

Assurance Review: Professional Services

Analysis of expenditure and compliance





Independent Parliamentary Standards Authority

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Contents

- Introduction 4
 - Background..... 4
 - Scheme rules 5
- Key Findings..... 7
- Recommendations 8
- Methodology..... 8
- Analysis and findings 10
 - General findings..... 10
 - Standards of Evidence 13
 - Employment status 13
- Conclusion 15

Introduction

1. This report sets out the findings of IPSA’s review of claims made by MPs for the cost of professional services. The Scheme of MPs’ Business Costs and Expenses (‘the Scheme’) allows MPs to claim for the cost of such services which support their parliamentary functions.

Background

2. An MP may use their staffing or office costs budget to claim for professional services to support their parliamentary work. These services can be in addition to those provided by the MP’s staff or may be services not included in IPSA’s standard job descriptions and roles.
3. An internal review of professional services was previously carried out in 2013. Key findings from this review included:
 - The employment status of some professional service providers was thought to be incorrect, with information available suggesting that the relationship between the MP and the individual providing the service was that of an employment;
 - Invoices provided for professional services lacked the detail required to provide assurance that the service provided was exclusively parliamentary; and
 - Procuring for services included in IPSA’s job descriptions through professional services may result in non-compliance with the Scheme guidance for employment.

In conjunction with the House of Commons (who offer a HR service for MPs), IPSA wrote to all MPs in 2014 to advise them of their responsibility to ensure that all staff and services they engage have the correct employment status. At the same time, IPSA also contacted 12 MPs about their employment arrangements based on the findings of the review.

4. IPSA reimburses MPs over £1million per year for professional services claims. The total amount claimed each year per category can be seen below in figure 1.

The figure shows category of costs – office, staffing and winding up costs – between financial years 2014-15 and 2017-18.

Category	Expense Type	Financial Year				Grand Total
		2014-2015	2015-2016	2016-2017	2017-2018	
Office Costs	Professional Services	£435,728	£371,069	£447,034	£362,153	£1,615,984
Staffing	Professional Services (Staff.)	£601,967	£696,942	£670,057	£765,370	£2,734,336
Winding Up	Professional Services Wind. Up				£22,671	£22,671
Grand Total		£1,037,695	£1,068,011	£1,117,091	£1,150,193	£4,372,990

Figure 1 – Professional Services claims per year

5. Professional services commonly claimed include the following:
 - Office upkeep including cleaning and maintenance;
 - Media and communications support;
 - Office support including administrative, secretarial and casework support;

- Research;
- ICO (Information Commissioner’s Office) fees;
- Recruitment services; and
- Translation services¹.

Scheme rules

6. The Scheme enables MPs to claim for professional services that are in support of their parliamentary work.
7. Paragraph 7.4c states that MPs can claim from their staffing budget for *“payments for bought in services, where staffing services are provided by companies, self-employed individuals and others not on the MP’s payroll”*. Paragraph 3.20 states that MPs cannot claim for goods and services provided by a connected party.
8. MPs also have discretion to decide how to allocate their office costs budget for activities in support of their parliamentary work, and this can include claims for professional services.
9. MPs are the legal employer of their staff and have a responsibility to ensure that the correct employment arrangements are in place. The Scheme acknowledges this, stating; *“MPs must ensure that all their staff have the correct employment status, so that the correct tax and National Insurance contributions are paid”*.
10. The Scheme allows flexibility for professional services costs to be claimed from either the office costs or staffing budget. There are specific expense types to cover professional services in the Staffing, Office Costs and Winding Up budgets.
11. There are a number of other expense types available in the office costs budget for services that an MP may need to claim². These include the following:
 - Advertising;
 - Constituency office cleaning;
 - Language services;
 - Legal expenses/Employer practice insurance;
 - Recruitment services;
 - Training;
 - Training MP Staff; and

¹ Welsh translations are claimed from the contingency budget. Translations into other languages can be claimed as a professional service.

² These expense types relate to the old online claims system which was operational at the time this review was carried out. On 2 April 2019, IPSA launched a new online system, IPSA Online. One of the improved features of this system is a much shorter list of expense types.

- Website – design/production.

The relevant expense types in the staffing budget include the following

- Bought-in services;
- Employment costs (payroll costs);
- Pooled services; and
- Pooled services direct.

12. Two of the Scheme's Fundamental Principles are that: MPs may only claim for expenditure for parliamentary purposes; and that MPs must have regard to value for money when making claims. Some MPs choose to use professional services to support their parliamentary work rather than hiring staff. This may represent better value for money, and IPSA would expect MPs to take this into account. This discretion is provided to MPs by the Scheme, as long as the costs are parliamentary and within the Scheme rules, and they can be afforded within MPs' budgets.

Key Findings

13. **In 2017-18, IPSA reimbursed professional services claims worth about £1.15m.**
14. **A number of claims made under the professional services expense type should have been more appropriately claimed from other expense types.** This improved in 2017-18, when only 5% of claims were found to have been claimed from the incorrect expense type, compared with 13% to 17% in previous years.
15. **Much of the evidence provided to support claims for professional services over the review period was inadequate.** IPSA has not issued MPs with guidance on the information required from the supporting evidence to ensure sufficient assurance, but has given ad hoc advice in relation to specific claims. The review found that 70% of the claims randomly sampled from a four-year period were found to be supported by evidence that did not meet the criteria set out in this review. IPSA have more recently made significant improvements to the validation processes to ensure that a more consistent standard of invoice is required.
16. **Several MPs may not have the correct employment status in place for individuals currently claimed as professional services.** There is a risk that some MPs and individuals may not be paying the correct tax or National Insurance contributions. However, there is insufficient evidence to establish whether or not this is the case.

Recommendations

17. Based on the findings set out in this report, the following recommendations have been made.

Number	Recommendation
1	IPSA should ensure that it clearly communicates to MPs the evidence standards required to provide assurance that costs claimed from IPSA are wholly parliamentary. This should include a detailed breakdown of the service being claimed.
2	IPSA should provide additional support and guidance for MPs to ensure they claim professional services and other costs from the correct expense types.
3	MPs are the employers of their staff and have discretion over whether to employ staff or pay for professional services. While it is MPs' responsibility to ensure the correct status, IPSA should communicate to MPs the importance of ensuring that all staff and sole trader professional services are employed correctly so that the correct tax is paid in accordance with HMRC guidelines. It should also be made clear that if an MP chooses not to rectify employment issues identified, IPSA will not fund any resulting HMRC penalties.
4	Once IPSA has implemented its new online expenses system in April 2019 and communicated the evidence requirements to MPs and their offices, a further assurance review of professional services should be carried out to assess the progress made against these recommendations.

Methodology

18. For the purposes of analysis, all professional services claims made between 1 April 2014 and 31 March 2018 were analysed.

19. In addition, a random sample of 100 of these claims made in each financial year (400 in total) was taken using a random number generator in MS Excel. The proportion of claims taken from each category of professional service was reflective of how many were made in each category each year. Each claim in the sample was reviewed to assess the following:

- The quality of information and evidence provided;
- The type of professional service provided;
- Whether the professional service was provided by a political party; and
- Whether the invoice provided a daily or hourly breakdown of costs.

20. As the sample was randomly generated and many MPs make more than one professional services claim per year, there were multiple claims for some MPs included in the sample.

21. All invoices submitted by MPs who claimed more than £40,000 on professional services over the four-year period were examined further to establish the reasons for the relatively high expenditure.

22. At the time of the review, IPSA had not provided any detailed guidance to MPs on the standard of invoices or other evidence that must be provided to support claims made for professional service. However, for the purposes of this review, government guidance was used to determine what an invoice should include³, combined with an assessment of what information would be needed in order to provide assurance that claims were compliant with the Scheme in analysing the claim sample. Evidence submitted in support of a claim was considered to be insufficient if it did not contain all of the following:
- Details of all work undertaken, providing enough information to verify that the work was parliamentary in nature;
 - A breakdown of days or units of time and cost;
 - Details of the provider of the professional service including an address and contact number;
 - A unique identification number;
 - Details of the customer being invoiced;
 - The date the service was provided;
 - The date of invoice;
 - Details of VAT (if applicable); and
 - The total amount owed.
23. Although IPSA had not previously communicated a specific standard of invoice to MPs, IPSA's validation team regularly returns claims which they judge not to be supported by sufficient evidence. More specific guidance on evidence requirements has now been published on IPSA's website.

³ <https://www.gov.uk/invoicing-and-taking-payment-from-customers/invoices-what-they-must-include>

Analysis and findings

General findings

24. Over the period examined, MPs claimed £4.37 million for professional services. This has increased annually over the period.
25. As stated earlier, MPs have discretion over whether to claim professional services from their office costs budget or their staffing budget. Annually, more claims are made for professional services from the office costs budget than are made from the staffing budget. There are also a more individual MPs making claims from the office costs budget. On average, 288 MPs made claims for professional services from the office costs budget each year, compared with 120 MPs making claims from the staffing budget. Claims made from the staffing budget tended to be higher in value.
26. The Scheme does not clearly define the difference between an 'office costs' professional service and 'staffing' professional service. It has been IPSA's approach to allow flexibility for MPs to decide whether to claim professional services from the office costs or staffing budget. The expense types available in the claims system reflect this. As such, a number of MPs have made claims for the same professional service from both budgets within the same financial year. In some instances, an MP has claimed for a professional service from one budget (e.g. the office costs budget) for the majority of the financial year and then claims from the other budget as the financial year draws to a close. It is possible that some MPs do this to utilise their budgets as efficiently as possible in line with advice from IPSA. This is within the rules.
27. MPs can request that IPSA move professional costs that have been claimed from one budget into another. When this is done, IPSA must manually credit the budget the costs were originally claimed from and debit them from the other. In cases where this is done, there is a risk that manual errors will be made and result in unbalanced accounts as was the case for one former MP. This will be less of a risk in IPSA's new online claims system, which will provide a clearer audit trail of any changes and ensure that all accounts are correctly balanced.
28. A small number of MPs choose to engage professional services exclusively for their staffing needs, instead of employing staff members; consequently, these MPs have relatively high professional services costs. MPs that choose to engage professional services instead of employing staff will have lower employment costs as a result. The presence of these outliers is reflected in larger average amounts when compared with the median amounts claimed.
29. The median total claimed by individual MPs from the office costs budget was between £450 and £500 each year between 2014-15 and 2017-18. By comparison, the average total claimed from the staffing costs budget was between £1,300 and £1,700 in 2016-17. Meanwhile, the total amount claimed by individual MPs over the four-year period ranged from £30 to £138,000. 75% of MPs claimed less than £16,500 over this period. The median total claimed by individual MPs from the staffing budget ranged from £3,400 to £4,300 between 2014-15 and 2017-18, with the median rising steadily each financial year.

30. In the claims made from the office costs budget, high-claiming MPs were making claims for office support roles. The boxplots in figure 2 shows the bottom skewed distribution of claims made in each category, which is reflective of the high cost outliers identified through the review. As can be seen in the boxplots, the total claimed by the majority of MPs annually is relatively low value.

The chart below shows the total reimbursed claims (£0 to £50,000) for office and staffing costs between financial years 2014-15 and 2017-18.

Boxplot of total claimed by individual MPs annually

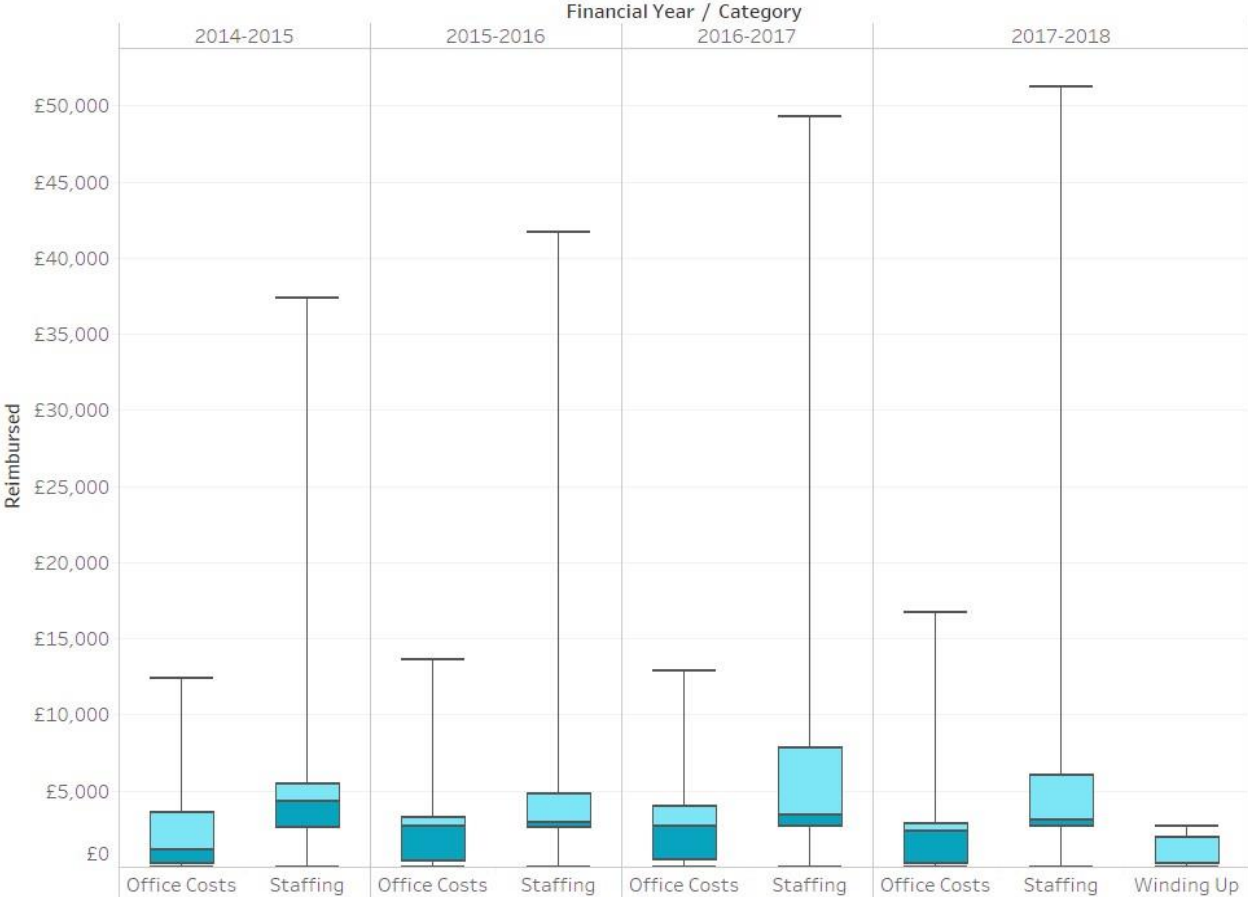


Figure 2

31. When an MP makes a claim for a professional service on IPSA’s expenses system, they are asked to provide further details and a short description of what is being claimed. Analysis of the data available found that this is done inconsistently, with some providing no information at all on the professional service being claimed. In both the office costs and staffing budgets, almost 50% of claims did not contain enough information to categorise it by type of professional service. For this reason, coupled with the poor-quality invoices, it is difficult to draw a full picture of what professional services are being claimed for.

32. There are specific expense types for certain services, such as those listed in paragraph 11. Analysis of the randomly selected sample of 400 claims revealed that around 15% of claims would have been more appropriately placed in the other specific expense types within the office costs budget. Of these, 25%-30% were incorrectly placed in the staffing costs budget instead of the office costs budget.

However, this picture appeared to be improving. In 2017-18, the number of misallocated claims was 5% and none of these was claimed from the incorrect budget. This is most likely due to IPSA's post payment validation process, which reviews all claims made over a period of time to ensure compliance and correct allocation. IPSA's new expenses system, launched in April 2019, has fewer expense types which should help to further improve clarity for MPs.

33. As a parliamentary regulator, IPSA only funds business costs and expenses that are parliamentary and does not fund party political work. The cost of work which is clearly on behalf of a political party or any other activities whose purpose is to give MPs a campaigning advantage in general elections and referendums is not allowable under the Scheme rules.
34. The review recognised that there may be a higher potential risk that professional services provided by individuals with party political connections could include activity which falls outside of the Scheme rules. It is not possible to ascertain what proportion of professional services claimed by MPs fall into this category, but analysis showed that a number of MPs were claiming for professional services that were provided by sole traders or businesses that had close relationships with their political party. This included councillors, campaigners and party members⁴ providing a variety of professional services to MPs. The engagement of these individuals in providing professional services does not necessarily mean that the services are non-parliamentary. However, it is important that evidence provided by MPs should be detailed and descriptive enough to allow IPSA to gain assurance that the work undertaken and claimed from IPSA budgets is compliant with the Scheme.
35. By way of example, in one instance, the staff member of an MP was found to be providing professional services to a large number of MPs (over 12 during the period of employment). The staff member was also a local councillor for some of this period and co-authored a political document with several MPs. The invoices provided in support of claims made for professional services offered by this individual were assessed as largely insufficient. Whilst there is no evidence of any abuse by MPs, the insufficient evidence means that IPSA cannot have full assurance that such claims are wholly parliamentary.
36. Of the 400 invoices selected for in-depth analysis, an average of 70% each year were considered to be supported by insufficient evidence, as per the evidence requirements discussed in paragraph 22. This is discussed further in paragraphs 39 to 44.
37. Details available regarding the arrangement between some MPs and the individuals providing professional services suggest that these individuals should have been considered as employed by the MP rather than as self-employed. This is discussed further in paragraphs 46 to 49 below relating to employment status.
38. As mentioned above, some MPs choose to use professional services instead of employing staff. The use of professional services could be to allow more flexibility than is available within IPSA's pay scales, or in order to secure a certain type of service which is unaffordable with IPSA's pay scales. As not all invoices submitted in support of claims included a daily rate or a clear description of the work undertaken, it is not possible to assess how prevalent this may be.

⁴ This information was found on websites such as LinkedIn, Twitter and Facebook.

IPSA acknowledges the good practice of one MP, who clearly stated, and provided evidence to demonstrate, that the amount reimbursed to a professional service was in line with IPSA pay scales, demonstrating consideration for value for money.

Standards of Evidence

39. There was considerable disparity observed in the standards of evidence provided to support claims made for professional services. This was a key focus of the review.
40. On average, 70% of invoices sampled between 1 April 2014 and 31 March 2018 were supported by inadequate evidence, using the criteria set out in paragraph 22.
41. Most invoices examined had little detail provided about the work that had been completed on the MP's behalf. There is a risk that an MP may submit a claim for a professional service that is not within the Scheme rules, and it is difficult to provide assurance with the information available. IPSA rely on the information provided on the invoice to verify that the work carried out was compliant with the Scheme.
42. In a number of instances, the claim had been returned to the MP as the evidence submitted in support of the claim was considered by IPSA's validation team to be inadequate. In those cases, the MP was asked to provide a replacement invoice or further information on the reason for the claim. However, there has been inconsistency in the application of this, and occasionally the secondary evidence provided was still not detailed enough, using the criteria for this review, to provide assurance that the cost was compliant with the Scheme.
43. Of the 400 invoices sampled, 46 related to professional services provided by a political party⁵ to 27 individual MPs. The total value of these claims was £76,100 and 67% were supported by insufficient evidence. As stated above, IPSA recognise that such claims involve a heightened risk that the services provided may overlap with party-political work, and therefore having detailed evidence is critical in order to be able to have assurance about these costs.
44. Work has taken place at IPSA to ensure that appropriate standards are agreed and communicated to MPs. This will allow IPSA to enforce better evidence requirements. A document setting out clearer guidance on evidence requirements has now been published on IPSA's website.

Employment status

45. A person's status of employment is not a matter of choice; it is determined in law based on the nature of the working relationship. In part, this relates to how much control the employer exercises over the individual's working arrangements and the terms of their engagement. Employers are required to ensure that those they engage have the correct employment status and that the relevant tax and National Insurance liabilities are paid.

⁵ The total values quoted here are reflective of the total claimed as identified in the random sample, and is not the total value of claims made for all professional services provided by a political party over the period review. No pooled services are included.

46. There is a risk that MPs may engage sole traders as professional service providers when in reality the relationship between them is actually an employment. This may be unintentional, as the MP may be unaware of the conditions that would make the relationship an employment relationship, even though they are the legal employer of all their staff and have all associated responsibilities.
47. IPSA does not request all the information needed to ensure that an MP has the correct employment status in place as this is the MP's responsibility. However, analysis of all claims made for a number of MPs identified that some sole traders engaged as professional services could possibly be considered as 'employed' under HMRC guidelines.
48. For example, one MP had made claims totalling over £65,000 to one organisation for research services in the four-year period of the review, and claims totalling more than £100,000 since 2012. The 11 invoices provided to support the claims were given the invoice numbers 1 to 11, suggesting that the MP was the only paying customer. The invoices contained no information on the topics researched or the duration of work provided. As part of this review, we met with the MP and a representative of the professional service provider to discuss the work carried out, and confirmed that the MP was the company's only paying customer. A review of materials produced for the MP confirmed that the work being carried out was parliamentary, but the MP was nonetheless reminded that more detailed invoices would be required in future, and was issued with guidance on how to ensure that the individual providing a professional service had the correct employment status based on HMRC guidelines. Similar guidance has since been sent to all MPs.

Conclusion

49. Overall, IPSA can provide limited assurance for professional services claimed between 1 April 2014 and 31 March 2018. Although there is no evidence to suggest that professional services claims are an area of widespread noncompliance with the Scheme rules, the poor-quality evidence submitted in support of the claims means that IPSA cannot yet make an accurate assessment of whether the identified risks are substantiated.
50. Based on the initial findings of this review, IPSA has already made improvements in internal processes to enforce a higher standard of evidence for professional services claims. Other recommendations made in this report will be considered to ensure that financial risk to the taxpayer is mitigated.
51. It is imperative that IPSA ensures that the evidence requirements needed to provide assurance are considered carefully and communicated clearly to MPs. Once this has been done, a further assurance review of claims made for professional services will be undertaken in the 2020-21 financial year to assess progress made since this review.