



# Dacorum Borough Council

## Final Internal Audit Report

### Housing Rents

September 2016

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: May 2016  
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## Contents

1. Executive Summary .....	1
2. Scope of Assignment .....	3
3. Assessment of Control Environment.....	4
4. Observations and Recommendations .....	5
<b>Recommendation 1: Policies and Procedures – Review and Update (Priority 3) .....</b>	<b>5</b>
<b>Recommendation 2: Commencement of Tenancy and Termination of Tenancy forms (Priority 3)</b> <b>.....</b>	<b>6</b>
<b>Recommendation 3: Rent Debits – timeliness of updating Orchard (Priority 2).....</b>	<b>7</b>
<b>Recommendation 4: Former Tenant Arrears – Write offs (Priority 2).....</b>	<b>8</b>
<b>Recommendation 5: Management review of manual adjustments (Priority 3).....</b>	<b>9</b>
Appendix A - Reporting Definitions .....	10
Appendix B - Staff Interviewed.....	11
Statement of Responsibility.....	12

# 1. Executive Summary

## 1.1. Background

As part of the Internal Audit Plan for 2016/17, 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, 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 three priority 3 recommendation where we believe there is scope for improvement within the control environment. These are set out below:

- Policies and procedures should be reviewed and/or updated on an annual basis. (Priority 3)
- All Commencement of Tenancy and Termination of Tenancy forms should be stored in a central location so that they are available in the future. This will ensure that a full audit trail is retained. (Priority 3)
- Management should remind officers of the requirement to update Orchard within 24 hours, when a Commencement of Tenancy or Termination of Tenancy form is received. (Priority 2)
- The former tenant arrears report should be reviewed and cases where a write off has been completed should be updated and removed from the report. (Priority 2)
- The Team Leader should ensure that evidence is always retained for the management review of manual adjustments. (Priority 3)

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**

Housing Rents is managed effectively and 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

#### **Reconciliation 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			<b>Recommendation 2 and 3</b>
Rent Receipts			
Rent Arrears			<b>Recommendation 4</b>
Manual Adjustments			<b>Recommendation 5</b>
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: Policies and Procedures – Review and Update (Priority 3)

<p><b>Recommendation</b></p> <p>Policies and procedures should be reviewed and/or updated on an annual basis.</p>
<p><b>Observation</b></p> <p>All policies and procedures in place should be reviewed and/or updated on at least an annual basis, to ensure that they are in line with any legislative requirements and any changes in the procedures that have taken place.</p> <p>We were able to confirm the following:</p> <ul style="list-style-type: none"> <li>- Housing rents and other charges policy – last reviewed in January 2015 (requires updating however discussions with the Team Leader confirmed that this is in the process of being updated)</li> <li>- Rent recovery procedure – last reviewed in October 2015</li> <li>- Refund manual – last reviewed in January 2016</li> <li>- New tenancies Manual – last reviewed in January 2016</li> <li>- Terminations manual – last reviewed in January 2016</li> <li>- Former Tenant Arrears procedure – last reviewed in August 2011</li> </ul> <p>Where policies and procedures are not reviewed and/or updated on at least an annual basis there is an increased risk that staff will be working to out of date practices. This could lead to reputational damage and financial loss for the Council.</p>
<p><b>Responsibility</b></p> <p>Team Leader (Housing Income)</p>
<p><b>Management response / deadline</b></p> <p>We accept that some of our policies and procedures may not have been reviewed within the timescales identified within our review timetable.</p> <p>We have now committed to keeping to this timetable. We cannot commit to annual reviews of our policies and procedures due to the workload implications.</p> <p>We do review some high priority policies and procedures every two years – this can be more often if legislation is changed prompting a review</p>

**Recommendation 2: Commencement of Tenancy and Termination of Tenancy forms (Priority 3)**

<p><b>Recommendation</b></p> <p>All Commencement of Tenancy and Termination of Tenancy forms should be stored in a central location so that they are available in the future. This will ensure that a full audit trail is retained.</p>
<p><b>Observation</b></p> <p>Commencement of Tenancy and Termination of Tenancy forms should be available on the tenancy file for all tenants. This is to ensure that a full audit trail is available and can be reviewed in the future if need be.</p> <p>For a sample of 20 new tenants selected, we were able to confirm that in 19 cases a commencement of tenancy form was available and had been dated. In one case we were unable to find a copy of the commencement of tenancy form.</p> <p>For a sample of 20 terminations we were able to confirm that in 14 cases a termination of tenancy form was in place and signed off. For 3 cases the property was sold and hence no termination of tenancy form is completed, instead an email is sent confirming the property has been sold and the system is updated. For the remaining 3 cases we were unable to locate copies of the termination of tenancy forms.</p> <p>Where Commencement of Tenancy and Termination of Tenancy forms are not retained and available there is a risk that errors in tenancy files cannot be investigated in a complete manner.</p>
<p><b>Responsibility</b></p> <p>Team Leader (Housing Income)</p>
<p><b>Management response / deadline</b></p> <p>We accept this recommendation in full and will be implemented by 31<sup>st</sup> October 2016.</p>



**Recommendation 3: Rent Debits – timeliness of updating Orchard (Priority 2)**

<p><b>Recommendation</b></p> <p>Management should remind officers of the requirement to update Orchard within 24 hours, when a Commencement of Tenancy or Termination of Tenancy form is received.</p>
<p><b>Observation</b></p> <p>Orchard should be updated within 24 hours of receipt of a Commencement of Tenancy or Termination of Tenancy form as per the procedure note.</p> <p>From the sample of 20 tenancy commencements we were able to confirm that Orchard was updated in all 20 cases. However, in 2 cases this was not done within 24 hours.</p> <p>From the sample of 20 terminations we were able to confirm that Orchard was updated in all 20 cases. However, in 3 cases this was not done within 24 hours and in 3 cases we could not locate the termination of tenancy forms.</p> <p>Where Orchard is not updated in a timely manner there is a risk that the Council is unaware of when rent is due and how much rent is due. This could lead to financial loss for the Council.</p>
<p><b>Responsibility</b></p> <p>Team Leader (Housing Income)</p>
<p><b>Management response / deadline</b></p> <p>We accept this recommendation in full and will be implemented by 31<sup>st</sup> October 2016.</p>

**Recommendation 4: Former Tenant Arrears – Write offs (Priority 2)**

<p><b>Recommendation</b></p> <p>The former tenant arrears report should be reviewed and cases where a write off has been completed should be updated and removed from the report.</p>
<p><b>Observation</b></p> <p>Where a former tenant has arrears, a process is followed and if the debt is unrecoverable it is written off. This is updated on Orchard and the write off is requested from Finance. Once this has been approved and processed Orchard will again be updated to confirm the write off has taken place.</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 arrears in 7 case. For the remaining 3 cases, Orchard shows that the debt was requested to be written off in 2011 however there was no confirmation of this and the debt is still appearing on the former tenant arrears spreadsheet.</p> <p>Where debt has been written off but it is not updated on Orchard there is a risk that the Housing Rents team are still chasing debt, and using resources when the debt has already been written off. This could lead to financial loss for the Council.</p>
<p><b>Responsibility</b></p> <p>Team Leader (Housing Income)</p>
<p><b>Management response / deadline</b></p> <p>We accept this recommendation in full and will be implemented by 31<sup>st</sup> October 2016.</p>





**Recommendation 5: Management review of manual adjustments (Priority 3)**

<p><b>Recommendation</b></p> <p>The Team Leader should ensure that evidence is always retained for the management review of manual adjustments.</p>
<p><b>Observation</b></p> <p>The team leader conducts a sample test on a monthly basis, where she will look through the manual adjustments that have been made for the sample and confirm that they have been done in a complete and accurate manner.</p> <p>For a sample of the last 3 months we were able to confirm that the management review was completed in January and March 2016. We were unable to confirm that the check was completed in February 2016 as there were no annotations on the manual adjustments spreadsheet.</p> <p>Where a team leader does not undertake the management review of manual adjustments and retain details of this on a monthly basis there is an increased risk of inaccurate manual adjustments. This could lead to financial loss and reputational damage for the council.</p>
<p><b>Responsibility</b></p> <p>Team Leader (Housing Income)</p>
<p><b>Management response / deadline</b></p> <p>We accept this recommendation in full and will be implemented by 31<sup>st</sup> October 2016.</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 (Housing Income)
- Jillian Watson – Lead officer
- Vindhya Shetty – Debit Control Officer
- Alan Parry – Business System Developer
- Yamini Krishnan – Financial Accountant
- Jackie Whitefoot – Housing 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**

#### **September 2016**

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