



**Staffordshire  
County Council  
Audit results report**

Year ended 31 March 2019

2 December 2019



**EY**

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working world



Private and Confidential

19 November 2019

Staffordshire County Council  
No's 1 and 2 Staffordshire Place  
Tipping Street  
Stafford  
ST16 2DH

Dear Audit and Standards Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit and Standards Committee. This report updates our report dated 19 July 2019 and summarises our preliminary audit conclusion in relation to the audit of Staffordshire County Council for 2018/19.

We have substantially completed our audit at Staffordshire County Council for the year ended 31<sup>st</sup> March 2019. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at section 3. We are reporting by exception about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Audit and Standards Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

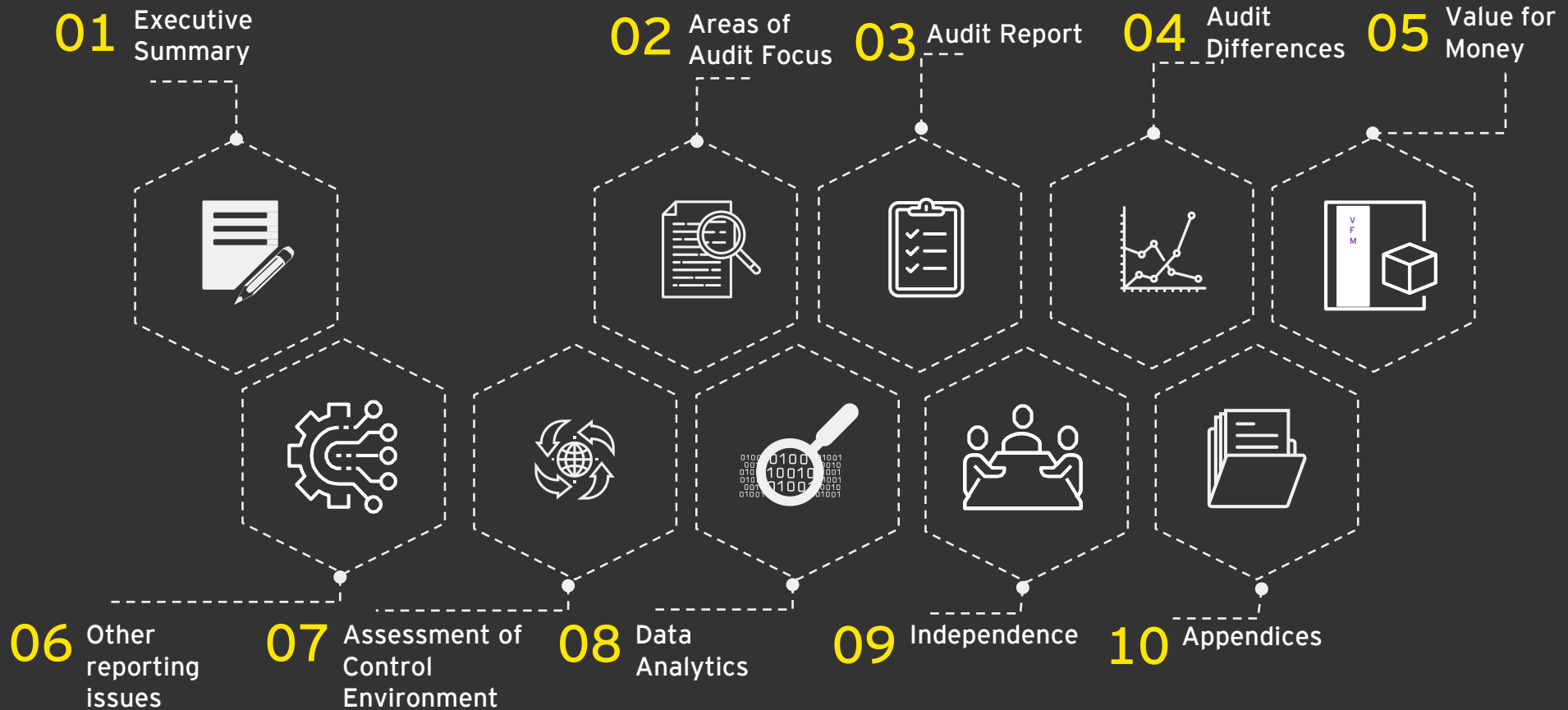
We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit and Standards Committee meeting on 2 December 2019.

Yours faithfully

Stephen Clark  
For and on behalf of Ernst & Young LLP  
Encl

# Contents



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psaa.co.uk](http://www.psaa.co.uk)). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities / Terms and Conditions of Engagement. 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.





# 01 Executive Summary

# Executive Summary

## Scope update

In our audit planning report tabled at the 11 March 2019 Audit and Standards Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exception:

- ▶ Changes in materiality: We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £11.94m (Audit Planning Report – £13.33m). This results in an updated performance materiality, at 75% of overall materiality, of £8.95m, and an updated threshold for reporting misstatements of £0.59m.
- ▶ For clarity, we are reporting an extension to the scope of the work on one area of focus. We identified the Local Government Pension Scheme (LGPS) as an area of audit focus and listed the procedures we intended to perform. Due to the result of the McCloud judgement in relation to pensions, the Government Actuary Department (GAD) issuing guidance and the result of the Court of Appeal decision to deny the Government leave to appeal the decision, we extended the procedures to assess the adjustment made to the financial statements in respect of the judgement, the assumptions on which this adjustment was based on and management's process for obtaining and considering the adjustment.
- ▶ Similarly, the impact of Guaranteed Minimum Pensions (GMP) case on LGPS has been further considered since the drafting of the financial statements. The actuary for the Staffordshire Pension Fund concluded that the impact would not be material for the Pension fund. We have carried out further analysis on the range of the estimate.
- ▶ The effect of the amendment is reported under section 4 Audit Differences

## Status of the audit

We have substantially completed our audit of Staffordshire County Council's financial statements for the year ended 31 March 2019 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 3. However until the audit work is complete further amendments may arise. Below is a summary of tasks that are to be completed and awaiting final review;

- ▶ Receipt of a signed letter of management representation and Annual Governance Statement
- ▶ Completion of subsequent event review procedures
- ▶ Final review of the Narrative Report and revised financial statements
- ▶ Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts (WGA) submission. It should be noted that 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 WGA consolidation pack.



# Executive Summary

## Audit differences

We have identified audit differences, which the Authority has agreed to adjust. Details of adjusted differences can be found in section 4.

## Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Staffordshire County Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Areas of Audit focus" section of this report.

We ask you to review these and any other matters in this report to ensure:

- ▶ There are no other considerations or matters that could have an impact on these issues
- ▶ You agree with the resolution of the issue
- ▶ There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit and Standards Committee.

## Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

In addition, during the audit we identified a number of observations and improvement recommendations in relation to management's financial processes and controls.

We have set out our observations at section 7 of the report.

# Executive Summary

## Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified the following significant risks:

- ▶ Delivery of a medium term sustainable financial plan.
- ▶ Use of Nexxus Ltd to provide adult social care placement services for the Authority.
- ▶ Implementation of special educational needs reforms, and specifically the report issued following the joint Ofsted and CQC inspection.

As a result of our procedures, we conclude that a qualified 'except-for' conclusion with respect to your arrangements to secure economy, efficiency and effectiveness in your use of resources is appropriate. A joint Ofsted and CQC inspection of the local Staffordshire area was carried out to judge the effectiveness of implementation of special educational needs and disabilities (SEND) reforms as set out in the Children and Families Act 2014. This inspection identified a number of significant areas of weakness in practice, resulting in the requirement for the Authority and Staffordshire Clinical Commissioning Groups to issue a Written Statement of Action. We acknowledge the challenges faced by the Authority in working with the SEND partners where the Authority has limited direct control. Given the findings of the report we have concluded the Authority is not working effectively with partners to deliver required services and outcomes to the local population, specifically in respect to SEND.

## Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. The Annual Governance Statement was received on 12 July 2019. Management has agreed to update the statement to reflect the 'except for' qualification of the value for money conclusion.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission.

We have no other matters to report.

## Independence

Please refer to Section 9 for our update on Independence.



02

## Areas of Audit Focus





## Areas of Audit Focus

### Fraud risk

#### Risk of fraud in revenue and expenditure recognition - capital receipts flexibility

##### What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

In 2018/19 the Authority planned to dispose of a number of assets generating capital receipts which it intended to utilise for revenue purposes under the MHCLG's flexibility capital receipt direction.

The direction is effective for 6 financial years starting from 1/4/16.

The risks to the financial statements identified include;

- ▶ That the Authority has not obtained the appropriate Secretary of State direction;
- ▶ The expenditure does not qualify under the flexibility direction;
- ▶ That receipts are not applied within the prescribed timeframe.

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

Having considered the factors for expenditure recognition, we believe the risk is linked to the existence of capital expenditure arising from the potential to incorrectly capitalise revenue expenditure.

##### What are our conclusions?

Our sample testing of expenditure confirmed the accounting treatments meet the conditions of the Secretary of State direction.

##### What did we do?

Sample tested expenditure to determine the qualifying criteria under the Secretary of State direction was met and within the specified timeframe.



## Areas of Audit Focus

### Fraud risk

#### Misstatements due to fraud or error

##### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

##### What did we do?

- ▶ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- ▶ Reviewed and discussed with management any changes the methodologies of existing and new accounting estimates for evidence of bias;
- ▶ Enquired of management about risks of fraud and the controls put in place to address those risks;
- ▶ Evaluated the business rationale for significant unusual transactions; and
- ▶ Understood the oversight given by those charged with governance of management's processes over fraud.

##### What are our conclusions?

- ▶ We have not identified any material weaknesses in controls or evidence of material management override.
- ▶ We have not identified any instances of inappropriate judgements being applied.
- ▶ We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business



# Areas of Audit Focus

## Significant risk

### Valuation of land and buildings

#### What is the risk?

Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

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

The Authority has a rolling valuation process, which annually values 20% of the land and building assets and is subject to a number of assumptions and judgements, which if inappropriate could result in a material impact on the financial statements. There is also a potential risk of material misstatement that the remaining 80% of unvalued assets may have experienced a material change in value which has not been identified and accounted for correctly.

#### What judgements are we focused on?

We focused on the following:

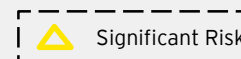
- ▶ The adequacy of the scope of the work performed by the in-house and external valuer and their professional capabilities
- ▶ The reasonableness of the underlying assumptions used by the Authority's expert valuer

#### What did we do?

- ▶ Documented our understanding of the processes and controls in place to mitigate the risks identified, and walked through those processes and controls to confirm our understanding
- ▶ Evaluated the competence, capabilities and objectivity of the inhouse and external valuers.
- ▶ Reviewed any terms of engagement or instructions issued to the valuer to ensure these are consistent with accounting standards. Assess if the terms of engagement includes a specific instruction from the Authority to the valuer relating to an assessment of the unvalued population;
- ▶ Engaged our valuation specialists to support our testing strategy and help evaluate the work of the Authority's valuer specifically to assess if the movement on the unvalued population has been addressed appropriately
- ▶ Engaged our valuation specialists to support our testing strategy and help evaluate the work of the Authority'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.

#### What are our conclusions?

- ▶ The Authority's land and buildings are valued by the District Valuation Office (DVO) ) and the Authority's internal valuer.
- ▶ We have reviewed the instructions and data provided to the valuer by the Authority. We identified no issues.
- ▶ We have obtained input from EY's own valuation specialist to review the work of the DVO and their qualifications.
- ▶ Our valuation specialist has reviewed the valuation methods used by management's specialist and internal valuer.
- ▶ We have reviewed the classification and valuation methods used.
- ▶ Our review of accounting entries at period end and those journals made in processing valuation adjustments did not reveal any instances of management intention to misreport the financial position.





## Areas of Audit Focus

### Other areas of audit focus

#### Pension Liability Valuation

##### What is the risk?

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

The Authority's pension fund deficit is a material estimated balance and the Code requires that the net liability be disclosed on the Authority's balance sheet. At 31 March 2018 this totalled £947.9 million.

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

In 2017/18, the Authority's share of the pension scheme assets was £8.175m understated primarily as a result of the timing of the actuary's work. The Authority is planning to obtain a second valuation as at 31 March 2019.

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

We focused on the following:

- ▶ The reasonableness of the underlying assumptions used by the Authority's expert.
- ▶ Ensuring the information supplied to the actuary in relation to Staffordshire County Council was complete and accurate
- ▶ Ensuring the accounting entries and disclosures made in the financial statements were consistent with the report from Hymans Robertson.

##### What did we do?

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

##### What are our conclusions?

Our work has not identified any material misstatements of the Authority's liability or related disclosures in this regard.

- ▶ We have assessed and are satisfied with the competency and objectivity of the Authority's actuaries: Hymans Robertson LLP.
- ▶ EY pensions team and PwC (Consulting Actuary to the NAO) have reviewed the work of the actuaries. We challenged the actuarial valuation and found no indication of management bias in this estimate.
- ▶ Our review of accounting entries at period end and those journals made in processing estimate did not reveal any instances of management intention to misreport the financial position.

See next page for adjustment made to the pension liability.





## Areas of Audit Focus

### Other areas of audit focus



#### Pension liability valuation

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

Staffordshire County Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the balance sheet of the Authority. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. The information disclosed is based on the IAS 19 report issued to the Authority by the actuary. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

The Pension Scheme Actuary calculates the value of the Authority's share of the total scheme to be included in the financial statements. In performing our audit procedures on the notified balances we observed that there was a large difference between the asset value of the total fund which the actuary had used in their calculations, and the asset value of the fund as disclosed in the Staffordshire County Council Pension Scheme draft financial statements as at 31 March 2019. The Authority prepared the financial statements using the actuary report dated 11 April 2019 based on information as at 31 December 2018. The Authority requested an updated report to reflect the position as at 31 March 2019. The table below summarises the movement between the initial and updated actuarial report dated 2 July 2019. The table shows that the asset values decreased by £23m, and the accounts have been updated to reflect this.

Share of scheme assets	Initial actuarial report dated 11 April 2019 £m	Updated actuarial report dated 2 July 2019 £m	Movement £m
Assets stated in the actuarial report	2,111,689	2,088,246	23,443



## Areas of Audit Focus

### Other areas of audit focus



#### Pension liability valuations

In addition to the above, there was an ongoing national issue which required a late change to the pension fund accounts and IAS26 fund liability disclosure. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling. The Authority had recognised this matter as a contingent liability (note 42).

Since the year-end there had been increasing indications that the liability may need to be incorporated into the assessment of the scheme liabilities depending on the materiality of the issue. The Authority's initial disclosure for the pension scheme liability was based on the actuarial report dated 11 April 2019. An additional report was requested dated 2 July 2019. In the latter report the actuary reported that the liability had increased by £11.223m (past service costs £8.083m and £3.140m for the GMP equalisation). The Authority has agreed to make the required adjustments to the financial statements in respect of this matter.

We have included the adjusted misstatements of £23m decrease in asset values, and £11m increase in scheme liabilities in our summary of adjusted misstatements at Section 4.

The adjusted misstatement does not impact cash nor the outturn for the year.



## Areas of Audit Focus

### Other areas of audit focus

#### IFRS 9 - financial instruments

##### What is the risk?

This new accounting standard is applicable for Local Authority accounts from the 2018/19 financial year and will change:

- ▶ How financial assets are classified and measured;
- ▶ How the impairment of financial assets are calculated; and
- ▶ The disclosure requirements for financial assets.

There are transitional arrangements within the standard; and the 2018/19 Cipfa Code of practice on Local Authority accounting provides guidance on the application of IFRS 9. However, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty on the accounting treatment.

##### What did we do?

- ▶ Assessed the Authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19;
- ▶ Considered the classification and valuation of financial instrument assets;
- ▶ Reviewed expected credit loss model impairment calculations for assets; and
- ▶ Checked additional disclosure requirements.

##### What are our conclusions?

- ▶ £15.2m adjustment was made to the opening balances in relation to modified loans as part of the application of IFRS 9. To comply with the disclosure requirements for IFRS 9, Management have agreed that the adjustment to the opening balances will be amended and disclosed as transitional adjustments.



## Areas of Audit Focus

### Other areas of audit focus

#### IFRS 15 - Revenue contracts with customers

##### What is the risk?

This new accounting standard is applicable for Local Authority accounts from the 2018/19 financial year.

The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.

The 2018/19 Cipfa Code of practice on Local Authority accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of LG revenue and how they should be recognised. The impact on Local Authority accounting is likely to be limited as large revenue streams like council tax, non-domestic rates and government grants will be outside the scope of IFRS 15. If the Authority has not assessed whether or not the new standard is relevant, there may be a risk of material misstatement if recognition of revenue is incorrect and new disclosure requirements are not included in the financial statements.

##### What did we do?

- Assessed the Authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19. This will include where relevant, any Local Authority Trading Companies consolidated into the Authority's Group Accounts
- Considered application to the Authority's revenue streams, and where the standard is relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and
- Checked additional disclosure requirements are correctly included.

##### What are our conclusions?

Our review of the Authority's assessment has concluded it does not have any material revenue streams that come under the scope of IFRS 15.





## Areas of Audit Focus

### Other areas of audit focus

#### Accounting for the PFI waste scheme

##### What is the risk?

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

##### What did we do?

Tested the completeness and accuracy of the inputs to the financial model and the subsequent correct application of the outputs to the financial statements

##### What are our conclusions?

- ▶ There were no material misstatements identified as a result of our procedures.
- ▶ The narrative within the PFI disclosures were updated, to provide the reader with sufficient detail of the scheme length and contract value.

Further details of the disclosures updated are at section 4 of the report.



## Areas of Audit Focus



### Other matters

In 2018/19 Ministry for Housing, Local Government and Communities took the decision to defer the implementation of IFRS 16 (Accounting for leases) in 2019/20 to 2020/21. As a result we did not undertake a detailed review of the preparedness but recommended that the Authority continued to plan to implement the new standard commenced during 2019. We will discuss the Authority's progress to implement IFRS 16 as part of our audit planning for 2019/20.

In addition, changes have been made to the CIPFA/LAASAC Code for 2019/20, as noted below. These matters should be included where we have identified a potentially material impact arising in 2019/20;

- The revised IASB *Conceptual Framework for Financial Reporting (Conceptual Framework)*, the main elements being (19/20 Code Cpt 2.1 refers):
  - *new definitions of assets, liabilities, income and expenses*
  - *updates for the inclusion of the recognition process and criteria and new provisions on de-recognition*
  - *enhanced guidance on measurement bases*
- Guidance in the treatment of the Apprenticeship Levy (19/20 Code Cpt 2.11 refers)
- Updated guidance on IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation & LOBOs (19/20 Code Cpt 2.11 refers)
- Clarifications for the disclosure requirements with respect to interests in entities within the scope of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (19/20 Code Cpt 9 refers)



# 03 Audit Report



# Audit Report

## Draft audit report

### Our opinion on the financial statements

#### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STAFFORDSHIRE COUNTY COUNCIL

##### Opinion

We have audited the financial statements of Staffordshire County Council for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- ▶ Movement in Reserves Statement,
- ▶ Comprehensive Income and Expenditure Statement,
- ▶ Balance Sheet,
- ▶ Cash Flow Statement,
- ▶ related notes 1 to 47.

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 2018/19.

In our opinion the financial statements:

- ▶ give a true and fair view of the financial position of Staffordshire County Council as at 31 March 2019 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 2018/19.

##### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- ▶ the County Treasurer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- ▶ the County Treasurer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

##### Other information

The other information comprises the information included in the Statement of Accounts set out on pages 3 to 10, other than the financial statements and our auditor's report thereon. The County Treasurer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.





# Audit Report

## Our opinion on the financial statements

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

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

##### Working with partners and other third parties

During November 2018, a joint Ofsted and CQC inspection of the local Staffordshire area was carried out to judge the effectiveness of implementation of special educational needs reforms following the Children and Families Act 2014. This inspection identified a number of significant areas of weakness in practice, resulting in the requirement for the County Council and CCGs to issue a Written Statement of Action. The findings of the report identify that the County Council is not working effectively with partners to deliver required services and outcomes to the local population.

This issue is evidence of weaknesses in proper arrangements for:

- ▶ partnership working in the local area and the ability of organisations to work together to effectively deliver strategic priorities, improving the health and experiences of the local population.

Actions to address the identified weaknesses, include development of an improvement plan and revised governance structure have commenced but were not complete at the end of 2018/19.

#### **Qualified conclusion [Except for]**

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, with the exception of the matter reported in the basis for qualified conclusion paragraph above, we are satisfied that, in all significant respects, Staffordshire County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

### 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.

### Responsibility of the County Treasurer

As explained more fully in the Statement of the County Treasurer's Responsibilities set out on page 18, the County Treasurer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the County Treasurer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



# Audit Report

## Our opinion on the financial statements

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### *Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources*

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether the 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 the 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 2019.

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, the Staffordshire County Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### Pension Fund financial statements

On xx xx 2019 we issued our opinion on the Pension Fund financial statements for the year ended 31 March 2019 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 2019. 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.



# Audit Report

## Our opinion on the financial statements

### Use of our report

This report is made solely to the members of Staffordshire County Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

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.



# 04 Audit Differences







# Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

## Summary of adjusted differences

We highlight the following misstatements greater than £0.597m which have been corrected by management that were identified during the course of our audit;

Previously notified at 30 July 2019 audit and standards committee

- ▶ As detailed at section 2, on receipt of the updated actuarial report from the actuary the asset value of the pension fund decreased from the initial report provided to the Authority, this resulted in decreasing the asset value by £23m and increasing the net liability by the same amount.
- ▶ £8.1m additional pensions deficit charged to services and £3.2m in Other Comprehensive Income due to the McCloud judgement in relation to pension liabilities. This judgement was confirmed after the preparation of the draft financial statements. An additional actuarial valuation was obtained to reach a more precise valuation on the impact than our initial estimate. Management have corrected these items.
- ▶ A number of Government grants were incorrectly treated in the comprehensive income and expenditure statement
  - ▶ £0.44m overstatement of basic need grant
  - ▶ £0.8m understatement of the local transport fund grant
  - ▶ £1.7m understatement of the independent living fund grant
- ▶ £15.2m reclassification adjustment from opening balances has been made to reflect the transitional arrangements under IFRS 9 for the modified loans.
- ▶ A number of disposals relating to schools converting to academies, totalling £25.4m (17/18 £17.4m 16/17 £8.0m) were made in the incorrect financial year.
- ▶ The creditor and debtor value was increased by £1.05m as a reclassification in relation to the accounting treatment for the Non-Domestic Rates appeals provision.

Further adjusted differences, identified, do not impact the net income and expenditure position for the Authority.

- ▶ Testing of other expenditure, identified the Authority double counted expenditure and income, in relation to disabled facility (DFG), dedicated schools (DSG) and public health (PH) grants, the Authority has adjusted the accounts by reducing income and expenditure by £23.3m, the prior year has also been reduced by £20.1m. (DFG - £8.2m (2017-18 £7.5m), DSG £1.4m, (2017-18, no prior year impact) and PH £13.7m (2017-18 £12.6m)).
- ▶ Testing of other income, identified the Authority had misclassified £2.3m of fees and other charges, the income was reclassified to Government Grants.
- ▶ Testing of grants received in advance, identified the Authority has incorrectly utilised existing contributions to fund expenditure on capital schemes which are to be funded by section 106 contributions, the Authority should have raised a debtor for the monies which are due as part of the section 106 agreements instead. As a result the accounts were adjusted by increasing the debtors by £16.6m, £11.8m being long term and £4.8m being short term, and also increasing the grants received in advance by £16.6m. The prior year debtors has also been increased by £6.2m, £3m long term and £3.3m short term, with the grants received in advance by £6.2m



# Audit Differences

## Disclosure amendments

There were a number of disclosure amendments made, following the audit, which included:

- ▶ **Note 1:** Critical judgements to accounting policies - the disclosure for the Stoke and Staffordshire Local Enterprise Partnership (LEP) has been updated to clarify the money held by the Authority as accountable body within earmarked reserves is specific for the LEP.
- ▶ **Note 18** - Cash and cash equivalents - the disclosure was reclassified, updating the call accounts value of £3.8m to £4.5m, and the bank overdraft of £21.5m to £22.2m. The change also affect Note 15 - financial instruments and Note 44 - Nature and extent of risks arising from financial instruments.
- ▶ **Note 19 - Assets held for sale** - the disclosure footnote has been enhanced to make clear that the Authority has held some assets for sale for a period over twelve months but expects that there is a reasonable expectation of a sale in 2019/20.
- ▶ **Note 30:** Exit packages - the note was updated, to correctly include 13 individuals in 2017/18 and one individual in 2018/19. In addition we identified the exit packages in relation to the actuarial strain costs to the Authority for 12 individuals were incorrectly disclosed. The figures disclosed within the note included the cost to the Authority if paid on an instalment basis, the costs were actually paid in full in the year to save interest costs. This lead to a £0.13m decrease in costs disclosed in the accounts from £3.25m to £3.12m.
- ▶ **Note 31:** Audit fees: the note was updated to clearly show the costs relating to the financial audit and other non audit fees, and the year the costs relate to. The current year costs increased by £10k to reflect the planned audit fee.
- ▶ **Note 37:** PFI:
  - ▶ 1) The disclosure note was updated to show the worth of the Two Schools PFI Scheme, as £49.6m, from £45m.
  - ▶ 2) The worth of the Streetlighting, Children's Homes, and Waste to Energy PFI Schemes was not disclosed and are now being presented as £174.9m, £20.8 and £377.3m.

Management has agreed to adjust the above issues.

We will also update Audit and Standards Committee if there are any further issues arising from our incomplete audit procedures.



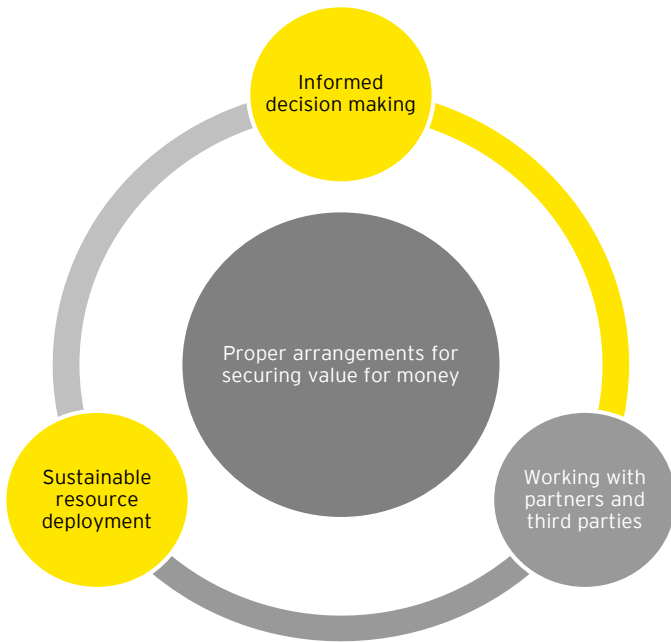


**05**

## **Value for Money Risks**



# Value for Money



## Background

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

For 2018/19 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

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

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

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

## Overall conclusion

We identified 3 significant risks around these arrangements. The tables below present our findings in response to the risks in our Audit Planning Report and any other significant weaknesses or issues we want to bring to your attention.

As a result of our procedures, we conclude that a qualified 'except-for' conclusion with respect to your arrangements to secure economy, efficiency and effectiveness in your use of resources is appropriate. A joint Ofsted and CQC inspection of the local Staffordshire area was carried out to judge the effectiveness of implementation of special educational needs and disability (SEND) reforms following the Children and Families Act 2014. This inspection identified a number of significant areas of weakness in practice, resulting in the requirement for the Authority and CCGs to issue a Written Statement of Action. Given the findings of the report we have concluded the Authority is not working effectively with partners to deliver required services and outcomes to the local population, specifically in respect to SEN.

## Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

*“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”*

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
<p>From the Medium Term Financial Strategy (MTFS), which commenced in March 2018 and was updated in September and December 2018, the Authority has identified it had significant challenges particularly in respect of rising costs of care for children and adults and due to reductions in government funding. As at September 2018 despite many cost reduction options being identified there was still a budget gap across the next three years ranging from £9.3m in 2019/20 and decreasing to £8.5m in 2020/21 with no budget gaps in 2022/23 and 2023/24.</p> <p>The MTFS was updated in February 2019, which shows a balanced position over the 5 years. Going forward the Authority will need to continue to scrutinise its financial plans to achieve budget savings in order maintain delivery of Authority services to enable it to hold an adequate level of useable reserves.</p>	<p><b><u>Sustainable resource deployment</u></b></p> <p>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions</p>	<p>We have performed the work as set out in our Audit Plan and are satisfied that based on the evidence reviewed, the Authority has put in place adequate arrangements to address this significant risk. In forming this view we noted that;</p> <ul style="list-style-type: none"> <li>▶ Our work confirmed that having set a budget of £504.190m, at Quarter 1, the forecast was an overspend of £3.2m, spending controls were put in place, services have made tremendous efforts to identify and deliver additional savings to mitigate the forecast overspend. This has now been achieved with services delivering an underspend of £8.1m which is 1.73% of the budget. In addition, £5m has been able to be contributed to the Exit and Transition Fund delivering an underspend of £3.562m for the year. The capital programme out turn was £128.2m against a £129.1m forecast, after capitalising £13.242m transformational revenue expenditure in accordance with the flexible use of capital receipts direction.</li> <li>▶ The Authority delivered savings in 2018/19 of 9.5m against the annual target of £11.2m. The future financial position remains challenging and the current financial year budget and MTFS includes a savings target of £40m. Delivery of these plans and identifying solutions to bridge future funding gaps will continue to be challenging.</li> <li>▶ Internal audit were commissioned to carry out work on stress testing the financial assumptions around the spending pressures included within the MTFS and have made recommendations around the pressures included for 'looked after children' in the MTFS and delivery of savings for autism services. The Audit and Standards Committee will need to consider how it continues to seek assurance from management that the plans are being effectively managed and delivered.</li> <li>▶ The 2019-20 budget shows the Authority will be using reserves of £2.7m, to balance the budget, we acknowledge there is also £5m planned contribution to general reserves. A further £6.6m of reserves are to be used in 2020/21, the use reduces to £1m in 2021/22 and £0.7m in 2022/23. No use of reserves is required in 2023/24.</li> </ul>



## Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

*“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”*

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
<p>To deliver many services and strategic priorities the Authority has to work with external partners and third parties, particularly the NHS and other healthcare providers. A number of NHS bodies in the Staffordshire health economy and health care market continue to have significant financial challenges. One of the main providers, Allied Healthcare, who provide adult social placement services for the Authority, has exited the market. The Authority is reviewing options which include utilising it’s owned subsidiary, Nexxus Ltd, to provide the placements service. In this case there are potential challenges and risks to the Authority which include;</p> <ul style="list-style-type: none"> <li>▶ No contingency plans in place to maintain continuation of the service</li> <li>▶ Losses to the Authority if payments have been made to the service provider for services not delivered</li> <li>▶ Lack of capacity in the system to provide alternative delivering of the service to service users</li> <li>▶ Alternative proposals may place the Authority under additional financial pressure</li> </ul>	<p><b><u>Working with partners and third parties</u></b></p> <p>Working with third parties effectively to deliver strategic priorities</p>	<p>We have performed the work as set out in our Audit Plan and on the evidence reviewed, that the Authority has put in place adequate arrangements to address this significant risk. In forming this view we noted that;</p> <ul style="list-style-type: none"> <li>▶ The establishment of Nexxus Care was to deliver reablement, provider of last resort (POLR) and home care services.</li> <li>▶ The cabinet approved plans to deliver 10,000 hours of home care in June 2017, the Nexxus care strategy was approved by Nexxus Board in November 2018.</li> <li>▶ The Authority has an understanding of the market Nexxus Ltd operates in and is considering deliver options which provide value for money prior to expanding the services Nexxus care provides</li> <li>▶ The Stafford and Cannock Allied Healthcare work transferred on 10 December 2018, to Nexxus Ltd circa 3200 hours per week with an annual value of £2.8m, the handover of the work broadly went to plan, with no identified impact on service delivery. We have considered whether the increased use of Nexxus Ltd and concluded the Authority does not need to prepare group accounts.</li> </ul>

## Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

*“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”*

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
<p>The Authority has received various commentaries throughout the year from regulatory and inspectorate bodies, the tone of which has been mixed.</p> <p>The most significant of the reports related to the a joint inspection in November 2018 of the local area of Staffordshire to assess the effectiveness of the area in implementing the special educational needs and disability (SEND) reforms as required by the Children and Families Act 2014.</p> <p>The joint report of OFSTED and the CQC issued in January 2019 highlight significant weaknesses which indicates a significant risk to the VFM conclusion in terms of working with third parties effectively to deliver strategic priorities.</p>	<p><b><u>Working with partners and third parties</u></b></p> <p>Working with third parties effectively to deliver strategic priorities</p>	<ul style="list-style-type: none"> <li>▶ Nationally the looked after children and SEND service provision has seen increased pressures, specifically for SEND since March 2018, there have been 42 inspections, and 9 follow up visits. Of the 42 inspections 24 required significant improvement and 18 required improvements and of the 9 follow up visits, it was noted 5 had made no improvements.</li> <li>▶ We have obtained the April 2019 written statement of action to the inspectorate, which details plans to address the significant weaknesses highlighted. We note the Authority has a clear action plan with dates to complete implementation. The inspectorate reviewed the action plan and wrote to the Authority in May 2019, and concluded the statement of action is deemed to be fit for purpose in setting out how the local area will tackle the significant areas of weakness identified in the published report letter. However, some minor improvements are required for which many actions have quite short time frames for completion. Those timescales may require further review to ensure they are fully achievable.</li> <li>▶ It is clear from discussions with officers that the significant weaknesses highlighted by the report have been understood by the Authority and addressing the weaknesses is a key priority for 2019/20.</li> <li>▶ On review of the significant weaknesses highlighted by the report we have concluded that the Authority’s arrangements, to work effectively with partners to deliver required services and outcomes to the local population specifically over SEND, were not in place throughout 2018/19.</li> </ul>





## 06 Other reporting issues



## Other reporting issues

### Consistency of other information published with the financial statements, including the Annual Governance Statement

We give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2018/19 with the audited financial statements.

We also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2018/19 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. The Annual Governance Statement was received on 12 July 2019. Management has agreed to update the statement to reflect the 'except for' qualification of the value for money conclusion.

### Whole of Government Accounts

In addition to our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We are yet to conclude our work in this area.

## Other reporting issues

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# Other reporting issues

### Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

### Other matters

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

Quality of the financial statement preparation process

We identified several audit differences during the course of our audit which are fully detailed in section 4. In our view some of the errors are a reflection of the financial statements preparation process that the Authority has in place together with the fact that 2018/19 is the second year of the faster close. These issues could be mitigated in the future by making improvements to the quality review arrangements before the financial statements are presented for audit.

We thank officers for their hard work in the preparation and supply of working papers requested in advance of and during our year-end audit visit.



07

## Assessment of Control Environment

# Assessment of Control Environment

## Financial controls

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have followed up deficiencies in internal control during 2018/19, as follows:

- 1) In 2017/18 we reported that we had identified 3 schools that converted to Academy in 2016/17. Additional work identified a further 8 schools which had not been accounted for, in the 2017/18 financial year, as the disposal notification from Legal had not been received until May 2018, being after the financial period ended. An adjustment to the accounts was processed for the 8 schools in the 2017/18 financial statements of £18.2m.
- ▶ The Authority undertook an exercise in early 2019 to review the completeness of the fixed asset register primarily to identify whether schools that had converted to academies were still included. The initial review identified errors totalling £12.7m (16/17 £3.0m and 17/18 £9.7m) which included 5 schools. Our interim visit reviewed the work referred to above and performed additional testing which identified a further 9 schools which had been disposed, totalling £10.9m (16/17 £5.2m 17/18 £5.7m). The draft financial statements have reflected these adjustments with further disclosures made at note 47.
- ▶ Our year-end disposal testing identified an additional school which had converted to an academy school in 2017/18. The Authority has agreed to make an adjustment for £1.9m for both 2018/19 and 2017/18.
- ▶ We recommend the finance team continues to make regular enquires with both the legal and property services teams ensure disposals are accounted for in the correct financial year.



# Assessment of Control Environment

## Financial controls

2) The accounts payable and receivable systems are integral to the ledger system, and the reconciliation between the accounts payable and receivable system to the general ledger system is an automated process. There is no evidence maintained that a review of the reconciliation has been carried out by the Authority, and additional work was carried out by the Authority to recreate aged listing from the sub ledgers as at 31 March 2018, which involved cleansing the data within the general ledger, to match the balance reported in the statement of accounts.

- ▶ The finance team continues to have difficulty in providing an aged listing for creditor and debtors. From our review of the Debtors and Aged debt listing, we observed that the schedule of debtors provided was comprised of a significant number of invoices which have been settled and allocated receipts/payments from customers. In some instances, we have invoices that have been settled as far back as 2016. Additional work was carried out by the Authority to cleanse the debtors listing. We recommend that payments are correctly allocated to customer accounts and that system reports as at 31 March are retained for audit purposes and cleansed prior to the year-end audit visit.

3) Members and senior management are required to complete a declaration of interest form at year-end. Our testing identified that there were seven members who had not completed a declaration of interest form at year-end. As there is an inherent risk that the related party transaction disclosure note could be incomplete we undertook additional audit procedures. The results of this work did not identify any matters to bring to your attention. We acknowledge that all efforts are made to ensure returns are completed, however, we recommend that management undertake inquiries to provide assurance that all material related parties are identified.

- ▶ Our work has identified that there are eight members who have not completed a declaration of interest form. As in the prior year, this work did not identify any matters to bring to your attention. We acknowledge that all efforts are made to ensure returns are completed, however, we recommend that management undertake inquiries to provide assurance that all material related parties are identified.

# Assessment of Control Environment - continued

## Financial controls

- 4) Last year we also reported on the quality of the financial statement preparation process, which led to several audit differences, and these issues could be mitigated in the future by making improvements to the quality review arrangements before the financial statements are presented for audit. We continue to find errors in the working papers provided for audit, as basic checks are not being carried out. This has created inefficiencies and delays as follows:
- ▶ The aged listing for creditors provided did not agree to the accounts, as it was understated by £94k.
  - ▶ The aged debtor listing provided was understated by £26k when compared to the financial statements. We used the listing to assess the bad debt provision was £1.7m less the figure disclosed in the accounts. This is a result of timing difference between when the report was run to calculate the bad debt provision and when the ledger was closed. As the additional transactions mainly related to current invoices raised and are excluded as part of the bad debt review provision, there is no impact to the accounts, however we recommend a review is carried out to ensure any movement in aged debtor listing is considered in the bad debt review provision.
  - ▶ We note that £792k of debt with customers that have disputes in various service areas with the Authority are excluded from the bad debt provision assessment. There is no material impact. The Authority has agreed not to exclude this element of debt for the 2019/20 impairment of receivables calculation.
  - ▶ The grants income working paper required further work for the information to be reconciled to the grant income credited to services and capital grants. When samples were selected the Authority was unable to provide appropriate evidence to support the income for 7 samples out of 22 tested. Further work was required to gain assurance of the grant income, and an adjustment to the accounts was required as disclosed at section 4. We recommend the working paper is quality checked to ensure it reconciles with grant income credited to services and support for grant income is retained.
  - ▶ Post Local Government Review Liability provisions - the Authority was unable to provide the insurance claims report as at 31/03/2019, to support the figure disclosed in the accounts of £8.9m. We were able to obtain the claims report as at the date of our request. This was filtered to derive the outstanding claims as at 31/03/2019 which totalled £7.6m, giving a variance of £1.079m. The variance is a result of timing difference. The Authority has reviewed the variance and has managed to reduce the variance down to £0.486m, which is below our reporting threshold.
  - ▶ In our testing of other income there were two sample items the Authority was unable to provide adequate evidence to substantiate which service the income related to. We recommend that the Authority ensures all evidence is retained and made available for audit purposes.
  - ▶ Our testing of grants received in advance identified the Authority was unable to provide a copy of the legal agreement in place for one section 106 contribution. The Authority completed a review of the 2017/18 and 2018/19 section 106 agreements and found a further two schemes with no agreements. The Authority has received the section 106 contributions, and accurately recorded the transactions in the accounts. We recommend that the Authority reviews the s106 agreements in place to understand timing of cashflows and ensure supporting records are maintained. For the three section 106 contributions, should the agreements not be located, revised agreements should be obtained.
  - ▶ Our testing of other expenditure identified one sample where the Authority was unable to provide adequate evidence to substantiate the recharge made between service lines. We are satisfied that the expenditure has occurred and relates to the Authority. We recommend that the Authority ensures evidence is retained to support recharges and made available for audit purposes.
  - ▶ Our testing of other expenditure identified the Authority double counted expenditure and income, in relation to disabled facility, dedicated schools and public health grants, an adjustment was made to the accounts as detailed at section 4. We recommend that the Authority reviews its close down process to ensure grant income and expenditure reviewed to ensure accurately recorded in the accounts and is correctly classified.



# Assessment of Control Environment - continued

## Financial controls

### 4) Continued

- ▶ An uplift is applied to property plant and equipment assets not formally valued in 2018/19, our review identified the uplift was incorrectly applied. An adjustment to the uplift is required to account for depreciation, reducing the overall increase in value, the adjustment actually applied increased the uplift. Our review also identified the uplift had not been applied to 5 assets. We concluded the overall estimated variance not to be material. We recommend that the Authority ensures the uplift applied in future years is reviewed for the completeness and accuracy prior to application.
- ▶ Our testing of grants identified the Authority was unable to reconcile the grants register to the financial ledger. EY analytic tools were used to reconcile the amounts on the grants register to the financial ledger. We recommend that the Authority completes a reconciliation of grant income coded to the financial ledger to the internal grants register.
- ▶ The Authority does not process the business rates appeal provision and the pension liabilities, onto the financial ledger. We recommend all transactions are posted to the financial ledger.

5) We also noted weakness in the way the Authority monitors whistleblowing allegations, and recommend that all whistleblowing allegation are logged centrally to ensure a complete list is maintained and assist the monitoring, progress against the allegations.

6) The annual governance statement has not been made available alongside the draft accounts for the inspection period.

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





# 08 Data Analytics





# Use of Data Analytics in the Audit

## Analytics Driven Audit

### Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

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

In 2018/19, our use of these analysers in the Authority's audit included testing journal entries to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

#### Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

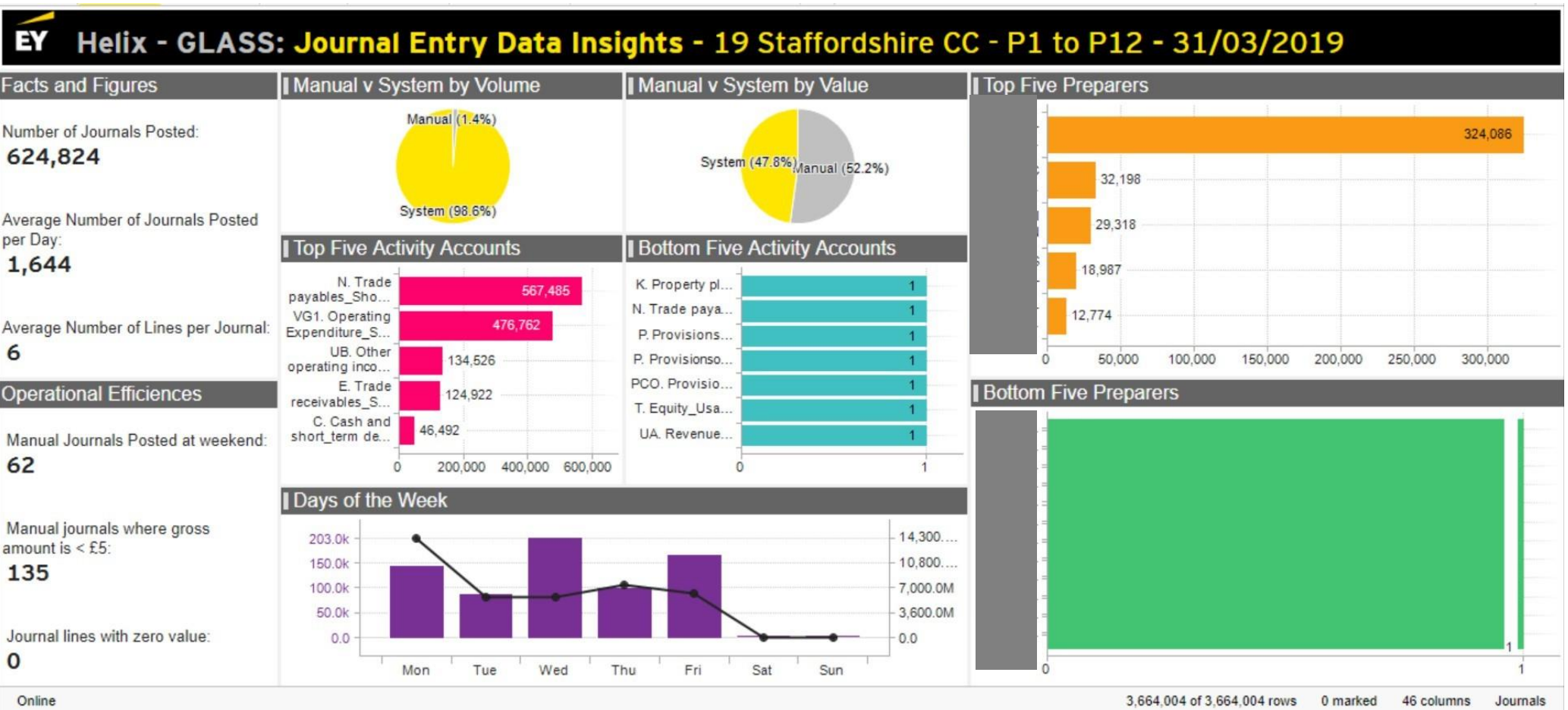


# Data Analytics

## Journal Entry Data Insights

The graphic outlined below summarises the journal population for 2018/19. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples.





## Journal Entry Testing

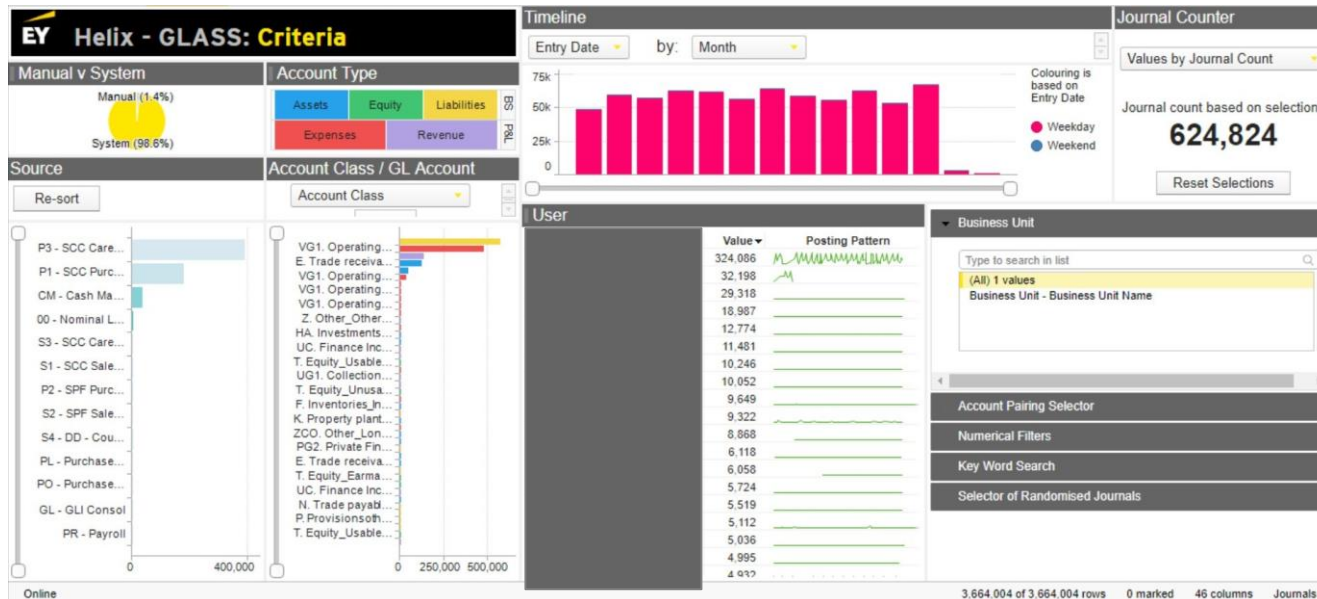
### What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

Journal entry data criteria – 31 March 2019

### What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.



### What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

### What are our conclusions?

We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.





9

Independence



## Confirmation



We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated February 2019. We complied with the APB Ethical Standards and the requirements of the 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 consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit & Standards Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit & Standards Committee on 30 July 2019.

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

# Independence

## Relationships, services and related threats and safeguards



The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

### Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2019 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the services listed in the audit fee table on the next page has been provided on a contingent fee basis.

# Independence

## Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2019.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements.

	Final Fee 2018/19	Planned Fee 2018/19	Scale Fee 2018/19	Final Fee 2017/18
	£	£	£	£
Audit Fee - Code work	84,511	84,511	84,511	109,755
Other - valuation work*	10,000	*10,000	0	10,285
Other - additional fees **	**	0	0	6,000
Other - IT risk assessment	0	0	0	18,270
Total Audit Fee - Code work	**	94,511	84,511	144,310
Non-audit services	0	0	0	0
<b>TOTAL</b>	<b>**</b>	<b>94,511</b>	<b>84,511</b>	<b>122,067</b>

\* We have agreed with management the fee for the additional work carried out by EY specialists to address the risks of valuation of land and buildings.

\*\* An additional fee for out of scope work carried out during 2018-19, is being agreed with management to address value for money risks, implementation of IFRS 9 / 15, the additional pensions procedures as a result of the McCloud and GMP judgements and work undertaken due to working paper availability.

All fee variations are subject to approval by Public Sector Audit Appointments.



# 10 Appendices

## Appendix A

# Audit approach update

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:




- ▶ Existence: An asset, liability and equity interest exists at a given date
- ▶ Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- ▶ Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- ▶ Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- ▶ Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting Framework
- ▶ As outlined in section 1, the valuation of pension liabilities is subject to significant estimation. For the 2018/19 financial statements an additional assessment of the impact of the McCloud judgement on pension liabilities is required and has resulted in adjustments to the balances recorded for pension liabilities. We have also considered the potential impact of the Guaranteed Minimum Pensions (GMP) ruling on the LGPS liabilities.

Our approach to the audit of the balance sheet has not changed from the prior year audit.



## Appendix B

# Summary of communications




Date 	Nature 	Summary 
6 November 2018	Meeting	The partner in charge of the engagement, along with other senior members of the audit team, met with the Deputy Director of Finance and to discuss the matters identified as part of the first quarter review.
26 November 2018	Meeting	The senior manager met with the MTFS working group to discuss the Authority's progress against the MTFS.
26 February 2019	Meeting	The assistant manager met with the Chair of Audit and Standards Committee to discuss the audit planning report.
11 March 2019	Report and meeting	The audit planning report, including confirmation of independence, was issued to the Audit & Standards Committee.
26 June 2019	Meeting	The partner in charge of the engagement and the senior manager met with the Chief Executive to discuss the Authority's progress against strategic objectives
26 June 2019	Meeting	The partner in charge of the engagement and the senior manager met with the Director of Corporate Services and the Deputy Director of Finance to discuss the matters identified as part of the first quarter review.
16 July 2019	Meeting	The senior manager met with the Chair of Audit and Standards Committee to discuss the audit results report.
19 July 2019	Meeting	Audit close meeting with the management team to discuss the preliminary findings of the audit.
19 July 2019	Report	The audit results report, including confirmation of independence, was issued to the Audit & Standards Committee.
	Management letter	The management team and the Audit & Standards Committee were provided details of internal control observations made in respect of the current year.
30 July 2019	Meeting	The partner in charge of the engagement, accompanied by other senior members of the audit team, will meet with the Audit & Standards Committee and senior members of the management team to discuss the audit results report.

In addition to the above specific meetings and letters the audit team met with the management team multiple times throughout the audit to discuss audit findings.





## Appendix C

# Required communications with the Audit Committee





There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		Our Reporting to you
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Audit & Standards Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	March 2019 -Audit planning report
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	March 2019 -Audit planning report
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	July 2019 - Audit results report
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit.</li> </ul>	July 2019 - Audit results report





# Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Public Interest Entities	<p>For the audits of financial statements of public interest entities our written communications to the audit committee include:</p> <ul style="list-style-type: none"> <li>▶ A declaration of independence</li> <li>▶ The identity of each key audit partner</li> <li>▶ The use of non-member firms or external specialists and confirmation of their independence</li> <li>▶ The nature and frequency of communications</li> <li>▶ A description of the scope and timing of the audit</li> <li>▶ Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits</li> <li>▶ Materiality</li> <li>▶ Any going concern issues identified</li> <li>▶ Any significant deficiencies in internal control identified and whether they have been resolved by management</li> <li>▶ Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to the audit committee</li> <li>▶ Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof</li> <li>▶ The valuation methods used and any changes to these including first year audits</li> <li>▶ The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework</li> <li>▶ The identification of any non-EY component teams used in the group audit</li> <li>▶ The completeness of documentation and explanations received</li> <li>▶ Any significant difficulties encountered in the course of the audit</li> <li>▶ Any significant matters discussed with management</li> <li>▶ Any other matters considered significant</li> </ul>	<p>March 2019 - Audit planning report July 2019 - Audit results report</p>

## Appendix C





		 Our Reporting to you
 Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	No conditions or events were identified, either individually or together to raise any doubt about Staffordshire County Council's ability to continue for the 12 months from the date of our report
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Material misstatements corrected by management</li> </ul>	July 2019 - Audit results report
Subsequent events	<ul style="list-style-type: none"> <li>▶ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	July 2019 - Audit results report
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the Audit &amp; Standards Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ Any other matters related to fraud, relevant to Audit &amp; Standards Committee responsibility.</li> </ul>	July 2019 - Audit results report Enquiries were made during the audit, and there are no issues to report to you.

## Appendix C

		 Our Reporting to you
<b>Required communications</b>	 What is reported?	  When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the Authority</li> </ul>	<p>July 2019 - Audit results report No issues to report</p>
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>March 2019 - Audit planning report July 2019 - Audit results report</p>
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	<p>July 2019 - Audit results report</p>
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>▶ Enquiry of the audit 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</li> </ul>	<p>July 2019 - Audit results report</p>



## Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Group Audits	<ul style="list-style-type: none"> <li>▶ An overview of the type of work to be performed on the financial information of the components</li> <li>▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components</li> <li>▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work</li> <li>▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted</li> <li>▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.</li> </ul>	July 2019 - Audit results report
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>▶ Written representations we are requesting from management and/or those charged with governance</li> </ul>	July 2019 - Audit results report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	July 2019 - Audit results report
Auditors report	<ul style="list-style-type: none"> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	July 2019 - Audit results report
Fee Reporting	<ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit planning report is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>	March 2019 - Audit planning report July 2019 - Audit results report
Certification work	<ul style="list-style-type: none"> <li>▶ Summary of certification work</li> </ul>	No certification work carried out.

## Appendix D

# Management representation letter

### Management Rep Letter

To be prepared on the entity's letterhead]

[Date]

Ernst & Young LLP

1 Colmore Square

Birmingham B4 6HQ

This letter of representations is provided in connection with your audit of the financial statements of Staffordshire County Council ("the Council") for the year ended 31 March 2019. 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 financial statements give a true and fair view of the Council financial position of Staffordshire County Council as of 31 March 2019 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19. We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), 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 the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the 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 Council in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19. We have approved the financial statements.

3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

4. As members of management of the Council, we believe that the Council has 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 2018/19, that are free from material misstatement, whether due to fraud or error.

5. We believe that the effects of any unadjusted audit differences, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. More specifically, there was an error totalling £1.287m caused by the invalid use of building cost index rates to other land and buildings not valued in year, no adjustment was made. We are comfortable that the estimates used this year are adequate for the purpose.

# Management representation letter

## Management Rep Letter

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

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the consolidated and Council financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
  - involving financial statements;
  - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated or Council's financial statements;
  - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
  - involving management, or employees who have significant roles in internal controls, or others; or
  - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

### C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and 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, Cabinet and Audit & Standards Committee (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: 30 July 2019.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the 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 financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

# Management representation letter

## Management Rep Letter

6. We have disclosed to you, and the 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.

### D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and council financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed to you all guarantees that we have given to third parties.
4. No claims in connection with litigation have been or are expected to be received.

### E. 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.

### F. Other information

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

### G. Comparative information - prior period adjustment

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

1. The financial statements adjusted to reflect disposals are complete.
2. The amounts involved are set out in Note 47 to the financial statements.
3. 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 financial statements.

### H. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for

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

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of non-current assets and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

# Management representation letter

## Management Rep Letter

### J. Accounting Estimates

Valuation of Pension Asset/Liabilities and Property, Plant and Equipment

1. We believe that the measurement processes, including related assumptions and models, used to determine the above accounting estimates have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

2. We confirm that the significant assumptions used in making the estimated valuations of Pension Asset/Liabilities and Property, Plant and Equipment appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Council.

3. We confirm that the disclosures made in the council financial statements with respect to the accounting estimates are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

4. We confirm that no adjustments are required to the accounting estimates and disclosures in the council financial statements due to subsequent events.

### K. Other income and expenditure

1. We believe that the council financial statements accurately reflect the other income and expenditure incurred by the Council and are free from double counting.

2. We confirm, that there are no further grants, over the disabled facility grant, dedicated schools grant and public health grant which were double counted.

### L. Disposal of schools

1. We believe that disposals in relation to schools converted to academy have been properly recorded and adequately disclosed in the consolidated and council financial statements.

2. We confirm, the council financial statements include all schools converted to academy during 2018-19.

Yours faithfully,

---

Rob Salmon  
County Treasurer

---

Martyn Tittley  
(Chair of the Audit & Standards Committee)



## EY | Assurance | Tax | Transactions | Advisory

### About EY

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ED None

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