trends and anomalies* in your processes and controls helping direct our investigative effort in the right areas.
► Delivering *relevant feedback and insights* during the audit, so you can optimise your business processes and controls.
► Saving your team *valuable time and effort through* our integrated data capture and extraction tools.
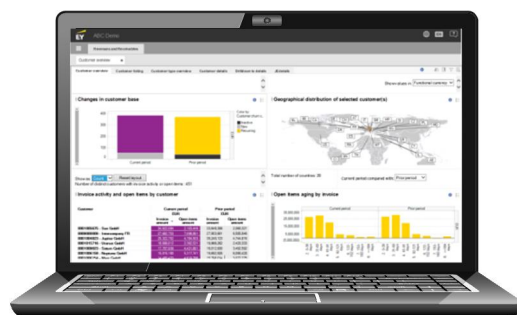
2. About the audit approach

2.1 Context for the audit

Our Audit Plan will cover the work that we plan to perform to provide you with:

► Our audit opinion on whether the financial statements of Staffordshire County Council (the Council) give a true and fair view of the financial position as at 31 March 2016 and of the income and expenditure for the year then ended; and

► A statutory conclusion on the Council's arrangements to secure economy, efficiency and effectiveness (the Value for Money conclusion).

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

► The Council's objectives and strategies and the related business and financial risks relevant to the financial statements.

► Developments in financial reporting, auditing and corporate governance standards.

► The quality of systems and processes.

► Changes in the Council's operating and the wider regulatory environment.

► Matters that management or the Audit and Standards Committee consider to be significant in relation to the financial statements and that they have requested we pay particular attention to.

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

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

2.2 Financial Statement Risks

We analyse the risks inherent in your external influences, operational activities and financial risks for the Council and our knowledge of other factors that may impact the Council's financial statements.

These outputs are compared with the risks identified through your own risk management process and mapped to the financial statements where applicable. This risk assessment process will help inform the focus our audit work for the year ending 31 March 2016.

Of the financial statement risks identified, we are required by Auditing Standards to consider whether any of the risks identified are 'significant' risks to our Council audit. Auditing standards define significant risks as those with a high likelihood of occurrence and, if they were to occur, could result in a material misstatement of the consolidated financial statements, as set out graphically below:
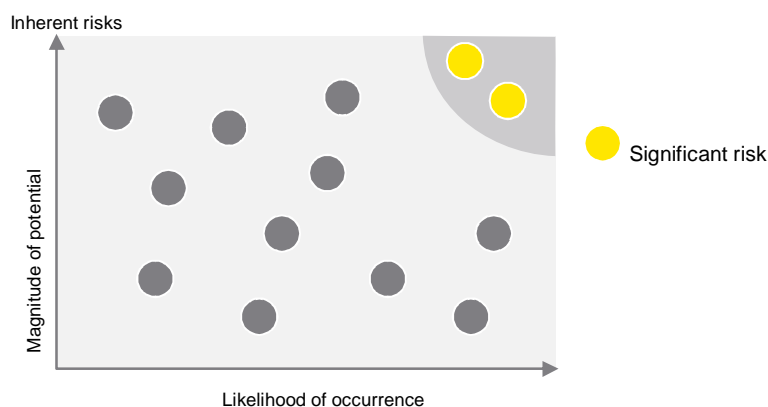
There are two presumed risks present in every audit:

► Fraud and management override risk*

► Risk of fraud in revenue recognition*

As defined by auditing standards

In addition to the significant risks, there may be other financial statements risks that require attention. Our Audit Plan will set out our approach to addressing all these risks.

2.3 Economy, efficiency and effectiveness

The Local Audit and Accountability Act 2014 provided the Comptroller and Auditor General with the power to issue guidance to auditors which may explain or supplement the provisions of the Code of Audit Practice. This was a role previously undertaken by the Audit Commission.

This guidance is issued in the form of Auditor Guidance Notes and the 2014 Act requires auditors to comply with this guidance.

The National Audit Office (NAO) ran a consultation exercise regarding auditors' work on value for money arrangements and issued new guidance on 9 November 2015 to apply to audits from 2015/16 onwards.

New criteria

The Value for Money Conclusion is now based on the following criteria:

► 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.

There are three sub-criteria that are intended to guide auditors in reaching our overall judgement:

► Informed decision making.
► Sustainable resource deployment.
► Working with partners and other third parties.

The full guidance note is available to view at: https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/

Impact

We will discuss the impact of this new guidance on our audit approach and fees with the Council and provide a full briefing to the Audit and Standards Committee as part of our Audit Plan due February / March 2016.

2.4 Your audit team

The engagement team is led by Steve Clark a Partner who has significant experience of local authority audits. Steve is supported by Mark Surridge, a Senior Manager who will be responsible for the day-to-day direction of our audit and the key point of contact for the finance team.

Our audit team also includes a number of specialists to assist us with our procedures, including specialists in pensions, tax and IT. Where appropriate we will also leverage wider expertise from within the firm. For example: we have a firm wide local government audit network to share best practice, identify common issues and to develop a consistent audit approach.

2.5 Timetable of communication and deliverables

We have set out below a timetable showing the key stages of the audit, including the VFM work and the Whole of Government Accounts. The timetable includes the deliverables we

have agreed to provide to the Council through the Audit and Standards Committee's cycle in 2015/16.

From time to time matters may arise that require immediate communication with the Audit and Standards Committee and we will discuss them with the Committee Chair as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Council and external stakeholders, including members of the public.

Audit phase	Timetable	Audit and Standards Committee timetable	Deliverables
High level planning	**November**	November 2015	Audit Strategy
Risk assessment and interim testing of routine processes and controls	**February 2016**	March 2016	Audit Plan
Year-end audit	**July 2016**		
Completion of audit	**July / August 2016**	September 2016	Report to those charged with governance via the Audit Results Report
			Audit report (including our opinion on the financial statements; and overall value for money conclusion).
			Audit completion certificate
			Reporting to the NAO on the Whole of Government Accounts return.
Conclusion of reporting	**October 2016**	October 2016	Annual Audit Letter

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

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