



Middlesbrough Council

Certification of claims and returns 2013/14

Annual Report

February 2015

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# Executive summary

We have pleasure in setting out in this document our report to the Corporate Affairs and Audit Committee of Middlesbrough Council (“the Council”) on our certification work for the year ended 31 March 2014. This report summarises the principal matters that have arisen from our work. It is not intended to be exhaustive but highlights the most significant matters to which we would like to bring your attention.

This year only two items have required certification, being the housing benefit subsidy claim and the Tees Valley Bus Network Improvements (TVBNI) claim. Other grant work which we have previously completed under the Audit Commission regime included the Teachers Pensions End of Year Certificate. This work is now performed under direct agreement with the Council, and is not therefore referred to in this report.

This year the Housing Benefit claim excluded council tax subsidy, therefore only two benefit types (Rent Allowances and Non-HRA Rent Rebates) were tested this year.

Our testing revealed a number of minor errors of both underpayment and overpayment of benefit, across both types of benefit. The individual errors ranged from a few pence to £393. A qualification letter was submitted to the Department for Work and Pensions (“DWP”) setting out the various errors found.

Given the nature of the benefits system, with a high volume of low value transactions, there will always be an element of human error. This year revealed less errors than last year, partly as a result of council tax subsidy being excluded from the claim, and none of the errors found highlight any significant control weaknesses.

There is a risk that the errors noted in the qualification letter could be used by DWP to reclaim an element of subsidy so it is important to understand and address the errors found.

More detail on our testing and the errors noted can be found in section 3 and our specific recommendations can be found in section 4.

The Tees Valley Bus Network Improvement claim was certified with no matters to report.

# 1. Grant claims and returns certified for 2013/14

The following claim has been certified and delivered to the appropriate authority within the relevant deadline:

<b>Claim</b>	<b>Value of Claim</b>	<b>Date received</b>	<b>Date certified</b>	<b>Certification deadline</b>	<b>Adjustments made</b>	<b>Qualification letter issued</b>
Housing benefit subsidy	£78m	29/4/14	4/12/14 <sup>[1]</sup>	30/11/14	No	Yes
Tees Valley Bus Network Improvement (TVBNI)	£5m	29/9/14	19/12/14	31/12/14	No	No

## Notes

[1] The certification of the Housing Benefit claim was delayed owing to capacity constraints and the need to discuss the findings in our qualification letter with management.

- A further grant for the Teachers Pensions End of Year Certificate was certified this year outside the Audit Commission contract.
- Section 2 provides details of the qualification required.
- An analysis of certification fees is shown in Appendix 1 to this letter.

## 2. Qualification letter issued

A qualification letter was issued with regard to the certificate on the Housing Benefit claim as follows:

- A letter was issued in respect of the housing benefit subsidy claim. Five different categories of error were reported in this year's letter to the Department for Work and Pensions (2012/13: seven categories). Where errors cannot be adjusted in the claim form, they are extrapolated from the testing sample across the whole benefit population. The total extrapolated error reported in the letter was £167,424.

The Qualification letter also noted that the claim had been signed off by the Accounting Services Manager, rather than the section 151 officer. Whilst we note that this was in line with the Council's practice in previous years, the certification instructions required this to be reported to the Department for Work and Pensions. This matter has been reported to the Department in previous years.

# 3. Commentary on housing benefit subsidy claim

## Certification approach

- Certification instruction BEN01, issued by the Audit Commission, was followed and using the HBCOUNT 2014 instructions, a Modular Approach was used to certify the claim.
- The “system parameters” specified by the National Audit Office (i.e. this year’s benefit rates and allowances) were agreed to those in use at the Council.
- Electronic workbooks supplied by the Audit Commission were used to test a sample of cases for each of the two relevant benefit types (non-HRA rent rebates and rent allowances) for the Council. A sample of 20 was used for rent allowances and 20 for non-HRA rent rebates in line with the mandated approach.
- Where errors are found in our initial testing, the certification instructions require extended testing of a further 40 cases (for populations over 100 cases) or 100% of cases (for populations under 100 cases) in the specific area of the error. Extended testing is performed in each instance where an initial error is found, and where prior year errors were found. This year nine sets of extended testing were performed (2012/13: eight sets).
- A review of the Northgate software controls was performed.
- Our initial testing of 40 cases noted nine errors across the two benefit types (2012/13: 560 cases - five errors).
- As a result of the errors found in our initial testing, extended testing was required and 14 further errors were noted (2012/13: 14 errors). Furthermore eight instances of incorrect disclosure were noted in recording backdated claims on the claim form.
- There were instances of both under and over-payment of benefit in the errors noted above, ranging from a few pence to £393.
- The following is a summary of the errors noted in our combined testing:
  - incorrect start dates applied to claims;
  - misclassification of overpayments;
  - incorrect service charge deductions being applied;
  - incorrect calculations of eligible rent;
  - incorrect calculation of earnings; and
  - incorrectly applying the backdating rules.

# 4. Observations and recommendations arising from our certification work

## Housing benefit subsidy claim – prior year matters raised and follow-up

	Observation and recommendation in 2012/13	Update in 2013/14
1	Prior to the completion of the 13/14 claim, the Authority should seek to deliver training to all staff to emphasise the importance of issues noted in the Deloitte grants report	The service delivers ongoing training to assessors throughout the year. This should continue and be targeted to specific errors and specific development needs of assessors based on analysing common errors identified.
2	The Authority should further enhance its control environment to ensure that errors of a similar nature to those identified are minimised going forward	Principally this can be best delivered through training of staff (as per recommendation 1) and the targeted check of claims, best or known areas with an increased likelihood of error.
3	Northgate can calculate earned income on the basis of entered payslips, automatically deducting 50% of pensions contributions and spreading earnings across the payslip period. This enables a clear formal documentation of the calculation, making it easy to review. It also clearly identifies the pay periods, which will prompt the assessor to consider whether the periods used in the calculations are accurate and appropriate. Utilising this feature would enable the Authority to increase the accuracy of earned income calculations and reduce the likelihood of mistaking a four weekly payslip as monthly.	We did not note any specific errors relating to this in our testing, however, given the onus is on the claimant to report a change in circumstances, it may be that there are calculations of earned income performed manually which remain on the Northgate system. These will remain on the system until the claimant reports a change in circumstances.

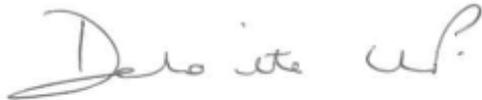
### Notes

- No recommendations were made in the prior year around the TVBNI grant.
- We have no additional recommendations to make in respect of items certified in 2013/14, although would emphasize that continued training of assessors and the targeted checking of claims, as indicated in recommendations one and two above, remain appropriate approaches to prevent and detect errors in the assessment of claims.

## 5. Closing remarks

This report has been discussed and agreed with the Council's Accounting Services Manager. A copy of the report will be presented at the next Corporate Affairs and Audit Committee meeting.

We would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the course of the certification work.



**Deloitte LLP**

Chartered Accountants

27 February 2015

*The matters raised in this report are only those that came to our attention during our certification work and are not necessarily a comprehensive statement of all weaknesses that exist or of all improvements that might be made. You should assess recommendations for improvements for their full implications before they are implemented. In particular, we would emphasise that we are not responsible for the adequacy and appropriateness of the certification methodologies as they are derived solely from the Audit Commission.*

*This report has been prepared for the Members, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.*

# Appendix 1: Analysis of certification fees

Claim or return	2013/14 £'000	2012/13 £'000
Housing benefit subsidy claim	14.0	15.6
National Non-Domestic Rates Return	n/a	2.4
Teachers Pensions Return	[1]	2.2
Tees Valley Bus Network Improvements	2.7	2.7
<b>Total</b>	<b>16.7</b>	<b>22.9</b>

[1] The Teachers Pensions return for 2013/14 was certified outside of the arrangements set by the Audit Commission under a separate contract with the Council, and to a different Terms of reference to that performed in 2012/13. A fee of £2,500 was agreed with the Council for this work.

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