

The Audit Findings for Lower Severn (2005) Internal Drainage Board

Year ended 31 March 2016

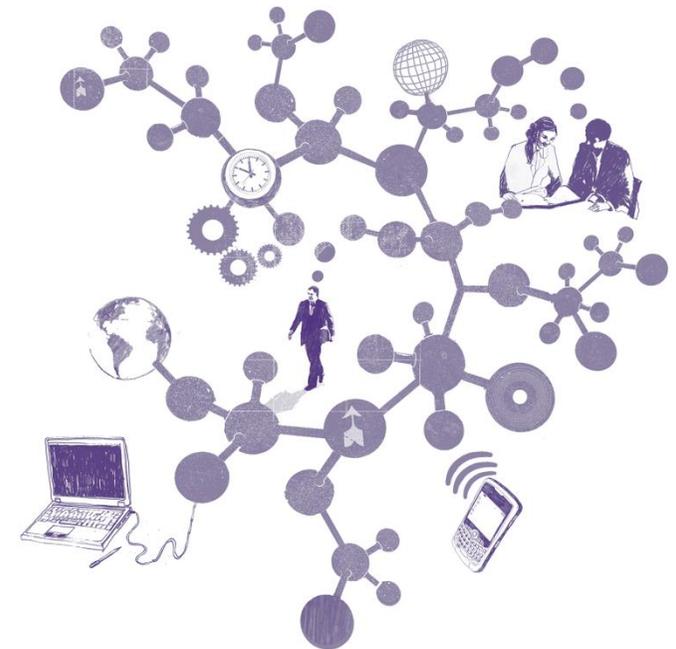
21 September 2016

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21st September 2016

Dear Members of the Board,

Audit Findings for Lower Severn (2005) Internal Drainage Board for the year ending 31 March 2016

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of Lower Severn Internal Drainage Board, the Board), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance officers and other staff during our audit.

Yours sincerely

Barrie Morris

Chartered Accountants

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Section 1: Executive summary

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Purpose of this report

This report highlights the key issues affecting the results of Lower Severn (2005) Internal Drainage Board ('the Board') and the preparation of the Board's financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Board's financial statements give a true and fair view of the financial position of the Board and its income and expenditure for the year and whether they have been properly prepared in accordance with the Financial Reporting Standard for Smaller Entities.

We are also required consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Board has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Act. We are required to provide a conclusion whether in all significant respects, the Board has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Board or brought to the public's attention (section 24 of the Act);

- written recommendations which should be considered by the Board and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our financial statements audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 29 January 2016. We have changed our approach to the Value for Money Opinion Audit due to clarification of guidance from the NAO which is discussed further in section 3 of this report.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation; and
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements and accompanying working papers at the commencement of our work.

Key audit and financial reporting issues

Financial statements opinion

We have not identified any adjustments which would affect the Board's reported financial position. We have also recommended a number of adjustments to improve the presentation of the financial statements.

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements.

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes:

- if the Annual Governance Statement does not meet the disclosure requirements set out in the ADA guidance or is misleading or inconsistent with the information of which we are aware from our audit.

Controls

Roles and responsibilities

The Board's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Board.

Findings

We draw your attention in particular to control issues identified in relation to:

- Personnel arrangements, ensuring that appropriate governance and staffing arrangements are in place in the instance of staff absence.

Further details are provided within section two of this report.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Board had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money are set out in section three of this report.

Other statutory powers and duties

We received a letter from a member of the public with concerns over the way the Board removed and disposed of a number of felled trees and whether potential income was lost by the Board. We made inquiries with officers and with the land owner of the trees and concluded that appropriate arrangements were in place to undertake the work and the potential income associated with the felled trees is not considered likely to have a material impact on the Board's financial statements. We are satisfied that no further action is required in our role as External Auditors for the Board.

However, we recommend that the Board considers whether a policy is required on exploring the opportunity for income generation as a result of its activities.

The way forward

Matters arising from the financial statements audit and our review of the Board's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Responsible Financial Officer

Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2016

Section 2: Audit findings

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Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £27,000 (being 2% of estimated outturn gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and on receipt of draft accounts revised our overall materiality to £31,000 (being 2% of actual gross revenue expenditure).

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £1,550. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£1,000
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£1,000

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams the Board, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks, mean that all forms of fraud are seen as unacceptable. 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"> • review of entity controls • testing of a sample of journal entries • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions. 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular, the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding analysis of trends and relationships to identify any anomalous areas for further investigation substantive testing of a sample of payroll payments testing to confirm the completeness of payroll transactions and appropriate cut-off. 	Our audit work has not identified any significant issues in relation to the risk identified.
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding testing of payments made after the year-end to identify potential unrecorded liabilities and gain assurance over the completeness of the payables balance in the accounts substantive testing of a sample operating expenses. 	Our audit work has not identified any significant issues in relation to the risk identified.

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Board's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> • Agricultural rates and Local Authority levies are credited to the Income and Expenditure account when demand notices are issued • Government grants and contributions have been credited to the Income and Expenditure account in the year entitlements are awarded • All other income is recognised in the Income and Expenditure account in the period to which the amounts relate. 	We have reviewed the Board's revenue recognition policies and consider these to be appropriate and adequately disclosed.	 Green
Judgements and estimates	Key estimates and judgements include: <ul style="list-style-type: none"> – Useful life of capital equipment – Pension fund valuations and settlements – Drawdown of developers contributions 	We have reviewed the Board's policies against the requirements of the Association of Drainage Authorities (ADA's) – Governance and Accountability for Smaller Authorities in England March 2016 and the Financial Reporting Standard for Smaller Entities (FRSSE) 2015 and consider these to be appropriate and adequately disclosed.	 Green
Going concern	The Responsible Financials Officer has a reasonable expectation that the services provided by the Board will continue for the foreseeable future. Members concur with this view. For this reason, the Board continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Board's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.	 Green
Other accounting policies	We have reviewed the Board's policies against the requirements of the Association of Drainage Authorities (ADA's) – Governance and Accountability for Smaller Authorities in England March 2016 and the Financial Reporting Standard for Smaller Entities (FRSSE) 2015.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.	 Green

Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	We have previously discussed the risk of fraud with the Responsible Financial Officer and Chair of the Board. We have not been made aware of any incidents during the course of our audit
2.	Matters in relation to related parties	From the work we carried out, we have not identified any related party transactions which have not been disclosed
3.	Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	Written representations	A letter of representation has been requested from the Board.
5.	Confirmation requests from third parties	We requested from management permission to send confirmation requests to National Westminster Bank, Lloyds bank and Smith and Williamson for bank and investment balances. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
6.	Disclosures	Our review found an inconsistency in the pensions disclosure in the valuation report provided by the Pension Fund Actuary. Our review also found two transactions which were disclosed on the wrong line within the Income and Expenditure Statement. Audit adjustments were proposed and adopted by management, with no impact on the net position. No further non-trivial omissions in the financial statements.
7.	Matters on which we report by exception	<p>We are required to report on matters by exception. For the Board, this relates to:</p> <ul style="list-style-type: none"> if the Annual Governance Statement does not meet the disclosure requirements set out the Association of Drainage Authorities (ADA's) Governance and Accountability for Smaller Authorities in England March 2016 or is misleading or inconsistent with the information of which we are aware from our audit <p>We have not identified any issues we would be required to report in this respect.</p>

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration and Operating Expenses as set out on page 11 above.

We draw your attention in particular to control issues identified in relation to:

- Due to the nature of the organisation having very limited employee numbers, there is a risk relating to segregation of duties and business continuity risk if unforeseen absence occurs.
- The organisation is aware of the issue regarding staff cover and is seeking a solution to mitigate this risk.
- The risk of segregation of duties is mitigated by transactions (journals, payments, bank statements) being reviewed by a second member of staff.

As part of our substantive audit testing we reviewed the approval controls and found no material issues.

Adjusted misstatements

There are no adjusted misstatements in 2015/16.

Unadjusted misstatements

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. The Board is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Income and Expenditure Statement £	Balance Sheet £	Reason for not adjusting
1 Overstatement of Property, Plant and Equipment Marshfield pump station is owned by local landowner rather than the drainage board, and so should not be included within property, plant and equipment.	Cr – 325 Depreciation	Cr - 9,621 – PPE Dr - 7,210 – Revaluation Reserve Dr - 2,736 – Capital Reserve	Error is not material to the financial statements.
2 Overstatement of Property, Plant and Equipment Saul pump station is owned by the Environment Agency rather than the drainage board, and so should not be included within property, plant and equipment.	0	Cr - 1,500 – PPE Dr - 500 – Revaluation Reserve Dr - 1,000 – Capital Reserve	Error is not material to the financial statements.
Overall impact	£325	£22,567	

Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £	Account balance	Impact on the financial statements
1 Misclassification	8,000	Income and Expenditure Statement - Payroll and Current Service Cost	Pension contributions included in the payroll line rather than the current service cost line on the Income and Expenditure Statement. No impact on net position.
2 Misclassification	3,350	Income and Expenditure Statement - Payroll and Legal and Professional Fees	An over-accrual has been recognised in payroll and an under-accrual recognised in legal and professional fees. Accrual moved from one line to another. No impact on net position.
3 Disclosure	32,000	Note 10 Retirement Benefits	Note 10 updated to correct non-trivial inconsistency between pensions note 10 and the FRS 17 report prepared by the pension fund actuary. Disclosure only. No impact on reported financial position.
4 Disclosure	4,000	Statement of Total Recognised Gains and Losses	Statement updated to reflect above change. No impact on net position.
5 Disclosure	N/A	Throughout Statements	Various recommendations made to improve the presentation and clarity of the statement of accounts.

Section 3: Value for Money

01. Executive summary

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Background

We reported to you in our audit plan that under the new NAO guidance which was implemented in 2015/16 Value for Money work was not required to be undertaken for the Board. We sought further clarification on this matter and have confirmed that small local government bodies who have opted for a full audit are required to have full Value for Money procedures undertaken.

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Board has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Board. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Board has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

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.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in April 2016 where we considered the three areas specified under the NAO guidance.

- Informed decision making
- Resource deployment
- Working with partners and other third parties

A summary of our key findings from review of these three areas are shown on page 19. We did not identify any significant risks from this review and therefore in line with the NAO guidance we are not required to undertake any further work.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

Overall conclusion

Based on the work we performed to address the significant risks, we conclude that:

- the Board had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our report, which confirms this, can be found at Appendix A.

Key findings

We set out below our key findings against the three risks set out in the NAO guidance

Risk Area	Work to address risk	Findings and conclusions
<p>Informed Decision Making</p> <p>The Board has robust financial monitoring procedures in place which are regularly communicated to members. Any non financial issues identified are again raised with members in a timely manner.</p>	<p>We updated our assessment of the Board's arrangements in place for informed decision making.</p>	<p>The Responsible Finance Officer regularly reports financial information to the Finance and General Purposes Committee as well as the Board. This includes quarterly management accounts and regular forecasting of current year position and future year budgets. The Board has an up to date risk register which covers five areas namely: Governance, Management and Maintenance, Finance, Office Systems/IT and Human resources.</p> <p>We concluded that 'informed decision making' is not a significant risk in 2015/16 for the Board given its robust arrangements in place.</p>
<p>Resource Deployment</p> <p>The Board has historically managed its finances well and has sound plans in place for the near to medium future.</p>	<p>We updated our review of the Board's Medium Term Financial Plan (MTFP) and financial monitoring reports and assumptions used.</p>	<p>The Board have an MTFP in place which covers 2016/17 to 2019/20. This shows the Board are predicting an appropriate level of reserves over the next 4 years with predictable and reliable sources of income over the period. The Board agreed a raise in rate in 2016/17 in order to raise funds to cover the works required to ensure the Board is compliant with the Eels Regulations 2009.</p> <p>We concluded that 'resource deployment' is not a significant risk in 2015/16 for the Board given its sound financial position.</p>
<p>Working with partners and other third parties</p> <p>The Board work effectively with a number of other bodies as part of it's day to day running and management.</p>	<p>We updated our assessment of the Board's arrangements for working with partners and other third parties.</p>	<p>The Board have outsourced a number of services including IT support and Payroll and continue to look for opportunities to work with third parties to increase the Boards resilience to unforeseen events such as staff absence or significant IT issues.</p> <p>We concluded that 'working with partners and other third parties' is not a significant risk in 2015/16 for the Board given its effective working arrangements in place with a number of third parties.</p>

Section 4: Fees, non-audit services and independence

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We confirm below our final fees charged for the audit.

Fees

	Proposed fee £	Final fee £
Accounts audit	7,650	7,650
Total audit fees (excluding VAT)	7,650	7,650

Fees for other services

Service	Fees £
Audit related services:	Nil
Non-audit services	Nil

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

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Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Board's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Board's key risks when reaching our conclusions under the Code.

It is the responsibility of the Board to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Board is fulfilling these responsibilities.

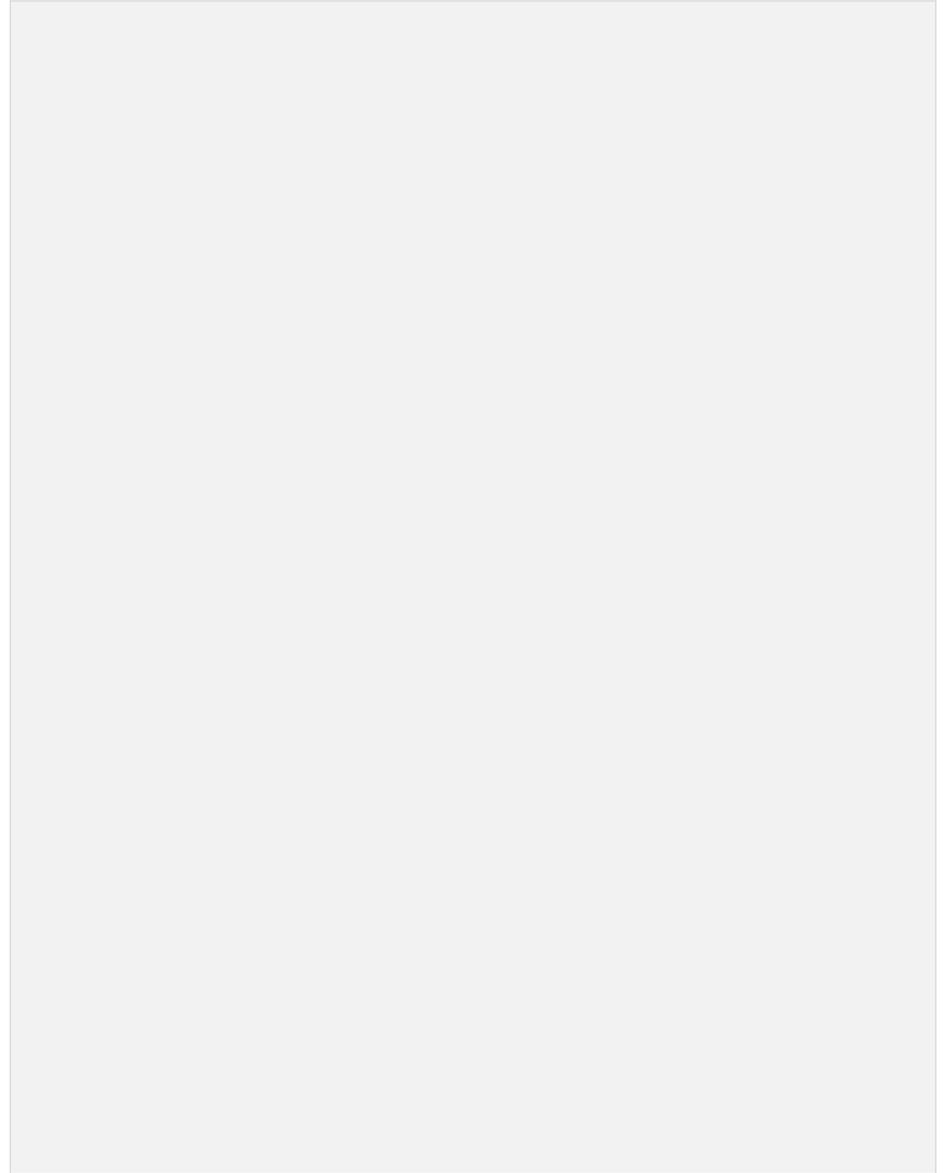
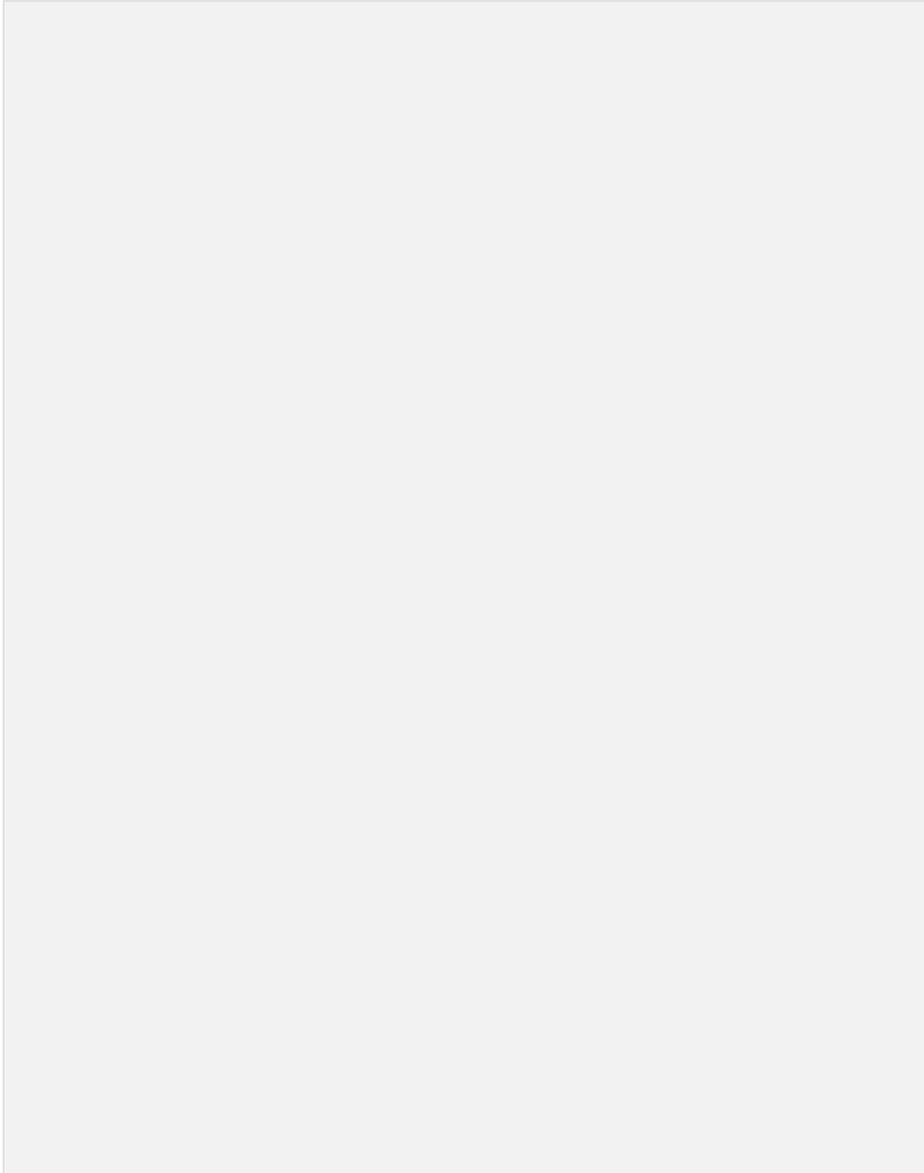
Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Audit opinion

We anticipate we will provide the Board with an unmodified audit report

To be added





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