



# The Annual Audit Letter for Mole Valley District Council

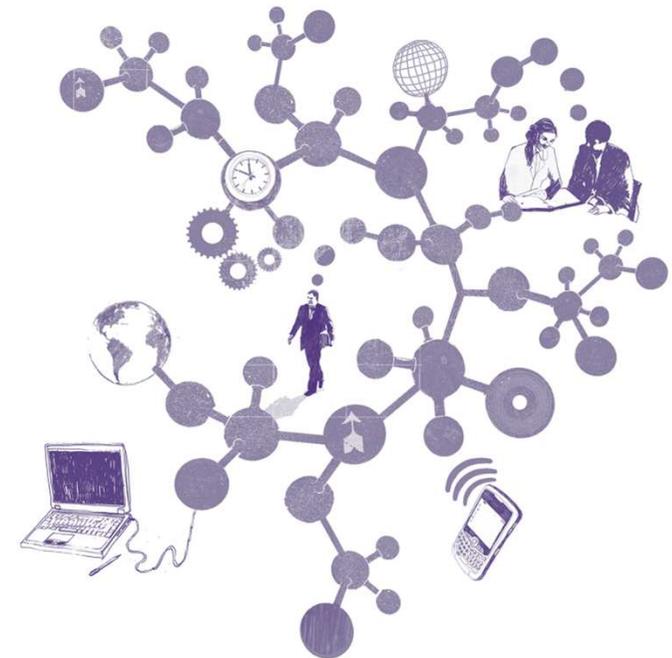
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**Year ended 31 March 2013**

October 2013

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## Section 1: Executive summary

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**02. Audit of the accounts**

**03. Value for Money**

**04. Certification of grant claims and returns**

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# Executive summary

## **Purpose of this Letter**

Our Annual Audit Letter summarises the key findings arising from the following work that we have carried out at Mole Valley District Council for the year ended 31 March 2013:

- auditing the 2012/13 accounts and Whole of Government Accounts submission (Section two)
- assessing your arrangements for securing economy, efficiency and effectiveness in your use of resources (Section three)
- certification of grant claims and returns (Section four).

This letter is intended to communicate key messages to you and external stakeholders, including members of the public. We reported the detailed findings from our audit work to the Audit Committee in our Audit Findings Report on 26 September 2013.

## **Responsibilities of the external auditors and the Council**

This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

You are responsible for preparing and publishing your accounts, accompanied by an Annual Governance Statement. You are also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in your use of resources (Value for Money).

Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan which we issued in June 2013 and was conducted in accordance with the Audit Commission's Code of Audit Practice ('the Code'), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

## **Audit conclusions**

The audit conclusions which we have provided in relation to 2012/13 are as follows:

- an unqualified opinion on the accounts which give a true and fair view of your financial position as at 31 March 2013 and of your income and expenditure for the year;
- an unqualified conclusion in respect of your arrangements for securing economy, efficiency and effectiveness in your use of resources; and
- an unqualified opinion on your Whole of Government Accounts submission

We certified the NNDR3 return without amendment, before the deadline set by the Department of Communities and Local Government. Our work on the Housing and Council Tax benefits claim is on-going.

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# Executive Summary

## Key areas for your attention

We summarise here the key messages arising from our audit for you to consider as well as highlighting key issues you are facing in the future.

You prepared a good quality set of financial statements and supporting working papers in 2012/13. Our audit highlighted only a small number of errors and internal inconsistencies, none of which affected the overall income and expenditure position or council tax.

Your financial statements were coordinated by a temporary Project Manager. We recommended that you establish longer term staffing arrangements for meeting your statutory financial reporting duties.

We reported some internal control issues to you in our audit findings report. You agreed to review your controls in these areas.

- You had no effective controls over manual journal adjustments in 2012/13. This resulted in the need for us to undertake additional audit procedures to gain assurance over your journal entries as recorded in your accounts.
- We noted a large number of self-authorized purchases in 2012/13, some of which were in excess of the individuals' delegated limits.
- We recommended that you improve procedures to understand and challenge information provided to you by external valuers. You were unable to explain the significant movements in asset values. We had to do additional work and meet with the external valuer, to establish the basis of the valuations. This meeting identified a significant error in the valuation report.

During the year I responded to queries raised with me by several local electors, concerning a standards investigation.

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You continue to operate in a difficult and changeable financial environment. Under the Government's austerity measures your revenue support funding is continuing to reduce.

In 2012/13 you continued your good track record of making savings and you delivered a £737k budget surplus, enabling you to add to your reserves. Your service costs per head of population continue to compare favourably with those of other similar councils.

You are managing the financial implications of the Welfare Reform Act. You are now responsible for the costs of council tax benefits and you are preparing for the introduction of the Universal Credit.

You are taking a long term strategic approach to your financial challenges. You recently developed a new Medium Term Financial Strategy with a seven year time horizon. You have been in discussions with key partners over ambitious proposals to provide new and affordable housing in the Borough. If successful these schemes would deliver capital receipts and additional income streams, providing you with a greater level of financial resilience.

## Acknowledgements

This Letter has been agreed with the Strategic Director (section 151 Officer). We would like to record our appreciation for the positive and constructive relationships enjoyed with senior management and the assistance and co-operation provided to us during our audit by your staff.

**Grant Thornton UK LLP**  
**October 2013**

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## Section 2: *Audit of the accounts*

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**02. Audit of the accounts**

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# Audit of the accounts

## **Audit of the accounts**

The key findings of our audit of the accounts are summarised below:

### **Preparation of the accounts**

You presented us with draft accounts on 28 June 2013, in accordance with the national timetable. Good quality working papers were made available to us from the start of the audit fieldwork, which commenced on 1<sup>st</sup> July.

The accounts were prepared to a high standard of quality. Only a small number of amendments were highlighted by the audit and none of these had an impact on the net cost of services. There were also a small number of internal consistency and rounding errors.

The accounts process was led by a temporary Project Manager. In our audit findings report we recommended you review your succession arrangements to provide resilience and continuity in the finance team. Since then you have clarified your arrangements for 2013/14 and are reviewing your longer term resourcing requirements.

### **Issues arising from the audit of the accounts**

We reported that you had no effective controls over journal adjustments in 2012/13. There were a large number of amendments made to your ledger outside of office hours or from remote locations, none of which were checked or authorised by management. In our view this was a risk to the accuracy of information in your accounts, and this led to us having to carry out additional audit procedures to gain the required level of assurance over your journal transactions.

We recommended that you strengthen your journal controls. You have since updated your procedures and are looking to implement further system controls.

## **Property valuations**

Your Property Plant and Equipment valuations increased by approximately 25 per cent in 2012/13. This was a much higher increase than could be explained by general price movements. You were unable to explain the basis of the valuations or the reasons for the increases and we had to meet with your external valuers to establish this.

We recommended that in future you properly understand and disclose the basis of valuations in your financial statements, along with the reasons for significant increases or decreases.

## **Annual governance statement**

Your annual governance statement was prepared to a good standard, in compliance with best practice guidance from CIPFA.

## **Conclusion**

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to the Audit Committee. We presented our report to the Audit Committee on 26 September 2013 and summarise only the key messages in this Letter.

We issued an unqualified opinion on your 2012/13 accounts on 30 September 2013, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the accounts give a true and fair view of your financial position and of the income and expenditure recorded for the year.

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## Section 3: Value for Money

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# Value for Money

## Scope of work

The Code describes your responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in your use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give a VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

**The Council has proper arrangements in place for securing financial resilience.** The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

**The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key findings

### Securing financial resilience

We have undertaken a review which considered your arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- financial governance
- financial planning
- financial control.

Our work highlighted that you made a £737K surplus in 2012/13, and were able to add to your reserves. You continued your strong track record of meeting your financial targets. You have recently updated your medium term financial strategy, which sets out the likely savings you will need to make over the next seven years, in response to rising costs and reductions in formula grant.

At the same time you are actively seeking new sources of income, for example the Leatherhead by-pass development, to provide you with financial resilience in the longer term. Further details are provided in our Audit Findings report issued in September 2013.

### Challenging economy, efficiency and effectiveness

We have reviewed whether you have prioritised your resources to take account of the tighter constraints you are required to operate within and whether you have achieved cost reductions and improved productivity and efficiency.

Our work highlighted that your service costs per head of population have consistently been lower than those of other of similar councils. Your costs are higher in specific service areas which reflect your corporate priorities. You have continued your good track record of making savings and realising efficiencies.

### Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we were 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 2013. Accordingly, we issued an unqualified VFM conclusion on 30 September 2013

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## Section 4: Certification of grant claims and returns

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# Certification of grant claims and returns

## Introduction

We are required to certify some of your claims and returns submitted to grant paying government departments. This certification typically takes place some six to nine months after the claim period and represents a final but important part of the process to confirm your entitlement to funding.

In 2012/13 we are required to certify two claims and returns, relating to expenditure of £60 million. These are:

- NNDR3 return – £35.8 million;
- Housing and Council tax benefit claim - £24.2 million.

The NNDR3 return represents your payment to the national pool, rather than your receipt from the pool.

We certified the NNDR3 return without amendment, before the deadline set by the Department of Communities and Local Government. Our work on the Housing and Council Tax benefits claim is on-going.

## Approach and context to certification

Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.

## Key messages

The key messages from our certification work are summarised in the following table. Further details will be provided in our certification report to be issued in December 2013.

## Summary of the Council's arrangements

Aspect of certification arrangements	Key Messages	RAG rating
<b>Submission &amp; certification</b>	Both claims were submitted for certification on time and in compliance with the grant paying department's requirements.	●
<b>Accuracy of claim forms submitted to the auditor (including amendments &amp; qualifications)</b>	The NNDR3 return was certified without amendment. Our work on the Housing and Council Tax benefits claim is on-going.	●
<b>Supporting working papers</b>	Supporting working papers were of a good standard, and enabled us to carry out our certification work efficiently within the required timescales.	●

# Appendices

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## Appendix A: Reports issued and fees

We confirm below the fee charged for the audit

### Fees

	Per Audit plan £	Actual fees £
Audit Fee	60,990	tbc
Grant certification fee	16,200	16,200
<b>Total fees</b>	<b>77,190</b>	<b>tbc</b>

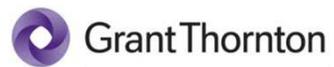
### Fees for other services

Service	Fees £
None	Nil

The variation to the planned (scale) fee reflects the additional work we undertook to follow up queries raised with us by local electors in respect of a standards investigation. We were also required to carry out additional testing on journal transactions and property valuations. These were additional matters which were in addition to the core audit for the year, the costs of which have been recognised above. All fees under the Audit Commission Act 1998, including the above, are subject to final determination by the Audit Commission.

### Reports issued

Report	Date issued
Audit Plan	June 2013
Audit Findings Report	September 2013
Annual Audit Letter	October 2013
Certification report	December 2013



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