

# Final Internal Audit Report

## Empty Property Grants

### December 2016

**Distribution:**

- Executive Director People (Final only)
- Director of Housing Need
- Head of Housing Renewals
- Staying put Team Leader
- Senior Home Investment Officer

Assurance Level	Recommendations Made	
<b>Substantial Assurance</b>	Priority 1	0
	Priority 2	5
	Priority 3	1

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## 1. Introduction

- 1.1 At the time of this audit approximately 1.3% (1,600) of the residential properties in Croydon were empty. A high priority of the Council's Housing Strategy is to help bring these empty properties into use and to boost the housing supply, particularly of affordable housing.
- 1.2 An empty property grant of up to £25,000 per property is available to owners, freeholders and leaseholders to cover the reasonable costs of eligible works to repair or renovate a qualifying property, making it suitable for occupation. The grant is discretionary under the provisions of the Regulatory Reform (Housing Assistance) (England and Wales) Order 2002. In return for providing grant assistance, the Council reserves the right to nominate tenants for the property for up to five years.
- 1.3 This audit was undertaken as part of the agreed Internal Audit Plan for 2016/17. The objectives, scope and approach are included in the Audit Terms of Reference at Appendix 1.

## 2. Key Issues

### Priority 2 Recommendations

The Empty Property Hotline report generated at the time of audit included 91 open empty property case reports in excess of 10 days. **(Rec 1)**.

The Housing Initiative Team's determination of need assessments are informally conducted and not recorded **(Rec 2)**.

The empty property grant application form in use did not include an appropriate 'fair processing' notice **(Rec 3)**.

Sample testing of grant transactions, identified three instances where the total value exceeded the approving Officer's Financial Scheme of Delegation limit **(Rec 4)**.

Regular periodic performance reports were not available **(Rec 5)**.

The Priority 3 recommendation is detailed under item 4 below.

3. Actions and Key Findings/Rationale

Area 2 : Grant Applications		Detailed Finding/Rational	Agreed/Disagreed	Responsible Officer	Deadline
Priority	Recommendation 1				
2	<p>The 91 open cases on the Empty Property Hotline should be investigated and, where appropriate, either be inspected or closed.</p> <p>Staff should be formally reminded to close resolved empty property cases on the Empty Property Hotline in a timely manner to ensure an accurate record.</p>	<p>Empty properties reported via the Empty Property Hotline or Contact Centre (emails/telephone calls) are recorded on SharePoint. Each case is assigned to an empty property officer, who is expected to investigate and close the case within 10 days.</p> <p>Examination of the 'Hotline Reports – All Hotline Reports' dated 16 May 2016 identified that at that date there were 151 hotline cases closed and 91 hotline cases still open. Examination of 91 open cases established that all 91 cases had exceeded the agreed follow-up period of 10 days, with one case dating back to 30 April 2014. It was claimed that some of these cases may have been investigated but not closed on the SharePoint listing.</p> <p>Where empty properties reported to be empty are not investigated and resolved in a timely manner, there is a risk that appropriate actions are not taken and the opportunity is missed to bring these back into use.</p>	Agreed	(Empty Property Officer)  (Head of Housing Renewal)	February 2017
Management Response					
<p>Agreed</p> <p>All cases left open on the hotline report were assigned to one specific officer. All cases assigned to the second officer were closed as expected.</p> <p>As the 91 Hotline cases were not closed at the time, the officer concerned was asked to respond concerning the action that had been taken. The officer left the council on 31 July 2016 as the funding for his post ended and he was made redundant.</p> <p>The head of service has now double checked the hotline report spreadsheet against the Empty Property Service Active case files and Archived case files in SharePoint to confirm that the actions were actually taken.</p> <p>I can confirm that, of the 91 cases, 15 were duplicate addresses, arising from multiple reports of the same property, leaving 76 properties to action. Of the 76 addresses:</p>					

Empty Property Grants 2016/2017

<ul style="list-style-type: none"> <li>• 2 were old cases that had been archived</li> <li>• 4 were commercial sites, not dealt with by the EP service</li> <li>• 5 were Council owned properties, which are reported to the Regeneration team (again, not dealt with by the EP service)</li> <li>• 1 is an ongoing enforcement case</li> <li>• 1 is an ongoing grant case</li> <li>• 9 were received in June 2016 and are re-assigned to the second officer for action</li> <li>• 32 cases went to monitoring</li> <li>• 12 were occupied</li> <li>• 9 were on the market and needed no action</li> <li>• 1 was a redevelopment site</li> </ul> <p>Of the 32 property reports that the officer advised were turned in to monitoring cases, it was found that 20 did not have a case set up as was required. The officer concerned was responding to the audit findings in the last few weeks of his contract and the head of service was incorrectly advised that these actions had been completed.</p> <p>The spreadsheet, including all addresses where cases have not been set up, has now been passed on to the remaining empty property officer to set up cases and take over the monitoring of these properties. This officer is gradually taking over all of the case load of the second.</p>			
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Priority	Recommendation 2	Detailed Finding/Rational		
2	<p>A formal record of the Housing Initiative team determination of needs assessments should be maintained.</p>	<p>The Croydon EPG guidance note GN.H175 states that, 'if the Council does not have a need for the type of housing that would be provided by offering an empty property grant then the Council will not offer a grant for the refurbishment of that empty property. The determination of need is managed by the Council's Housing Initiatives team.'</p> <p>Discussions establish that the Housing Initiative team informally makes a determination of need and communicates the results of these verbally. There is thus no record that a determination of need has been conducted or of the subsequent result.</p> <p>Where the Housing initiative team does not carry out a formal determination of need, there is a lack of record and a risk that an empty property grant is provided and nomination rights obtained for property types that are not required by the Council.</p>		
<b>Management Response</b>		<b>Agreed/Disagreed</b>	<b>Responsible Officer</b>	<b>Deadline</b>
<p>The Housing Initiation team has agreed to send weekly emails to confirm the type of Houses that are required by the Council.</p>		Agreed	(Housing Initiative Manager)	December 2016

Priority	Recommendation 3	Detailed Finding/Rational						
2	<p>The 'Application for Empty Property Grant' form should be amended to include:</p> <ul style="list-style-type: none"> <li>• a fair processing notice, and</li> <li>• the fraud declaration on the first page.</li> </ul>	<p>The Data Protection Act 1998 states that, 'Personal data shall be processed fairly and lawfully and, in particular, shall not be processed unless – (a) at least one of the conditions in Schedule 2 is met, and (b) in the case of sensitive personal data, at least one of the conditions in Schedule 3 is also met.' In this regard the Council must be transparent about how it intends to use any data collected and any application forms in use should include a 'fair processing notice'. Furthermore, in order to be able to take appropriate action should a false statement be made, any application forms in use should also include a fraud declaration.</p> <p>Examination of the 'Application for Empty Property Grant' found this to include an appropriate fraud declaration however this is not currently at the start of the application. Further the application included no fair processing notice, should the Council wish to undertake any proactive data matching.</p> <p>Research and best practice has found that where the declaration is at the front of this type of application, it reduced the likelihood of applicants making knowingly false statements.</p> <p>Where a fair processing notice statement is not included on the 'Application for Empty Property Grant' form, the Council is unable to use the data collected on the form for data matching to help detect fraud and therefore going undetected with consequential financial losses.</p>						
<b>Management Response</b>	<p>The text for both requirements has been obtained and is being incorporated into the empty property grant application form. This will also be available on the council's website.</p>	<table border="1"> <thead> <tr> <th data-bbox="839 931 882 1234">Agreed/Disagreed</th> <th data-bbox="839 595 882 931">Responsible Officer</th> <th data-bbox="839 141 882 595">Deadline</th> </tr> </thead> <tbody> <tr> <td data-bbox="890 931 919 1234">Agreed</td> <td data-bbox="890 595 951 931">(Head of Housing Renewal)</td> <td data-bbox="890 141 919 595">December 2016</td> </tr> </tbody> </table>	Agreed/Disagreed	Responsible Officer	Deadline	Agreed	(Head of Housing Renewal)	December 2016
Agreed/Disagreed	Responsible Officer	Deadline						
Agreed	(Head of Housing Renewal)	December 2016						

Area 4 – Grant Payments									
Priority	Recommendation 4								
2	Staff should be formally reminded of the requirements of Councils Scheme of Financial Delegation and to ensure that appropriate authorisation for the aggregated payments for the same grant application must be sought.								
<p><b>Detailed Finding/Rational</b></p> <p>The Councils Scheme of Financial Delegation identifies staff authorised to act in respect of payments, income collection and placing orders, together with the limits of their authority. Examination of a sample of 10 successful empty property grant applications identified three instances where the total value of the grant paid exceeded the approving officer's financial scheme of delegation limit (of £100k). These grants each being paid as separate payments, as follows:</p> <table border="1"> <thead> <tr> <th>Property</th> <th>Payment amount and GL date</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>Three payments totalling £325k - 14<sup>th</sup> October 2015</td> </tr> <tr> <td>2</td> <td>Two payments totalling £200k - 25<sup>th</sup> June 2015</td> </tr> <tr> <td>3</td> <td>£100k – 5<sup>th</sup> February 2016 3 X £75k – 25<sup>th</sup> April 2016 2 X £50k – 27<sup>th</sup> April 2016</td> </tr> </tbody> </table> <p>Where payment for an empty property grants application is split into multiple payments, there is a risk that the Council's scheme of financial delegation may be breached.</p>		Property	Payment amount and GL date	1	Three payments totalling £325k - 14 <sup>th</sup> October 2015	2	Two payments totalling £200k - 25 <sup>th</sup> June 2015	3	£100k – 5 <sup>th</sup> February 2016 3 X £75k – 25 <sup>th</sup> April 2016 2 X £50k – 27 <sup>th</sup> April 2016
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Management Response	Agreed/Disagreed	Responsible Officer	Deadline						
<p>It had not been realised that each individual grant (maximum £25,000 per house/flat) was not viewed separately, and that the aggregated approval/payment figure per developer was the relevant one when giving authorisation.</p> <p>A revised procedure has been agreed to prevent this from recurring. The empty property grant approval and payment checklists are being revised to include additional questions as follows:</p> <ul style="list-style-type: none"> <li>• What is the total number of grants in this scheme?</li> <li>• What is the total value of grant assistance in this scheme?</li> </ul> <p>Where this exceeds £100,000, the head of service will carry out all normal checks, verify this and the file will be passed to the Director of Housing Needs with a recommendation that it be approved. Grant approval and payment authorisation will then rest with the Director.</p>	Agreed	Head of Housing Renewal	December 2016						



<b>Area 5 – Monitoring and Reporting</b>	
<b>Priority</b>	<b>Recommendation 5</b>
2	<p>Regular 'Housing renewal Service – Milestones Report' should be produced, which should detail the performance of the Empty properties' and 'Empty Homes loans and Grants (Croydon fund)' operational objectives.</p>
	<p>In order to appropriately monitor the performance of the function, regular performance reports should be produced to measure performance against appropriate targets. It was established that a 'Housing renewal Service – Milestones Report' is produced quarterly and a copy of the report for 'Quarter 2 (April to September 2015)' was provided. Examination of this confirmed that this included two relevant operational objectives namely 'Empty properties – Bring empty properties back into use' and 'Empty Homes loans and Grants (Croydon fund) – Complete grants/loans, Spend available budget'. While annual targets were provided for each of these indicators, the performance against these (although green RAG rated) was not detailed. Reports were also not available for any of the other quarters of 2015/16.</p> <p>Where performance is not appropriately reported and monitored, there is a risk that poor performance is not identified and consequently that actions are not taken in a timely manner to remedy this performance.</p>
<b>Management Response</b>	<b>Detailed Finding/Rational</b>
<p>Quarter 1 and Quarter 2 milestones reports have been produced for 2016-2017 and have been circulated to the team.</p> <p>The empty property grant figures are available, however the "returned to use" figures are not yet available. This is because there has been a change to Council Tax records which affects the previous way these were calculated. The EPO is currently working with the SharePoint team in ICT to develop an accurate reporting tool based on the empty property database (held by our service in SharePoint) instead.</p>	<p><b>Agreed/Disagreed</b></p> <p>Agreed</p>
	<p><b>Responsible Officer</b></p> <p>(Head of Housing Renewal)</p>
	<p><b>Deadline</b></p> <p>December 2016</p>

#### 4. Priority 3 Recommendation

Recommendation	Findings
<p>The Croydon Council Housing Renewal Policy and the Guidance Note GN.H175 should be reviewed and be updated where applicable.</p> <p>The date of last review should be recorded on each document.</p>	<p>The Croydon Council Housing Renewal Policy, which details guidance on empty property grants (EPG), was last updated in February 2014. The House of Commons briefing paper 'Empty Housing (England)' has; however, been recently issued on the 5<sup>th</sup> May 2016 and it would be good practice to review and, where appropriate, amend the Housing Renewal Policy in light of this guidance.</p> <p>It was also identified that a 'Guidance Note GN.H175 Regulatory Reform (Housing Assistance) (England And Wales) Order 2002 Guidance Note For Empty Property Grant' is published on the Councils website. This is; however, not dated. Furthermore, this should also be reviewed with the Housing Renewal Policy to ensure consistency.</p> <p><u>Management Response:</u></p> <p>The policy has been reviewed and a schedule of the required changes to the policy has been prepared. A meeting has been held with the Strategy Officer in the Strategy and Resources service to discuss the approval route for the revisions and legal advice has been sought. A briefing note is to be prepared to the Director of Housing Need for discussion with the relevant Councillor on the changes. Advice has been sought on the approval route and a Cabinet report is needed for the changes required.</p>

## AUDIT TERMS OF REFERENCE

### Empty Property Grants

#### 1. INTRODUCTION

- 1.1 Approximately 1.3% (1,600) of all residential housing stock in Croydon is empty. To assist with bringing empty properties into use to boost the housing supply particularly affordable, is a high priority of the Council in its Housing Strategy. An empty property grant is available from the Council to owners, freeholders and leaseholders to cover the reasonable costs of eligible works to repair or renovate a qualifying property, making it suitable for occupation. The grant is discretionary under the provisions of the Regulatory Reform (Housing Assistance) (England and Wales) Order 2002.
- 1.2 A maximum grant of £25,000 is currently available per dwelling. This is funded at a rate of 100% towards the cost of eligible works. In return for providing grant assistance, the Council reserves the right to nominate tenants for the property for five years.
- 1.3 This audit is being undertaken as part of the agreed Internal Audit Plan for 2016/17.

#### 2. OBJECTIVES AND METHODOLOGY

- 2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of controls/processes around empty property grants.
- 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 This audit will examine the Council's arrangements for the provision of Empty Property Grants and will include the following areas:

Control Areas/Risks	Recommendations Made		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Regulatory, Organisational and Management Requirements;	0	0	1
Grant Applications;	0	3	0
Inspections;	0	0	0





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Grant Payments; and	0	1	0
Monitoring and Reporting.	0	1	0

## DEFINITIONS FOR AUDIT OPINIONS AND RECOMENDATIONS

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 consistently 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 which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and/or non-compliance that puts achieving the system objectives at risk.
	No Assurance	Controls are non-existent or weak and/or there are high levels of non-compliance, leaving the system open to the high risk of error or abuse which could result in financial loss and/or reputational damage.

Priorities assigned to recommendations are based on the following criteria:

<b>Priority 1 (High)</b>	Fundamental control weaknesses that require the immediate attention of management to mitigate significant exposure to risk.
<b>Priority 2 (Medium)</b>	Control weakness that represent an exposure to risk and require timely action.
<b>Priority 3 (Low)</b>	Although control weaknesses are considered to be relatively minor and low risk, action to address still provides an opportunity for improvement. May also apply to areas considered to be of best practice.

## **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**  
**December 2016**

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