



Dacorum Borough Council

Final Internal Audit Report

Housing Rents

July 2017

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: May 2017
Date of draft report: June 2017
Receipt of responses: July 2017
Date of final report: July 2017

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1. Executive Summary

1.1. Background

As part of the Internal Audit Plan for 2017/18, we completed a risk based audit of the processes in place for 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 the current controls going forward.

In summary, the scope covered the following areas: Policies and Procedures, Rent Debits, Rent Receipts, Rent Arrears, Manual Adjustments, Recharge of One off Services, Reconciliations and Follow up of Previous Recommendations.

Summary Assessment

Our audit of the Council’s internal controls operating over Housing Rents found there is a sound system of internal control designed to achieve the system objectives. 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.

1.3. 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:

- Rent Debits – Timeliness of updating Orchard (Priority 3)
- Former Tenant Arrears – Write offs (Priority 2)

In our previous audit report, a total of five recommendations were raised (two priority 2 and three priority 3 recommendations). We have followed up these recommendations and confirmed that three have been implemented. With the remaining two recommendations, some exceptions were identified from our tests this year and these are covered in the recommendations as indicated above.

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

1.4. Management Response

We received the management responses in a timely manner and these have been included in the main body of the report.

1.5. **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 to 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

Policies and procedures are in place to minimise the risk of staff non-compliance with legislative and management requirements and ensure that Housing Rents functions are undertaken in an economic, effective and efficient manner.

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 monitored regularly and appropriate recovery actions are taken promptly.

Recharge of One off Services

Recharges relating to one off services such as recoverable repairs and clearing landing are accounted for correctly and recovered in a full and timely manner.

Manual Adjustments

Manual adjustments are valid, accurate, and have not been duplicated.

Reconciliation with the General Ledger

Housing Rents records are regularly reconciled to the Council's General Ledger to ensure that accurate and complete financial information relating to housing rents is maintained.

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			
Rent Debits			Recommendation 1
Rent Receipts			
Rent Arrears			Recommendation 2
Recharge of One Off Services			
Manual Adjustments			
Reconciliations with the General Ledger			

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: Rent Debits – Timeliness of updating Orchard (Priority 3)

<p>Recommendation</p> <p>The date the Housing Income Team receive Commencements or Terminations of Tenancy forms should be recorded on Orchard. If there are any delays in Orchard being updated (more than 24 hours after the forms are received), reasons for this should be noted on Orchard.</p> <p>Management should also carry out spot checks to ensure that Orchard is updated within 24 hours of the forms being received and that the information entered is complete and accurate.</p> <p>The Housing Income Team should monitor the timeliness and if required, liaise with other teams’ managers to determine reasons for the delay in submitting the form to the Housing Income Team and consider any corrective actions that can be taken to address the delay.</p>
<p>Observation</p> <p>Orchard should be updated within 24 hours of receipt of a Commencement/Termination of Tenancy form or before the commencement/termination date as per the procedure note.</p> <p>From the sample of 10 tenancy commencements, Orchard was not updated by the tenancy commencement date in five cases. In three of the five cases, Orchard was updated within 24 hours of the form being received by the Housing Income team. However, the form was received by the team on the commencement day or the day after the commencement date, resulting in a minor delay. In the remaining two cases, the commencement of tenancy forms were received in advance of the commencement dates but there was a delay in updating Orchard (6 and 10 days after the commencement date).</p> <p>In addition, from the sample of 10 terminations, there was one case where Orchard was not updated within 24 hours.</p> <p>Discussions with the Team Leader established that often the team is dependent on other teams in the Housing Services to pass on the commencement/termination forms to the Housing Income team to input the rent account details on Orchard. As a result, if there are delays with other teams, this can affect their ability to process tenancies before terminations or commencements.</p> <p>The Team Leader also explained that currently the team members are expected to undertake their own checks to ensure that information entered onto Orchard is complete and accurate and inputs are not subject to a second check.</p> <p>Where Orchard is not updated in a timely manner, there is a risk that the tenant may not be billed in a timely manner, or the received rent may not be allocated to the relevant account promptly. Where data entered onto Orchard is not checked for accuracy and completeness, there is a risk that the input error may remain undetected.</p>
<p>Responsibility</p> <p>Team Leader (Income)</p>
<p>Management response / deadline</p> <p>This recommendation has now been implemented and DCOs are noting the received date on Orchard. We will investigate running reports quarterly and will carry out spot checks to ensure that these are reviewed and the appropriate remedial actions are taken.</p>

Recommendation 2: Former Tenant Arrears – Write offs (Priority 2)

<p>Recommendation</p> <p>The former tenant arrears report should be run for arrears over two years old to determine whether there are any cases where arrears cannot be recovered, and these should be written off (subject to approval). Cases where write offs have been approved should be promptly updated on Orchard.</p>
<p>Observation</p> <p>Where a former tenant has arrears that are not recoverable, these are required to be proposed for a write off. We were able to confirm that there is a process to follow when irrecoverable former tenant arrears are identified. However, there is currently no systematic review of former tenant arrears with no movements in the last two years.</p> <p>We tested a sample of 10 former tenant arrears accounts. For these, we were able to confirm that Orchard was updated and attempts were being made to recover the arrears in 6 cases. Of the remaining 4 cases, in one case the former tenant was in jail and for the remaining three cases, Orchard showed that the former tenants were on payment plans but they have defaulted payments (arrears amounts ranging from £1,786.09 to £4,831.93). For the three cases, the former tenants had not been chased despite no payments being received in the least two years. We were informed that the Council did not hold contact details for these former tenants and in all four cases the arrears should have been written off.</p> <p>Where arrears of former tenants are not regularly followed up and irrecoverable arrears written off promptly, there is an increased risk that the information on Orchard does not accurately reflect the current financial position of the Council or attempts may continue to be made against irrecoverable arrears.</p>
<p>Responsibility</p> <p>Team Leader (Income)</p>
<p>Management response / deadline</p> <p>Agreed – we will run a report and will ensure that any irrecoverable FT debts are written off on the schedule at the end of the current quarter.</p> <p>September 2017</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
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 – Team Leader (Income)
- Jillian Watson – Lead officer
- Vindhya Shetty – Debit Control Officer
- Alan Parry – Business System Developer
- Keshika Naidoo – Accountant (Housing and Regeneration)
- Yamini Krishnan – Financial Accountant
- Jackie Whitefoot – Recharge Officer
- Aadil Ahmed - Housing Officer, Income

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

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