

Final Internal Audit Report

Housing Revenue Account - Accounting

October 2022

Distribution: Corporate Director of Resources and S151 Officer
Corporate Director of Housing
Director of Housing – Estates and Improvement
Interim Director of Finance
Finance Manager
Interim Head of Tenancy & Resident Engagement

Assurance Level	Issues Identified	
Limited Assurance	Priority 1	2
	Priority 2	1
	Priority 3	2

[Confidentiality and Disclosure Clause](#)

This report ("Report") was prepared by Mazars LLP at the request of London Borough of Croydon 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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Please refer to the Statement of Responsibility in Appendix 3 of this report for further information about responsibilities, limitations and confidentiality.

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1. Introduction

- 1.1 The Housing Revenue Account (HRA) is one of Croydon Council's (the Council) budgets where all income and expenditure related to the Council's housing is accounted for. Any Local Housing Authority that owns 200 or more dwellings are required by legislation to account for them within their HRA. The main legislative features of the HRA are:
- it is a landlord account, recording expenditure and income arising from the provision of housing accommodation by local housing authorities (under the powers and duties conferred on them in Part II of the Housing Act 1985 and certain provisions of earlier legislation);
 - it is not a separate fund but a ring-fenced account of certain defined transactions, relating to local authority housing, within the General Fund;
 - there is no general discretion to breach the ring-fence;
 - the main items of expenditure included in the account are management and maintenance (M&M) costs, major repairs, loan charges, and depreciation costs;
 - the main sources of income are from tenants in the form of rents and service charges;
 - cannot be used to budget for a deficit, and
 - the HRA should be based on accruals in accordance with proper accounting practices, rather than cash accounting.
- 1.2 On 10 November 2020 MHCLG published guidance on the operation of the Housing Revenue Account ring-fence. This guidance updated and replaced Circular 8/95 published by the former Department of the Environment (DoE). It gives advice to local housing authorities in England on certain aspects of the HRA.
- 1.3 This guidance restates ministers' established policy for the HRA and introduces no new issues of principle. However, it does highlight the need to be fair to both tenants and council taxpayers and that there should be a fair and transparent apportionment of costs between the HRA and General Fund.
- 1.4 The fieldwork for this review was completed remotely in response to COVID-19. We have been able to obtain all relevant documents required to complete the review
- 1.5 This audit was undertaken as part of the agreed Internal Audit Plan for 2021/22. The objectives, approach and scope are contained in the Audit Terms of Reference at Appendix 1.

2. Key Issues

Priority 1 Issues

A lack of evidence existed to verify that discrepancies in reconciliations between the HRA Control Cash and the Ohms Cash Balance were being investigated and resolved. **(Issue 1)**

Examination of the HRA recharges identified that the basis for calculating the recharges to the General Fund had not been reviewed in the current year. It was unclear from evidence retained when the last review was completed. **(Issue 2)**

Priority 2 Issue

A review of the HRA Business Plan and the associated documentation found that performance against the business plan was not being evidenced as monitored and reviewed. **(Issue 3)**

Priority 3 issues are included under section 4 below.

3. Actions and Key Findings/Rationale

Audit Area: Accurate and Complete Housing Details

Priority	Agreed Action	Detailed Finding/Rationale – Issue 1				
1	<p>Agreed that regular and evidenced reconciliations of the housing rent system to the general ledger are required.</p> <p>A revised process for reconciliation of data will be implemented</p> <p>This will then be reviewed following the NEC go live and form part of the work carried out by the income account manager.</p>	<p>The Council manages its rent accounts through the ‘Ohms’ System where each tenant is given a unique Account Number.</p> <p>Cost centres are assigned to each revenue item within Ohms. Every four weeks the Income Controller reconciles ‘Housing Revenue Control Cash’ and ‘Ohms Cash Balance’ for the period. Journals are automatically generated at the end of this process and are then emailed to the Finance Team to be posted onto the ledger.</p> <p>Examination of three reconciliations in 2021/22 financial year confirmed that reconciliations had taken place on a monthly basis, however it was identified that:</p> <ul style="list-style-type: none"> a) Investigation and resolution of discrepancies could not be demonstrated through evidence retained by officers. b) Reconciliations were not checked and approved by a second officer. <p>Management explained that the discrepancies in the reconciliations were investigated but evidence was not retained to support this and also that a lack of resources impacted on the Team’s ability to provide a second officer check and approval of reconciliations.</p> <p>Errors, omissions or malpractice may go unnoticed where checks, investigations and approvals are not present. This may result in financial damage or fraud.</p>				
	<table border="1"> <thead> <tr> <th>Responsible Officer</th> <th>Deadline</th> </tr> </thead> <tbody> <tr> <td>Finance accountant initial process Income Controller thereafter</td> <td>December 2022</td> </tr> </tbody> </table>	Responsible Officer	Deadline	Finance accountant initial process Income Controller thereafter	December 2022	
Responsible Officer	Deadline					
Finance accountant initial process Income Controller thereafter	December 2022					

Audit Area: Income and Expenditure

Priority	Agreed Action	Detailed Finding/Rationale – Issue 2
1	<p>Agreed that annual review of the HRA recharges from the General Fund should form part of the HRA budget setting process to determine the validity of the charges.</p> <p>Project is currently underway to review the existing charges to the HRA including all staffing.</p>	<p>Expenditure and income relating to property listed in section 74 of the Local Government and Housing Act 1989 ('the 1989 Act') must be accounted for in the HRA. Additionally, Schedule 4 to the 1989 Act (as amended by section 127 of the Leasehold Reform, Housing and Urban Development Act 1993) specifies the debit and credit items to be recorded in the HRA. The Housing (Welfare Services) Order 1994 specifies the welfare services must be accounted for outside the HRA.</p> <p>The statutory provisions referred to above reflect the government's policy that the HRA remains a ring-fenced account within the General Fund; it should still be primarily a landlord account containing the income and expenditure arising from a housing authority's landlord functions. Therefore, there is a need for recharges between the HRA account and the General Fund for expenditure such as repairs to ensure that expenditure is accurately attributed to the account.</p> <p>Examination of the HRA recharges identified that the basis for calculating the recharges to the General Fund had not been reviewed in the current year. It is unclear from evidence retained by officers when the last review was completed.</p> <p>Where the recharges are not reviewed annually there is a risk that HRA expenditure is used incorrectly and therefore in violation of legislation, which could result in fines or penalties.</p>
	<p>Responsible Officer</p>	<p>Deadline</p>
<p>Head of Finance - Housing</p>	<p>December 2022</p>	

Audit Area: Ring Fencing of the HRA

Priority	Agreed Action	Detailed Finding/Rationale – Issue 3				
2	<p>Agreed the HRA monthly monitoring needs to have a direct link back to the HRA Business Plan.</p> <p>Monitoring template for the HRA is under review and will be linked to the revised HRA Business Plan which is due to cabinet in February 2023</p>	<p>The Council has developed a Business Plan for the HRA which provides details of the budget for the HRA.</p> <p>Examination of the HRA Business Plan and associated documentation found that there were no monitoring arrangements in place. Therefore, there was no opportunity for performance to be reviewed.</p> <p>Where performance is not measured, the Business Plan may be deviated from and result in financial damage.</p>				
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Responsible Officer	Deadline					
Head of Finance - Housing	February 2023					

4. Priority 3 Issues

Agreed Action	Detailed Finding/Rationale
<p>1. As part of the Housing Transformation Programme there is a workstream focused on strategic and operational governance and management that will enable the programme to be implemented. This is a 3 year transformation programme.</p>	<p>The policies and procedures in place for the management of the HRA were based on Government guidance and had not been adapted for the Council’s working practices or systems.</p> <p>Consequently, there is a risk of officers having a lack of understanding causing errors or omissions in HRA records. This may lead to financial loss for the Council.</p>
<p>2. Agree that the HRA treasury function should be evidenced the MRP calculation & loans listings are updated with the revision of the Business Plan and due to cabinet in February 2023</p>	<p>Evidence was not received to demonstrate that interest received on HRA funds was being kept separately from other funds in the Council.</p> <p>This may result in HRA funds being misallocated.</p>

AUDIT TERMS OF REFERENCE

Housing Revenue Account - Accounting – 2021/22

1 INTRODUCTION

- 1.1 The Housing Revenue Account (HRA) is one of London Borough of Croydon's (the 'Council's) budgets where all income and expenditure related to the Council's housing is accounted for. Any Local Housing Authority that owns 200 or more dwellings are required by legislation to account for them within their HRA. The main legislative features of the HRA are:
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 - the main sources of income are from tenants in the form of rents and service charges;
 - Cannot be used to budget for a deficit;
 - the HRA should be based on accruals in accordance with proper accounting practices, rather than cash accounting.
- 1.2 This audit was undertaken as part of the agreed Internal Audit Plan for 2021/22.

2 OBJECTIVES AND METHOD

- 2.1 The overall audit objective was to provide an objective independent opinion on the adequacy and effectiveness of controls / processes.
- 2.2 The audit will for each controls / process being considered:
- Walkthrough the processes to consider the key controls;
 - Conduct sample testing of the identified key controls, and
 - Report on these accordingly.

3. SCOPE





3.1 The audit included the following areas (and number of issues identified made):

Audit Area	Issues Identified		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
HRA Strategy, Policies and Procedures	0	0	0
Accurate and Complete Record of Housing Details	1	0	0
Income and Expenditure	1	0	0
Ring-Fencing of the HRA	0	1	0
Reconciliation of the HRA	0	0	1
Management Reporting	0	0	1
Totals	2	1	2

Definitions for Audit Opinions and Identified Issues

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

	Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are constantly applied.
	Substantial Assurance	While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance of the controls which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and non-compliance that puts achieving the system objectives at risk,
	No Assurance	Controls are non-existent or extremely weak, leaving the system open to the high risk of error, abuse and reputational damage.

Priorities assigned to identified issues are based on the following criteria:

Priority 1 (High)	Fundamental control weaknesses that require immediate attention by management to action and mitigate significant exposure to risk.
Priority 2 (Medium)	Control weakness that still represent an exposure to risk and need to be addressed within a reasonable period.
Priority 3 (Low)	Although control weaknesses are considered to be relatively minor and low risk, still provides an opportunity for improvement. May also apply to areas considered to be of best practice that can improve for example the value for money of the review area.

Statement of Responsibility

We take responsibility to the London Borough of Croydon 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.

This report is confidential and must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. 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 by any third party is entirely at their own risk.

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