

# The Annual Audit Letter for Mole Valley District Council

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**Year ended 31 March 2015**

28 October 2015

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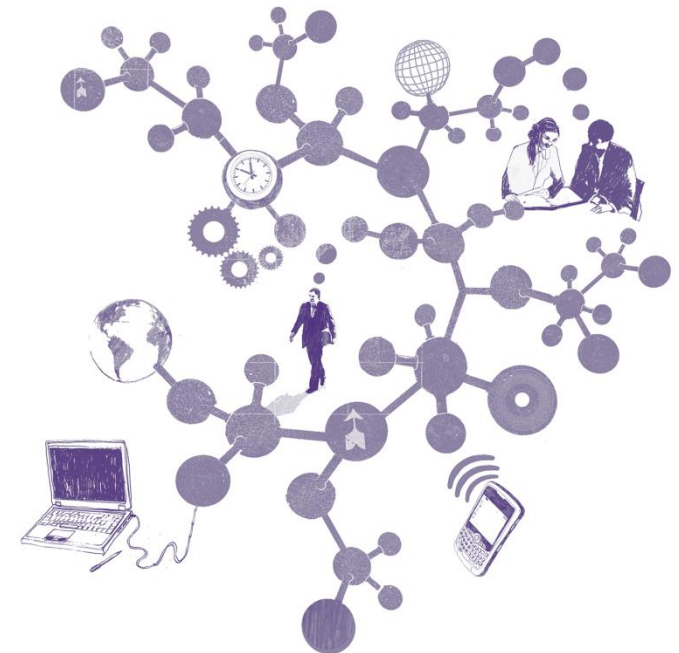
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# Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at Mole Valley District Council for the year ended 31 March 2015.

The Letter is intended to communicate key messages to you and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 12 March 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and Public Sector Audit Appointments Limited.

<b>Financial statements audit (including audit opinion)</b>	<p>We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 17 September 2015 to the Audit Committee. The key messages reported were:</p> <ul style="list-style-type: none"><li>• A number of issues were identified with your accounting for Property, Plant and Equipment, including the lack of a timely reconciliation between the General Ledger and Fixed Asset Register, issues with asset capitalisation, and accounting for revaluations of Investment Properties.</li><li>• The work performed during the year has identified that the Council has strengthened its journal control environment over the past 12 months, and has plans in place, including the introduction of electronic journal authorisation, to strengthen this further over the coming year as part of an upgrade of their accounting system.</li></ul> <p>We issued an unqualified opinion on your 2014/15 financial statements on 29 September 2015, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of your financial position and of the income and expenditure recorded by you.</p>
<b>Value for Money (VfM) conclusion</b>	<p>We issued an unqualified VfM conclusion for 2014/15 on 29 September 2015.</p> <p>On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects you put in place proper arrangements to secure economy, efficiency and effectiveness in your use of resources for the year ending 31 March 2015.</p>

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## Key messages continued

<b>Certification of housing benefit grant claim</b>	We plan to certify your 2014/15 housing benefit grant claim by the required deadline, along with issuing any qualification letter required if applicable.
<b>Audit fee</b>	Our fee for 2014/15 was £61,890 excluding VAT, which was in line with our planned fee for the year and was consistent with the fee in the previous year. Further detail is included within Appendix B.

# Appendix A: Key issues and recommendations

This appendix summarises the significant recommendations identified during the 2014/15 audit.

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
1.	<p>You were only able to provide us with a reconciliation between the General Ledger and the Fixed Asset Register in late September. Such reconciliations should be prepared at the time the financial statements and supporting working papers are prepared.</p> <p><b>Recommendation:</b> Ensure that a reconciliation is performed on a timely basis at year end between the General Ledger and the Fixed Asset Register to demonstrate the completeness of your Fixed Asset Records</p>	High	<p>Our intention next year is to prepare the financial statements in the shorter timescale that will apply from 2017/18. We will include this reconciliation in our programme for April/May 2016 Closing.</p> <p>Responsible office: Phil Mitchell, Financial Services Manager Due date: 31 May 2016</p>
2.	<p>Our detailed testing on Property, Plant and Equipment (PPE) identified several issues with assets which had been capitalised during the year, including items being coded to the incorrect asset type, and being incorrectly capitalised despite being below your own de-minimus policy.</p> <p><b>Recommendation:</b> Strengthen arrangements to produce robust and accurate workings to support the year end figures included within the accounts in respect of capital accounting. This should include ensuring items are only capitalised when they meet your de-minimus policy, and that they are capitalised to the correct asset class.</p>	High	<p>We shall take additional care when perform year-end checks on capital items. We shall also look out for items, during the year, that are either wrongly classified or contradict the de-minimus policy.</p> <p>Responsible office: Phil Mitchell, Financial Services Manager Due date: 31 May 2016</p>
3.	<p>Our PPE testing also identified that your approach to reversing out depreciation for re-valued assets required improvement.</p> <p><b>Recommendation:</b> Ensure that the depreciation for revalued assets is correctly stated based on the date of revaluation, and amounts charged in previous years are written back following any revaluation exercise.</p>	Medium	<p>We will amend our approach on depreciation in line with the recommendation next year.</p> <p>Responsible office: Phil Mitchell, Financial Services Manager Due date: 31 May 2016</p>

## Appendix A: Key issues and recommendations (continued)

This appendix summarises the significant recommendations identified during the 2014/15 audit.

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
4.	<p>Our testing of your Investment Properties identified that you had only processed movements greater than 10% of the previous fair value of the property, and greater than £10k. This policy could potentially lead to material amounts not being accounted for in future years.</p> <p><b>Recommendation:</b> Revisit your policy for accounting for revaluation movements on Investment Properties and PPE to ensure all relevant movements are correctly recorded.</p>	Medium	<p>We will revisit the policy when preparing next year's Closing Programme to ensure that all material amounts are accounted for.</p> <p>Responsible office: Phil Mitchell, Financial Services Manager Due date: 31 March 2016</p>
5.	<p>Testing of your journal controls identified that whilst you have taken steps to improve controls around ensuring that all journals are independently checked or authorised, further progress can be made when the Council updates its accounting system.</p> <p><b>Recommendation:</b> Over the next financial year, you should look to enhance your journal authorisation controls, such as introducing electronic journal authorisation, to strengthen the control environment in this area.</p>	Medium	<p>We plan to introduce an upgrade to our accounting system, INTEGRA2, during the remainder of 2015/16 with improved, electronic journal controls.</p> <p>Responsible office: Phil Mitchell, Financial Services Manager Due date: 31 May 2016</p>
6.	<p>Our detailed journals testing identified that users are able to manually alter the 'source' field, which records the details of the user who has posted the journal. Having the ability to manually edit this field could potentially obscure the audit trail behind a particular journal or journals.</p> <p><b>Recommendation:</b> Strengthen the journal entry controls within Integra to ensure that the 'source' field cannot be manually altered by members of staff posting journals.</p>	Medium	<p>This recommendation is accepted and we have already taken the required remedial action.</p> <p>Responsible office: Phil Mitchell, Financial Services Manager Due date: 31 October 2015</p>

# Appendix B: Reports issued and fees

We confirm below the fees charged for the audit and non-audit services.

## Fees for audit services

	Per Audit plan £	Actual fees £
Council audit	61,890	61,890
Housing benefit grant certification fee	11,860	TBC
<b>Total audit fees</b>	<b>73,750</b>	<b>TBC</b>

\* The work on your Housing Benefit Return is still in progress at the date of issuing the Annual Audit Letter, and any additional fee will be discussed and agreed with you and reported to the Audit Committee as required.

## Reports issued

Report	Date issued
Audit Plan	12 March 2015
Audit Findings Report	17 September 2015
Certification Report	TBC (upon completion of Housing Benefit Work)
Annual Audit Letter	28 October 2015

## Fees for other services

Service	Fees £
N/A – no other services provided to the Council during 2014-15	Nil



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