

Dacorum Borough Council

Final Internal Audit Report

Right to Buy

December 2015

This report has been prepared on the basis of the limitations set out on page 12.

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Key Dates:

Date of fieldwork: October 2015

Date of draft report: November 2015

Receipt of responses: December 2015

Date of final report: December 2015

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1. Executive Summary

1.1. Background

As part of the Internal Audit Programme for 2015/16, we have undertaken an audit of the Council’s systems of internal control in respect of Right to Buy.

Right to Buy offers most Council (and Housing Association) tenants the opportunity to buy their Council house/flat at a discount.

Eligible candidates must have been a public sector tenant for at least 3 years, and the home they are wishing to purchase must be their only or main home.

Currently, the maximum discounts available are £77,900 (£103,900 in London). This is for applications submitted after 6th April 2015.

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 Right to Buy, and provide guidance on how to improve the current controls going forward.

In summary, the scope covered the following areas: Policies, Procedures and Legislation, Fraud Prevention Measures, Timeliness of Application Processing and Making the Offer, Completion of Sale following Acceptance of Offer, and Recording of Transaction in Accounts.

1.3. Summary Assessment

Our audit of the Council’s internal controls operating over Right to Buy found that whilst there is a basically sound system of internal control design, there are weaknesses in design which may put some of the system objectives at risk. The level of non-compliance puts 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	Limited

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 Right to Buy is shown in Section 3.

1.4. **Key Findings**

We have raised one Priority 1 recommendation, two Priority 2, and two Priority 3 recommendations where we believe there is scope for improvement within the control environment. These are set out below:

- Detailed operating procedures for the Right to Buy process should be developed. (Priority 2).
- Identity and Tenancy checks should be completed consistently (Priority 1).
- Anti Money Laundering policy should be updated to reflect Right to Buy processes (Priority 2).
- A secondary check on the Discount Value calculation included in the Offer Letter should take place to confirm accuracy (Priority 3).
- Detailed records relating to the Right to Buy Process should be maintained (Priority 3).

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.

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 the Right to Buy Scheme, 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, Procedures and Legislation

Policies and procedures (including relevant timescales for each stage of the process) are available to the staff involved with the whole Right to Buy process. These are reviewed on a regular basis. Information relating to the financial and practical implications of home ownership is provided to secure tenants applying through Right to Buy. Information available on the Council's internet site is up to date.

Fraud Prevention Measures

Identification and tenancy checks take place to confirm the tenant's eligibility for purchase. Checks are made to ensure the tenant is not subject to any bankruptcy order (or similar), which would render them ineligible for purchase. Appropriate Anti-Money Laundering checks are in place.

Timeliness of Applications Processing and Making the Offer

Confirmation of eligibility is sent to the tenant within the four week timescale. Valuations of property are completed in a timely manner to enable the Section 125 offer notice to be issued in line with relevant timescales for that property. Any service charge information that is required is checked for accuracy prior to inclusion in the offer notice. Discounts are correctly calculated and applied appropriately.

Completion of Sale following acceptance of Offer

Once the offer has been accepted, the case is promptly passed to the team in Legal Governance. Notices to complete are issued in line with relevant timescales. Leases, transfer deeds and plans are all prepared in line with relevant timescales. Any rent arrears have been cleared prior to completion.











Recording of Transaction in Accounts

Right to Buy receipts are reconciled to expected amounts as per offer letter. Sales are appropriately recorded and properties removed from the asset register. Tenants' rent accounts are closed.

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 Procedures and Legislation			Recommendation 1
Fraud Prevention Measures			Recommendation 2 Recommendation 3
Timeliness of Processing and Making the Offer			Recommendation 4 Recommendation 5
Completion of Sale following Acceptance of Offer			Recommendation 1
Recording of Transaction in Accounts			No Recommendation raised

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: Policy and Procedure Documentation (Priority 2)

<p>Recommendation</p> <p>Detailed operating procedures for the Right to Buy process should be developed. These should include the timescales that all the departments involved in the process need to work towards. These should be reviewed and updated on a regular basis and should be made available to all the relevant members of staff.</p>
<p>Observation</p> <p>Having up to date and in depth procedure notes will help to ensure that individuals understand their responsibilities with respect to the Right to Buy process and the deadlines that need to be adhered to.</p> <p>We requested documented procedures from each service involved in the process (Finance, Housing, Estates and Legal Service), and found that Finance was the only service with procedures in place. However, these procedures had not been updated to reflect the implementation of the Council's document management system (Information @ Work) in December 2014.</p> <p>Where detailed operating procedures are not in place or updated on a regular basis there is a risk that processes within the Right to Buy function will not be carried out effectively or efficiently. Furthermore, there is a risk that specific deadlines may be missed which may lead to financial loss to the Council.</p>
<p>Responsibility</p> <p>Group Manager – Financial Services.</p>
<p>Management response / deadline</p> <p>All financial procedure notes are updated at least once a year and the Right to Buy notes are due to be updated in December 2015. The team will ensure in future, that any significant changes to the procedures are updated immediately in the procedure notes.</p> <p>The Group Manager (Legal Services), Group Manager (Tenants and Leaseholders) and the Group Manager (Commercial Assets and Property Development) will ensure procedure notes are developed for the RTB processes within Legal, Housing and Estates by the end of January 2016.</p>

Recommendation 2: Identity and Tenancy Checks (Priority 1).

<p>Recommendation</p> <p>Identity and Tenancy checks should be completed within four weeks of the Right to Buy applications being submitted. Consideration should be given to setting up a central e-mail account to which identity and tenancy check requests should be sent, and which should be monitored weekly to ensure that all requests are promptly processed.</p>
<p>Observation</p> <p>Monitoring completion of Tenancy and Identity checks confirms that the relevant background checks have been completed and the tenant is eligible under the Right to Buy Scheme. A tenant is only eligible if they have had a tenancy agreement for three years and the property is their main and/or only home.</p> <p>We found that there was no evidence of an identity or tenancy check carried out by the Housing Department in five out of ten cases tested. Upon further enquiry we found that from March to August 2015, the check requests from Finance were going to an unmanned e-mail account due to long term sickness. This issue was not identified until August 2015 when a new employee was brought in to take over the role.</p> <p>Where identity and tenancy checks are not completed, there is a risk that properties are sold to ineligible applicants. Furthermore, where deadlines are not met, applicants may be entitled to further discounts which may lead to a financial and reputational loss to the Council.</p>
<p>Responsibility</p> <p>Group Manager – Tenants and Leaseholders</p>
<p>Management response / deadline</p> <p>An email group has now been set up and is in use. This is monitored by a number of staff to ensure tenancy checks are actioned in a timely manner.</p>

Recommendation 3: Anti Money Laundering Verifications (Priority 2).

<p>Recommendation</p> <p>The council should revise its Anti Money Laundering Policy to include specific reference to Right to Buy purchases. This should include a specific cash limit over which cash purchases should be referred to the Corporate Fraud team for investigation and confirmation of legitimacy.</p>
<p>Observation</p> <p>Under the Law Society Rules the solicitors for the prospective purchasers must confirm that the funds provided by the tenant have been accumulated in a legitimate form. There is currently no legal requirement for the tenant or solicitor to prove to the Council that the sources of their finance are legitimate.</p> <p>We found that the council places reliance on the anti money laundering checks carried out by tenant solicitors without seeking confirmation that appropriate checks have been carried out. The council's anti money laundering policy, which has not recently been updated, did not include any statement as to the Council's risk appetite regarding the Right to Buy process.</p> <p>Where checks are not carried out and Right to Buy purchases are subsequently found to be funded as a result of criminal activity, there is a reputational risk to the council. Where money laundering activities are not identified, there is a risk of loss of property which could otherwise be used to meet the council's housing needs.</p>
<p>Responsibility</p> <p>Group Manager (Revenues & Benefits)</p>
<p>Management response / deadline</p> <p>The Money Laundering Policy will be updated to make specific reference to Right to Buy processes. This will be completed by March 2016.</p>

Recommendation 4: Discount Value Checks (Priority 3).

<p>Recommendation</p> <p>Discounts values included in the Tenant Offer Letters should be checked by a second member of staff to ensure accuracy and validity of the discount rate calculated.</p>
<p>Observation</p> <p>The discount value calculation is based on the number of years the tenant has held a tenancy agreement in the public sector. By implementing a secondary check, they will be able to ensure that the values entered into the system to create the discount percentage are accurate.</p> <p>Currently the Finance Assistant will enter the details of the tenant and how long have lived in the property, or had a tenancy agreement with the council, onto a standalone computerised calculator. They valuation amount of the property is also entered. The calculator will then generate the discount value based on the data input by the Finance Assistant.</p> <p>On inspection, we found that there is currently no secondary check on the discount value included in the Offer Letter sent out to the Tenant.</p> <p>Any errors in the calculation, or input of parameters onto the computer, could lead to increased discounts and loss of income for the Council.</p>
<p>Responsibility</p> <p>Group Manager – Financial Services</p>
<p>Management response / deadline</p> <p>A secondary check of discount calculations will be implemented with immediate effect.</p>





Recommendation 5: Detailed Records and Application Process Monitoring (Priority 3).

<p>Recommendation</p> <p>The council should hold detailed records of the key stages within the Right to Buy process. The accuracy and completeness of these records should be reviewed on a regular basis to ensure the key stages are completed in line with the timescales set out in the Right to Buy legislation.</p>
<p>Observation</p> <p>Accurate records of the application process will support the Council if the processing times are disputed by tenants</p> <p>Testing during the audit identified in a number of instances there were inaccuracies in the details recorded in the key stages of the Right to Buy process, for example, eligibility notification letters issued prior to the recorded date the application was received.</p> <p>Where the council does not maintain accurate records, there is a risk that supporting evidence will not be available should disputes arise and a tenant issues a notice of delay, which entitles them to further discount.</p>
<p>Responsibility</p> <p>Group Manager – Financial Services</p>
<p>Management response / deadline</p> <p>A review of the process will be undertaken with the team to understand where these errors occur. A secondary check of Right to Buy records will be implemented with immediate effect.</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:

- Theresa Miles Finance Assistant
- Yamini Krishnan Finance Assistant
- Lucy Marshall Legal Services Assistant
- Elaine Hopkins Fraud Investigator
- Vindhya Shetty Debits Control Officer – Rents Team
- Paula Parkins Housing Team Leader
- Adriana Livingstone Estates Team Leader

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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