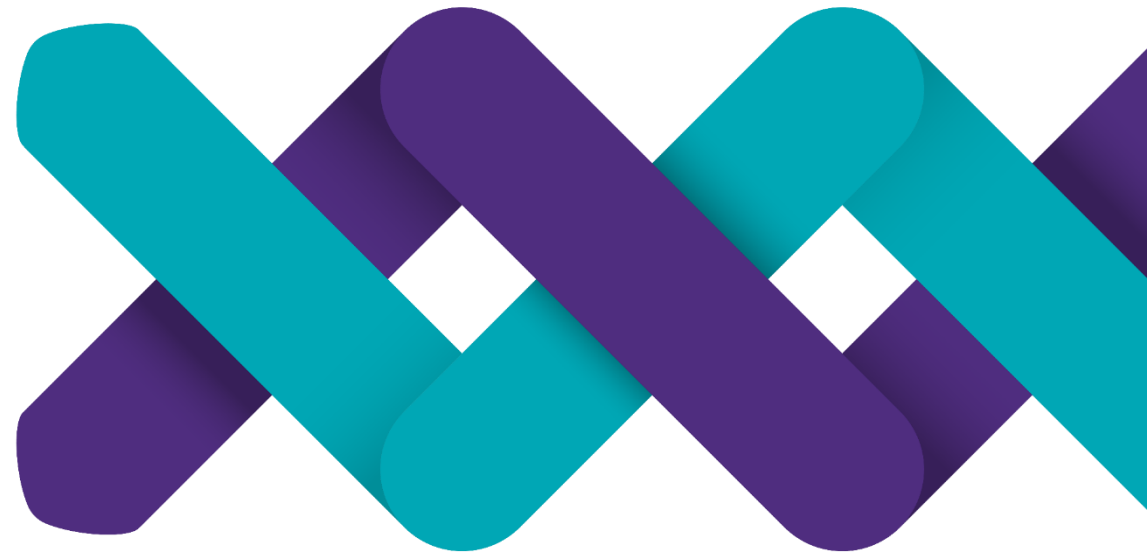


Audit Progress Report and Sector Update

Including Grant Certification Outturn 2017/18

Mid Devon District Council
Year ending 31 March 2019

22 January 2019



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Introduction



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This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- An outturn report for the Grants Certification work completed in 2017/18.

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications. Click on the Grant Thornton logo to be directed to the website www.grant-thornton.co.uk.

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at January 2019

Financial Statements Audit

We commenced our planning in December 2018. This included meetings with officers and review of Council (and other committee) papers.

Our audit risks are set out in our Audit Plan included as a separate item on the January 2019 audit committee agenda. This plan also sets out our proposed testing to address each of the risks identified.

Our interim audit is planned for January/February 2019. This will include:

- Review of the Council's control environment;
- Updating our understanding of the Council's financial systems;
- Review of Internal Audit reports on core financial systems;
- Early work on emerging accounting issues;
- Early substantive testing;
- A detailed review of management's assessment of going concern; and
- A detailed review of significant accounting estimates proposed by the Council for the 2018-19 accounts.

The results of this work will be reported in our update paper to be presented at the 19 March 2019 Audit Committee.

As a firm we are introducing a new audit approach in 2018/19. We will discuss this early with your finance team to ensure they are aware of what is required and what impact this might have.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirms the overall criterion as: "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".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

At present the NAO requirements remained unchanged from those in 2017/18.

We have undertaken our initial risk assessment and have set out in our Audit Plan the significant risks identified. These are:

- The arrangements for delivering Financial Sustainability, and
- The governance arrangements in place to monitor the performance of the 3 Rivers Development Company.

We will report the findings of our work in the Audit Findings Report by the deadline in July 2019.

Other areas

Certification of claims and returns

We are required to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. This certification work for 2017/18 was concluded in November 2018. The claim was certified subject to amendment and qualification.

The detailed results of the certification work are reported to you later in this report.

At the time of writing this report, our work to certify the Council's pooling of capital receipts return is currently ongoing and will be concluded by the deadline of 31 January 2019.

Meetings

We will continue to meet regularly with the Deputy Chief Executive (S151) and Finance Officers. We will continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We will also meet with your Chief Executive to discuss the Council's strategic priorities and plans.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Your finance team are due to attend our technical accounting update in Bristol on 7 February 2019.

Audit Deliverables

2018/19 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018/19.	April 2018	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.	January 2019	Included on the January 2019 agenda
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2019	Not yet due
Audit Findings Report The Audit Findings Report will be reported to the July Audit Committee.	July 2019	Not yet due
Auditors Report This is the opinion on your financial statements, annual governance statement and value for money conclusion.	July 2019	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2019	Not yet due
Annual Certification Letter This letter reports any matters arising from our certification work carried out throughout the period.	December 2019	Not yet due

Grant Certification Outturn 2017/18

This section summarises our grants certification work and fees charged for 2017/18.

Introduction

We are required to certify the Housing Benefit subsidy claim submitted by Mid Devon District Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies. Public Sector Audit Appointments (PSAA) have taken on the transitional responsibilities for HB COUNT issued by the Audit Commission in February 2015.

Certification of the Housing Benefit subsidy claim

We have certified the Housing Benefit subsidy claim for the financial year 2017/18 relating to expenditure of £17.148 million.

There were no significant issues arising from our certification work which we wish to highlight for your attention. Grant Thornton completed all initial testing, with the Council completing the required additional work.

This initial testing identified four errors. Of these, three cases required further testing to be undertaken, as the nature of the issue impacted on the amount of subsidy claimed. Where the errors identified did not impact on the amount of subsidy claimed there is no longer a requirement to undertake additional testing. This was relevant for one of the four errors identified and was reported in our letter to the Department for Work and Pensions (DWP) as a observation item only. Our letter to the DWP, dated 29 November 2018, is set out in Appendix C of this report.

For the three additional errors, 100% of the affected population was tested for two of these cases. This approach has allowed for an amendment to be made to the claim rather than the issue being reported. The overall amendment to the claim is set out in Appendix A.

In one case we were unable to agree a cell amendment due to the number of potential cases impacted. The error related to the incorrect income being used in the assessment of entitlement. We therefore completed an additional sample of 40 cases from a sub-population of earned income cases in line with auditor guidance. This identified four additional fails. The results of our testing in this area were set out in our letter to the DWP dated 29 November 2018. The extrapolated impact of the error reported was an overpayment of benefit of £938.

Our work also identified that the in-year reconciliation cells on the claim form did not agree. This was reported in our qualification letter to the department.

The indicative fee for 2017/18 for the Council is based on the final 2015/16 certification fees, reflecting the amount of work required by the auditor to certify the Housing Benefit subsidy claim that year. The indicative scale fee set by PSAA for the Council for 2017/18 is £9,343. Our final fees for this work remain in line with the indicative scale fee set by PSAA. This is set out in more detail in Appendix A.

Certification of other claims and returns

We have also certified a number of other claims where the work is not prescribed by PSAA. The fee for this work is agreed locally with officers and the details of this claims and their associated fees are set out in Appendix A and B.



Appendix A – Summary of Claims Certified

Housing Benefit return

Claim or return	Value	Amended?	Amendment (£)	Qualified?	Comments
Housing benefits subsidy claim	£17,148,154	Yes	(£293)	Yes	A qualification letter was issued to the DWP setting out the areas where we have been unable to agree a cell amendment. The letter is included at appendix C to this report.

Claim or return	2016/17 fee (£)	2017/18 indicative fee (£)	2017/18 actual fee (£)	Variance (£)	Explanation for variances
Housing benefits subsidy claim	£6,908	£9,343	£9,343	£2,435	The fee has increased in line with the scale fee set by PSAA. Additional work required was in line with the levels required in 2015/16. Therefore no fee variation has been applied.

Appendix A - Summary of Claims Certified (Continued)

Other claims and returns

Claim or return	Value	Amended?	Amendment (£)	Qualified?	Comments
Homes and Communities Agency (HCA)	£1,611,019	No	N/A	No	No significant issues were noted as part of our work.
Pooling of Capital Receipts	£248,100	At the time of writing this report our work has not yet commenced. The deadline for certifying this claim is 31 January 2019.			

Appendix B – Fees for other Certification Work

Claim or return	2016/17 fee (£)	2017/18 actual fee (£)	Variance (£)	Explanation for variances
Homes and Communities Agency	£2,000	£2,000	N/A	The fee for this work was agreed locally. The fee was held at the 2016/17 rate.
Pooling of Capital Receipts	£1,500	£1,500	N/A	The fee for this work was agreed locally. The fee was held at the 2016/17 rate.
Total	£3,500	£3,500	N/A	

Appendix C – DWP qualification letter

Based on the work completed we have two qualifications to bring to your attention.

In year reconciliation cells 037, 077 and 130 should agree to the entries in cells 011, 055 and 094 respectively. The following differences are noted:

Claim cell	£ amount:	Claim reconciliation cell:	£ amount:	Difference:
011 – Non HRA Rent Rebates	52,123	037	52,323	£200
055 – Rent Rebates	6,287,525	077	6,287,534	£9
094 – Rent Allowance	10,949,097	130	10,948,692	£405

Cell 094: Rent Allowances – Total expenditure (Benefit Granted)

Cell Total £10,949,097

Cell Population 2932

Cell Sub-Total £1,876,231 – sub population of claims with earned income

Cell Sub-Population 569 – sub population of claims with earned income

Headline Cell (Cell 094) £10,949,097

Testing of the initial sample of 20 cases identified 1 case where benefit had been overpaid as a result of the Authority miscalculating the claimant's average weekly income. As reported in the 2016-17 qualification letter, testing in prior years identified that rent amounts in Cell 094 were incorrectly stated. Consequently, 40+ testing was required again in 2017-18 and an additional random sample of 40 cases was tested. Each of these error types are dealt with separately below.

Testing of the initial sample identified 1 case (total value £7.84) where benefit had been overpaid as a result of the authority miscalculating the claimant's weekly income, the effect of this error is that cell 102 is overstated and cell 114 understated.

Given the nature of the population and the errors found, an additional random sample of 40 cases was selected for testing from the subpopulation of earned income cases (£1,876,231).

Our additional testing identified three cases (total value £87.21) where benefit had been overpaid as a result of the Authority miscalculating the claimant's average weekly income; by inputting the provided information incorrectly. Consequently, Cell 102 is overstated, with a corresponding understatement in Cell 114; there is no effect on Cell 094.

Our additional testing also identified one case where benefit was underpaid as a result of the authority miscalculating the claimant's average weekly income. As there is no eligibility to subsidy for benefit which has not been paid, the underpayment identified does not affect subsidy and has not, therefore, been classified as errors for subsidy purposes.

Sample:	Movement / brief note of error	Original cell total – sub population	Sample error:	Sample value:	Percentage error rate	Cell adjustment
		[CT]	[SE]	[SV]	[SE/SV]	[SE/SV times CT]
Initial sample - 20 cases	Earned income error	£1,876,231.36	(£7.84)	£24,456.26		
Additional sample - 40 cases	Earned income error	£1,876,231.36	(£87.21)	£165,258.01		
Combined Sample – 60 cases	Earned income error	£1,876,231.36	(£95.05)	£189,714.27	0.05%	(£938.12)
Adjustment	Combined sample. Cell 102 is overstated	£1,876,231.36	(£95.05)	£189,714.27	0.05%	(£938.12)
Total Corresponding Adjustment	Total understatement of cell 114					£938.12

Appendix C (continued)

The percentage error rate in the sample reflects the individual cases selected. The value of the errors found range from £0.15 to £70.70 and the benefit periods range from 1 week to 7 weeks.

Given the nature of the population and the variation in the errors found, it is unlikely that even significant additional work will result in amendments to the claim form that will allow me to conclude that it is fairly stated.

Similar findings have not been included in my qualification letters for the last two years.

Observations

Cell 055: Rent Rebates – Total expenditure (Benefit Granted)

Cell Total £6,287,525

Cell Population 1999

Headline Cell (Cell 055) - £6,287,525

Underpaid benefit

Testing of the initial sample identified 1 case where benefit had been underpaid (total value £93.46) as a result of the authority entering the working tax income credit figure twice.

As there is no eligibility for subsidy for benefit which has not been paid, the underpayment identified does not affect the subsidy and has not been classified as an error for subsidy purposes. Because this error will always result in an underpayment of benefit, additional testing has not been undertaken.

Similar findings have not been included in my previous qualification letters.

