Staffordshire County Council

Audit Results Report for the year ending 31 March 2017

September 2017

Building a better working world

Contents

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

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

The 'Terms of Appointment 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 Audit Results Report is prepared in the context of the Statement of responsibilities. This report is intended solely for the use of the Members of the audited body. 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.

1. Executive summary

The National Audit Office's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Audit Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2016/17 audit which is substantially complete. It includes messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Below are the results and conclusions on the significant areas of the audit process.

Status of the audit	We have substantially completed our audit of the financial statements of Staffordshire County Council for the year ended 2016/17. Subject to satisfactory completion of the outstanding items included in Appendix C we will issue an audit opinion in the form which appears in Appendix F. We have performed the procedures outlined in our Audit Plan and anticipate issuing an unqualified opinion on the Authority's financial statements. We expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources. As a result of material adjustments to the financial statements, we have not yet performed the procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission. We expect to delay the issue the audit certificate until the Pension Annual Report has been produced.
Objections	We have not received any objections to the 2016/17 accounts from members of the public.
Audit differences	Our work has identified that an adjustment was required to the Council's financial statements that has required a restatement to prior year figures. As explained to the Audit Committee in our Audit Plan, we revised our audit approach for 2016/17 and engaged EY valuation specialists to perform a specific review of the Council's valuation methodology for Property, Plant and Equipment. Our work identified the Council has been incorrectly interpreting relevant guidance over the valuation of specialised assets, in particular where the Council incorrectly included financing costs overstated useful lives in the valuation. This has resulted in a £263million write-down of assets in the balance sheet. This is a notional accounting adjustment and there is no impact to the Council's General Fund, useable reserves nor the usability of the assets as a result of this technical correction. Further details are set out at Section 3 and at Appendix A and B.
Scope and materiality	In our audit plan presented dated February 2017, we communicated that our audit procedures would be performed using a materiality of £13.25million. The basis of our assessment is 1% of gross operating expenditure, which is consistent with prior years. We have reassessed this based on the actual results for the financial year and there has been no change to the materiality level we have applied. The threshold for reporting audit differences which impact the financial statements has also not changed, remaining as £0.66million.

	We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas, the areas identified and audit strategy applied include: ► External audit fees: we set a materiality of £1k, being the rounding number in the accounts. ► Whilst the majority of Member Allowances are fixed in nature and therefore have limited ability for manipulation, the general materiality level was not felt to be appropriate for Members Allowances. A figure of £50k was judged appropriate, being the rounding number in the accounts. ► Officers' remuneration is numerically sensitive and we set materiality at £1k, being the rounding number in the accounts. ► As the note for Related Party Transactions is split between Organisations and Individuals and the accounting standard requires us to consider the disclosure from the point of materiality to either side of the transaction, we will set materiality for the Organisational element at the same level as the audit and the individuals element was considered on a case by case basis. We carried out our work in accordance with our Audit Plan.
Significant audit risks	We identified the following audit risks during the planning phase of our audit, and reported these to you in our audit plan: ► Risk of fraud in revenue recognition. ► Risk of management override. ► Property, Plant and Equipment Valuation. ► Accounting for the Waste PFI The 'addressing audit risks' section of this report sets out how we have gained audit assurance over those issues.
Other audit risks	We identified other key areas of the audit that were classified as significant risks but are still important when considering the risks of material misstatement to the financial statements and disclosures ► Local Government Pension Scheme Liability (reclassified as a significant risk). ► Financial statements presentation – Expenditure and funding analysis and Comprehensive income and expenditure statement.. The 'addressing audit risks' section of this report sets out how we have gained audit assurance over those issues.
Other reporting issues	Whilst we have no reporting matters regarding the Annual Governance Statement, we were not provided with an auditable version until 6 September 2017 and should have been produced by 30 June 2017. We have no other matters we wish to report.
Control observations	We have adopted a fully substantive approach and have therefore not tested the operation of controls.

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

2. Responsibilities and purpose of our work

2.1 The Council's responsibilities

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement (AGS). In the AGS, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes 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.

2.2 Purpose of our work

Our audit was designed to:

- Express an opinion on the 2016/17 financial statements and the consistency of other information published with them;
- Report on an exception basis on the Annual Governance Statement;
- Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion); and
- Discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Council's accounting policies and key judgments.

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 are specified by the National Audit Office.

3. Financial statements

3.1 Addressing audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
Risk of fraud in revenue recognition Under ISA (UK and Ireland) 240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. 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.	Having considered the factors for revenue and expenditure recognition, we believe the risk is focused on the year-end balance sheet and in particular the completeness and valuation of creditors and the existence and valuation of debtors. The risk lies mainly in those debtors and creditors where higher levels of estimation and management intervention are required to compile the financial statements. We also believe the risk is linked to the existence of capital expenditure arising from the potential to incorrectly capitalise revenue expenditure. ► Reviewed and tested expenditure recognition policies. ► Reviewed and discussed with management any material accounting estimates on expenditure recognition for evidence of bias. ► Tested the valuation of any provisions recorded in the financial statements and performed appropriate tests to consider whether all material provisions have been recognised.	We considered management estimates in the financial statements, specifically, year-end expenditure accruals and year-end provisions. We noted the following: ► **Debtors**: We have tested year end accounts receivable and are satisfied that there are no indicators of management bias. ► **Accruals and provisions**: We have tested year end accruals and provisions and are satisfied that there are no evidence of material misstatement. ► **Unrecorded liabilities**: We tested a sample of cash payments and payables after the year end and did not identify any material amounts of expenditure omitted from the 2016/17 financial statements. ► **Journals**: We used data analytics to select a sample of journal entries based on specific risk criteria. We agreed these journal entries back to supporting documentation and did not identify any indicators of management override of control or indicators of

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
	▸ Developed a testing strategy to test material debtors and creditors. ▸ Developed and followed a testing strategy to test whether the Council has inappropriately capitalised revenue expenditure	fraud in revenue and expenditure recognition. ▸ **Capital expenditure**: We tested a sample of capital additions and are satisfied there is no evidence of material misstatement or inappropriate capitalisation of revenue expenditure. The valuation of Property, Plant & Equipment and the valuation of the LGPS are considered separately below. Our testing has not identified any material misstatements with respect to revenue and expenditure recognition. Overall our audit work did not identify any material issues or unusual transactions which indicated that there had been any significant misreporting of the Council's financial position.
Risk of management override As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement. We determined that the risk of management override manifests itself through: ▸ manipulation of accounting estimates (with the estimates most likely to be subject to management override of controls being non-routine income and	▸ We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements; ▸ We tested a sample of journal entries across the year based on appropriate risk based criteria to identify potential manipulation of revenue and expenditure; ▸ We reviewed accounting estimates for evidence of management bias as identified in the response to revenue recognition; ▸ We evaluated the business rationale for any significant unusual transactions. No such transactions were identified.	We reviewed the accounting adjustments processed and disclosed in the Movement in Reserves Statement and supporting notes and were satisfied that the appropriate accounting treatment had been followed. We reviewed the Council's MRP calculation and noted it was consistent with the strategy and policy approved by Cabinet in January 2016. We have no matters to report in relation to management override that have not been considered as part of another area of audit focus. We have not identified any material weaknesses in controls or evidence of material management override.

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
expenditure accruals and provisions); ▸ specific adjustments to the General Fund via the Movement in Reserves Statement; ▸ changes in accounting policy, which would impact on accounting estimates identified above; and ▸ in the incorrect capitalization of revenue expenditure.		We have not identified any instances of inappropriate judgements being applied. We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.
Property, Plant and Equipment Valuation Property, Plant and Equipment Valuation In a refresh of our approach to the audit of large local authorities, we have included a further significant risk relating to the valuation of Property, Plant and Equipment. Property, Plant and Equipment accounts for a significant proportion of the Council's (£2billion at 31 March 2016) total assets. The Council carries out a rolling programme that ensures that all property, plant and equipment required to be measured at fair value is revalued at least every five years. All valuations are carried out by the Council's own specialist valuer and must follow the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. This process incorporates significant judgements.	We: ▸ Evaluated the competence, capabilities and objectivity of management's specialist ▸ Reviewed any terms of engagement or instructions issued to the valuer to ensure these are consistent with accounting standards; ▸ 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 ensure the correct valuation methodology has been applied. ▸ Ensured the valuer's conclusions have been appropriately recorded in the accounts.	We reviewed the classes of assets held by the Council and judged that the significant valuation risk resided in Land & Buildings. Assets in these categories are required to be held at fair value and therefore are dependent on specialist advice from the Council's internal valuer. Other categories of assets are held at either historic cost (eg Infrastructure Assets) or depreciated historic cost (eg Vehicles, Plant & Equipment) and therefore the values are not subject to significant judgements or estimates. We engaged our EY valuation team to review the methodology behind a sample of assets that included operational land and buildings and assets held for sale. Two matters arose from this work: ▸ In examining the methodology for specialised assets, EY valuations identified that the Council was adding a notional charge of c3% for finance costs when calculating the carrying value of assets. ▸ The valuation methodology for specialised assets was not consistent with the Modern Equivalent Asset

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
		basis and differences to the remaining life assessment were identified. The Accounting requirements are set out in the CIPFA Code of Practice, which requires specialised assets to be valued at depreciated replacement cost, defined in paragraph 4.1.2.7 as: “Depreciated replacement cost (DRC) is a method of valuation which provides the current cost of replacing an asset with its **modern equivalent asset** less deductions for all physical deterioration and all relevant forms of obsolescence and optimisation. Where DRC is used as the valuation methodology, **authorities should use the ‘instant build’ approach at the** valuation date and the choice of an alternative site will normally hinge on the policy in respect of the locational requirements of the service that is being provided.” The code also requires authorities to assess the remaining life of the assets in order to calculate the valuation of the asset. Valuation guidance is not prescriptive in how this should be calculated. In light of the above, the Council has revisited the entire population of specialised assets, which has resulted in a reduction in value of £264million as a prior period adjustment. The impact to the accounts is explained in more detail at Appendix A. This adjustment is a notional accounting entry and does not impact on the Council’s general fund. It is an amendment of the Council’s

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
		valuation methodology which does not impact the recoverability, usability, or potential marketability of the assets impacted by this adjustment.
The Council has four PFI Schemes, the most significant of which is the Waste to Energy PFI Scheme and was subject to material audit adjustment in 2015/16. Accounting for this material scheme requires the use of a complex financial model, the calculation of estimates and the application of management judgement.	We will involve our financial modelling and PFI experts to: ▸ Test the integrity of the financial model used by the Council. ▸ Test the completeness and accuracy of the inputs to the financial model and the subsequent correct application of the outputs to the financial statements.	Our PFI expert has reviewed the accounting model for the Waste to Energy PFI scheme and we are satisfied the Council has updated the model to account for the changes identified in our 2015/16 audit. Overall, we are satisfied that the PFI liability is not materially misstated.

We also identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Other Risks	Audit procedures performed	Assurance gained and issues arising
The Council is a member of the Local Government Pension Scheme (LGPS), administered by Staffordshire Pension Fund. The net pension liability was £935million as at 31 March 2016. The estimation of the defined benefit obligations is sensitive to a range of assumptions, such as mortality, the rate of inflation, salary increases, pension changes and discount rates. The Pension Fund separately engages an external valuation specialist, Hymans Robertson LLP, to provide these actuarial assumptions. The extent of judgement required, and resulting significant impact this has on the value in the balance sheet, means it is an area for additional audit focus.	▸ We engaged an expert to review the assumptions and estimates used by the fund Actuary for reasonableness; ▸ We considered the independence and expertise of the fund actuary ▸ We obtained assurance from the pension fund auditor that proper arrangements are in place to support and administer the fund; and ▸ We reviewed of the pension fund disclosures in the financial statements to confirm consistency with the report of the Actuary and that accounting treatment is in line with IAS 19.	Based on completion of the specified procedures we have not identified any matters to report. EY's actuarial experts have reviewed the overall methodologies used by Hymans Robertson and summarised by an independent review commissioned by PSAA. The resulting discount rate, RPI inflation, CPI inflation and mortality assumptions are consistent with our experience on other audit clients in the UK. We performed appropriate tests to ensure that the financial statements materially reflect the key assumptions and figures provided by the actuary. The pension fund liability as at 31 March 2017 disclosed in the financial statements is consistent with the actuarial

Other Risks	Audit procedures performed	Assurance gained and issues arising
		report provided by the pension fund actuary and IAS 19 adjustments within the financial statements are also in line with this report.
Financial statements presentation – Expenditure and funding analysis and Comprehensive income and expenditure statement Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the code) this year changing the way the financial statements are presented. The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements. The Code no longer requires statements or notes to be prepared in accordance with SeRCOP. Instead the Code requires that the service analysis is based on the organisational structure under which the authority operates. We expect this to show the Council's segmental analysis. This change in the code will require a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements. The restatement of the 2015/16 comparatives will require audit review, which could	► We reviewed the expenditure and funding analysis, CIES and new notes to ensure disclosures are in line with the code; ► We reviewed the analysis of how these figures are derived, how the ledger system has been re-mapped to reflect the Council's organisational structure and how overheads are apportioned across the service areas reported; and ► We agreed restated comparative figures back to the Council's segmental analysis and supporting working papers.	The Council has applied the Code changes over the presentation of the financial statements. We reviewed the Council's disclosures and reconciled the figures presented in the new format to the prior year financial statements. The Council has produced an additional note to the financial statements to support this.

Other Risks	Audit procedures performed	Assurance gained and issues arising
potentially incur additional costs, depending on the complexity and manner in which the changes are made.		

3.2 Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to you oversight of the Council's financial reporting process, including the following:

- Qualitative aspects of your accounting practices; estimates and disclosures;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- Any significant difficulties encountered during the audit; and
- Other audit matters of governance interest.

The challenges arising from the work on Property, Plant and Equipment valuation and the substantial delay in receiving the Annual Governance Statement are noted above.

In addition to these matters, we experienced challenges in performing our work on pay costs and in particular, the Council's new arrangements with third party providers. Management have limited oversight of transaction processing by the third party providers and in particular limited sight of agreements made by schools with the payroll provider. We were able to perform our testing, however recommend management engage with relevant parties to reach a formal agreement on access to information.

We have no further matters to report.

3.3 Control themes and observations

It is the responsibility of the Council 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 Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

3.3.1 Annual Governance Statement

We have reviewed the Annual Governance Statement and can confirm that it not misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council.

The Council were unable to provide us with an audit version of the Annual Governance Statement until 6 September, which is significantly after the date requested by us. The Council will need to review its production timetable in order to meet the early close for 2017/18.

3.4 Request for written representations

We have requested a management representation letter to gain management's confirmation in relation to a number of matters, as outlined in Appendix G.

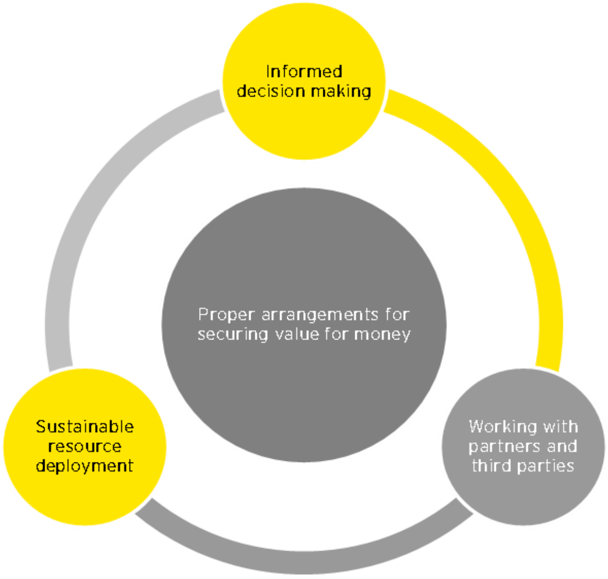
3.5 Whole of Government Accounts

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 are specified by the National Audit Office.

We are currently conducting our work in this area and will report any matters that arise to the Audit Committee.

4. 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.

In considering your proper arrangements, we draw on the requirements of the guidance issued by the National Audit Office and CIPFA 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.

4.1 Overall conclusion

We have performed the procedures outlined in our audit plan and we did not identify any significant weaknesses in the Council's arrangements.

We therefore expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.

4.2 Significant risks

4.2.1 Significant Risk: Sustainable resource deployment

VFM Criteria: Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions

4.2.1.1 Background to the risk

The Council's 2016/17 and the recently updated 2017/18 Medium Term Financial Strategy (MTFS) contains a number of significant assumptions and risks to the Council's overall financial resilience.

Third quarter financial performance (Cabinet February 2017) shows an overspend of £9.4million mainly due to pressures from the Better Care Fund (BCF) and the Staffordshire & Stoke-on-Trent Partnership NHS Trust risk share.

In addition, the 2017/18 budget:

- Is dependent on a 4.95% increase in council tax.
- Requires the delivery of £47.3million savings.
- Identified a £6.1million budget gap in 2018/19.

4.2.1.2 Our planned audit approach

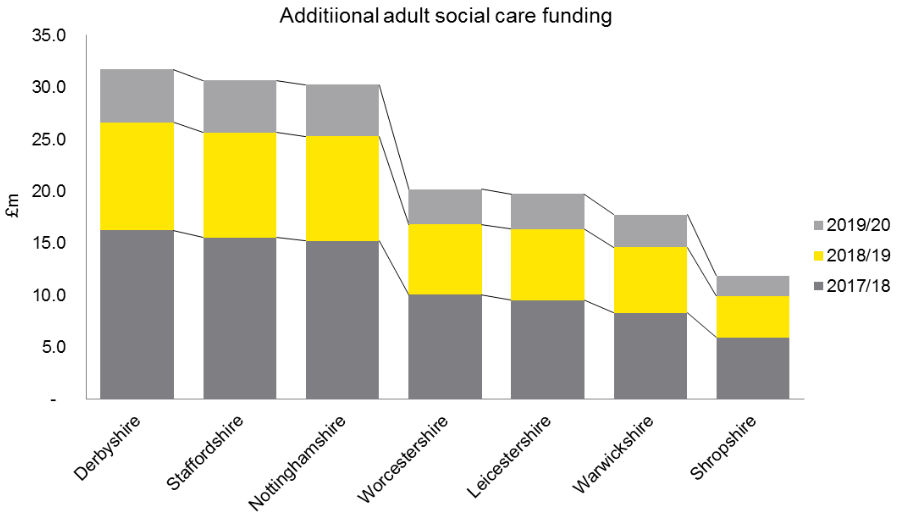
As set out in our Audit Plan, we planned to:

- monitor the financial position for the remainder of 2016/17, including delivery against revenue and capital budgets;
- evaluate the impact of any audit findings on the reported financial position, including the risk of management override and revenue and expenditure recognition;
- use any work by internal audit to inform our risk assessment on the adequacy of the Council's arrangements;
- review the overall controls in place to manage expenditure in Adult Social Care;
- meet with management to discuss the arrangements for financial planning in Adult Social Care; and
- review the Council's approach to identify savings and bridge the spending gap for 2017/18 to 2019/20.

4.2.1.3 Summary of work performed and key findings

We have performed the work as set out in our Audit Plan and are satisfied, based on the evidence received, that the significant risk has been addressed. In forming our view we note that:

- At the outset of 2016/17, two critical events occurred: realisation of the shortfall from Better Care Fund funding (£15million) and overspending from the Staffordshire & Stoke-on-Trent Partnership NHS Trust (SSOTP) contract in Adult Social Care. A spending controls process was launched to bridge the gap, with the majority of savings falling to the following portfolios: Health and Care (£8.8million), Families and Communities (£2.6 million) Economy, Infrastructure and Skills portfolio (£2.3 million), Finance and Resources (£2.1 million) and Strategy, Governance and Change (£1.6 million).
- At the June 2017 Cabinet meeting, Members were informed that the final net revenue position for 2016/17 was overspent by £4.7million (1%) which is after the Council had capitalised £16.4million of transformational revenue expenditure in accordance with the Flexible Use of Capital Receipts direction.
- The Council set a balanced budget for 2017/18, however the Medium Term Financial strategy contained a £6.1million gap for 2018/19 and a gap of approximately £20million a year from 2019/20. Work has begun to address the gap.
- At the Spring Budget 2017, the Government announced an additional £2billion over the next 3 years for adult social care. Staffordshire Council's allocation is £30.6million, with £15.6million in 2017/18; £10.1million in 2018/19 and £5million in 2019/20:



- The future financial position remains challenging, and the Council's budget and the Medium Term Financial Strategy includes a £47.4million savings target for 2017/18, of which £14.9million was delivered by July 2017. Delivery of these plans will be challenging for the Council. The Audit Committee should consider how it will seek assurance over the implementation and project management of major programmes.

4.2.1.4 Overall conclusion against this significant risk

On the basis of our work, having regard to the guidance issued by the C&AG in November 2016, we are satisfied that, in all significant respects, there is no indication that the Council's arrangements are inadequate.

4.2.2 Significant Risk: Working with third parties effectively to deliver strategic priorities

VFM Criteria: Working with third parties effectively to deliver strategic priorities

4.2.2.1 Background to the risk

The health economy across Staffordshire is significantly challenged, with substantial deficits across the health economy.

The MTFS was left with a shortfall of £15million in 2016/17 as a result of additional funding planned for the Better Care Fund (BCF) no longer being available due to financial challenges within the NHS. The Council delayed signing of the 2016/17 BCF whilst this was under negotiation, subsequently obtaining approval in February 2017 without the receipt of the £15million.

Recently local partners have outlined a "Sustainability and Transformation Plan (STP)" on how they will work together to improve health and social care service and a deliver a financially resilient system for local people. The challenges set in the STP are significant and will require joint working and integrated solutions to deliver planned outcomes.

For the purposes of our 2016/17 audit, there is a significant risk to the VFM conclusion that the Council does not have effective arrangements in place to work effectively with the Staffordshire CCGs to deliver strategic priorities through the BCF.

4.2.2.2 Our planned audit approach

As set out in our Audit Plan, we planned to:

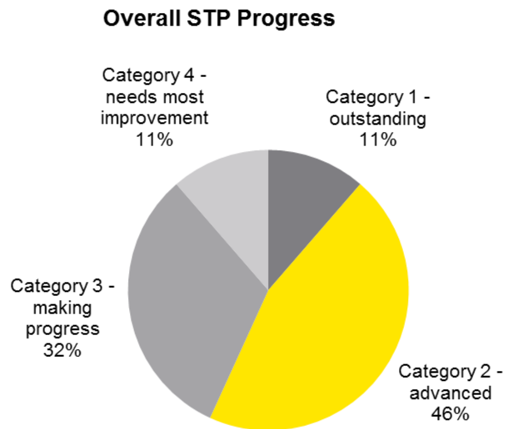
- meet with management to discuss whether arrangements and relationships over the Better Care Fund have improved, including how KPIs have been incorporated into decision making;
- use any work by internal audit to inform our risk assessment on the adequacy of the Council's arrangements;
- understand the Council's approach to bridge the £15m gap in the BCF; and
- understand the Council's approach to incorporate learning and the development of a BCF for 2017/18;
- understand how the Council is working with local partners to develop the STP.

4.2.2.3 Summary of work performed and key findings

We have performed the work as set out in our Audit Plan and are satisfied, based on the evidence received, that the significant risk has been addressed. In forming our view we note that:

- The Staffordshire health and care economy has been increasingly challenged during 2016/17.

- Increasing financial pressures across partner bodies has challenged the effectiveness of working relationships between the Council and the relevant CCGs.
- The Better Care Fund has faced substantial challenges during the year, including an unsigned agreement until January 2017. The reason for the late signing of the BCF was the escalation of disagreement between the Council and its CCG partners, resulting in escalation with NHS England and DCLG for resolution on the £15million funding position.
- BCF funding has been monitored by Cabinet in quarterly financial updates and performance has been overseen by the Health and Well Being Board.
- For 2016/17, the £99.528million BCF has shown some improvements as set out in the quarter four return to NHS England, however delayed transfers in care show improvement, but still fall short of target: Actual per 100,000 population was, actual rate was 4,198, against a target of 3,993
- In addition, the BCF Partners acknowledge that the BCF schemes were not implemented as planned in 2016/17 owing to the intervention, which in the submission to NHS England stated that this “presented difficulties in monitoring and implementing the 16/17 BCF; the local authority had to make in year cuts due to lack of financial agreements which has had a detrimental impact on the health economy in Staffordshire”
- Integration and Better Care Fund planning requirements for the 2017-19 Better Care Fund were released in July 2017. The Council and partners are developing plans based on the latest guidance. The planned areas of spend for 2017-18 will need to align with the wider integration initiatives across the Staffordshire system, particularly the Sustainability and Transformation Plan (STP).
- NHS England has developed a dashboard gives an initial baseline view of STPs’ work, showing the starting point from which they will drive improvements in care. It rates the Staffordshire STP as needing the most improvement:



- The development and implementation of the Staffordshire STP and the improved Better Care Fund needs to be central to the work programme of the Health and Wellbeing Board, with clear performance management and progress reports being produced and challenged.
- Partnering with the local CCG’s through the Better Care Fund & STP is important for the Council, but in the context of our audit, the scale of the partnership and the matters arising during the year are not material to the value for money conclusion for 2016/17.

4.2.2.4 Overall conclusion against this significant risk

As a result, there is sufficient evidence to conclude that whilst there have been challenges during the year, on the basis of our work, having regard to the guidance issued by the C&AG in November 2016, we are satisfied that, in all significant respects, there is no indication that the Council’s arrangements are inadequate.

4.2.3 Significant Risk: Working with third parties effectively to deliver strategic priorities

VFM Criteria: Working with third parties effectively to deliver strategic priorities

4.2.3.1 Background to the risk

Adult social care is provided by Staffordshire & Stoke-on-Trent Partnership NHS Trust (SSOTP) who were inspected by the CQC during 2016/17, rating community adult services rated as 'inadequate'.

Combined with the financial pressures and risk share agreement noted above, there is a significant risk to the VFM conclusion that the Council does not have adequate arrangements in place to oversee performance and enact change in a timely manner.

4.2.3.2 Our planned audit approach

As set out in our Audit Plan, we planned to:

- ► Review the Council's governance arrangements over the SSOPT contract.
- ► Discuss with management, and obtain supporting evidence, as to the actions taken by the Council as to how it has considered the Trust's performance and what action has been taken to enact change in a timely manner.

4.2.3.3 Summary of work performed and key findings

We have performed the work as set out in our Audit Plan and are satisfied, based on the evidence received, that the significant risk has been addressed. In forming our view we note that:

- ► The Council and SSOTP have been working under a s75 agreement since 2012, but more recently, SSOTP have been unable to deliver within the financial envelope, culminating in the Trust exercising its right, in February 2016, to notify the Council to terminate the contract. Cabinet agreed to negotiate with SSOTP to reach a new s75, which was signed in April 2017.
- ► The Council commissioned external support to perform an open book review of the budget, costs and proposed savings for Adult Social Care provision that is contracted with SSOPT. The Report was issued in March 2016 and validated the cost pressures in place as well as set out opportunities for further savings. Our review of the document does not identify any indicators of significantly inadequate arrangements relevant to our VFM conclusion.
- ► The Council has calculated there to be an additional £19.9million pressure on Long Term Care placement budgets for Older People and People with Physical Disabilities when it retakes responsibility for the management of these from April 2017.
- ► In order to provide funding for this level of growth, the council is making use of the full 6% increase over three years of council tax which relates to Adult Social Care.
- ► Demographic changes and price inflation has been incorporated into the financial plan for Adult Social Care along with the savings identified by commissioners and from third party advisors. Savings to be made on Adult Social Care focus on reablement, reducing the variability of care packages, single handed care, assistive technology, day care, direct payments, income and provider overpayments. The MTFS expects the Council to deliver service transformation. There is a reduction in the annual contract values to SSOTP over the 3 year contract term as part of a new way of working through implementation of a revised pathway of care. The return of the brokerage service from SSOTP to the Council is expected to deliver price efficiencies with the wider care provider market. The Council continues to use BCF funding (previous s256 funding from NHS England now passed to LA's from CCGs via the BCF mechanisms) to support activities in Social Care where there is a health benefit e.g. reablement service with SSOTP. Activities within the BCF are recognised within the wider STP programme.

4.2.3.4 Overall conclusion against this significant risk

As a result, there is sufficient evidence to conclude that whilst there have been challenges during the year, on the basis of our work, having regard to the guidance issued by the C&AG in November 2016, we are satisfied that, in all significant respects, there is no indication that the Council's arrangements are inadequate.

4.3 Matters kept under review

We remain alert to the possibility of new or emerging significant risks as our audit progresses. In particular, we kept two areas under review:

- The work and reports of regulators, such as the Care Quality Commission and OFSTED.
- The outcome of other aspects of assurance work, such as the audited financial position and the Head of Internal Audit's opinion.

4.3.1 Work and reports of regulators

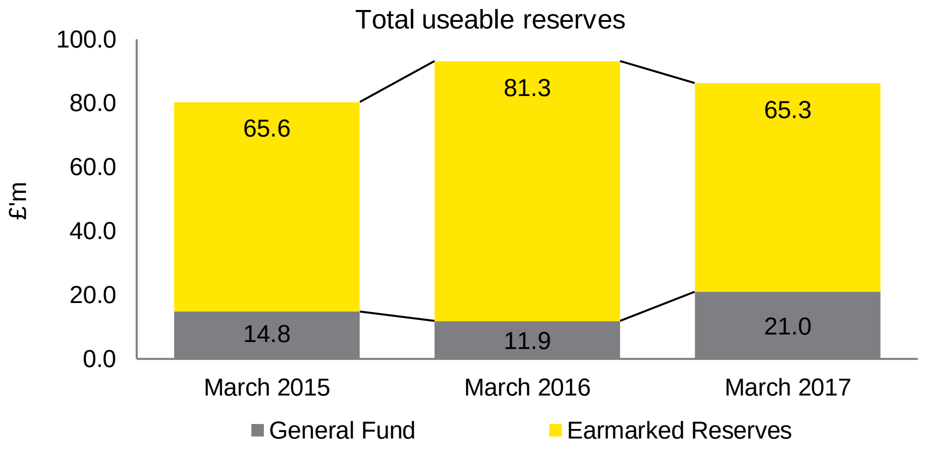
We maintained a watching brief for any work or reports of regulators since completing our initial risk assessment. No reports by OFSTED or the CQC have been issued since our initial risk assessment and therefore there is no evidence to suggest the existence of any further significant risks to the VFM conclusion.

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

We have reviewed the Council's Annual Governance Statement, noting that no significant governance failures have been identified during 2016/17.

We also noted the Head of Internal Audit's overall view that "an 'Adequate Assurance' opinion has been given on the overall adequacy and effectiveness of the organisation's governance, risk and control framework, i.e. the control environment in 2016/17."

There have been no audit findings resulting in an adjustment to the Council's useable reserves. As a result of the stable financial position, there is no evidence to indicate a significant risk to value for money conclusion regarding the Council's arrangements to deploy resources in a sustainable manner.



The Council’s useable capital reserves remain consistent over the past three year:

£m	Capital Receipts Reserve	Capital grants unapplied	Total capital reserves
March 2015	10.1	34.1	44.2
March 2016	18.9	30.4	49.3
March 2017	13.2	23.4	36.6

As a result, there is no evidence to suggest any further significant risks to the Council’s overall arrangements to secure economy, efficiency and effectiveness in its use of resources.

Appendix A Uncorrected audit differences

At the date of writing this report, management have committed to adjusting all matters arising from the audit. Therefore there are no known uncorrected audit differences greater than £0.66million in the financial statements.

Appendix B Corrected audit differences

Corrected audit differences above £0.66million are set out below. The most significant of which relates to the Prior Period Adjustment to correct the valuation methodology of specialised assets.

Adjustment	Explanation
DR Revaluation reserve - £134million DR Capital Adjustment Account (CAA) - £131million	Allocates the reduction in value of Property, Plant and Equipment (PPE) between two unusable reserves. The first £134million is charged to the unusable revaluation reserve. The remaining £131million charge would normally be shown in the income and expenditure account and then reversed to the CAA to comply with local government capital accounting regulations. However, as the adjustment occurs as at 31 March 2015, then there is no accounting requirement (under IAS8) to restate the CIES and the accounting entry may be posted direct to the balance sheet.
CR Property, Plant & Equipment - £264million	Reduces the value of Property, Plant and Equipment by £264million
Being the accounting entries required to recognise the reduction in value of PPE.	

In addition to the above, the Council has needed to reinstate revaluations taken place in 2015/16 and 2016/17 and recalculate depreciation charges for both years using the restated opening balances as the revised starting point. The overall impact of this is:

- A net reduction of the annual depreciation charge of £6million in 2015/16 and £6million in 2016/17
- A revised increase in the carrying value of Property, Plant and Equipment over the restated 2014/15 figures of £14million for 2015/16 and £21million for 2016/17.

Other audit adjustments

1. The Council incorrectly double counted £4.3million of both income and expenditure, which have been removed from the accounts.

2. £3.5million of the PFI Third Party Liability has been transferred from long-term to short-term liabilities. The disclosure note has also been updated.

Significant adjustments to disclosures

We have agreed some presentational changes to the financial statements with the Council. The most significant of which are set out in the following table:

Disclosure	Description of difference
Related party transactions	The Council had disclosed transactions with the Local Enterprise Partnership to the value of £8.45million, when the total is £10.55million. This is a disclosure change only.

Appendix C Appendix C Outstanding matters

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

Work to be completed prior to Audit Committee	To be completed as at Audit Committee date
Reviewing the accounting adjustments processed by the Council for the devaluation of Property, Plant and Equipment as set out in Appendix B, including impact on the Cashflow statement.	Receipt of signed letter of representation
Re-run of our accounts disclosure checklist and a final technical review of the amended accounts to confirm adjustments have been processed correctly.	Completion of the subsequent events procedures to the date of signing the audit report, including: ► Updating our minute review ► Meetings with management to confirm status and compliance with laws and regulations.
Updating audit documentation regarding our testing of grant and other income and other expenditure.	Accounts re-certified by s151
Completion of our documentation regarding the nature of support charges apportioned across the CIES.	Approval of accounts by Audit Committee
	Residual Audit Quality Control checks and documentation

Appendix D Independence

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated March 2017.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd (PSAA)'s Terms of Appointment. 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 confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.

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 Committee on 16 March 2017.

We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements was set out in our Audit Plan of March 2017.

Appendix E Fees

The table below sets out the scale fee and our final proposed audit fees.

Description	Planned fee	Actual fee
Total Audit Fee – Code work	109,755	TBC – due to the additional work and specialist input has been required to resolve the issue relating to the PPE valuation

Our actual fee in in line with the scale fee set by the PSAA at this point in time, subject to satisfactory clearance of the outstanding work.

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

Appendix F Draft auditors report

Opinion on the Authority's financial statements

We have audited the financial statements of Staffordshire County Council for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Movement in Reserves Statement,
- Authority and Group Comprehensive Income and Expenditure Statement,
- Authority and Group Balance Sheet,
- Authority and Group Cash Flow Statement,
- the Expenditure and Funding Analysis on page xxx
- and the related notes 1 to [x].]

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 2016/17.

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.

Respective responsibilities of the Director of Finance and Resources and auditor

As explained more fully in the Statement of the Director of Finance and Resources Responsibilities set out on pages [...], the Director of Finance and Resources 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 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance and Resources; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2016/2017 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Staffordshire County Council and Group as at 31 March 2017 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 2016/17.

Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2016/2017 for the financial year for which the financial statements are prepared is consistent with the financial statements.

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.

Conclusion on Staffordshire County Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

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

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.

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 November 2016, 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 2017.

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.

Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, 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 2017.

Pension Fund financial statements

On [date] we issued our opinion on the Pension Fund financial statements for the year ended 31 March 2017 included within the Statement of Accounts.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

In addition we are required to give an opinion on the consistency of the financial statements of the pension fund included in the Pension Fund Annual Report of Staffordshire Pension Fund. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2017. As the Authority has not yet prepared the Annual Report we have not yet been able to conclude on the consistency with these financial statements and we have not issued our report on those financial statements.

Until we have completed these procedures we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Stephen Clark (senior statutory auditor)
for and on behalf of Ernst & Young LLP, Appointed Auditor
Birmingham
25 September 2017

The maintenance and integrity of the Staffordshire County Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Appendix G Management representation letter

[To be prepared on the entity's letterhead]

[Date]

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 2017. 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 2017* and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the Group and Council CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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 Council the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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 Council in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 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 2016/17 for the Group and the Council that are free from material misstatement, whether due to fraud or error.

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 by and brought to the attention from the auditor because we

believe they do not alter a true and fair view of the financial statements and their omission would not materially alter the view of a reader of the accounts.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

2. 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.

3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Group or Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the consolidated or council financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the consolidated or council financial statements or otherwise affect the financial reporting of the Group or Council.

C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the consolidated and council financial statements.

D. 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 are reflected in the consolidated and council financial statements.

3. We have made available to you all minutes of the meetings of the County Council, Audit and Standards Committee and Cabinet (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:

    a. County Council 31 August 2017

    b. Cabinet 20 September 2017

    c. Audit and Standards Committee 25 September 2017

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.

E. 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.

F. Subsequent Events

1. There have been no events subsequent to year end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

G. Group audits

1. 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 Director of Finance and Resources and the Annual Governance Statement.

2. We confirm that the content contained within the other information is consistent with the financial statements.

Comparative information – prior period adjustment

We represent, to the best of our knowledge and belief, the following:

1. The financial statements have been adjusted to correct an error in the valuation of specialized assets. The amounts involved are set out in Note 47 to the financial statements.

   The comparative amounts have been correctly restated to reflect the above matter(s) and appropriate note disclosure of this (these) restatement(s) has (have) also been included in the current year's consolidated and council financial statements.

   There have been no significant errors or misstatements, or changes in accounting policies, other than the matters described above, that would require a restatement of the comparative amounts in the current year's consolidated and council financial statements. Other differences in the amounts shown as comparative amounts from the amounts in the consolidated and council financial statements for the year ended 31 March 2017 are solely the result of reclassifications for comparative purposes.

Comparative information – corresponding financial information

In accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, we have produced an Expenditure and Funding Analysis and revised the layout of the Comprehensive Income and Expenditure Statement. This has resulted in a reanalysis and restatement to the prior period comparatives.

The comparative amounts have been correctly restated to reflect the above matters and appropriate note disclosure of these restatements have also been included in the current year's financial statements.

Ownership of Assets

1. Except for assets capitalised under finance leases, the Group and Council has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Group and Council's assets, nor has any asset been pledged as collateral, other than those that are disclosed in Note *[X]* to the financial statements. All assets to which the Group and Council has satisfactory title appear in the balance sheet(s).

Reserves

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

Use of the Work of a Specialist – Valuation of Property, Plant and Equipment

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of land and buildings and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the 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.

2. We are satisfied that the key assumptions supporting the valuation of Property, Plant and Equipment are consistent with relevant valuation guidance. In particular, we are satisfied that the useful economic lives applied to Property, Plant and Equipment is a fair reflection of intended use and relevant valuation principles.

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 Council. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

The management representations noted in this letter were reviewed by the Audit and Standards Committee at its meeting on 25 September 2017.

Yours faithfully,

____

(Director of Finance and Resources)

____

(Chairman of the Audit Committee)

Appendix H Required communications with the audit committee

There are certain communications that we must provide to the Audit Committee of UK clients. These are detailed here:

Required communication	Reference
Planning and audit approach Communication of the planned scope and timing of the audit, including any limitations.	Audit Plan
Significant findings from the audit ► Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ► Significant difficulties, if any, encountered during the audit ► Significant matters, if any, arising from the audit that were discussed with management ► Written representations that we are seeking ► Expected modifications to the audit report ► Other matters if any, significant to the oversight of the financial reporting process.	Audit Results Report
Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ► Whether the events or conditions constitute a material uncertainty ► Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ► The adequacy of related disclosures in the financial statements	No conditions or events were identified, either individually of in aggregate, that indicated there could be doubt about Walsall Metropolitan Borough Council's ability to continue as a going concern for the 12 months from the date of our report.
Misstatements ► Uncorrected misstatements and their effect on our audit opinion ► The effect of uncorrected misstatements related to prior periods ► A request that any uncorrected misstatement be corrected ► In writing, corrected misstatements that are significant	Audit Results Report
Fraud ► Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ► Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ► A discussion of any other matters related to fraud	We have made enquiries of management. We have not becaome aware of any fraud or illegal acts during our audit.
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ► Non-disclosure by management ► Inappropriate authorisation and approval of transactions ► Disagreement over disclosures ► Non-compliance with laws and regulations ► Difficulty in identifying the party that ultimately controls the entity	We have not matters we wish to report.
External confirmations ► Management's refusal for us to request confirmations	We have received all requested confirmations.

Required communication	Reference
► Inability to obtain relevant and reliable audit evidence from other procedures	
Consideration of laws and regulations ► Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ► Enquiry of the audit 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 committee may be aware of	We have not identified any material instances of non-compliance with laws and regulations.
Independence Communication of all significant facts and matters that bear on EY's objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ► The principal threats ► Safeguards adopted and their effectiveness ► An overall assessment of threats and safeguards ► Information about the general policies and process within the firm to maintain objectivity and independence	Audit Plan Audit Results Report
Significant deficiencies in internal controls identified during the audit	Audit Results Report
Group audits	The Council has two principal entities that fall within the group structure: ► Entrust Support Services Ltd. The Council owns 49% of the ordinary shareholding of Entrust, and Capita plc holds the remaining 51% of the shares in the joint venture. ► Penda Limited, a joint venture company with Kier and the County Council. Neither entity is judged to be a significant component of the Group.
Fee Information ► Breakdown of fee information at the agreement of the initial audit plan ► Breakdown of fee information at the completion of the audit	Audit Plan Audit Results Report Annual Audit Letter if considered necessary
Certification work Summary of certification work undertaken	Not applicable.

EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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