

Dacorum Borough Council - Internal Audit Final Report

HRA Self-Financing

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This report has been prepared on the basis of the limitations set out in Appendix C.

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1. Executive summary

1.1. Background

In addition to those audits included on the Internal Audit programme for 2011/12, approved by the Audit Committee in February 2011, we were requested to undertake an audit of the Council's systems of internal control in respect of HRA Self-Financing.

Under plans highlighted in the Localism Bill, from the 1st April 2012 the Housing Revenue Account (HRA) subsidy regime is to be abolished and replaced by a devolved system of self-financing in which HRA authorities will retain all rent and capital receipts. This represents one of the most radical reforms of public housing policy for many years.

Under the new proposals, local authorities will retain the rental income they generate from their homes and all the receipts from any sales of housing or land and they will be responsible for deciding how to use this income in meeting their local housing needs. In return, local authorities will be allocated a share of the overall £28bn housing debt based on assumptions on future rents and costs over 30 years.

It is forecasted that over the next 30 years, local authorities will control over £300bn of rental income and they could build up some £50bn of new investment capacity (£25bn in today's money). The authorities will have increased capacity to invest in housing assets and will be responsible for long term investment planning and work within centrally imposed funding constraints.

Within 'Implementing Self-Financing for Council Housing' published by CLG in February 2011, the objectives of reforming the HRA are to:

1. Increase local transparency and abolish the current system under which there is little connection between the level of rent charged and the resources authorities have to spend locally;
2. Give authorities financial autonomy and therefore more accountability for the provision of housing services;
3. End decades of complex central control and allow local authority housing to be managed and financed locally; and
4. Ensure authorities have the incentives to actively manage their housing stock on a long term basis rather than simply react to an uncertain annual funding formula.

Dacorum Borough Council is due to incur a debt of £354.015 million on 28th March 2012 as part of the transition to this Self-Financing model.

Overall responsibility at Dacorum Borough Council lies with the Corporate Director of Finance and Governance to facilitate all necessary preparatory actions to establish financing facilities, in consultation with the leader of the Council, the Portfolio Holder for Finance and Resources and the Corporate Director of Housing and Regeneration.

1.2. Objectives and Scope

The overall objective of this audit was to provide assurance over the adequacy and effectiveness of controls over HRA Self-Financing preparations, and provide guidance on how to improve the controls going forward.

In summary, the scope covered the following areas; Policies and Procedures, Governance Structure, PWLB Training and Support, Interfaces with the Bank and Authorisations and Approvals.

Further detail on the scope of the audit is provided in Section 2 of the report.

1.3. Summary assessment

Our audit of DBC's internal controls operating over HRA Self-Financing preparations found that there is a sound system of internal control designed to achieve the system objectives. Evidence also suggests that the controls are being consistently applied.

Our assessment in terms of the design of, and compliance with, the system of internal control covered is set out below.

| Evaluation Assessment | Testing Assessment |
|-----------------------|--------------------|
| Full | Full |

Management should be aware that our internal audit work was performed according to UK Government Internal Audit Standards which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board.

Similarly, the assessment gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board. The classifications of our audit assessments and priority ratings definitions for our recommendations are set out in more detail in Appendix A, whilst further analysis of the control environment for HRA Self Financing is shown in Section 3.

1.4. Key findings

We have raised no recommendations. No opportunities were identified where we believe there is scope for improvement within the control environment.

Full details of the audit findings are shown in Section 4 of the report.

We would like to take this opportunity to thank all staff involved for their time and co-operation during the course of this visit.

2. Scope of assignment

2.1 Objective

The overall objective of this audit was to provide assurance that the systems of control in respect of HRA Self-Financing preparations, with regards the areas set out in section 2.3, are adequate and are being consistently applied.

2.2 Approach and methodology

The following procedures were adopted to identify and assess risks and controls and thus enable us to recommend control improvements:

- discussions with key members of staff to ascertain the nature of the systems in operation;
- evaluation of the current systems of internal control through walk-through and other non statistical sample testing;
- identification of control weaknesses and potential process improvement opportunities;
- discussion of our findings with management and further development of our recommendations; and
- preparation and agreement of a draft report with the process owner











2.3 Areas covered

The audit was carried out to evaluate and test controls over the following areas:

- Policies, Procedures and Legislation
- Governance Structure
- PWLB Training and Support
- Interfaces with the Bank
- Authorisations and Approvals

3. Assessment of Control Environment

The following table sets out in summary the control objectives we have covered as part of this audit, our assessment of risk based on the adequacy of controls in place, the effectiveness of the controls tested and any resultant recommendations.

| Control Objectives Assessed | Design of Controls | Operation of Controls | Recommendations Raised |
|------------------------------------|---|---|-------------------------------|
| Policies and Procedures |  |  | |
| Governance Structure |  |  | |
| PWLB Training and Support |  |  | |
| Interfaces with the Bank |  |  | |
| Authorisations and Approvals |  |  | |

The classifications of our assessment of risk for the design and operation of controls are set out in more detail in Appendix A.

4. Observations

Area 1: Policies, Procedures and Legislation

All relevant Policies and Procedures have been updated to consider the implications on implementing the HRA Self-Financing model. Updated documents obtained and reviewed by Audit include the Treasury Management Strategy (including the Borrowing Strategy), the Capital Strategy, the Capital Programme and the Medium Term Financial Strategy.

Cabinet and Full Council minutes and decision sheets associated with the transaction emphasise that all decision made have been done so in line with applicable legislation and within appropriate timeframes.

Area 2: Governance Structure

A governance structure has been put in place for implementing HRA Self-Financing. Audit confirmed that roles and responsibilities have been established and agreed by Cabinet.

Authority has been delegated to the Corporate Director of Finance and Governance to facilitate all necessary preparatory actions to establish financing facilities, in consultation with the leader of the Council, the Portfolio Holder for Finance and Resources and the Corporate Director of Housing and Regeneration. Three officers within Finance and the Chief Executive will be included with the loan application. Only these members are able to access the lenders website in order to facilitate the transaction. The Corporate Director of Finance and Governance retains responsibility for determining the optimal financing option whilst her authorisation, along with that of the Chief Executive, was necessary when completing the application for a loan and on any subsequent stages.

Contingencies are in place within this group of five officers; The Assistant Director for Finance and Governance is a substitute officer for the responsibilities held by the Corporate Director of Finance and Governance and a further back up of a Senior Finance manager has also been determined. This is evidenced in that these are the only members of staff issued passwords for the live site. All of these staff are trained in using necessary systems and processes.

Area 3: PWLB Training and Support

Audit confirmed that PWLB training was made available to all relevant staff in February 2012 for one week. This allowed appropriate officers to familiarise themselves with the process and to learn how to navigate the system used to facilitate the transaction. It was completed by all relevant members of staff.

A user guide is also available. The Corporate Director of Finance retains a hard copy and all other relevant staff can access it via the Self-Financing website. This provides further instructions and information about using the website for submitting loan applications.

Dacorum Borough Council also ran in-house staff briefing sessions for all staff who may be interested in finding out about the HRA Self-Financing project. These were led by the Assistant Director for Housing and the Corporate Director for Finance.

Area 4: Interfaces with the Bank

The loan application associated with HRA Self-Financing will be completely web-based and will be accessed through the lender's (PWLB) website with user login and password details. Payments are usually managed by the Council via Financial Director Online. However, in order to ensure that this significant transaction is completed smoothly and without any difficulties, the bank have agreed to change the way in which these payments are to be made. As a result, there is no interface with the bank as originally expected.

In essence, the bank will manage the transaction entirely themselves, simply keeping Dacorum Borough Council informed at all stages. The bank will monitor all incoming payments and make outgoing payments centrally, ensuring that the Council's payment to the CLG is made at the earliest opportunity. A designated project team within the bank has been established to manage the whole process.

The loans process will follow the timetable of:

23/03/12: All draft loan details are to be submitted online by 17:00

26/03/12: Loan applications are to be submitted between 09:30 and 16:15

28/03/12: Payment transaction to take place.

The Council has controlled risks which could threaten the transaction as far as possible up until the date of this audit; all parties are aware of their roles and responsibilities and have received accurate information which is necessary for them to complete their role within the transaction. All fees have been clearly acknowledged and confirmed. The Council has also arranged designated in-house IT support and has implemented a 'change freeze' across the Authority's systems to ensure that nothing jeopardises the success of the transaction.





Area 5: Authorisations and Approvals

Audit confirmed that, by recommendation of the Cabinet, it was approved by Council that HRA Self Financing is implemented in December 2011. Financing options were considered by Full Council, and in February 2012 an option to finance the project by way of a loan from the PWLB was approved.

Appendix A – Reporting definitions

Audit assessment

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following definitions are used:

| Level | Symbol | Evaluation Assessment | Testing Assessment |
|--------------------|---|--|---|
| Full |  | There is a sound system of internal control designed to achieve the system objectives. | The controls are being consistently applied. |
| Substantial |  | Whilst there is a basically sound system of internal control design, there are weaknesses in design which may place some of the system objectives at risk. | There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk. |
| Limited |  | Weaknesses in the system of internal control design are such as to put the system objectives at risk. | The level of non-compliance puts the system objectives at risk. |
| Nil |  | Control is generally weak leaving the system open to significant error or abuse. | Significant non-compliance with basic controls leaves the system open to error or abuse. |

The assessment gradings provided here are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full' does not imply that there are no risks to the stated control objectives.

Grading of recommendations

In order to assist management in using our reports, we categorise our recommendations according to their level of priority as follows:

| Level | Definition |
|---------------------------------------|--|
| Priority 1 | Recommendations which are fundamental to the system and upon which the organisation should take immediate action. |
| Priority 2 | Recommendations which, although not fundamental to the system, provide scope for improvements to be made. |
| Priority 3 | Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed. |
| System Improvement Opportunity | Issues concerning potential opportunities for management to improve the operational efficiency and/or effectiveness of the system. |

Appendix B – Staff interviewed

The following personnel were consulted:

James Deane - Group Manager (Financial Services).

We would like to thank the staff involved for their co-operation during the audit.

Appendix C - Statement of responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system. The assurance level awarded in our internal audit report is not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

Deloitte & Touche Public Sector Internal Audit Limited

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