

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

Year ended 31 March 2017

20 September 2017

Julie Masci

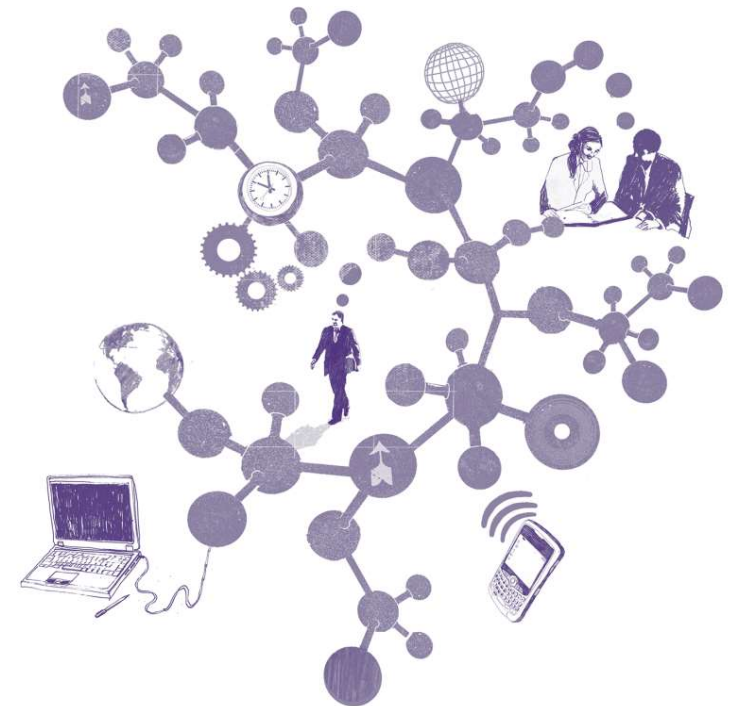
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20 September 2017

Dear Members of the Board,

Audit Findings for Lower Severn (2005) Internal Drainage Board for the year ending 31 March 2017

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), 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 team and other staff during our audit.

Yours sincerely

Julie Masci

Engagement Lead

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 Internal Drainage Board ('the Board') and the preparation of the Board's financial statements for the year ended 31 March 2017. 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 UK GAAP including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

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.

In accordance with the Accounts and Audit Regulations 2015, the exercise of public rights should be for a period of 30 days and include the first 10 working days of July. The Board published its notice on the 14 July 2017. The period was extended by 10 days at the end to ensure that the Board made good its statutory responsibilities to allow electors a full 30 days to inspect the accounts.

Introduction

In the conduct of our financial statements audit we have altered our audit approach in only one respect from the audit plan issued on 3 February 2017. As per our re-issued plan dated 25 July 2017, the Board's pensions liability was identified as a significant risk. We have not changed our approach to the Value for Money Opinion Audit 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 AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Board's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the ADA guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

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:

- 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 in the process of finding 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 issues.

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 Council 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 have not identified any issues that have required us to apply our statutory powers and duties under the Act.

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 2017

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 £25,000 (being 1.6% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and on receipt of draft accounts our materiality remained at this level.

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 £1,250.

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>In previous years we have considered this risk to be rebutted. However, due to the significant staff changes in the 2016/17 year (particularly the retirement of the RFO), this was kept as a significant risk for the 2016/17 audit.</p> <p>Whilst the main revenue streams are generally consistent and predictable, the loss of key staff at the IDB for the preparation of the 2016-17 accounts increases risk that inappropriate judgements on the recognition of revenue could have been made.</p> | <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 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 significant risks - continued

| | Risks identified in our audit plan | Work completed | Assurance gained and issues arising |
|----|--|--|--|
| 3. | <p>Conversion to new accounting standards – FRS102 or LG accounting code of practice 2016-17</p> <p>First year adoption of new accounting standards constitutes a change in accounting policies and therefore is pervasive to the financial statements and considered a significant risk.</p> | <ul style="list-style-type: none"> Discussions with management about the new accounting requirements Review of practical applications and disclosures to ensure consistency with accounting requirements | <p>We held discussions with officers to understand the basis of preparation of the accounts and whether these were prepared under FRS102 or the reduced disclosures in FRS102 section 1A. The Board has elected to apply the reduced disclosure regime available under FRS 102 section 1A.</p> <p>We have reviewed the revised disclosures and any restatements required under the new accounting standards and no significant issues were identified.</p> |
| 4. | <p>Loss of key personnel</p> <p>The current RFO and acting Clerk is expected to retire from 31 March 2017. There is a risk that this may result in a loss of knowledge and experience of the Board and its operations, including the specific requirements for the preparation of the Board’s financial statements.</p> | <ul style="list-style-type: none"> Discussed with others who will be responsible for preparing the accounts and assess their skills and competency Understand the transitional arrangements of existing roles to ensure that appropriate knowledge is transferred to newly appointed officers for preparing the financial statements | <p>We have discussed the arrangements with officers to understand respective roles and responsibilities for preparing the accounts. The RFO has remained in post on a casual basis in order to ensure that there is no loss of knowledge and experience during the period of the audit. This has mitigated the risk, with no significant issues arising in the completion of our work.</p> |
| 5. | <p>Valuation of pension fund net liability</p> <p>The Board’s pension fund asset and liability as reflected in its balance sheet represents a significant estimate in the financial statements.</p> | <ul style="list-style-type: none"> We have reviewed the controls put in place by management to ensure that the pension fund liability is not materially misstated. We have also assessed that these controls were implemented as expected and that they are sufficient to mitigate the risk of material misstatement. We have reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We have gained an understanding of the basis on which the valuation is carried out. We have undertaken procedures to confirm the reasonableness of the actuarial assumptions made. We have reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. | <p>There were a number of issues arising with the reconciliation of the prior year and current year pension fund liability as presented in note 10 to the financial statements. Following the review adjustments to the note were made in order to bring them into line with the actuary’s report. These changes meant that there was a material change in the income and expenditure account relating to the income from the pension fund asset, which affected both the current and prior year. This restatement has not affected the overall position of the surplus/deficit for the year which remains at £66,487. Further details are set out on page 17.</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 |
|-------------------------------------|---|---|--|
| <p>Employee remuneration</p> | <p>Employee remuneration accruals understated (Remuneration expenses not correct)</p> | <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 payroll payments • testing to confirm the completeness of payroll transactions and appropriate cut-off. | <p>Our audit work has not identified any significant issues in relation to the risk identified.</p> |
| <p>Operating expenses</p> | <p>Creditors understated or not recorded in the correct period (Operating expenses understated)</p> | <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 operating expenses. | <p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>One error was identified relating to an invoice which covered both this financial year and next financial year. Further details on this error are set out on page 18.</p> |

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 |
|--|---|---|---|
| <p>Revenue recognition</p> | <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. | <p>Consider the following:</p> <ul style="list-style-type: none"> • We have reviewed the Board's revenue recognition policies and consider these to be appropriate and adequately disclosed. | <p style="text-align: center;">● Green</p> |
| <p>Judgements and estimates</p> | <ul style="list-style-type: none"> • 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 | <ul style="list-style-type: none"> • 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 2017 and FRS 102 (Section 1A). • Capital equipment was tested through existence work to establish the appropriateness of useful lives. We also tested depreciation to ensure that this was being correctly calculated based on the appropriate useful lives. • Pension fund valuations and settlements were agreed to a report from an independent actuary. The assumptions were also reviewed for local factors to ensure that they are reasonable. • The drawdown of developers contributions was assessed for reasonableness based on historical spend and the methodology was assessed as reasonable. | <p style="text-align: center;">● Green</p> |



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

Accounting policies, estimates and judgements continued

| Accounting area | Summary of policy | Comments | Assessment |
|----------------------------------|---|---|---|
| Going concern | The Responsible Financial 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 that the going concern basis is appropriate for the 2016/17 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 2017 and the FRS102 framework. | 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 | <ul style="list-style-type: none"> 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 | <ul style="list-style-type: none"> 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 | <ul style="list-style-type: none"> 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 | <ul style="list-style-type: none"> A letter of representation has been requested from the Board. |
| 5. | Confirmation requests from third parties | <ul style="list-style-type: none"> 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 | <ul style="list-style-type: none"> Our review found an inconsistency in the pensions disclosure between the valuation report provided by the Pension Fund Actuary and the numbers in the financial statements. Our review also found two transactions which were disclosed on the wrong line within the Income and Expenditure Statement. Audit adjustments were proposed and actioned by management, with no impact on the net position. |
| 7. | Matters on which we report by exception | <ul style="list-style-type: none"> We are required to report on a number of matters by exception in a number of areas: We have not identified any issues we would be required to report by exception in the following areas 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 |

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, Revenue and Operating Expenses as set out on page 11 above. The controls were found to be operating effectively and we have no matters to report to the Board

Given the size of the finance team at the Board there is an inherent segregation of duties risk. This risk is mitigated by compensating controls.

Adjusted misstatements

There are two adjusted misstatements in 2016/17 as below.

| Detail | Income and Expenditure Statement £ | Balance Sheet £ | Reason for adjusting |
|---|--|--|--|
| <p>1 Overstatement of expected income from pension asset The income expected from the pension assets was overstated in the income and expenditure statement by £40k. The previous year income was also restated.</p> | <p>(40) Expected return on pension scheme assets 40 Appropriation from pension reserve</p> | No effect | Error is material to the financial statements. |
| <p>2 Understatement of finance lease The current finance lease payable was understated by £208 The non current finance lease payable was overstated by £323</p> | 0 | (115) finance lease payable (115) prepayments | Management decision. |
| Overall impact | Nil net impact | Nil net impact | |

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 trade creditors One item was accrued fully in the 16/17 trade creditors when part of the balance was due to fall in 17/18. | 0 | 1,309 | Error is not material to the financial statements. |
| Overall impact | Nil | £1,309 | |

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 Disclosure | 8,000 | n/a | Expected pension contributions in 17/18 are £152k according to the actuary and £144k per the RFO's review. This difference is not material. |
| 2 Disclosure | Various | 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. This causes no effect on the reported pension liability which remains at £1,097k. |
| 3 Disclosure | Nil | n/a | The public notice of inspection period covers the first ten working days of July. The notice was not given until 14 July therefore the notice was uploaded too late. This has been noted in the annual governance statement and the notice was extended in order to make good the delay in issuing of this notice. |
| 4 Disclosure | Nil | Agricultural rates and administration expenditure | The Board approved the removal of £1,962 relating to the agricultural rates not collected as they are under the annual value of £125, which is deemed to be uneconomical to collect. The amount has therefore been deducted from the agricultural rates which was originally debited to admin costs. |

Section 3: Value for Money

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Background

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.

As Lower Severn (2005) Internal Drainage Board has elected to undertake a full audit of its accounts in 2016/17, the NAO requirements set out above apply in full.

Risk assessment

We carried out an initial risk assessment in February 2017 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 3 February 2017.

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.

We carried out further work only in respect of the significant risk we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Board's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Board's arrangements. In arriving at our conclusion, our main considerations were:

- What processes and people were put in place by the Board in order to ensure that all normal business practices continued, and to ensure that there was no breakdown in financial controls.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on page 23.

Overall conclusion

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

- the Board had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

Key findings

We set out below our key findings against the significant risk we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

| Significant risk | Work to address | Findings and conclusions |
|--|--|---|
| <p>Changes in key personnel The current RFO and acting Clerk is expected to retire from 31 March 2017. There is a risk that this may result in a loss of knowledge and experience of the Board and its operations. The Board is going through a time of significant change within the finance and administration team.</p> <p>There is a potential for a lack of oversight and accountability whilst the Board seeks new appointments to fulfil key governance and finance roles at the organisation. This could have an impact on the effectiveness of the Board's decision making and general operations during this period of uncertainty and change.</p> | <p>Understand the transitional arrangements of existing roles to ensure that appropriate knowledge is transferred to new officer appointments.</p> <p>Review the Board's governance arrangements to ensure that appropriate and effective decision making processes remain in place during the period of transition.</p> | <p>During the 2016/17 financial year the council has appointed 2 new key members of the finance team. Between these 2 appointments, all of the current processes and reporting will continue as usual.</p> <p>We have also observed the hand over between the outgoing RFO and the new posts and are satisfied that all necessary knowledge has been transferred to ensure that all statutory responsibilities continue to be met.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Board has proper arrangements and effective decision making processes remained in place during the period of transition.</p> |

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

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).

No other audit-related or non-audit services were provided to the Board during the year.

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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02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

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

A. Action plan

Priority

| Rec no. | Recommendation | Priority | Management response | Implementation date and responsibility |
|---------|---|----------|---|--|
| 1 | Period of public inspection of accounts Appropriate procedures should be put in place to ensure that the Board complies with its statutory responsibilities under the Accounts and Audit Regulations 2015 for the public inspection of the accounts. | | Schedule of Statutory Responsibilities and dates are now documented and are the responsibility of the Accounts Officer. | 6 th September 2017 Accounts Officer |

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Appendix B: Audit opinion

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LOWER SEVERN (2005) INTERNAL DRAINAGE BOARD

We have audited the financial statements of Lower Severn (2005) Internal Drainage Board (the "Board") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the statement of accounting policies, the Balance Sheet, the Income and Expenditure Account, the Statement of Changes in Equity, the Statement of Comprehensive Income and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

This report is made solely to the members of the Board, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Board those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board and the Board's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Responsible Financial Officer and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Responsible Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements,, and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements present a true and fair view of the financial position of the Board as at 31 March 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in ‘Delivering Good Governance in Local Government: a Framework’ published by CIPFA/SOLACE in June 2007; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Board under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

Conclusion on the Board's arrangements for securing economy, efficiency and effectiveness in its use of resources

Respective responsibilities of the Board and auditor

The Board is responsible for putting in place proper arrangements for securing 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.

We are required under Section 20(1)(c) of the Act to be satisfied that the Board has made 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 Board's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of the Board's arrangements for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Board 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 criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Board put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Board has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects the Board put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the financial statements of the Board in accordance with the requirements of the Act and the Code of Audit Practice.

To be added

Julie Masci
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Hartwell House,
55-61 Victoria Street,
Bristol,
BS1 6FT

To be added



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