



The Audit Findings for Mole Valley District Council

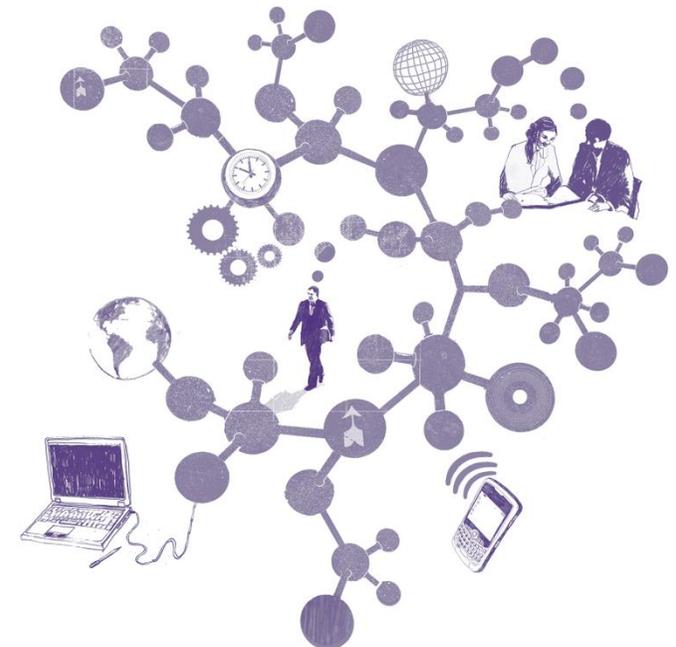
Year ended 31 March 2016

September 2016

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Councillor Paul Kennedy
Chair of the Audit Committee
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22 September 2016

Dear Paul

Audit Findings for Mole Valley District Council for the year ending 31 March 2016

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of Mole Valley District Council, the Audit Committee), 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 auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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

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

Yours sincerely

Iain Murray
Engagement lead

Chartered Accountants

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Section 1: Executive summary

01. Executive summary

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05. Communication of audit matters

Purpose of this report

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

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, your financial statements give a true and fair view of your the financial position and 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 and conclude whether it is consistent with the financial statements and in line with required guidance.

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

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

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 March 2016.

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

- obtaining and reviewing the final management letter of representation
- review of the final version of the financial statements and the Annual Governance Statement
- updating our post balance sheet events review to the date of signing our audit opinion
- work under the Whole of Government Accounts framework.
- final quality assurance procedures.

Key audit and financial reporting issues

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

Your financial statements have been produced to a high standard, with only a small number of adjustments required.

We noted that, as in previous years, your accounts do not fully comply with the Code of Practice on Local Authority Accounting as accumulated depreciation for Property Plant and Equipment is not eliminated at the date of asset revaluation. The issue affects the aggregate figures for gross cost and accumulated depreciation, but there is no impact on Net Book Value, which we have concluded is fairly stated. The issue is fully disclosed in the financial statements.

We considered how you had calculated the provision for business rate appeals at 31 March 2016. We discussed a number of issues with management. We concluded that the estimate was fairly stated, but made a number of recommendations relating to the calculation of the provision in future years.

We agreed two adjustments relating to PPE balances. Adjusting entries were required to increase PPE and creditors by £190,000 as a capital creditor had been omitted. We also noted that for two assets revaluation movements had been incorrectly accounted for. The impact was to increase the NBV of Property Plant

and Equipment by £616,000, with a matching increase at Total Comprehensive Income and Expenditure.

We also agreed a number of amendments to disclosure notes.

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

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 with the audited financial statements is consistent with the financial statements.

We have concluded that the other information published together with the financial statements in the Annual Governance Statement and the Narrative Report is consistent with the audited financial statements.

We are required to report to you if in our opinion 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. We have nothing to report in this respect.

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 you.

Findings

Our work in 2015/16 has not identified any new control weaknesses which we wish to highlight for your attention.

We identified a number of control weaknesses in previous years. You continue to have an interim control to ensure there is senior officer review of journals over £25,000 ahead of a planned update of the general ledger system in December 2016. Action has been taken to address the remaining issues identified in previous years.

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, you had proper arrangements in place to secure economy, efficiency and effectiveness in your 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 are required to report to you where we apply the following additional powers and duties for local government auditors under the Act:

- issue of a public interest report where 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 have not identified any issues requiring us to apply our statutory powers and duties under 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.

To date we have not received any questions or objections in respect of the 2015/16 financial statements.

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 2016. 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. Our Action Plan is at Appendix A.

Acknowledgement

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

Grant Thornton UK LLP
September 2016

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

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 £1,090,000 (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 £54,000. 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; and • 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
<p>Employee remuneration</p>	<p>Employee remuneration and benefit obligations and expenses understated</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 payroll information for a sample of employees to supporting documentation • Review of yearend reconciliations to ensure completeness of information in the accounts • Trend analysis to assess completeness of payroll information 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p>Employee remuneration</p>	<p>Valuation of pension fund net liability</p>	<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. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Valuation of property, plant and equipment	Revaluation measurements not correct	<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 	We noted that accumulated depreciation for Property Plant and Equipment is not eliminated at the date of asset revaluation. We discuss this issue in the section on Accounting Policies, Estimates and Judgements. Our audit work has not identified any other significant issues in relation to the risk identified.
Operating expenses	Creditors understated or not recorded in the correct period	<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 	Our audit work has not identified any significant issues in relation to the risk identified.

Significant matters discussed with management

	Significant matter	Commentary
1.	<p>Provision for business rate appeals</p>	<p>Under the accounting framework for business rates billing authorities are required to estimate a provision for business rate appeals. The value of this provision in the collection fund account at 31 March 2016 was £1,2m, of which your share was £484k. This was a material reduction on the value at 31 March 2015 (£4,3m of which your share was £1,7m).</p> <p>In 2014/15 the government announced a change of rules whereby alterations to rateable values could only be backdated to the period between 1 April 2010 and 1 April 2015 for ratepayers' appeals made before 1 April 2015. This raised the prospect of an increase in "speculative" appeals being submitted before this date. Management has identified the final quarter of 2014/15 as a period when potentially speculative claims could be received, and in calculating the provision for 2014/15 applied a lower likely success rate/impact for appeals received in that period.</p> <p>Although the majority of the appeals from the final quarter of 2014/15 are still outstanding, the provision for all cases arising in this period was reduced to nil at 31 March 2016. For other cases management has used a lower likely success rate/impact in its calculations than in the previous year.</p> <p>We discussed these changes with the Chief Finance Officer. Officers explained that a lower provision was considered appropriate following informal benchmarking against other Surrey Councils.</p> <p>Officers have performed a review of outcomes on appeals received in 2014 (i.e. outside of the potentially "speculative" period) which had been settled by 30 June 2016. The overall reduction in Rateable Value was 4.4%, which is comparable with the reduction of 4.67% used in the 2015/16 calculations. A similar review of outcomes was performed for appeals which had been received in the "speculative" period and settled by 30 June 2016. Only a small number of cases had been successful and the impact was negligible.</p> <p>We concluded that the estimate included in the accounts was not materially misstated. However, in 2015/16 only a limited number of appeals have been settled by the Valuation Office (VO), which is also currently working on business rate valuations. The rateable value of appeals from the "speculative" period still to be assessed at 30 June 2016, and currently subject to nil provision, is £18.8m. We recommend that when calculating the provision for business rates in 2016/17 you continue to update your assessment of the outcomes from settled cases and use this to inform your estimate.</p> <p>We note that in calculating the provision at 31 March 16 management had only considered appeals received by the Valuation Office (VO) at 29 February 16. Appeals received in March 2016 should also have been considered. The impact was to understate the provision by £97k, of which the Council's share was £39k. The issue was not material for our opinion, but in future years you should assess all cases included on the 31 March VO report. Officers should also review the 30 June VO report for appeals received at 31 March but settled after year end to consider the implications for the year end estimate.</p> <p>The provision for business rate appeals considers only those appeals which have been received. You do not currently estimate any provision for appeals yet to be received on the basis of uncertainty. Although a number of conditions are required for any provision to be recognised, including that a reliable estimate can be made for the amount of the obligation, accounting standards anticipate that only in extremely rare cases can a reliable estimate not be made. In future years we recommend that you assess the potential liability in respect of cases yet to be received, for example by considering the historic experience of levels of appeals, or known cases locally or nationally with a potential to generate future appeals.</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 within the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
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 have recorded the conclusions from our review of the provision for business rate appeals at "Significant matters discussed with Management". • In our sample testing of depreciation we identified four componentised assets where the remaining useful economic life for the component used to calculate depreciation was not consistent with the most recent assessment of asset life provided by your external valuer. Individually the errors were trivial, and an extrapolation indicated that the potential error for the population as a whole was not material for our opinion. However, you should ensure that asset lives for depreciation calculations are updated to reflect the most recent information on remaining useful asset life provider by the valuer. <p>Treatment of accumulated depreciation</p> <ul style="list-style-type: none"> • In previous years we have noted that you have been unable to identify historic revaluation movements at the level of individual assets. As a consequence you have been unable to eliminate accumulated depreciation from the financial statements following asset revaluations. Although Net Book Value (NBV) has been correctly stated, both Gross Cost and Accumulated Depreciation have been overstated (Note 12.1). Therefore the analysis at Note 12.1 does not comply in full with section 4.1.2.33 of the Code of Practice on Local Authority Accounting, which stipulates that accumulated depreciation should be eliminated at the date of asset revaluation. • As part of the full valuation undertaken in 2015/16 you had planned to complete an exercise which would allow you to correctly calculate balances for individual assets, which would then support aggregate adjustments in the financial statements. This exercise was not yet been completed. You have included a disclosure at Note 12.1 explaining the position, and the intention to complete this exercise in 2016/17. • We have considered the impact of the aggregate overstatements of gross cost and accumulated depreciation at Note 12.1. Our testing has confirmed that NBV is fairly stated. We note that you have disclosed the non-compliance with the Code of Practice on Local Authority Accounting, and drawn attention to the overstatement of both gross cost and accumulated depreciation. 	

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

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

Accounting area	Summary of policy	Comments	Assessment
		<ul style="list-style-type: none"> We considered if further action was required. We concluded that Net Book Value is the measure of most relevance to the reader of the accounts when considering PPE, and that matching overstatements of gross cost and accumulated depreciation, to which attention had been drawn in the disclosure, would not significantly mislead the reader. We concluded that we were able to give an unqualified opinion on the accounts. However, action is required by the Council to complete the planned review of these transactions to allow adjusting entries to be processed for the 2016/17 accounts. 	
Revenue recognition	<ul style="list-style-type: none"> Revenue recognition policies are set out at Note 1, Section 2.1 to the accounts. 	<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. 	
Going concern	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.	We have reviewed management's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the financial statements.	
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.	

Assessment

 Marginal accounting policy which could potentially attract attention from regulators

 Accounting policy appropriate but scope for improved disclosure

 Accounting policy appropriate and disclosures sufficient

Other communication requirements

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

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> 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 .

Other communication requirements (continued)

	Issue	Commentary
7.	Matters on which we report by exception	<ul style="list-style-type: none"> • We are required to report by exception • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with information of which we are aware. • Where we apply additional powers and duties for local government auditors under the Act. <p>We have nothing to report in these respects.</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 2015/16.</p>

Internal controls

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

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

We have no matters to report to you, other than for our follow-up of issues raised in previous year reports, which is reported on the following page.

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
	✓	<ul style="list-style-type: none"> During our audit procedures, we identified that you had not performed the year end reconciliation between your Fixed Asset Register and the General Ledger. We recommended that the Council ensure that the Fixed Asset Register is reconciled to the General Ledger on a regular basis, and as a minimum as part of the accounts closedown, to provide assurance over the completeness of the Property, Plant and Equipment figures included within the accounts. 	<ul style="list-style-type: none"> Our review confirmed that Net Book Value per the fixed asset register had been reconciled to the general ledger at 31 March 2016.
	✓	<ul style="list-style-type: none"> We identified two items that you had both incorrectly capitalised, and capitalised to the incorrect asset classification. We recommended you ensure that your capital accounting during the year is in line with your policies and procedures, in particular regarding the de-minimis capitalisation policy and asset classification. 	<ul style="list-style-type: none"> Our testing in 2015/16 did not identify any items which had been incorrectly capitalised or capitalised to the incorrect asset classification.
	✓	<ul style="list-style-type: none"> Our testing on journals identified that your General Ledger system, Integra, is configured to allow users to manually enter the 'source' field. This means that users could potentially post a journal with another user's initials, thus obscuring the audit trail behind the journal. We recommended that you strengthen the controls in place within Integra to ensure that the 'source' field cannot be manually altered, to ensure a clear audit trail for all journals posted during the year. 	<ul style="list-style-type: none"> We confirmed that the system had been changed to ensure that the source field could not be manually altered.

Assessment

- ✓ Action completed
- X Not yet addressed

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 had previously identified that your journal controls could be strengthened. Journals posted by members of the finance team were not independently checked or authorised, which increased the risk of misstatement and required us to undertake further testing on this area. You implemented an interim control during 2014/15 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 2015-16. 	<ul style="list-style-type: none"> • The Integra system has not yet been updated. 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 2015/16. We also performed detailed journals testing in respect of the specific risk of 'management override of controls'. 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. The table below summarises the adjustments arising from the audit which have been processed by management.

Detail		Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000
1	We identified two assets where revaluation movements had been incorrectly accounted for. The impact was to increase the NBV of Property Plant and Equipment by £616,000 with a matching increase at Total Comprehensive Income and Expenditure.	(616)	616
2	A capital creditor of £190,000 had been omitted.		
	PPE		190
	Creditors		(190)
	Overall impact	(616)	616

Unadjusted misstatements

There are no audit adjustments above the level we are required to report to those charged with governance, other than for the issues noted at "Misclassification and disclosure changes" later in this report.

Misclassifications and disclosure changes

The table below provides details of disclosure adjustments identified during the audit above the level we are required to report. We have also agreed a number of other minor changes and narrative amendments to improve the presentation in the accounts. Officers have agreed to amend disclosure in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	No net impact	Note 12.1: PPE	Upward and downward revaluation movements for Other Land and Buildings had been incorrectly analysed in the "Cost or Valuation" section at Note 12.1. Adjustments were required to the lines "Revaluation increases/(decreases)s recognised in the Revaluation Reserve" and "Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services", but there was no net impact on the totals for the "Cost or Valuation" section.
2 Disclosure	1,026	Note 14.1: Investment Properties CIES	An amount of £1,026,000 included at the line "rental income from investment property" related to a movement on property values. It was agreed this would be more appropriately disclosed at Note 10 "Financing and Investment Income and Expenditure".
3 Disclosure	1,017 926	Note 16: Categories of Financial Instrument	Financial instruments include certain financial assets and liabilities as defined by IAS32. A number of items outside of the definition of financial assets and liabilities, such as payments in advance and payments to HMRC, were initially included at the lines for "Debtors" and "Creditors". The note was adjusted to exclude these items. Total debtors were reduced by £1,017,000 and total creditors by £926,000. There was no impact on any other statement or disclosure. The 2014/15 analysis was restated to exclude these items for comparative purposes.

Section 3: Value for Money

01. Executive summary

02. Audit findings

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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 you have put in place proper arrangements for securing economy, efficiency and effectiveness in your 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 you have put proper arrangements in place.

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

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

AGN03 provides examples of proper arrangements against three sub-criteria but 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 March 2016 and identified the following significant risks, which we communicated to you in our Audit Plan dated March 2016.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

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.

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 B.

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 significant reductions in government funding in future years. 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 planned approach to addressing future reductions in central government funding</p>	<p>You have continued to maintain a three year Medium Term Financial Strategy (MTFS) which is regularly updated and aligned with the annual budget-setting process. The assumptions supporting the strategy are also actively reviewed and updated.</p> <p>You have a history of sound financial management. You achieved a gross revenue underspend on services of £429,000 in 2015/16, exceeding the forecasts used to inform the most recent MTFS. There is a consistent pattern of underspends against revenue budget in recent years, with the General Fund balance increasing year on year. This indicates that the overall assumptions within the MTFS remain prudent.</p> <p>You continue to face significant financial pressures associated with reductions in government funding. In February 2016 the MTFS identified a funding gap of £324,000 in 2017/18. Funding from RSG is anticipated to end in 2018/19 and the Council's plans anticipate increasing the extent to which New Homes Bonus (NHB) is used to support base budgets, despite the continued uncertainty over the extent to which funding from NHB will reduce in the medium term.</p> <p>You are taking a pro-active approach to address these pressures. There is a well-established focus on increasing income from your assets, including selective investment to reduce costs or generate increased returns over the medium term. You are also considering an advance lump sum payment to reduce the deficit on your share of the Surrey Pension Fund, leading to reduced revenue contributions in future years.</p> <p>You continue to have a strong focus on supporting wider change and regeneration within the District. Delivering these strategic objectives whilst also addressing future financial pressures will continue to require a robust medium term financial planning framework.</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 its use of resources.</p>

Significant difficulties in undertaking our work

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

Significant matters discussed with management

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

Any other matters

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

Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

We confirm below our final fees charged for the audit, subject to completion of our work on grant claim certification. There were no fees for the provision of non audit services

Fees

	Proposed fee £	Final fee £
Council audit	46,418	46,418
Grant certification (indicative)	10,626	TBC
Total audit fees (excluding VAT)	57,044	TBC

Independence and ethics

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

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

The Council audit fee for the year is the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. The grant certification fee for the year is the indicative scale fee set by Public Sector Audit Appointments Ltd (PSAA).

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

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

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

Respective responsibilities

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

We have been appointed as the 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		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
	Provision for business rate appeals			
	When calculating the provision for business rates in 2016/17 the Council should update its assessment of the outcomes from settled cases and use this information to inform its estimate.	High		
	In future years the Council should assess all cases included on the 31 March VO report. Officers should also review the 30 June VO report for appeals received at 31 March but settled after yearend to consider the implications for the yearend estimate.	High		
	In future years the Council should assess the potential liability in respect of appeals yet to be received, for example by considering the historic experience of levels of appeals, or known cases locally or nationally with a potential to generate future appeals.	High		

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
	PPE			
	Asset records used for the calculation of depreciation should be based on the most recent assessment of remaining useful life as advised from asset revaluations.	High		
	The Council should complete the planned exercise to correctly identify valuation movements for individual assets and allow adjustments to aggregate gross cost and accumulated depreciation in the financial statements.	High		

Appendix B: 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 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, 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 2015/16.

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 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 Chief Finance Officer's 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 2015/16, 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 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'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 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 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 is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Authority and auditor

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

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 to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, 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 these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. 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 to secure value for money through economic, efficient and effective use of its 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 2015, we are satisfied that in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Certificate

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

(Signature to be inserted)
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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London
NW1 2EP

DRAFT



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