

Certification of claims and returns annual report 2016/17

Middlesbrough Council

March 2018

Ernst & Young LLP



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Corporate Affairs and Audit Committee
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March 2018

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Dear Corporate Affairs and Audit Committee Members

**Certification of claims and returns annual report 2016/17
Middlesbrough Council**

This report summarises the results of our work on Middlesbrough Council's 2016/17 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 Ltd ("PSAA") by the Secretary of State for Communities and Local Government.

For 2016/17, 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 2016/17 certification work and highlights the significant issues.

We checked and certified the housing benefits subsidy claim with a total value of £79,520,238. We met the submission deadline. A qualification letter was issued which detailed the qualification matters as included in section 1. No amendments have been made to the claim relating to the matters in the qualification letter.

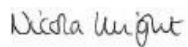
On 18 December 2017, the DWP contacted the Council regarding an extrapolated error contained in our qualification letter. Following discussions with the DWP, the Council agreed to perform additional testing in order to reduce the size of the extrapolated error that was originally reported. On 22 January 2018, we issued a revised qualification letter to the DWP following the completion of this additional testing.

We provided a separate report to the Council in relation to the Teachers' Pensions return as set out in section 2. A qualification letter was issued in relation to this return and the matters included in the qualification letter are detailed in section 2.

Fees for certification and other returns work are summarised in section 3. The housing benefits subsidy claim fees for 2016/17 were published by PSAA in March 2016 and are available on the PSAA's website (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 22 March 2018.

Yours faithfully



Nicola Wright
Associate Partner
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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.psaa.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	£79,520,238
Amended/Not amended	Not amended
Qualification letter	Yes
Fee – 2016/17	£13,935 (inclusive of additional fee of £3,600)
Fee – 2015/16	£10,571

We set out below the findings from the 2015/16 certification work, along with information as to whether these issues were also identified in 2016/17.

Findings from 2015/16

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 in place).

Our testing performed in 2016/17 did not identify a similar finding.

2. War pensions

In 2015/16, it was identified that the Council does not review actual evidence of war pension income on an annual basis, instead the Council increases each war pension by a set percentage. Therefore there is a risk that war pension income is misstated.

Our testing in 2016/17 identified the same finding, as set out in point one below.

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

Testing in 2015/16 identified one case where the date the claimant left a property was incorrectly applied to the claim.

Our testing in 2016/17 identified similar errors, as set out in point two below.

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

Testing in 2015/16 identified three cases where the rent liability used was incorrect due to ineligible charges not being deducted from the rent liability.

Our testing in 2016/17 identified no similar errors in the sample tested.

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

Testing in 2015/16 identified 18 cases where benefit had been underpaid as a result of the Council deducting incorrect laundry and cleaning costs.

Our testing in 2016/17 identified no similar errors in the sample tested.

6. Incorrect calculation of earnings (Rent Allowances)

Testing in 2015/16 identified four cases where earnings had been incorrectly calculated.

Our testing in 2016/17 identified similar errors, as set out in point four below.

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

Testing in 2015/16 identified three cases where expenditure had been incorrectly classified as a backdated expense.

Our testing in 2016/17 identified similar errors, as set out in point five below.

Findings from 2016/17

1. 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.

2. Incorrect property leaving date used (Non HRA Rent Rebates)

Our testing of the initial sample identified no errors where the date the claimant left the property was incorrectly applied to the claim. However, as errors were identified in this area in 2015/16, we were required to extend the sample. From this additional testing, we identified one case where the property leaving date had been incorrectly applied. The total value of this error was £119, which resulted in an extrapolated error of £214.

3. Incorrect rental liability (Rent Allowances)

Testing of our initial sample identified one case where benefit had been underpaid as a result of the Council using the incorrect weekly rental liability for the claim. We extended our sample by 40 cases and no further errors were identified. The total value of the underpayment identified was £202. However, as this error resulted in an underpayment, which does not impact upon the subsidy claimed, no extrapolation was required.

4. Incorrect calculation of earnings (Rent Allowances)

Our testing of the initial sample identified no errors in the calculation of earnings. However, as errors were identified in this area in 2015/16, we were required to extend the sample. From the additional testing of 40 cases, we identified two cases where the calculation of earnings was incorrect and one case where supporting payslips could not be identified. The total value of the overpayments from these three cases was £124, which resulted in an extrapolated error of £16,397.

On 18 December 2017, DWP contacted the Council regarding the extrapolated error of £16,397 and it was agreed that the Council would perform additional testing in order to reduce the size of this extrapolated error. We were commissioned by the Council to test a further 55 cases where earnings had been calculated by the Council. From the additional testing, we identified a further two cases where earnings had been incorrectly calculated, resulting in an overpayment of £5 by the Council. The overpayments of £5 and £124 identified from both testing samples were combined, and a new extrapolated error of £4,795 was calculated. We reported the revised extrapolation to DWP on the 22 January 2018.

5. 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 backdated expenses. However, as errors were identified in this area in 2015/16, we were required to extend the sample. From the additional testing, we identified one case where expenditure had been incorrectly classified as backdated. The total value of this error was £364, which resulted in a reported extrapolated error of £368.

2. Other assurance work

During 2016/17, 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.

During the review we identified two findings, which were reported to Teachers' Pensions:

1. The Council did not submit the year end Teachers' Pensions return via the employer portal. This is due to the Council now using multiple payroll providers for the administration of teachers' payroll, resulting in all payroll providers having access to the employer portal but no officers employed by the Council having access. Instead, the Council submitted a hardcopy version of the form to Teachers' Pensions by the deadline of 31 May 2017.
2. A number of arithmetical differences were identified when we recalculated the employer and teacher contributions values disclosed in the claim form. Employer contributions were overstated by £22.62 and teacher contributions were understated by £129.07.

3. 2016/17 certification fees

The PSAA determine a scale fee each year for the audit of claims. For 2016/17, these scale fees were published by PSAA in March 2016 and are available on the PSAA's website (www.psaa.co.uk).

Claim or return	2016/17	2016/17	2015/16
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	13,935*	10,335	10,571
Teachers' Pension return**	4,000	N/A	3,200

* The difference of £3,600 between the actual and indicative fee relates to the additional testing completed on behalf of the Council following the communication with DWP on 18 December 2017. This additional fee of £3,600 is still subject to approval by PSAA.

** Note – certification fees in respect of the Teachers' Pension return are outside of the PSAA regime.

4. Looking forward

2017/18

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 2017/18 is £10,571. This was set by PSAA and is based on final 2015/16 certification fees.

Details of individual indicative fees are available at the following web address:
<https://www.psa.co.uk/audit-fees/201718-work-programme-and-scales-of-fees/individual-indicative-certification-fees/>

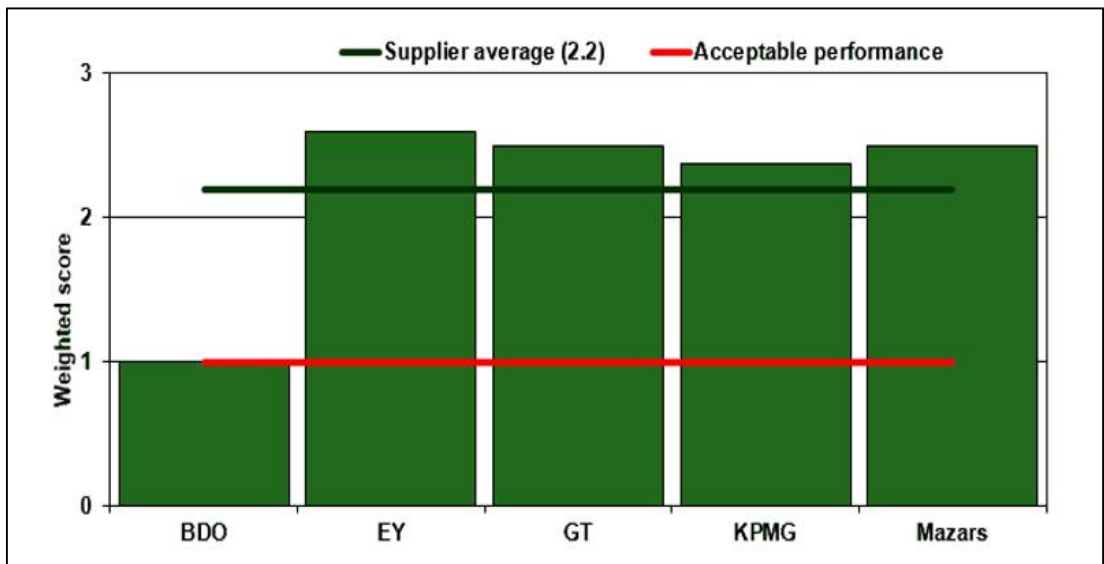
We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the S151 Officer before seeking any such variation.

2018/19

From 2018/19, the Council will be responsible for appointing their own reporting accountant to undertake the certification of the housing benefit subsidy claim in accordance with the Housing Benefit Assurance Process ("HBAP") requirements that are being established by the DWP.

We would be pleased to undertake this work for you, and can provide a competitive quotation for this work.

We currently provide HB subsidy certification to 106 clients, through our specialist Government & Public Sector team. We provide a quality service, and are proud that in the PSAA's latest Annual Regulatory and Compliance Report (July 2017) we score the highest of all providers, with an average score of 2.6 (out of 3).



As we have been appointed by PSAA in December 2017 as your statutory auditor, we can provide a comprehensive assurance service, making efficiencies for you and building on the knowledge and relationship we have established with your Housing Benefits service.

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