



Dacorum Borough Council

Final Internal Audit Report

Housing Rents

July 2018

This report has been prepared on the basis of the limitations set out on page 10.

CONFIDENTIAL

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Key Dates:

Date of fieldwork: 5th July 2018
Date of draft report: 12th July 2018
Receipt of responses: 13th July 2018
Date of final report: 16th July 2018

Status of our reports

This report ("Report") was prepared by Mazars LLP at the request of Dacorum Borough Council and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

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1. Executive Summary

1.1. Background

As part of the Internal Audit Plan for 2018/19, 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 Services Provided to Tenants in Block of Flats or Supported Housing Scheme, 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 two priority 2 and one priority 3 recommendations, where we believe there is scope for improvement within the control environment. These are set out below:

- Rent Debits – Termination of Tenancy Forms (Priority 2)
- Rent Arrears – Former Tenant Arrears (Priority 2)
- Recharge of Services Provided to Tenants – Calculation of Charges (Priority 3)

In our previous audit report, a total of two recommendations were raised (one priority 2 and one priority 3 recommendations). We have followed up these recommendations and confirmed that both have been implemented.

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

1.4. Management Response

We received the management response in a timely manner and this has 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 Services Provided to Tenants in Block of Flats or Supported Housing Scheme

Recharges relating to the extra items such as cleaning, lighting, lift maintenance 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 |  |  | Recommendation 3 |
| 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 – Termination of Tenancy Forms (Priority 2)

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| <p>Recommendation</p> <p>The Housing Income Team should only process cases for Termination of Tenancies where the Termination of Tenancy Form has been signed and dated by the Tenancy Officers.</p> |
| <p>Observation</p> <p>Termination of Tenancy Forms are required to be filled out by Tenancy Officers to terminate tenancies already in place. Officers requesting the termination are required to sign the form to demonstrate authorisation. The Officer is also required to date the form to establish if the Housing Income team have entered the termination into Orchard within 24 hours of receiving the termination of tenancy form or before the tenancy has terminated.</p> <p>In one instance from a sample of 10, we found that the Termination of Tenancy form had not been signed or dated before being submitted to the Housing Income Team. The termination had subsequently been processed without the form being returned to the Tenancy Officers to be signed.</p> <p>Where the Termination of Tenancy Forms are not signed before being submitted to the Housing Income Team, there is a risk that staff members are able to request termination of tenancies without the delegated authority to do so.</p> <p>Where the Termination of Tenancy Forms are not dated before being submitted to the Housing Income Team, there is a risk that the KPIs of inputting terminations into Orchard within 24 hours of receiving the form cannot be measured. As a result, assurance cannot be gained that the KPI is being met.</p> |
| <p>Responsibility</p> <p>Team Leader (Income)</p> |
| <p>Management response / deadline</p> <p>All officers have been reminded of the need to ensure that forms are properly signed and dated. DCOs have been instructed to return any unsigned/undated forms to the originating officer before actioning them.</p> <p>Completed</p> |

Recommendation 2: Rent Arrears – Former Tenant Arrears (Priority 2)

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| <p>Recommendation</p> <p>The Council should discuss with Orchard representatives as to why the Orchard system has not prompted Housing Income Officers to follow-up on some former tenant arrear cases.</p> |
| <p>Observation</p> <p>When a tenant is in arrears, the Orchard System automatically recommends the appropriate next stage of action Housing Income Officers should take to recover the debt. However, Housing Income Officers will view each on a case by case basis and make a decision whether or not to go ahead with the action recommended by Orchard.</p> <p>Currently, the Orchard system is required to prompt Housing Income Officers to follow-up on former tenant arrears on a regular basis. However, from a sample of 10 former tenant arrears tested, in two instances (Tenancy Number: 1084081 - £4429.61 and Tenancy Number: 1080831 - £ 4411.57), Orchard had not prompted any action to the Housing Income Officers in two years. As a result, the Housing Income Officers had not undertaken any debt recovery action in at least two years in these two cases.</p> <p>Where the Orchard system does not regularly prompt recovery action to Housing Income Officers, there is a risk that recoverable debt will not be chased. As a result money owed to the Council is not recovered, resulting in financial loss for the Council</p> |
| <p>Responsibility</p> <p>Business System Developer</p> |
| <p>Management response / deadline</p> <p>Systems Admin will investigate and address with Orchard as necessary. A report of all FT cases over 6 months old where no action has been taken for 4 weeks or more will be run and checked on a monthly basis.</p> <p>31st October 2018</p> |





Recommendation 3: Recharge of Services Provided to Tenants – Calculation of Charges (Priority 3)

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| <p>Recommendation</p> <p>Where the recharge fees are not explicitly outlined in the Price List document, calculations of how the recharges fees were derived should be clearly outlined on the Recharge Account Request Form.</p> |
| <p>Observation</p> <p>Tenants are required to meet the full cost of any repairs or clearances that fall outside the scope of the Council’s housing repairs service. These costs are referred to as Recharges. The Recharge Account Request Forms outline the total charged to tenants for Recharges and require sign off by a Resident Service or Call Centre team member. The total set out on the form will determine how much tenants are invoiced.</p> <p>Tenants can request one-off services from the Council. Depending on the Service provided by the Council, the tenants are either charged a pre-quoted standard sum from the price list document or the fees are determined by contractors dependent on the cost of the work carried out.</p> <p>From a sample of 10 recharges tested, in one instance where a contractor had carried out the work, neither the breakdown of the calculations nor the Total sum charged to tenants were documented on the Recharge Account Request Form.</p> <p>Where the calculations and the total costs are not documented on the Recharge Account Request Form, there is a risk that the Council is unable to evidence the reasoning behind the recharge fee charged to tenants.</p> |
| <p>Responsibility</p> <p>Team Leader (Income)</p> |
| <p>Management response / deadline</p> <p>Officers have been reminded of the importance of ensuring that a breakdown of any recharge costs is properly recorded.</p> <p>Completed</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 | Adequacy of System Design | Effectiveness of Operating Controls |
|--------------------|---|--|--|
| Full |  | There is a sound system of internal control designed to achieve the system objectives. | The controls are being consistently applied, or any weaknesses identified do not affect key controls and are unlikely to impair the achievement of the objectives of the system. |
| 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. | While controls are generally operating effectively, there are weaknesses which 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. Major issues for the attention of senior management and the Audit Committee |
| Priority 2 | Recommendations which, although not fundamental to the system, provide scope for improvements to be made. Recommendations for local management action in their areas of responsibility. |
| Priority 3 | Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed. Detailed problems of a minor nature resolved on site through discussions with local management. |

Appendix B - Staff Interviewed

The following personnel were consulted:

- Katie Kiely – Team Leader
- Jillian Watson – Lead officer
- Vindhya Shetty – Debit Control Officer
- Alan Parry – Business System Developer
- Keshika Naidoo – Accountant (Housing and Regeneration)
- Clare Dempsey – Trainee Accountant
- Jackie Whitefoot – Recharge Officer

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

Appendix C Statement of Responsibility

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

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any 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.

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.

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