

Staffordshire County Council

Annual Audit Letter for the year ended 31 March 2016

October 2016

Ernst & Young LLP



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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

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

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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

A close-up photograph of a person's hand holding a blue pen and writing on a document. The hand is positioned on the right side of the frame. In the background, a laptop is open, and a calculator is visible on the desk. To the left, a white mug is partially visible. The scene is brightly lit, likely from a window, creating a professional and focused atmosphere. A yellow rectangular box is overlaid on the left side of the image, containing the text 'Executive Summary'.

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Staffordshire County Council following completion of our audit procedures for the year ended 31 March 2016. The tables below set out the results and conclusions on the significant areas of the audit.

Area of Work	Conclusion
<p>Opinion on the Council's:</p> <ul style="list-style-type: none"> ▶ Financial statements 	<p>Based on our review of your internal control environment and assessment of key business risks we designed a risk based audit testing strategy. As a result of our detailed testing and use of EY data analytics tools, we obtained sufficient evidence to form a conclusion on your financial statements.</p> <p>We concluded that the financial statements give a true and fair view of the financial position of the Council as at 31 March 2016 and of its expenditure and income for the year then ended.</p>
<ul style="list-style-type: none"> ▶ Consistency of other information published with the financial statements 	<p>We reviewed the financial and non-financial information accompanying the Financial Report 2015/16, including the Narrative Statement, to identify material inconsistencies with the audited financial statements or from the knowledge acquired by us in the course of performing the audit.</p> <p>Based on the results of our work we concluded that the financial information in the Financial Report 2015/16 was consistent with the financial statements.</p>
<p>Concluding on the Council's arrangements for securing economy, efficiency and effectiveness</p>	<p>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.</p> <p>Based on our review of your internal control environment and assessment of key business risks we identified a significant risk to the value for money conclusion. We therefore developed an appropriate audit response to address the risk that the Council had insufficient arrangements in place for the identification and delivery of savings to secure the Medium Term Financial Position.</p> <p>In addition, we kept three areas under review:</p> <ol style="list-style-type: none"> 1. The work and reports of regulators, such as the Care Quality Commission and OFSTED. 2. The local health economy, including adult social care, and in particular the outcome measures of the Better Care Fund. 3. The outcome of other aspects of assurance work, such as the audited financial position and the Head of Internal Audit's opinion <p>As a result of our work, we concluded that you have put in place proper arrangements to secure value for money in your use of resources.</p>

Area of Work	Conclusion
Reports by exception:	
▶ Consistency of Governance Statement	We reviewed the Annual Governance Statement and confirmed to the Audit and Standards Committee that it was not misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council.
▶ Public interest report	We have duty to consider if there are any matters coming to our notice that should be brought to the public's attention through a public interest report. We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

As a result of the above we:

- ▶ Issued our Audit Results Report to communicate the significant findings resulting from our audit on 26 September 2016.
- ▶ Completed our reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA) by the deadline of 21 October 2016.

We are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2016. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Act and the Code.

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

Steve Clark

Partner
For and on behalf of Ernst & Young LLP

Purpose



Purpose

The Purpose of this Letter

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

We have already reported the detailed findings from our audit work in our 2015/16 Audit Results Report to the Audit and Standards Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.



Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with the Audit Plan that we issued in February 2016 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 31 March 2016 financial statements; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return.

Responsibilities of the Council

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

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

A blurred office desk with a laptop, glasses of water, and financial documents. The scene is brightly lit, likely from a window with blinds in the background. A yellow rectangular box is overlaid on the left side of the image, containing the text 'Financial Statement Audit'.

Financial Statement Audit

Financial Statement Audit

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

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office. Our detailed findings were reported to the Audit and Standards Committee on 26 September 2016 and we issued an unqualified audit report on 29 September 2016.

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

Significant Risk	Conclusion
<p>Management override of controls</p> <p>A risk present on all audits is that 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.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p>	<p>To address the risk of management override, we:</p> <ul style="list-style-type: none"> ▶ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, using our data interrogation tools to focus on specific areas of risk. ▶ Reviewed the accounting estimates for evidence of management bias. ▶ Remained sceptical for the existence of any significant unusual transactions. ▶ Reviewed capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised. <p>Based on the audit procedures undertaken we did not identify any evidence of management override.</p>
<p>Revenue and expenditure recognition</p> <p>Auditing standards also required us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation.</p> <p>We respond to this risk by reviewing and testing material revenue and expenditure streams and revenue cut-off at the year end.</p>	<p>To address the risk of fraud in revenue and expenditure recognition, we:</p> <ul style="list-style-type: none"> ▶ Reviewed and discussed with management any accounting estimates on revenue or expenditure recognition for evidence of bias. ▶ Developed a testing strategy to test material revenue and expenditure streams. ▶ Reviewed and tested material creditors at the year end. <p>Our audit work did not identify any significant issues in respect of expenditure recognition.</p>

Significant Risk	Conclusion
<p data-bbox="342 288 824 316">Accounting for the Waste PFI Scheme</p> <p data-bbox="342 328 1122 419">The Council has four PFI Schemes, the most significant of which is the Waste to Energy PFI Scheme, which has a liability at 1 April 2015 of £165 million.</p> <p data-bbox="342 432 1115 587">Accounting for this material scheme requires the use of a complex financial model, the calculation of estimates and the application of management judgement. As such, it is an area of particular focus and requires the use of specialist input in this first year.</p>	<p data-bbox="1144 288 2101 411">Our PFI experts reviewed the accounting arrangements for the Waste to Energy PFI scheme and, following detailed and extensive debate, proposed an adjustment to the accounting treatment. The adjustment is technical in nature and had no direct impact on the Council's general fund position.</p> <p data-bbox="1144 424 2110 547">The centre of the debate and subsequent accounting change related to the operator's right to sell electricity to third parties. The Council had previously included this within the calculation of the overall liability. In our view, it is more appropriate to split the accounting for the scheme into two elements:</p> <ul data-bbox="1144 560 2101 818" style="list-style-type: none"><li data-bbox="1144 560 2101 715">▶ The payments for the asset that generates electricity are accounted for by giving the operator an intangible asset in the right to revenue from electricity sales. Because the granting of the right to generate electricity is accounted for separately, this reduces the total liability and creates a deferred revenue balance.<li data-bbox="1144 727 2101 818">▶ The payments for the remainder of the scheme are accounted for separately, following the same methodology currently applied by the Council. <p data-bbox="1144 831 2092 991">The overall impact was to re-profile the finance costs in the comprehensive income and expenditure statement with lower values because the liability has reduced and a deferred revenue balance, which is amortised over the remaining life of the contract, created. The Council has named this deferred revenue balance "PFI Third Party Liability."</p> <p data-bbox="1144 1003 2083 1094">Whilst the figures are material, and a Prior Period Adjustment was made, under local government accounting there was no impact on actual payments made by the Council, nor on its general fund position.</p>

A close-up, shallow depth-of-field photograph of a stack of coins. The coins are stacked vertically, with the edges of several coins visible. The lighting is warm, highlighting the metallic texture and the embossed details on the coins. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Value for Money".

Value for Money

Value for Money

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

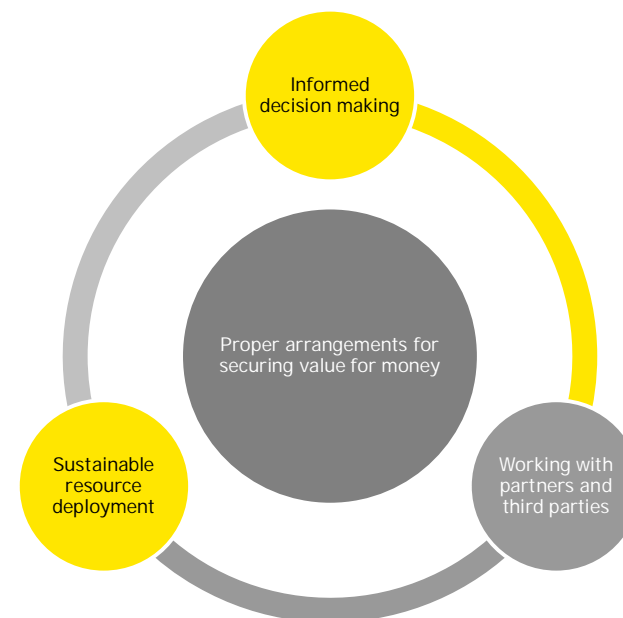
Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

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

We issued an unqualified value for money conclusion on 29 September 2016.

Addressing the significant audit risk

As set out in our Audit Plan, we identified a significant risk that insufficient arrangements are in place for the identification and delivery of savings to secure the Medium Term Financial Position. The following table summarises the work we have performed and key findings.



Planned procedures	Work performed	Key findings
Document the Council's approach to the identification, development and implementation of efficiencies and savings.	We met with management and reviewed key reports and minutes of meetings to obtain a clear understanding of the Council's arrangements to develop specific savings as monitored through the savings tracker as well as those savings monitored through budget management.	We are satisfied that for 2015/16, the Council had adequate arrangements in place.
Assess the Council's overall arrangements, plans and risk strategy [for the financial position].	We reviewed the Council's risk reports to confirm that the financial position was included in the risk register. Our review of financial reports confirmed the Council routinely reported financial risks including over/under spends and non-delivery of savings. This included a review of the financial gap arising through the Better	The Council has a significant challenge on the medium term to deliver a balanced budget. The Council is taking action to identify savings and Members will need to ensure that robust plans are in place to deliver

Planned procedures	Work performed	Key findings
	Care Fund.	the required savings.
Review key financial reports, including the 2015/16 outturn position to evaluate the Council's record of financial management.	We scrutinised the Council's key financial reports, combining this with our audit of the financial statements.	We are satisfied that for 2015/16, the Council had adequate arrangements in place.
Assess the Council's key financial performance indicators.	We reviewed the Council's own key financial performance indicators and ensured these were routinely reported to Members.	We are satisfied that for 2015/16, the Council had adequate arrangements in place.
Evaluate the Council's internal risk assessment of savings identified across 2016/17 to 2018/19.	<p>We discussed and reviewed the Council's process in developing the MTFs for 2015/16 and for 2016/17 and beyond.</p> <p>We read and evaluated the Council's savings tracker for 2015/16 and also the most recent version presented to cabinet, using the information presented to evaluate the Council's financial resilience.</p>	The Council's position over the medium term is challenging, but for 2015/16 we are satisfied that the Council's arrangements were adequate.

Areas kept under review	Key findings
The work and reports of regulators, such as the Care Quality Commission and OFSTED	From meetings with management and from our independent review of the work of the Care Quality Commission and OFSTED, there are no indicators of inadequate scores or ratings from the regulator that indicate that the Council has inadequate arrangements.
The local health economy, including adult social care, and in particular the outcome measures of the Better Care Fund	<p>We held a number of meetings with management over the performance of the Better Care Fund in 2015/16. Supported by a review of reports and minutes of meetings, we discussed the arrangements put in place to establish governance over the Better Care Fund and also during the year and the Council's response to escalate, report and recover the budget gap.</p> <p>Overall, therefore, we believe that the Council had adequate arrangements in place to monitor and report the risk of any financial gap in the Better Care Fund.</p>

Areas kept under review

Key findings

The outcome of other aspects of assurance work, such as the audited financial position and the Head of Internal Audit's opinion

We met with Internal Audit and reviewed key reports on the Council's control environment. We noted that the Internal Audit Annual Report for 2015/16, as presented to the June meeting of the Audit and Standards Committee, reported that an "Adequate Assurance" opinion was given on the overall adequacy and effectiveness of the organisation's governance, risk and control framework, i.e. the control environment in 2015/16.

We were satisfied that there were no new or undetected significant risks to the value for money conclusion arising through the work of Internal Audit.

Overall, there was a £15.7million increase to revenue reserves and £5.1million increase in capital reserves during 2015/16. As such, we do not believe this to be an indicator of a significant risk to the VFM conclusion.



Other Reporting
Issues

Other Reporting Matters

Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We had no issues to report.

Annual Governance Statement

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

We completed this work and did not identify any areas of concern.

Report in the Public Interest

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

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

Written Recommendations

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

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

Objections Received

We did not receive any objections to the 2015/16 financial statements from member of the public.

Other Powers and Duties

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

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit and Standards Committee on 26 September 2016. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. We have adopted a fully substantive approach and have therefore not tested the operation of controls.

A close-up photograph of a person's face as they look through a pair of black binoculars. The person's eyes are behind the lenses, and their hands are visible holding the device. The background is a soft, out-of-focus white. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Audit fees".

Audit fees

Audit fees

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

	Predecessor auditor fee	EY planned fee	EY forecast fee
Financial statements and VFM conclusion	£146,340	£109,755	£109,755

EY | Assurance | Tax | Transactions | Advisory

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ED None

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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

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