

Dacorum Borough Council



Internal Audit Report
Housing Rents
September 2019

FINAL REPORT

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If you should wish to discuss any aspect of this report, please contact Sarah Knowles, Senior Manager, sarah.knowles@mazars.co.uk or Mark Towler, Director, mark.towler@mazars.co.uk

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.

The Report was prepared solely for the use and benefit of Dacorum Borough Council and to the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk. Please refer to the Statement of Responsibility in Appendix A3 of this report for further information about responsibilities, limitations and confidentiality.

01 Introduction

As part of the Internal Audit Plan for 2019/20, we have undertaken a review of Housing Rents. The objectives of the audit were to evaluate the adequacy of the system of internal control and its application in practice within the area under review.

We engaged with a number of staff members during the review and are grateful for their assistance during the course of the audit.

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.

The classifications of our audit assessments and priority ratings definitions for our recommendations are set out in more detail in Appendix A1, whilst further analysis of the control environment over Housing Rents is shown in Appendix A2.

The report summarises the results of our internal audit work and, therefore, does not include all matters that came to our attention during the audit. Such matters have been discussed with the relevant staff.

02 Background

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.

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.

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.

03 Key Findings

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

Adequacy of System Design	Effectiveness of Operating Controls
 Substantial Assurance	 Substantial Assurance

Main Findings
<p>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 detailed in Section 04 of this report.</p> <p>Our main findings were:</p> <ul style="list-style-type: none"> Former rent arrears had not been follow up Court costs are not being recovered <p>In our previous audit report, a total of three recommendations were raised. We have followed up these recommendations and confirmed that two have been fully implemented. The other recommendation has been re-raised in this report.</p>

Examples of areas of strength
<ul style="list-style-type: none"> Policies and procedures are available for all staff to access and manuals for performing particular jobs have been produced by members of staff as an aid New tenancies are updated on Orchard as soon as they are received. Returned cheques are identified and recorded on Orchard. These are followed up by a Debit Control Officer to ensure receipt of payment Rejected direct debits are identified, updated and followed up by a Debit Control Officer Current accounts in arrears are actively followed up by Income Officers

Priority	Number of recommendations
1 (Fundamental)	0
2 (Significant)	2
3 (Housekeeping)	1
TOTAL	3

Risk Management

The key organisational risks most relevant to Housing Rents are as follows:

- Funding and income is not sufficient to deliver the Council's Corporate Objectives (*SR1, Strategic Risk Register December 2018*)
- The impact of Universal Credit roll out leading to increased arrears, debt and homelessness (*included in SR5, Strategic Risk Register December 2018*)

A suggested risk and control matrix for Housing Rents is included at Appendix A2. This matrix will help to inform senior management of the effectiveness of the existing controls in place to manage Housing Rents and to illustrate where issues identified in the audit report will strengthen areas of existing controls.

Value for Money

Value for money (VfM) considerations can arise in various ways and our audit process aims to include an overview of the efficiency of systems and processes in place within the auditable area.

There has been an issue in contacting tenants with overdue court costs. Audit have raised a recommendation for the Housing Rents team to pursue outstanding court costs from tenants. A letter should be sent to the tenant with their rent statement, informing the tenant of what they owe.

Previously, there has been an issue in following up on former tenant arrears, where they have been written off in Orchard, but the write off has not been accepted. A review of the write off procedure should take place where the Housing Rents team should consider writing off the amount in Orchard after seeking senior management approval.

04 Areas for Further Improvement and Action Plan

Definitions for the levels of assurance and recommendations used within our reports are included in Appendix 1.

We identified a number of areas where there is scope for improvement in the control environment. The matters arising have been discussed with the Team Income Leader and the Group Manager. The recommendations are detailed in the management action plan below.

	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
4.1	<p>Termination of Tenancy Forms Procedures</p> <p><i>Observation:</i> 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.</p> <p>In a sample of 10, there were two instances in which we found that the Termination of Tenancy form had not been signed or dated before being submitted to the Housing Income Team, (Tenancy reference numbers: 1100526 and 1111047). The termination had subsequently been processed without the form being returned to the Tenancy Officers to be signed. However, in practice, forms are e-mailed to the Housing Income Team from officers with the appropriate authority to request the termination.</p> <p><i>Risk:</i> 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>Processes for Termination of Tenancies should be reviewed and updated to allow for e-mailed forms from authorised officers. The Housing Income Team should maintain updated lists of Tenancy Officers to ensure they only process cases from approved officers.</p>	3	<p>The processes will be reviewed and procedure updated to allow for emailed forms from authorised officers then fully communicated to all necessary officers</p>	<p>End of August 2019</p> <p>Group Manager, Tenants & Leaseholders</p>

	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
4.2	<p>Former Tenant Arrears</p> <p><i>Observation:</i> 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. A recommendation was also raised during the 2018/19 Housing Rents audit in regards to Orchard not prompting Income officers to follow up on some former-tenant arrears cases.</p> <p>Currently, there is not a function in the Orchard system to inform Income Officers if the write off has been rejected. From a sample of 10 former tenant arrears tested, in one instance (Tenancy Number: 1079297 - £8,088.97), the arrears had been written off in Orchard. The notes were updated to say the write-off has been rejected, and an entry was made on Orchard to amend the status. However, it appears this was entered incorrectly, and Orchard reverted to the write-off stage. As Orchard had not prompted any action to the Housing Income Officers, the arrears have not been followed up since October 2017.</p> <p><i>Risk:</i> 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>The Council should discuss with Orchard representatives as to how former tenant arrear cases that have been written off in the system can be reinstated to allow the arrears to be pursued further.</p> <p>The Council should consider reviewing the process for writing off debts. Write offs should be updated in Orchard when they have been approved by senior management, to prevent rejections not being flagged or followed up by Income Officers.</p>	2	<p>We have reviewed the process for writing off debts and have introduced a new Orchard stage. This will check all cases 3 months after a write off stage has been entered and if there is still a debt on the account will make a new recommendation to Officers.</p>	<p>Completed by end of August 2019</p> <p>Group Manager, Tenants & Leaseholders</p>

	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
4.3	<p>Court Cost Recovery</p> <p><i>Observation:</i> When a tenant fails to keep up with payments and does not let the Income team know of their situation, a last resort of notice seeking possession is sent to the tenants. Prior to court action being taken up, a number of actions are taken such as sending letters, emails, phone calls and visits to the property to get into contact with the tenant. Court costs can only be recovered once the tenant has cleared their arrears.</p> <p>Since the last audit, there has been little progress made in recovering court costs from tenants. An Income Officer started writing off static debts and attempting to recover court costs that were recoverable. However, due to changes in job roles, restructuring of the Housing Rents team, and focusing on recovering debt from other areas, recovery of court costs has only been recently delegated to another income officer. Tenants are often unaware that they have to pay court costs as the Council have failed to remind them. At the time of the audit, there was over £100k of outstanding court costs that had not yet been recovered.</p> <p><i>Risk:</i> 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>The Housing Income Team should pursue outstanding court costs from tenants. Where court action has been taken, a letter should be sent along with the rent statement informing the tenant of what they owe. Where some of the costs can't be recovered, they should be written off.</p>	2	<p>Tenants are advised of Court costs in writing when they are awarded.</p> <p>As court costs cannot be pursued until any arrears are cleared, a large percentage of the £100k outstanding cannot be actively recovered.</p> <p>Orchard is unable to differentiate between tenants who have current or historic court costs and so automated regular statements cannot be generated.</p> <p>Officers working on Former tenant arrears and re-charges will run a report every quarter and send rent statements to those owing court costs that can currently be collected.</p> <p>A number of historic court costs have been put forward to write off following approval.</p>	<p>Completed by end of September 2019</p> <p>Group Manager, Tenants & Leaseholders</p>

A1 Audit Information

Audit Control Schedule	
Client contacts:	Katie Kiely, Team Leader Layna Warden, Group Manager (Tenants and Leaseholders) Fiona Williamson, Assistant Director (Housing) Nigel Howcutt, Assistant Director (Finance and Resources) James Deane, Corporate Director (Finance and Operations) Sally Marshall, Chief Executive
Internal Audit Team:	Mark Towler, Director Sarah Knowles, Senior Audit Manager Kritika Kenth, Auditor
Work commenced	6 th June 2019
Finish on Site \ Exit Meeting:	14 th June 2019
Draft report issued:	17 th July 2019
Management responses received:	23 rd August 2019
Final report issued:	19 th September 2019

Scope and Objectives
<p>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 below are adequate and are being consistently applied.</p> <p>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.</p> <p>Rent Debits: Tenants are charged at the correct rental rates from the correct dates and for all properties.</p> <p>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.</p> <p>Rents Arrears: Rent arrears are monitored regularly and appropriate recovery actions are taken promptly.</p> <p>Recharge of Services Provided to Tenants: Recharges relating to the extra items such as cleaning, lighting, lift maintenance are accounted for correctly and recovered in a full and timely manner.</p> <p>Manual Adjustments: Manual adjustments are valid, accurate, and have not been duplicated.</p> <p>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.</p> <p>Testing was performed on a sample basis and, as a result, our work does not provide absolute assurance that material error, loss or fraud does not exist.</p>

Definitions of Assurance Levels		
Assurance Level	Adequacy of system design	Effectiveness of operating controls
Good Assurance:	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 Assurance:	Whilst there is a basic 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 Assurance:	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.
No Assurance	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.

Definitions of Recommendations	
Priority	Description
Priority 1 (Fundamental)	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 (Significant)	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 (Housekeeping)	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.

A2 Risk & Control Matrix

Area: Policies and Procedures

					R01.01	R01.02	R01.03	
					Roles and responsibilities are not fulfilled.	Non-Compliance with legislation	Incorrect working practices	Linked Issues
					H	H	H	
					A	A	A	
					A	A	A	
AREA 1	Policies and Procedures							
Existing Controls								
C01.01	Procedure notes are in place				E	M	H	H
C01.02	Policies and procedures are reviewed and updated on a periodic basis				E	M	H	H

Area: Rent Debits

					R02.01	R02.02	R02.03	R02.04		
					Failure to collect rent	Incorrect rent rates charged	Unauthorised rent increases/decreases are applied	Tenants unaware of what they are being billed for	Linked Issues	IO2.03
				Significance	H	H	H	H		
				Current Exposure	A	A	A	A		
				Future Exposure	A	A	A	A		
AREA 2	Rent Debits									
C02.08	Vulnerable persons resettlement scheme			E				H		
C02.01	Commencement of tenancy forms are in place and authorised by Letting Officer		Key	E	H	H				
C02.02	The new tenancy is updated on the Orchard System		Key	E	H	H				
C02.03	Termination of tenancy forms are in place and authorised		Key	P	M	M				4.1
C02.04	The termination is updated on Orchard within the 24 Hour target or before the tenancy ends		Key	E	H	H				
C02.05	Rent increases/decreases are approved by cabinet			E	H	H	H	H		
C02.06	Tenants made aware of rent increase/decrease in a minimum of 28 days			E	H	H	H	H		
C02.07	Rent rates are set through a spreadsheet being uploaded onto Orchid		Key	E		H				

Area: Rent Arrears

				R04.01	R04.02	R04.03	R04.04		I04.01	I04.02
				Failure to identify accounts in arrears	Failure to take action on accounts in arrears	Unaware of collection rates from accounts in arrears	Recoverable debts are written off	Linked Issues	Former tenant arrears are written off	Court costs recovery
			Significance	H	H	H	H			
			Current Exposure	A	A	A	A			
			Future Exposure	A	A	A	A			
AREA 4	Rent Arrears									
C04.01	Monthly reports of accounts in arrears over £1,000 produced and reviewed		E	H	H	H				
C04.02	Overall collection rates recorded, monitored and reported		E	H		H				
C04.03	Arrears procedures is in place		E	H	H	H				
C04.04	Accounts in arrears are followed up on	Key	P	M	M				4.2	
C04.05	Write off policy is in place, up to date and communicated		E				H			
C04.06	A standard write off form is in place	Key	E				H			
C04.07	Write Offs are authorised in accordance with Scheme of Delegation.		E				H			
C04.08	Court Cost Recovered from Former/Current Tenant		P			M				4.3

Area: Recharge of Services Provided to Tenants in Block of Flats or Supported Housing Scheme

					R05.01	R05.02
					Tenants are under/over recharged	One off service charges are not recovered in a full and timely manner
					Linked Issues	
		Significance			H	H
		Current Exposure			A	A
		Future Exposure			A	A
AREA 5	Recharge of Services Provided to Tenants in Block of Flats or Supported Housing Scheme					
Existing Controls						
C05.01	Recharge policy is in place			E	H	H
C05.02	A standard price is set for each type of Recharge			E	H	H
C05.03	A standard recharge form is in place		Key	E		H
C05.04	The recharge is updated on Orchard		Key	E		H

Area: Manual Adjustments

					R06.01	R06.02	
					Inappropriate adjustments are made	Tenants are refunded incorrectly	Linked Issues
				Significance	H	H	
				Current Exposure	A	A	
				Future Exposure	A	A	
AREA 6	Manual Adjustments						
Existing Controls							
C06.01	Refund request documentation is retained.		Key	E	H	H	
C06.02	Refunds are authorised appropriately and made in line with procedures		Key	E	H	H	
C06.03	Manual adjustments are subject to regular management review.			E	H	H	
C06.04	Credits on account refund request documentation is retained.		Key	E		H	

Key to Codes

Significance

H	High
L	Low
M	Medium

Exposure

A	Acceptable
L	Limited
U	Unacceptable

Effectiveness

E	Effective
I	Ineffective
P	Partly Effective

A3 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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