

# Certification of claims and returns annual report 2015/16

Middlesbrough Council

January 2017

Ernst & Young LLP



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Members of the Corporate Affairs and Audit Committee  
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January 2017

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Dear Members

## **Certification of claims and returns annual report 2015/16 Middlesbrough Council**

This report summarises the results of our work on Middlesbrough Council's 2015/16 claims and returns.

### **Scope of work**

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and must complete returns providing financial information to government departments. In some cases, these grant-paying bodies and government departments require appropriately qualified auditors to certify the claims and returns submitted to them.

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to Public Sector Audit Appointments Limited ("PSAA") by the Secretary of State for Communities and Local Government.

For 2015/16, these arrangements required only the certification of the housing benefits subsidy claim. In certifying this, we followed a methodology determined by the Department for Work and Pensions ("DWP") and did not undertake an audit of the claim.

In addition to this, we also acted as reporting accountants in relation to the Teachers' Pensions return which is outside the PSAA's regime.

### **Summary**

Section 1 of this report outlines the results of our 2015/16 certification work and highlights the significant issues.

We checked and certified the housing benefits subsidy claim with a total value of £80,412,902. We met the submission deadline of 30 November 2016. A qualification letter was issued and details of the qualification matters are included in section 1. No amendments have been made to the claim relating to the matters in the qualification letter.

We provided a separate report to the Council in relation to the Teachers' Pensions return as set out in section 2 of this report. No issues were identified during the certification of this claim.

Fees for certification and other returns work are summarised in section 3. The housing benefits subsidy claim fees for 2015/16 were published by PSAA in March 2015 and are available on the PSAA's website ([www.psa.co.uk](http://www.psa.co.uk)).



We welcome the opportunity to discuss the contents of this report with you at the Corporate Affairs and Audit Committee on 9 February 2017.

Yours faithfully

A handwritten signature in black ink, appearing to read 'N. Wright', is written in a cursive style.

**Nicola Wright**  
Executive Director  
Ernst & Young LLP  
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In April 2015, Public Sector Audit Appointments Limited (“PSAA”) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psa.co.uk](http://www.psa.co.uk)).

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The “Terms of Appointment from 1 April 2015” issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (“the Code”) and statute, and covers matters of practice and procedure which are of a recurring nature.

**Our Complaints Procedure** – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

## 1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£80,412,902
Amended/Not amended	Not amended
Qualification letter	Yes
Fee – 2015/16	£10,571
Fee – 2014/15	£13,780 (work performed by predecessor auditor)

We set out below the findings from the 2014/15 certification work, along with information as to whether these issues were also identified in 2015/16.

### Findings from 2014/15

#### 1. Incorrect calculation of earnings (Rent Allowances)

In 2014/15, the initial testing identified one case where the Council had incorrectly calculated the claimant's earnings. The previous auditor extended their testing by 40 cases and found a further six cases where claimant earnings had been incorrectly calculated.

Our testing in 2015/16 identified similar errors, which are set out below in point 6 of the 2015/16 findings.

#### 2. Incorrect date of change applied in relation to eligible rent (Rent Allowances)

The previous auditor identified one case where benefit had been overpaid as a result of the date of change for eligible rent being incorrect. An additional sample of 40 was tested but no further errors were identified.

Our testing in 2015/16 identified no similar errors in the sample tested.

#### 3. Non-dependent deductions (Rent Allowances)

In 2014/15, the initial testing identified one case where an incorrect non-dependent deduction had been applied. The previous auditor then extended their testing by a further 40 cases and identified no other errors due to incorrect non-dependent deductions.

Our testing in 2015/16 identified no similar errors in the sample tested.

#### 4. Misclassification of expenditure as a backdated expense (Rent Allowances)

In 2014/15, one case was identified during initial testing where the expenditure had been incorrectly recorded as backdated expenditure, when the benefit had been awarded under normal arrangements. A further 40 cases were tested by the previous auditor and another 32 errors were identified.

Our testing in 2015/16 identified similar errors, which are set out below in point 7.

Local government administers the Government's housing benefits scheme for tenants and can claim subsidies from the DWP towards the cost of benefits paid.

The certification guidance requires auditors to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the audit of previous year's claims. We found errors and performed extended testing in several areas.

In line with DWP guidance, we are required to report the total value of all errors identified and to extrapolate these errors to provide an estimated monetary impact of the error across the full population of claims. We have reported underpayments and the extrapolated value of all errors identified in our qualification letter. The DWP then decides whether to ask the Council to carry out further work to quantify the error or to claw back the benefit subsidy paid. The following are the areas reported in our 2015/16 qualification letter.

## Findings in 2015/16

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### **1. Chief Finance Officer Signature**

The Deputy Section 151 Officer signed the claim form on behalf of the Council, as a result of the Council being in a period of transition at the time of completion of the claim form (with no permanent Section 151 officer being in place). We are satisfied that the Deputy Section 151 Officer was an appropriate signatory at the date of completion of the claim form however, as it is a requirement that the Section 151 Officer sign the claim form, this was highlighted to the DWP.

### **2. War Pensions**

The Council's policy is to apply a percentage increase to the parameters in the system and then review each claim individually and update using actual evidence of the War Pension award. During detailed testing of individual cases, we identified that claims are not always processed using actual evidence of the War Pension award and therefore there is a risk that war pension income is misstated.

### **3. Incorrect property leaving date used (Non HRA Rent Rebates)**

Our testing of the initial sample identified one case where the date the claimant left a property was incorrectly applied to the claim. We extended our sample by 40 claims and identified no further errors. The total value of the error identified was £63. In line with DWP reporting requirements, we extrapolated this error which resulted in a reported extrapolated error of £76.

### **4. Incorrect rent liability due to ineligible charges not being deducted (Non HRA Rent Rebates)**

Our testing of the initial sample identified two cases where the rent liability used was incorrect due to ineligible charges not being deducted from the rent liability. A further 40 cases were tested and one additional error was identified. The total value of the error identified was £5, which resulted in an extrapolated error of £6.

### **5. Incorrect laundry and cleaning costs (Non HRA Rent Rebates)**

Testing of the initial sample identified four cases where benefit had been underpaid as a result of the Council deducting incorrect laundry and cleaning costs. We extended our sample by 40 cases and identified another 14 cases where benefit had been underpaid due to the same error. The total value of the underpayment was £5. However, as this error resulted in an underpayment, which does not impact upon the subsidy claimed, no extrapolation was required.

### **6. Incorrect calculation of earnings (Rent Allowances)**

Testing of the initial sample identified one case where earnings had been incorrectly calculated. We extended the sample by 40 cases and identified a further three cases where earnings had been incorrectly calculated. The total value of these errors was £23, which resulted in an extrapolated error of £2,104.

### **7. Misclassification of expenditure as a backdated expense (Rent Allowances)**

Testing of our initial sample identified no errors in relation to the incorrect classification of expenditure as a backdated expense. However, as errors were identified in this area in 2014/15, we were required to extend the sample. From the additional testing, we identified three cases where expenditure had been incorrectly classified as backdated. The total value of these errors was £102, which resulted in a reported extrapolated error of £128.

## 2. Other assurance work

During 2015/16, we also acted as reporting accountants in relation to the following return:

- ▶ Teachers' Pensions

We have provided a separate report to the Council in relation to this return. This work has been undertaken outside the PSAA regime. The fees for this are included in the figures in section 3. It is referred to here to ensure Members have a full understanding of the returns on which we provide some form of assurance.

We did not identify any significant issues from this work that need to be brought to the attention of Members.

### 3. 2015/16 certification fees

The PSAA determine a scale fee each year for the audit of claims and returns. For 2015/16, these scale fees were published by PSAA in March 2015 and are now available on the PSAA's website ([www.psa.co.uk](http://www.psa.co.uk)).

Claim or return	2015/16	2015/16	2014/15
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	10,571	10,571	13,780
Teachers' Pensions Return	3,200	N/A*	2,500

\*Note – Certification fees in respect of the Teachers' Pensions Return are outside the PSAA's regime.



## 4. Looking forward

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to PSAA by the Secretary of State for Communities and Local Government.

The Council's indicative certification fee for 2016/17 is £10,335. This was prescribed by PSAA in March 2016, based on no changes to the work programme for 2015/16. Indicative fees for 2016/17 housing benefit subsidy certification work are based on final 2014/15 certification fees. PSAA reduced scale audit fees and indicative certification fees for most audited bodies by 25 per cent based on the fees applicable for 2014/15.

Details of individual indicative fees are available at the following web address:

<http://www.psa.co.uk/audit-and-certification-fees/201617-work-programme-and-scales-of-fees/individual-indicative-certification-fees/>

We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the S151 Officer before seeking any such variation.

PSAA is currently consulting on the 2017/18 work programme. There are no changes planned to the work required and the arrangements for certification of housing benefit subsidy claims remain in the work programme. However, this is the final year in which these certification arrangements will apply. From 2018/19, the Council will be responsible for appointing their own auditor and this is likely to include making their own arrangements for the certification of the housing benefit subsidy claim in accordance with the requirements that will be established by the DWP.

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