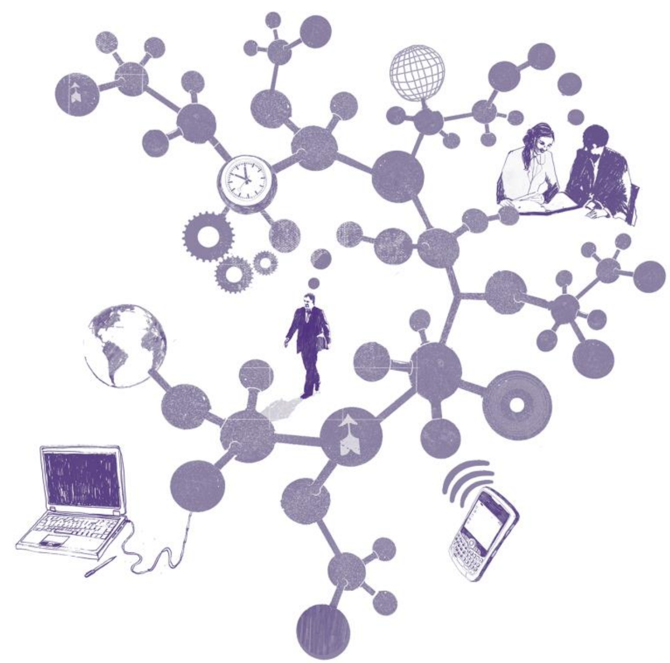
Appendix 1

The Audit Findings for Shepway District Council

Year ended 31 March 2017

1 September 2017

Final version: All amendments to the previous version shown in italics.



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1 September 2017

Dear Councillor Owen

Audit Findings for Shepway District Council for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Shepway District Council, the Audit and Governance Committee), to oversee the financial reporting process, 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.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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

Elizabeth Jackson

Engagement lead

Contents

Section 1: Executive summary

Purpose of this report

This report highlights the key issues affecting the results of Shepway District Council ('the Council') and the preparation of the group and Council'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 ISA (UK&I) 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 Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. .

We are also required to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether the Council 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 Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

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 Council or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Council 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 audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 6 March 2017.

Our audit is now complete. We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable. The Council prepared the accounts earlier than in previous years and streamlined the accounts for 2016/17. Some of the working papers, particularly around operating expenditure, revenues, debtors and creditors, were difficult to tie into the financial statements and general ledger without additional work during the onsite visit. This caused significant delays in the first two weeks of the audit onsite fieldwork, and the audit team found it particularly difficult to isolate populations of transactions which could be used for our sample testing. Communication between finance and audit could be improved to ensure all officers understand what standard of working papers is required for audit and we will hold a workshop with officers in advance of next year's audit.

Key audit and financial reporting issues

Financial statements opinion

Subject to completion of the work highlighted above, we have not identified any adjustments affecting the group and Council's reported financial position (details are recorded in section two of this report). The draft and audited financial statements for the year ended 31 March 2017 recorded a net surplus on provision of services of £10,683k. We have recommended a number of adjustments and disclosure amendments ensure disclosures are correct and in line with accounting guidelines and to improve the presentation of the financial statements.

The key messages arising from our audit of the Council's financial statements are:

- *Although out audit work did not highlight any adjustments which affected the overall financial position, there were a significant number of changes to classifications of items and to disclosures (see pages 21-23). We also made an adjustment to the Group Balance Sheet as shown on page 20. This did not affect the Group overall financial position.*
- *Two control weakness around small value expenditure items and soft loans which were incorrectly retained in the accounts were highlighted in our work and this is detailed on page 19. We have made recommendations for control improvements in Appendix A, and we have additionally made recommendations around records supporting the calculation of HRA depreciation and applying a practical de-minimus for accruals.*
- *Improvements could be made to the supporting audit trail provided in the working papers and we have made a recommendation relating to this in our action plan in Appendix A.*

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

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

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.

Subject to the outstanding work highlighted above, the Council'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 CIPFA/SOLACE 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 Council'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 Council.

Findings

Our work to date has identified a control weakness relating to the accounting of small value expenditure amounts which we wish to highlight for your attention. Details are presented on page 19 to 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.

We have two outstanding objections from 2015/16 which we are currently finalising.

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2017. We will report the outcome of this certification work through a separate report to the Audit and Governance Committee which is due in December 2017.

The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Corporate Director of Organisational Change.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Corporate Director of Organisational Change and the finance team.

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

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 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 initially determined overall materiality to be £1,747k (being 2% of gross revenue expenditure reported in 2015/16). We have considered whether this level remained appropriate during the course of the audit. Due to a year on year decline in the gross expenditure on continuing operations reported in the draft accounts received at the start of the audit, we reduced our overall materiality to £1,608k (being 2% of 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 £80k. 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 did not identify any separate materiality levels for particular classes of transactions, account balances or disclosures.

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; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

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
The revenue cycle includes fraudulent transactions Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Shepway District Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Shepway District Council, mean that all forms of fraud are seen as unacceptable.	Our audit work has not identified any evidence of management override of controls.
Management over-ride of controls Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.	We have undertaken the following work in relation to this risk: • Assessment of the journal control environment and carried out a walkthrough to confirm that controls have been implemented • Reviewed the journal entry process and selected unusual journal entries for testing back to supporting documentation • Reviewed accounting estimates, judgments and decisions made by management and reviewed any unusual significant transactions.	Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgements.

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

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. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Year end creditors and accruals are understated or not recorded in the correct period	We have undertaken the following work in relation to this risk: • Identified and walked through controls • Substantive testing of a sample expenditure processed through the purchase ledger • Completed testing for unrecorded liabilities/missing creditors	We identified two errors in relation to the risk: • one error in the operating expenditure testing in relation to the accounting treatment of a prepayment. We extrapolated the error over the population tested and the total error anticipated in the CIES is below trivial so no further reporting is required. • one error in the unrecorded liabilities testing in relation to an invoice totalling £1,960 that should have been accounted for partly in 2016/17 (£660) instead of all the invoice total in 2017/18. We extrapolated the error over the population tested and the total error anticipated in the CIES is below trivial so no further reporting is required. However, we have raised an internal control point about the lower value transactions included in the 2016/17 financial statements and have recommended that the Council set a de-minimus level for future years.
Employee remuneration	Employee remuneration accruals are understated	We have undertaken the following work in relation to this risk: • Identified and walked through controls • Carried out a trend analysis of monthly payroll amounts • Completed substantive testing of employee remuneration	Our audit work has not identified any issues in respect of the risk identified.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Valuation of pension fund net liability	The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements	We have undertaken the following work in relation to this risk: • We identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement • We reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation is carried out • We undertook procedures to confirm the reasonableness of the actuarial assumptions made • We 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 • We enquired about any data which was provided to the actuary in making their valuation and we reviewed the reasonableness and accuracy of this data	Our audit work has not identified any issues in respect of the risk identified. However, we identified that the discount rate factor used by the actuary, Barnett Waddingham, is outside of the auditors expert assessment and we performed additional procedures to confirm the factor used and variance is reasonable.
Valuation of property, plant and equipment	The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.	We have undertaken the following work in relation to this risk: • Assessed the revaluation control environment and carried out a walkthrough to confirm that controls have been implemented • Reviewed the competence, expertise and objectivity of management experts used, the instructions issued to valuation experts and the scope of their work • Discussed with valuer the basis on which the valuation is carried out and challenged the key assumptions • Reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding • Reviewed management's processes and assumptions for the calculation of the estimate • Tested revaluations made during the year to ensure they are input correctly into the Council's asset register • Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value • Reviewed the disclosures made by the Council in its financial statements to ensure they are in accordance with the requirements of the CIPFA Code of Practice and IFRS	Our audit work has not identified any issues in respect of the risk identified.

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Changes to the presentation of local authority financial statements	CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice. The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.	We have undertaken the following work in relation to this risk: • We documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements • We reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure • We reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS) • We tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES • We tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger • We tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements • We reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice	*The Expenditure and Funding Analysis Note was a new disclosure requirement for the 2016/17 financial year. In the note included within the original draft accounts, the figures in the "As reported for resource management column" for both the 2015/16 and 2016/17 disclosures did not agree to the General Fund and HRA outturn reports presented to Cabinet.* *The adjustments to show the net expenditure chargeable to the General Fund and HRA and then the net expenditure in the Comprehensive Income and Expenditure Statement also were not clearly traceable to working papers. Management redrafted the note and provided revised working papers which we agreed were materially correct. This disclosure issue is included in the Adjusted Errors, Misclassifications and Disclosure Changes section later in this report.* *Once this was corrected, our audit work did not identify any further issues in respect of the risk identified.*

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK&I) 570).

We reviewed the management's assessment of the going concern assumption and the disclosures in the financial statements and concluded that the adoption of the going concern basis is reasonable.

Matters discussed with management

	Significant matter	Commentary	Auditor view
1	Discussions or correspondence with management regarding accounting practices, the application of auditing standards, or fees for audit or other services.	**HRA depreciation** The Council uses the major repairs allowance (MRA) calculation as a proxy for depreciation as allowed by the CIPFA Code. This was a transitional arrangement for five years ending in 2016/17/ There is a difference of £1.2m between the actual depreciation in year for the housing stock and the MRA calculation which has resulted in a difference of the same amount between the fixed asset register and the PPE note in the financial statements . The 2016/17 financial statements are fairly stated as the Code requirements have been followed for this year. An adjustment between the Housing Revenue Account and Major Repairs Reserve has correctly been accounted for to resolve the difference set out above.	This is the final year in which the Council can use MRA as a proxy for depreciation so new accounting arrangements and working papers will be required to support the 2017/18 financial statements. There will be an impact on preparing the financial statements and reconciling the historical accounting records with the fixed asset register to ensure the 2017/18 PPE note fully agrees to the financial statements. We have made a recommendation in Appendix A. Management is aware of the changes and accept the recommendation.

Group audit scope and risk assessment

ISA (UK&I) 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Risks identified	Work completed	Assurance gained & issues raised
Oportunitas Ltd	No	Analytical	None	Desktop review of consolidation	*Our audit work identified that the consolidation of the Opportunitas Ltd entries in the Group financial statements did not correctly account for the intercompany balances.* *The final version of the Group Balance Sheet has been amended to correctly account for the intercompany entries. See page 20 for further details.*

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 Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• revenue from the sale of goods is recognised when the Council transfers the significant risk and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council • revenue from council tax and business rates is measured at the full amount receivable (net of impairment losses) as they are non-contractual, non-exchange transactions. Revenue from non-exchange transactions is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the Council and the amount of revenue can be measured reliably. • revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council. • Government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that the Council will comply with the conditions attached to the grants or contributions, and reasonable assurance that the amounts will be received. • interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract. • where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for income that might not be collected.	The revenue recognition policies are appropriate and in accordance with the CIPFA Code and International Financial Reporting Standards (IFRS)	● 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

Accounting policies, estimates and judgements continued

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Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates	Key estimates and judgements include: – Useful life of PPE – Land and building revaluations – Impairments – Expenditure and Income Accruals – Valuation of pension fund net liability – Provision for NNDR appeals	Our review of key judgements and estimates did not identify any significant issues.	● Green
Going concern	The Corporate Director of Organisational Change, s151 officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	● Green
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice.	The Council's accounting policies are appropriate and consistent with previous years.	● 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**	The Audit and Governance Committee considers the risk of fraud. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
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 standard letter of representation has been requested from the Council. • We are expecting to receive the signed letter at the 26 July Audit and Governance Committee.
5.	**Confirmation requests from third parties**	We obtained direct confirmations from the Public Works Loans Board for loans and requested from management permission to send confirmation requests to counterparties for bank and investment balances. This permission was granted and the requests were sent. We are still awaiting responses from some of the bodies. We have undertaken alternative audit procedures, as allowed under the ISA, and have obtained assurance over the year end balances included in the financial statements.
6.	**Disclosures**	Our review found no material omissions in the financial statements.
7.	**Matters on which we report by exception**	• We are required to report on a number of matters by exception in a number of areas: Subject to the outstanding work highlighted on pages 5 and 6 of this report, 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 in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit • The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Council acquired in the course of performing our audit, or otherwise misleading.
8.	**Specified procedures for Whole of Government Accounts**	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. • Note that work is not required as the Council does not exceed the threshold.

Internal controls

	Assessment	Issue and risk	Recommendations
1.	Amber	*We identified two errors in relation to the risks stated above:* • *one error in the operating expenditure testing in relation to the accounting treatment of a prepayment. We extrapolated the error over the population tested and the total error anticipated in the CIES is below trivial so no further reporting is required.* • *one error in the unrecorded liabilities testing in relation to an invoice totalling £1,960 that should have been accounted for partly in 2016/17 (£660) instead of all the invoice total in 2017/18. We extrapolated the error over the population tested and the total error anticipated in the CIES is below trivial so no further reporting is required.* *The main risk is that expenditure would be misstated due to missing accounting entries in the accounts.*	*The Council should set a de-minimus level below which it is considered unnecessary to accrue for reasons of materiality and practicality.* *This recommendation has been included in the Action Plan in Appendix A.*
2.	Amber	*We identified one error in the soft loans testing. The loan had been repaid during the 2016/17 year but was still recorded as an outstanding debtor at year end. We extrapolated the error over the population of soft loans and the maximum potential misstatement is £421k so no amendment is required.* *The main risk is that debtors would be overstated in the accounts.*	*The Council should review the process for the legal team to update housing records of the final loan repayments in the year.* *This recommendation has been included in the Action Plan in Appendix A.*

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

We have reviewed the Action Plan recommendations within our 2015/16 Audit Findings Report. None related to controls weaknesses and all have either been responded to appropriately by management or have been reinstated as recommendations in the Action Plan in Appendix B to this report.

Assessment
- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

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

Our audit included consideration of internal control 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.

The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £000
1	***Group Balance Sheet*** *Intercompany debtor and creditor loans from the Council to Opportunitas Ltd were not adjusted as part of the consolidation of the company in to the group accounts.* *Dr Short term creditors* *Dr Long term borrowing* *Dr Unusable reserves* *Cr Long term investments* *Cr Long term debtors* *Cr Short term debtors*	*0*	 *190* *3,211* *473* *(473)* *(3,131)* *(270)*	*0*
	Overall impact	***£ Nil***	***£ Nil***	***£ Nil***

Unadjusted misstatements

There are no adjustments identified during the audit which we request be processed, but which have not been made within the final set of financial statements.

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 £'000	Account balance	Impact on the financial statements
1	Disclosure	440	Note 32 Grant Income	Capital grants and contributions in Note 32 were originally shown as a total of £3,541k. This was incorrect and should have been £3,981k as per the total in Note 13 and per the general ledger.
2	Disclosure	104	Note 32 Grant Income	£104k of grant income in Note 32 was originally categorised as 'Non-service related grants' and should have been credited to services as 'Other grants and contributions'.
3	Disclosure	Various	Note 23 Pensions Reserve	Actuarial (gains) or losses on pensions assets and liabilities shown as £(5,545)k should have been £12,286k. The description of this entry also needed to be amended to "Remeasurement of net defined liability" in line with new presentation guidelines. Reversal of items relating to retirement benefits in Comprehensive Income and Expenditure Statement shown as £22,756k should have been £4,745k.
4	Disclosure	1,015	Note 14 Property, Plant and Equipment	The Council has made disposals in the year but these are not shown in the PPE note. These were incorrectly shown as 'assets reclassified as (to)/from held for sale but this disclosure can only be used for assets transferred during the year and held as at 31 March. The heading in the note should be changed to disposals.
5	Misclassification	3,071	Note 14 Property, Plant and Equipment	*The 'other movements' line in the Cost or Valuation and Depreciation and Impairment sections of the note was misstated for: Council Dwellings by £1m; Land and Buildings by £0.331m; Vehicles, Plant and Equipment by £0.423m; and Infrastructure by £1,317m. The grossing up of the balances was due to the incorrect treatment of the valuation and impairment in the note of capital expenditure.* This reclassification also brings Note 14 into line with the amounts shown in Note 10 for the exceptional items valuation movements on Council Dwellings. *Narrative has also been added to explain the 'other movements' lines in the note.*

Misclassifications and disclosure changes continued

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 £'000	Account balance	Impact on the financial statements
6	Disclosure	1,400	Note 17 Short Term Debtors	The provision for impairment of £0.2m stated in the Note 17 was incorrect and was updated to the correct total provision for impairment against short term debtors of £1.4m. *As the bad debt provision is material for 2016/17, the Council is required to show the figures in a table with the gross figures and bad debt provision totalling the net position in the Balance Sheet. We have accepted the bad debt provision as narrative in the note for 2016/17 and management will reflect the Code requirements in future.*
7	*Disclosure*	*3,360*	*Note 16 Financial Instruments*	*Soft loans were incorrectly disclosed in the 2016/17 'Long term other debtors' line in the financial instruments note. Soft loans are not financial instruments so should not be included. The Council has added further narrative to sub-note 2 of the disclosure table to explain the amounts. These were correctly excluded in 2015/16 so no amendment to the prior year figures.* *In addition, a number of other amendments were made to the note:* • *Financial Instruments – Balances: Current loans and receivables of £1,367k amended to £1,768k* • *Financial Instruments – Balances: Current other debtors of £6,416k amended to £6,210k* • *Financial Instruments – Fair Values: Short term creditors balance should not have brackets – the amendment impacts on the total value* • *Financial Instruments – Fair Values: Short term debtors of £7,783k amended to £7,969k.*
8	*Disclosure*	*Various*	*Note 19 Assets Held for Sale*	*The note has been amended for the incorrect disclosure of the 'Property, Plant and Equipment' additions of £1,015k and 'Assets Sold' of £1,833k. These should have been disclosed as £nil and £818k respectively.*
9	*Disclosure*	*Various*	*Note 33 Related Party Transactions*	*The disclosures in the note were not the final figures for the transactions with the external bodies at year end. The note has been amended to disclose:* • *Amounts due to Kent County Council: £1,571k amended to £1,382k* • *Amounts due from Central Government: £3,286k amended to £3,165k* • *Amounts due from Oportunitas Ltd: £1,378k amended to £3,347k*
10	*Disclosure*	*100*	*Note 36 Defined Benefit Pensions*	*In the sensitivity analysis adjustment to long term salary increments present value of total obligation, the £161,371k figure should be £161,271k per the actuarial report.*

Misclassifications and disclosure changes continued

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 £'000	Account balance	Impact on the financial statements
11	*Disclosure*	*n/a*	*Note 37 Contingent Liabilities*	*The East Kent Housing Ltd figures had not been updated for the 2016/17. The disclosure has been amended to show the pension liability as an increase from the prior year of £7.3m to £10.2m.*
12	*Disclosure*	*450*	*Note 41 Interests in companies and other entities*	*The East Kent Housing Ltd figure for 'Loss after taxation' was incorrectly included as £1,613k and should have been £1,163k per the accounts. This resulted in a casting error through the note so the Total Comprehensive income and expenditure should have been £3,090k.*
13	*Disclosure*	*Various small amendments*	*Note 16 Financial Instruments*	*There were several small errors/misclassifications in the financial instruments disclosure: current loans and receivables 2017 £1,367k was amended to £1,768k, current other debtors of £6,416k was amended to £6,201k.*
14	*Disclosure*	*Various amendments*	*Note 2 Expenditure and Funding Analysis*	*The note was revised so that the figures in the "As reported for resource management column" for both the 2015/16 and 2016/17 disclosures agreed to the General Fund and HRA outturn reports presented to Cabinet, and the "Net expenditure chargeable to the general fund and HRA balances" agreed to the movement in reserves statement.*
15	Disclosure	n/a	Various	A small number of casting and consistency amendments have been made to the draft accounts. These are all of clearly trivial nature so have not been reported individually.

Section 3: Value for Money

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 Council 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 Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council 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 2016. AGN 03 identifies one single criterion for auditors to evaluate:

> *In all significant respects, the audited body takes properly informed decisions and deploys 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 February 2017 and identified a significant risks in respect of a specific area of proper arrangements using the guidance contained in AGN03. We communicated this risk to you in our Audit Plan dated 6 March 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 risks 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 Council's arrangements for delivering economy, efficiency and effectiveness.

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

- Your arrangements for updating and developing your Medium Term Financial Strategy;
- Discussion and review of governance arrangements and decision making processes around capital investments.

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 25.

Overall conclusion

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

- the Council 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 B.

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 qualitative aspects

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

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.

Key findings

We set out below our key findings against the significant risks 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
Medium term financial resilience *Revenue Funding Gap* This financial year the Council is on track to achieve a £1.4m deficit outturn on its General Fund; this being a positive variance against an initial budget deficit of £3.9m. However, looking further ahead the latest version of the MTFS (published in August 2016) sets out a cumulative deficit position of around £3 million over the next four years primarily caused by the gradual reduction and then ceasing of Central Government revenue through to 2019/20. This gap in funding represents a significant challenge for the Council. To help address these challenges the Council is moving forward with a series of business process engineering reviews and is focused on maximising its revenue earning opportunities, for example, the acquisition of land at Otterpool Manor Farm. *Capital Investment* As part of your plan to benefit residents and to increase revenue funding for the region you have ambitious capital plans proposed in the form of a large Otterpool Park Garden City, and the redevelopment of Princess Parade. Both of these proposed developments have significant potential to bring funds into the area through housing and employment, but there are downside risks if not managed appropriately. The plans will require significant borrowing and careful treasury management and it is imperative that financial planning is robust and long term benefits can be demonstrated. In March 2016 the government produced Statutory Guidance on the Flexible Use of Capital Receipts. This provides for greater flexibility in the use of capital receipts. Given the greater flexibility there is more opportunity and risk attached to the Council's arrangements for delivery of strategic priorities.	• We reviewed the Council's arrangements for updating and developing its medium term financial planning, including the actions proposed to address the medium term financial shortfall. • We reviewed managements sensitivity analysis carried out to ensure that alternative outcomes are considered in the medium term planning. • We reviewed the governance arrangements and decision making processes which are planned before these large capital investment plans are approved. • We reviewed how the council has measured the public and financial benefits of these capital investments.	***Revenue funding gap*** *The Council achieved a better outturn position for 2016/17 than planned. The original budget showed a deficit of £3.9m and the outturn was an underspend of £1.45m. The reasons for the improved performance has been reported in the 2016/17 outturn report n July 2017.* *The Cabinet considered and approved the Council's final General Fund budget for 2017/18 and the council tax requirement at its meeting on 22 February 2017. This was then ratified by Full Council later that evening. The Council worked hard to close the original budget gap in 2017/18, moving from a medium term strategy funding gap of £1.54m to a balanced budget by year end. However, the budget does include a planned contribution from reserves of £1.59m which will see the General Fund reserve reduced to £3.9m by 31/3/18 and without this the outturn position is a deficit.* *Due to the East Kent merger proposals falling through in March 2017 the Council has had to reassess its revenue budget and future funding gaps. It is looking increasingly difficult to balance the budget in the future and there are large gaps in the MTFS proposals. Management has been realistic in its reporting to members and has identified that a different course of action is required to ensure that the budget is balanced in 2018/19 and beyond. As the Council is putti arrangements in place about the budget gap we are satisfied* ***Capital Investment*** *The Council is progressing with its capital investment plans although it is recognised that these are still at an early stage during the year. The Council has put in place proper arrangements for making decisions about the capital developments through its reporting to members. Governance arrangements are understood by key officers. The consultation with the public is made through its website.* *The Council needs to ensure that governance arrangements are maintained as the projects develop beyond the initial stages and that transparency is maintained. A full business case process should be used.* *There needs to be robust project and capital budget monitoring in place to ensure that the developments do not slip from the agreed timetables.* Based on our work we have found no evidence that the Council does not have proper arrangements and therefore the risk is mitigated.

Section 5: Fees, non-audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Proposed fee £	Final fee £
Council audit	60,458	*66,657**
Challenge work	TBC	TBC
Grant certification	11,166	TBC
Total audit fees (excluding VAT)	**71,624**	**TBC**

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

** An additional fee of £6,199 has been proposed for the 2016/17 audit due to the additional work required for the quality of the working paper audit trails and on the EFA note. This fee is subject to approval by the PSAA and cannot be agreed as final until confirmed with them.*

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

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 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.

Fees for other services

Service	Fees £
Audit related services: • Certification of housing pooling capital receipts return	2,000
Non-audit services East Kent Partnerships Workshops	3,783

Independence and other services

We have considered whether other services might be perceived as a threat to our independence as the group's auditor and have ensured that appropriate safeguards are put in place.

	Service provided to	Fees	Threat?	Safeguard
Audit related services	*Certification of housing pooling capital receipts return*	*2,000*	• *Self-interest*	*This is a recurring fee and therefore a self-interest threat exists. However, the level of this recurring fee taken on its own is not considered to be a significant threat to independence as the fee for this work in comparison to the total fee for the audit (£60,458) for the Council, and in particular to Grant Thornton UK LLP overall turnover. Furthermore, the work relates to audit related services for which there is a fixed fee and no contingent element to the fee. These factors are deemed to adequately mitigate the perceived self-interest threat to an acceptable level.*
Non-audit services	*East Kent Partnerships Workshops*	*3,783*	• *None*	*We have not identified any threats under the ethical standards for carrying out this review in conjunction with the other participating councils in East Kent. The fee taken on its own is not considered to be a significant threat to independence as the fee for this work in comparison to the total fee for the audit (£60,458) for the Council, and in particular to Grant Thornton UK LLP overall turnover. Furthermore, this is a fixed fee with no contingent element. These factors are deemed to adequately mitigate any perceived threat to an acceptable level.*
	TOTAL	**£5,783**		

The above non-audit services are consistent with the group's policy on the allotment of non-audit work to your auditor.

Section 6: Communication of audit matters

Communication to those charged with governance

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.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, 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.psaa.co.uk/appointing-auditors/terms-of-appointment/)

We have been appointed as the Council'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 Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council 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 Council 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, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓
Matters in relation to the group audit including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	✓	✓

Appendices

A. Action plan

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
1.	**<u>Working Papers</u>** A thorough debrief between audit and the finance team is held in October to review working papers and audit trails to improve the quality for next year. The Council should consider setting up a review of working papers by senior members of the finance team to provide challenge about the agreement of balances to the supporting audit trails before being provided to audit	Medium	*Agreed* *Agreed*	*October 2017 / Head of Finance* *September 2017 / Head of Finance*
2.	**<u>HRA Depreciation</u>** The Council needs to ensure that the records supporting the calculation of HRA depreciation are clear with a reconciliation between the capital accounting notes and the fixed asset register.	Low	*Agreed*	*October 2017 / Group Accountant (Capital and Treasury Management)*
3.	***<u>Accruals accounting limit</u>*** *The Council should set a de-minimus level below which it is considered unnecessary to accrue for reasons of materiality and practicality.*	*Medium*	*Agreed*	*October 2017 / Head of Finance*
4.	***<u>Soft loan records</u>*** *The Council should review the process for the legal team to update housing records of the final loan repayments in the year.*	*Medium*	*Agreed*	*October 2017 / Group Accountant (HRA and Systems)*

Controls

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

B: Audit opinion

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHEPWAY DISTRICT COUNCIL

We have audited the financial statements of Shepway District Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Group and Authority Movement in Reserves Statements, the Group and Authority Comprehensive Income and Expenditure Statements, the Group and Authority Balance Sheets, the Group and Authority Cash Flow Statements, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of the Authority, 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 Authority's members 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 Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Corporate Director of Organisational Change and auditor

As explained more fully in the Statement of Responsibilities, the Corporate Director of Organisational Change is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which 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 Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director of Organisational Change; 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 Authority and Group as at 31 March 2017 and of the Authority's and Group's expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

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: Framework (2016)' published by CIPFA and SOLACE; 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 Authority 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 Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Respective responsibilities of the Authority and auditor

The Authority 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 Authority 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 Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of the Authority'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 Authority 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 Authority 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 Authority 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 Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2017 in accordance with the requirements of the Act and the Code of Audit Practice until we have completed our consideration of objections brought to our attention by local authority electors under Section 27 of the Act in respect of 2015/16. We are satisfied that these matters do not have a material effect on the 2016/17 financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

[Signature]

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

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[Date]

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