

The Audit Findings for Mole Valley District Council

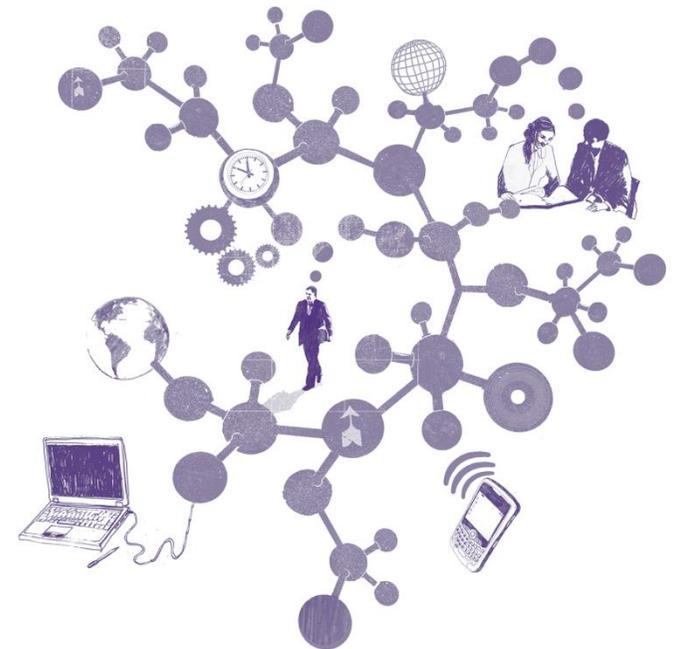
Year ended 31 March 2017

September 2017

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21 September 2017

Dear Councillor Kennedy

Audit Findings for Mole Valley 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 Mole Valley District Council, the Audit 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 officers.

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

Iain Murray
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 Mole Valley District Council ('the Council') and the preparation of the 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 whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Council 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 June 2017.

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

- completion of work relating to the Collection Fund
- obtaining responses on a small number of queries in other areas
- obtaining and reviewing the final management letter of representation
- review of the final version of the financial statements
- updating our post balance sheet events review to the date of signing our audit opinion
- final quality assurance procedures.

Key audit and financial reporting issues

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

There were no issues where we agreed an amendment to the primary statements. We agreed a small number of adjustments to disclosure notes, all of which have been amended by management.

Further details of our findings are set out in section 2 of this report.

Many audit working papers were made available at the start of our on-site visit. The working papers provided were generally of a high standard and the speed of the initial response to many audit queries was very good, although follow-up work was sometimes needed to help clarify the information provided.

However, there were delays in obtaining transaction reports in some key areas where we obtain assurance by sample testing of transactions. We understand that, as in 2015/16 and as per the findings from our interim work reported in March 2017, officers experienced a number of technical issues when producing and working with large files. In some cases substantial further work was also required after the initial reports had been produced to demonstrate that these fully reconciled to the draft accounts. As a result our sample testing in these areas took longer than originally planned. The issue had an impact on the overall timescales for our audit, as the delays in testing caused difficulties in completing our work. Additional audit work was also required because a year end report for sundry debtors had not been run at 31 March 2017, so that there was no clear transaction trail to support the value included in the accounts.

The national timetable for preparing accounts will accelerate from 2017/18, when draft accounts will need to be produced by 31 May and an auditor's report issued by 31 July. The issues outlined above will need to be resolved if the accelerated audit timetable for 2017/18 is to be met. We have discussed the way forward with officers and have agreed on an initial joint workshop to support planning for the 2017/18 accounts closedown.

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 are misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of 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

We noted that;

- the Council was unable to provide a transaction analysis supporting the value of £2,302,000 for sundry debtors included in the financial statements as a sales ledger analysis report had not been run on 31 March 2017.
- you continue to have an interim control to ensure there is senior officer review of journals over £25,000.

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.

Grant certification

In addition to our responsibilities under the Code we are required to certify your Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. We will complete our work on this claim ahead of the certification deadline of 30 November 2017. We will report the outcomes to the Audit Committee in our separate 2016/17 Certification Report.

The way forward

Matters arising from the financial statements audit and our review of your arrangements for securing economy, efficiency and effectiveness in your use of resources have been discussed with officers.

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

01. Executive summary

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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'.

In our audit plan we reported that we had determined overall materiality to be £959,000 (being 2% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

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 £47,950. This remains the same as reported in our audit plan.

Audit findings against significant risks

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

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

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p>	<p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of your revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited. Income streams such as taxation, government grant and rental income have predictable patterns of receipt which reduce the opportunities for manipulation. Income from fees and charges is often received at the point of, or before, delivery of the service, reducing the risk of misstatement. The Council does not currently have significant income streams with less predictable receipts, for example from commercial activities, which would create greater risk around revenue recognition. • the culture and ethical frameworks of local authorities, including the Council, mean that all forms of fraud are seen as unacceptable.
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 accounting estimates, judgements and decisions made by management • testing of journal entries • review of unusual significant transactions. 	<p>Our audit work, including our review of journal controls and testing of journal entries, has not identified any evidence of management override of controls.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

Audit findings against other risks

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

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	Employee remuneration and benefit obligations and expenses understated	<ul style="list-style-type: none"> • Documentation of our understanding of processes and key controls over the transaction cycle • Walkthrough of the key controls to assess whether those controls are designed effectively • Review of yearend reconciliations to ensure completeness of information in the accounts • Trend analysis to assess completeness of payroll information 	Our audit work has not identified any significant issues in relation to the risk identified.
Employee remuneration: Valuation of pension fund net liability	Pension fund assets and liabilities incorrectly valued.	<ul style="list-style-type: none"> • Identification and walkthrough of the Council's controls to ensure that the pension fund net liability is not materially misstated • Review of the competence, expertise and objectivity of the actuary performing the pension fund valuation • Review of the basis for the valuation and assessing the reasonableness of the actuarial assumptions made • Review of the consistency of disclosures in the financial statements with the actuarial report. 	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Valuation of property, plant and equipment</p>	<p>Revaluation measurements not correct</p>	<ul style="list-style-type: none"> • Identification and walkthrough of system controls • Review of management's processes and assumptions for the calculation of the estimate, including review of the work performed by management experts • Review of the competence, expertise and objectivity of management's expert • Testing to ensure information on revaluations is correctly input to the Council's asset register • Evaluation of management's processes to ensure the carrying value of assets not revalued during the year is not materially different from current value at the balance sheet date. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>Treatment of accumulated depreciation</p> <ul style="list-style-type: none"> • In previous years we noted that you were unable to identify historic revaluation movements at the level of individual assets, and as a consequence were unable to eliminate accumulated depreciation from the financial statements following asset revaluations. Although Net Book Value (NBV) was correctly stated, both Gross Cost and Accumulated Depreciation had matching overstatements. Therefore the analysis did not comply in full with the Code of Practice on Local Authority Accounting, which stipulates that accumulated depreciation should be eliminated at the date of asset revaluation. In the financial statements you drew attention to the position in a disclosure note. • In 2016/17 you completed an exercise to correctly calculate balances for individual assets, and make the required aggregate adjustments in the financial statements. We have reviewed these calculations and the adjustments reflected in the 2016/17 financial statements. We concluded that these adjustments were fairly stated.

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Operating expenses</p>	<p>Creditors understated or not recorded in the correct period</p>	<ul style="list-style-type: none"> • Documentation of our understanding of processes and key controls over the transaction cycle • Walkthrough of the key controls to assess whether those controls are designed effectively • Substantive testing of creditor balances to supporting documentation • Testing of new year payments to ensure expenditure had been posted to the correct accounting period 	<p>We performed sample testing of invoices entered on the accounts payable system in April 2017 to obtain assurance on correct cut-off. At the time of writing we are seeking further clarification on two transactions; if these items were incorrectly posted to 2017/18, the value of the error when projected to the financial statements as a whole would be £347,000, but this is not a material issue for our opinion.</p> <p>Our audit work did not identify any other significant issues in relation to the risk identified.</p>
<p>Financial statements</p>	<p>CIPFA has been working on the 'Telling the Story' project, which aims to streamline the financial statements and improve accessibility to the reader of the accounts. The project has resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period restatement of the comparative figures is also required.</p>	<ul style="list-style-type: none"> • Reviewed the process for making the required financial reporting changes to the 2016/17 financial statements. • Reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives • Reviewed the classification of 2016/17 income and expenditure recorded within the Cost of Services section of the CIES and the new Expenditure and Funding Analysis (EFA) note to the financial statements. • Reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS). 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</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 Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Revenue recognition policies are set out at Note 1 to the accounts, "Accounting Policies – General Principles" 	<ul style="list-style-type: none"> Revenue recognition policies are adequately disclosed in the financial statements. In our audit we did not identify any instances of inappropriate revenue recognition. 	
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include <ul style="list-style-type: none"> pension fund valuations PPE revaluations impairments provisions 	<ul style="list-style-type: none"> You set out your policies in Note 1 to the financial statements. We reviewed these policies and concluded they were reasonable. We did not identify any instances of non-compliance with those policies; We have no issues to report concerning the Council's use of judgements and estimates. 	
Going concern	<p>Management has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.</p>	<p>We have reviewed management's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the financial statements.</p>	
Other accounting policies	<p>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</p>	<p>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.</p>	

Assessment

 Marginal accounting policy which could potentially attract attention from regulators
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 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"> No issues have been identified during the course of our audit procedures which we need to report to you.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> Our work has 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"> We have requested a standard letter of representation from you.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We use third party confirmations to support our review of cash and investment balances at 31 March 2016. Our testing has not identified any issues requiring further work.
6.	Disclosures	<ul style="list-style-type: none"> Issues requiring changes to amounts above the level at which we are required to report are reported at "Misclassifications and disclosure changes". We also agreed a number of other minor changes to the amounts and narrative at disclosure notes .
7.	Matters on which we report by exception	<p>We are required to report on a number of matters by exception in the following areas:</p> <ul style="list-style-type: none"> 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. Where we apply additional powers and duties for local government auditors under the Act. <p>We have not identified any issues we would be required to report by exception in these areas.</p>
8.	Specified procedures for Whole of Government Accounts	<p>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.</p> <p>Detailed work is only required where certain values in the financial statements exceed thresholds specified by the National Audit Office. No detailed work is required for 2016/17.</p>

Internal controls

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

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The matters we report are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to those charged with governance.

Our follow-up of issues raised in previous year reports is reported on the following page.

	Assessment	Issue and risk	Recommendations
1.		A sales ledger analysis report was not run on 31 March 2017. You were therefore unable to provide a transaction analysis supporting the value of £2,302,000 for sundry debtors included on the ledger and in the financial statements. A sales ledger analysis report dated 3 April 2017 was provided for audit, but the total value on this report was £2,175,000, giving an unreconciled difference of £127,000.	A sales ledger analysis report should be run on 31 March to support the value for sundry debtors included in the financial statements.

Assessment

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

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
	<p>Partly completed</p>	<ul style="list-style-type: none"> • Our work in previous years identified that journals posted by members of the finance team were not independently checked or authorised, which increased the risk of misstatement. You implemented an interim control to ensure that all journals posted over £25k were reviewed by a senior member of the finance team. • Plans were in place to implement electronic journal authorisation when Integra was updated during 2016-17. 	<ul style="list-style-type: none"> • The electronic authorisation module in the new Integra system was not implemented in 2016/17 due to software issues. As such the interim control to ensure that all journals posted over £25k are reviewed by a senior member of the finance team has remained in place. • We reviewed the operation of this control during 2016/17. We have no issues to report.

Assessment

- ✓ Action completed
- X Not yet addressed

Adjusted misstatements

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

There are no adjustments to the draft accounts above the level we are required to report.

Unadjusted misstatements

We report details of adjustments identified during the audit and above our triviality level which have not been made within the final set of financial statements.

There are no adjustments to the draft accounts above the level we are required to report.

Misclassifications and disclosure changes

The table below provides details of disclosure adjustments to the draft accounts above the level we are required to report. Officers have amended disclosure in the final set of financial statements.

We have also agreed a number of other minor changes and amendments to narrative disclosure to improve the presentation in the accounts.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
Disclosure	526	Note 25.1: Revaluation Reserve Note 25.3: Capital Adjustment Account	Officers identified the need for a reduction in Revaluation Reserve and matching increase in Capital Adjustment Account to adjust re finance lease error. No net impact on the balance sheet total for unusable reserves.
Disclosure	3579	Note 27: Cash Flow: Investing Activities	Officers identified the need for an adjustment to move £3,579,000 at Note 27 from the line for <ul style="list-style-type: none"> • Proceeds from sales to • Other receipts from investing activities No net impact on total for Note 27.

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 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 and identified significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated the outcome from our risk assessment to you in our Audit Plan dated May 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.

Significant qualitative aspects

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

We have focused our work on the significant risks that we identified in your arrangements.

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 later in this section.

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.

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
<p>You are facing further reductions in central government funding in future years, and recognise the need to develop alternative income streams to protect your financial position and support the delivery of services. You will need an effective financial planning framework to manage the impact of these changes.</p>	<p>We have updated our understanding of your medium term financial planning framework and your approach to addressing reductions in central government funding.</p>	<p>You continue to face significant funding pressures. The Council will receive no Revenue Support Grant following a final transitional relief allocation in 2017/18. Whilst there is some potential for local growth in business rate income, nationally there is uncertainty over the future mechanisms for distributing this income across authorities. Recent changes to the New Homes Bonus framework will lead to significant reductions in funding for the Council, and the impact will be increased locally if, as in 2016/17, the number of new homes constructed in the year does not exceed the threshold to qualify for funding under the scheme. Historically you have used New Homes Bonus funding to help support the base budget.</p> <p>You have a clear understanding of the need to respond to these changes in the funding framework by local plans to reduce costs and increase income in the medium term. Your programme of major capital projects on existing assets such as the Pippbrook offices and the Meadowbank stadium is expected to produce ongoing revenue benefits. In 2016/17 you have used reserves to make a substantial advance payment to the Surrey Pension Fund, reducing your share of the deficit and leading to reduced revenue contributions in future years. You will also benefit from a major reduction in costs from 2018/19 following the award of a combined waste contract across Surrey authorities.</p> <p>You have also now agreed an asset investment strategy, allocating £48.5m to purchase property assets with the aim of generating a net contribution of £750,000 to the revenue budget by 2019/20. The required company framework is in place, and the first asset purchase took place in early 2017/18.</p> <p>You have a history of sound financial management and continue to maintain a three year Medium Term Financial Plan (MTFP) which is regularly updated and aligned with the annual budget-setting process. Although there was an overspend of £98,000 against revenue budgets in 2016/17 the MTFP indicates that, taking into account the actions outlined above, the Council will be able to set a balanced budget throughout the lifetime of the plan without further contributions from general reserves. However, the Council faces pressure on a number of expenditure budgets, there are inevitable uncertainties around the extent to which future income projections will be achieved, and over the lifetime of the MTFP the Council will also need to manage significant local regeneration initiatives. You will therefore continue to need a robust financial planning framework to both deliver sustainable services and achieve your wider strategic priorities.</p> <p>We concluded that the risk we identified was sufficiently mitigated and that you have proper arrangements for securing economy, efficiency and effectiveness in the use of resources.</p>

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.

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 draft report is at Appendix A.

Section 4: Fees, non-audit services and independence

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We confirm below our final fees charged for the audit and the provision of non-audit services.

Fees

	Proposed fee £	Final fee £
Council audit	46,418	TBC
Grant certification	14,070	TBC
Total audit fees (excluding VAT)	60,488	TBC

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

Our final fee for the year is subject to;

- Billing for work performed in 2016/17 in response to a question from a local elector. The question did not lead to a formal objection to the accounts.
- Completion of outstanding work.

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited.

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.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table below summarises all other services which were identified.

Fees for other services

Service	Fees £
Audit related services	0
Non-audit related services	6,500
<ul style="list-style-type: none"> • Tax advisory work; considerations on setting up a company to facilitate the acquisition of commercial property 	

Section 5: Communication of audit matters

01. Executive summary

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

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.psa.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	✓	✓

Appendices

A. Audit opinion

A: Draft Audit opinion

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

DRAFT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MOLE VALLEY DISTRICT COUNCIL

We have audited the financial statements of Mole Valley 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 Comprehensive Income and Expenditure Statement, the Balance Sheet, the Movement in Reserves Statement, the Cash Flow Statement, the Collection Fund 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 Chief Finance Officer and auditor

As explained more fully in the Statement of Responsibilities, the Chief Finance Officer 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

from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance 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 Authority as at 31 March 2017 and of its 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.

Certificate

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

DRAFT TO BE SIGNED

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

Grant Thornton House
Melton Street
London
NW1 2EP

DRAFT TO BE DATED



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