

Dacorum Borough Council - Internal Audit Final Report

Housing Rents

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Key dates:

Date of fieldwork: November 2011

Date of draft report: December 2011

Receipt of responses: January 2012

Date of final report: February 2012

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

As part of the Internal Audit programme for 2011/12, approved by the Audit Committee in February 2011, we have undertaken an audit of the Council's systems of internal control in respect of Housing Rents.

This function deals with the payments made by tenants occupying Council property. The rents are used to cover the costs associated with managing and maintaining the Council's housing stock. The housing stock is maintained and administered on the Orchard system, which will be undergoing a review at the beginning of the next financial year. New updates to the system are expected, along with a review of associated processes such as the current process of filling in Commencement of Tenancy and Termination of Tenancy forms.

1.2. Objectives and Scope

The overall objective of this audit was to provide assurance over the adequacy and effectiveness of current controls over Housing Rents, and provide guidance on how to improve current the controls going forward.

In summary, the scope covered the following areas; Follow up on previous audit recommendations; Reconciliations with the general ledger; Manual Adjustments; Rent Arrears; Rent Receipts; Rent Debits; and Policies and Procedures. 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 Housing Rents found that 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. Additionally, there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

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
Substantial	Substantial

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 Housing Rents is shown in Section 3.

1.4. Key findings

We have raised four priority two recommendations and one priority three recommendation where we believe there is scope for improvement within the control environment. These are set out below:

- Termination forms should be completed and retained on file for all tenancy terminations.
- Commencement of tenancy forms should be completed prior to the tenancy commencing.
- Officers should ensure that arrears recovery is at the correct stage.
- Manual adjustments should be reviewed regularly for appropriateness.
- Reconciliations should be performed on a monthly basis.

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

1.5. Management Response

We received the management responses in a timely manner, and these have been included in the main body 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 Housing Rents, 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 and Procedures*
Housing Rents are managed effectively and the Authority's aims are complied with.
- *Rent Debits*
Tenants are charged at the correct rental rates from the correct dates.
- *Rent Receipts*
All rent owed is collected. Rent receipts are accurately and completely transferred to the rents system and are allocated to the correct tenant accounts.
- *Rent Arrears*
Rent arrears are identified, monitored and appropriate recovery action taken.
- *Manual Adjustments*
Manual adjustments are valid, accurate and have not been duplicated.
- *Reconciliations with the general ledger*
Housing Rents records are regularly, accurately and completely reconciled to the Council's General Ledger.
- *Follow up on previous audit recommendations*
Recommendations which were raised in the previous Housing Rents audit have been implemented.

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
<i>Policies and Procedures</i>			
<i>Rent Debits</i>			Recommendation 1 and 2
<i>Rent Receipts</i>			
<i>Rent Arrears</i>			Recommendation 3
<i>Manual Adjustments</i>			Recommendation 4
<i>Reconciliations with the General Ledger</i>			Recommendation 5
<i>Follow up</i>			Recommendation 3 and 4

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 and Recommendations

Recommendation 1: Termination Forms (Priority 2)

Recommendation

Termination forms should be completed and retained on file by Housing for all tenancy terminations.

Observation

A standard termination of tenancy form is completed by Housing upon notice of termination by the tenant and a carbon copy is then placed on file. The original copies are sent to a Debit Control Officer before they are checked and subsequently authorised prior to the information on the Orchard system being updated.

Audit selected a sample of ten tenancy termination forms from a list of terminations which have occurred this financial year. It was verified that a tenancy termination had been completed in eight out of ten cases. In two cases, a tenancy termination form could not be located.

Where termination forms are not completed and retained on file, there is a risk that resources may be wasted in rectifying errors / omissions in the administration of the tenant's housing rent account.

Responsibility

Income Manager Team Leader

Management response / deadline

Agreed. Immediate.

The two cases were discussed with the Team Leader and it was found that in the first case (Ref: 1052815), the tenant was evicted and allowed to move back in. It was a particularly challenging case with the tenant having mental health issues. Nonetheless, it was agreed a form should have been in place.

Regarding the second case (Ref: 1021238), this may have been a potential misfile.

Recommendation 2: Commencement of Tenancy Forms (Priority 3)

<p>Recommendation</p> <p>Commencement of tenancy forms should be completed by the lettings officer prior to the tenancy commencement date.</p>
<p>Observation</p> <p>When a tenancy commences, offer letters are sent out to prospective tenants prompting an initial payment from the tenant into the suspense account. After this the commencement of tenancy form is checked by a Debit Control Officer and the account is set up. All details are checked by a Rent Officer and, once verified, the initial payment is transferred from the suspense account into the newly set up account.</p> <p>From a list of tenancy commencements which have occurred during this financial year, Audit selected a sample of twenty new tenancies. It was confirmed that in all twenty cases there was an authorised Commencement of Tenancy form in place which had been completed. However, in two out of twenty cases, audit found that the Commencement of Tenancy form was completed after the tenancy commencement date.</p> <p>Where commencement of tenancy forms are not completed prior to the tenant moving in, It may lead to delays in administering the commencement of the housing rent account.</p>
<p>Responsibility</p> <p>Tenant Services Team Leader</p>
<p>Management response / deadline</p> <p>Agreed, immediate.</p>

Recommendation 3: Arrears Recovery (Priority 2)

Recommendation

Officers should be reminded to check regularly that arrears recovery is at the correct stage on the Orchard system and that the notes field should be utilised to maintain the audit trail.

Observation

On the Orchard housing system, for each account in arrears, the system will raise a 'recommendation'. This is a notice to the Officer dealing with the account to pursue a certain course of action in order to recover outstanding monies.

From a sample of 10 accounts in arrears tested since April 2011, it was found that seven were up to date and actions had been actioned on Orchard in line with 'recommendations' raised. They were progressing through the stages in order to resolve arrears payments.

In two cases, 'recommendations' were not raised by the system. One case showed only an arrears payment of £51.05 and Orchard will not raise a recommendation for small amounts. In the other case, the Direct Debit payment was in arrears due to the 48 week rent payment schedule. This arrears payment will correct itself in the following payment.

However, in one instance tested, the system should have been at the 'arrangement' stage but was not. A 'Notice Possession' should have been served as recommended by Orchard but was not served. Instead of putting a note on the system, the Officer should have asked the Incomes Team Leader to cancel it or go back a stage. As a consequence, the arrears record on Orchard is at stage NPS (Notice Possession Served).

There is a risk that management decisions on arrears actions is impacted upon where the information held on Orchard is incorrect.

Responsibility

Income Manager Team Leader

Management response / deadline

Agreed. The Incomes Team Leader (Katie Kiely) agreed that the effect of not ensuring the tenant is at the correct stage on the system will result in an inaccurate reflection of what action has actually been processed when management come to review accounts in arrears.

Recommendation 4: Manual Adjustments (Priority 2)

Recommendation

A report should be run from the Orchard rents system on a regular basis to identify manual adjustments that have been made on rents accounts. This should be checked by the Team Leader to ensure that adjustments are appropriate.

Observation

The production and checking of reports of manual adjustments made on the Orchard housing rents system will help verify that only appropriate adjustments are made and can be supported by a clear audit trail.

This recommendation was raised and agreed by management in the previous audit report, but it was confirmed that no reports are currently produced.

Where reports of manual adjustments are not produced and checked on a regular basis, there is a risk that inappropriate or inaccurate manual adjustments may be made to rent accounts.

Responsibility

Income Manager Team Leader

Management response / deadline

Agreed. The Incomes Team Leader has spoken to the Business Systems Developer to produce these reports on an ongoing basis every month for her to review.

Recommendation 5: Reconciliations (Priority 2)

Recommendation

Reconciliations should take place every month between the Housing Rents System (Orchard) and the General Ledger; and between the tenants account on Orchard and the tenants account on Agresso.

Observation

There has been in place a system for reconciliations to be performed between Orchard and the General Ledger and between the tenants account on Orchard and the tenants account on Agresso. The Assistant Accountant (Housing and Regeneration) is responsible for performing the reconciliations and they should be reviewed by the Housing and Regeneration Accountant for accuracy.

It was confirmed that no reconciliations had taken place between April 2011 and the time of the audit in November 2011.

Without regular reconciliations, there is the risk that differences between the feeder systems and the General Ledger are not promptly identified and addressed.

Responsibility

Housing and Regeneration Accountant





Management response / deadline

Agreed. Changes in Housing Accountancy personnel during the year caused some delays in reconciliation procedures. However, all reconciliations between Orchard and Main accounting system are fully up to date as at the year end 2011/12.

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:

- Katie Kiely - Income Management (Team Leader)
- Vindhya Shetty - Debit Control Officer
- Clare Sandford - Assistant Accountant (Housing and Regeneration)

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

Appendix C - Statement of responsibility

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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