

# Dacorum Borough Council

## Final Internal Audit Report

### Housing Rents

March 2014

This report has been prepared on the basis of the limitations set out on page 9.

CONFIDENTIAL

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**Key Dates:**

Date of fieldwork: February 2014

Date of draft report: February 2014

Receipt of responses: March 2014

Date of final report: March 2014

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# 1. Executive Summary

## 1.1. Background

As part of the Internal Audit programme for 2013/14, we have undertaken an audit of the Council’s systems of internal control in respect of Housing Rents.

## 1.2. Audit Objective 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: Policies and Procedures; Rent Debits; Rent Receipts; Rent Arrears; Manual Adjustments; Reconciliations with the General Ledger and Follow up of Previous Audit Recommendations. 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 there is a sound system of internal control designed to achieve the system objectives. However, 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
Full	Substantial

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

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 over Housing Rents is shown in Section 3.

## 1.4. Key Findings

We have raised one priority 2 and one priority 3 recommendation where we believe there is scope for improvement within the control environment. These are set out below:

- Procedure notes should be developed and kept up to date for the Rent Arrears and Rent Refund processes. (Priority 3)
- Refund requestforms should be signed by the rent payer, scanned onto the system and filed in a logical/consistent manner. (Priority 2)

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

1.5. **Management Response**

We will include a summary of any management response in our Final report.

1.6. **Acknowledgement**

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 is managed effectively and that the Authority's aims are complied with.
- *Rent Debits*  
Tenants are charged at the correct rental rates from the correct dates and for all properties.
- *Rent Receipts*  
All rent owed is collected and 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 of Previous Recommendations*  
Recommendations raised in the previous 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.

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

Control Objectives Assessed	Design of Controls	Operation of Controls	Recommendations Raised
Policies and Procedures			<b>Recommendation 1</b>
Rent Debits			
Rent Receipts			
Rent Arrears			
Manual Adjustments			<b>Recommendation 2</b>
Reconciliations			
Follow up			

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: Arrears and Refund Procedures (Priority 3)

<p><b>Recommendation</b></p> <p>Procedure notes should be developed and kept up to date for the Rent Arrears and Rent Refund processes.</p>
<p><b>Observation</b></p> <p>In order to ensure that all staff are following the correct procedures the Rent Arrears procedural guidance should be reviewed and then the processes, roles and responsibilities of officers updated where necessary. Furthermore, a Rent Refund policy should be in place to document the process to be followed.</p> <p>It was identified that procedural guidance is available to staff outlining the correct working practices to follow over Housing Rents operations. However, examination of these procedures identified that the former tenant arrears procedure is due for review. The document was created in 2011 and was due for a review in August 2012. Furthermore, audit noted that at the time of the audit there are no procedures in place for the processing of rent refunds.</p> <p>Where up to date procedure notes are not available to staff, there is a risk that staff do not follow correct working practices. This may result in inconsistencies in decision making, leading to errors and damage to the reputation of the Council.</p>
<p><b>Responsibility</b></p> <p>Team Leader (Income Management)</p>
<p><b>Management response / deadline</b></p> <p>Agreed. It can be confirmed that we are in the process of recruiting a new Income Officer who will have the main responsibility for Former Tenants (and consequently for Write Offs). It will be part of this role to review and update the procedures.</p> <p>April 2014</p>

**Recommendation 2: Refund Request forms (Priority 2)**





<p><b>Recommendation</b></p> <p>All forms for a Rent Refund should be signed by the claimant, scanned onto the system and filed in a logical/consistent manner.</p>
<p><b>Observation</b></p> <p>Rent Refund request forms are submitted by the claimant when a refund is required. The request forms are signed by the claimant, scanned onto the system so that that can be easily retrieved should the need arise.</p> <p>Audit obtained a list of all Rent refunds made during the period April 2013 until the time of the audit. Audit tested a sample of 25 and found that in one case tested there was no evidence to confirm that a rent refund request document had been submitted. Through general observation, audit found that it was difficult for the scanned forms to be located as there was no logical methodology adopted for storing the forms.</p> <p>Where rent refund request forms are not retained by the Council there is a risk that in the case of a dispute arising or a challenge of the appropriateness of a claim made, the refund cannot be justified. Furthermore, where rent refund request forms are not filed in a logical and consistent manner this may lead to inefficient use of time and loss of data.</p>
<p><b>Responsibility</b></p> <p>Team Leader (Income Management)</p>
<p><b>Management response / deadline</b></p> <p>Agreed. The rent refund requests should be retained and there is a procedure in place to ensure this is done. Unfortunately some do go missing on occasion and with the move from paper based filing to scanning I think that there has been some confusion. I will remind the DCOs of the need to file properly.</p> <p>March 2014</p>



## 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
<b>Full</b>		There is a sound system of internal control designed to achieve the system objectives.	The controls are being consistently applied.
<b>Substantial</b>		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.
<b>Limited</b>		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.
<b>Nil</b>		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
<b>Priority 1</b>	Recommendations which are fundamental to the system and upon which the organisation should take immediate action.
<b>Priority 2</b>	Recommendations which, although not fundamental to the system, provide scope for improvements to be made.
<b>Priority 3</b>	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.
<b>System Improvement Opportunity</b>	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 - Team Leader (Income Management)
- Vindhya Shetty - Debit Control Officer
- Yaqubul Islam - Accountant (Housing and Regeneration)
- Yamini Krishnan - Assistant Accountant (Regulatory and Financial Accounting)
- Alan Parry - Business Systems Developer
- Suzy Donaldson - Policy Officer

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

## 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 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 our 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 us 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. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Our 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 work and to ensure the authenticity of such material. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

### **Mazars Public Sector Internal Audit Limited**

**London**

**March 2014**

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