

Final Internal Audit Report

Housing Rents and Accounting

February 2017

Distribution: Executive Director People (Final only)
 Director of Housing Need
 Head of Housing Solutions
 Head of Income and Lettings
 Finance Officer

Assurance Level	Recommendations Made	
Substantial Assurance	Priority 1	0
	Priority 2	5
	Priority 3	2

Status of Our Reports

This report ("Report") was prepared by Mazars Public Sector Internal Audit Ltd 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 Council has a housing stock of approximately 15,000 properties and rent is collected by the three District Offices (North, East and South/Central) with a central control team. Rent is managed using the Northgate Open Housing Management System (OHMS).
- 1.2 This audit was undertaken as part of the agreed Internal Audit Plan for 2016/17.

2. Key Issues

Priority 2 Recommendations
The Rent Accounting procedure guidance note was overdue for review (Rec 1) .
Tenancy agreements were not in place and signed by both the tenant and the Council in two out of 10 sampled cases and new tenant visit forms were not seen in all 20 cases sampled (Rec 2) .
'TRANSFER BETWEEN ACCOUNT OHMS' forms were not completed in four out of 10 sample cases of manual adjustment to tenant accounts, (Rec 3) .
The rationale for the decision to use 65% of market rate instead of 80% for affordable rents was not available (Rec 4) .
Appropriate signed salary deduction agreements were not available for three out of 10 sampled cases, (Rec 5) .

The priority 3 recommendations are detailed under item 4 below.

3. Actions and Key Findings/Rationale

Control Area 1: Regulatory, Organisational and Management Requirements							
Priority	Detailed Finding/Rational						
2	<p>In order to help ensure that staff apply up to date best practice, appropriate and up to date rent accounting procedure notes should be available to staff.</p> <p>It was confirmed that procedure notes and guidance is available to staff on the SharePoint site. However, examination of the 'Rent Accounting Procedures – Manual adjustments, transfers, refunds and allowances' document identified that this was dated 2008 and did not evidence subsequent review. Furthermore, some of the content, such as for authorising write-offs, was not clear and did not refer to the Council's Scheme of Financial Delegation.</p> <p>Where procedure notes are not regularly reviewed and updated, there is a risk that staff may apply outdated practise which could result in inefficiencies.</p>						
Management Response							
Agreed	<table border="1"> <thead> <tr> <th>Agreed/Disagreed</th> <th>Responsible Officer</th> <th>Deadline</th> </tr> </thead> <tbody> <tr> <td>Agreed</td> <td>Head of Income & Lettings</td> <td>March 2017</td> </tr> </tbody> </table>	Agreed/Disagreed	Responsible Officer	Deadline	Agreed	Head of Income & Lettings	March 2017
Agreed/Disagreed	Responsible Officer	Deadline					
Agreed	Head of Income & Lettings	March 2017					

Priority	Recommendation 2	Detailed Finding/Rational						
2	<p>Tenancy agreements and new tenancy visit forms should be completed, signed and uploaded to SharePoint.</p> <p>Where a visit is unsuccessful, revisit dates should be scheduled and carried out.</p>	<p>In order for tenants to be bound to the terms and conditions of a tenancy agreement, a signed copy must be completed and stored on file. New tenancy visits are undertaken to ensure that tenants have successfully taken residency and are aware of the terms and conditions of their agreement. Tenant files are uploaded and stored on the Council's storage portal, SharePoint.</p> <p>The examination of a sample of 20 tenant files identified that:</p> <ul style="list-style-type: none"> • Signed tenancy agreements were not in place in two cases; • New tenant visits were not carried out in four cases; • In two cases where visits had been unsuccessful due to tenant absent, revisits were not carried out and tenant visit forms completed; and • While the Process Management system was updated with visit dates, completed new tenant visit forms were not saved on SharePoint in 15 cases. <p>Where documents are not securely stored on file, there is a risk of financial loss should a tenant breach or renege on their tenancy and limited recourse due to terms and conditions not having been enforced by a signed agreement.</p>						
Management Response		<table border="1"> <thead> <tr> <th data-bbox="869 898 928 1211">Agreed/Disagreed</th> <th data-bbox="869 573 928 898">Responsible Officer</th> <th data-bbox="869 138 928 573">Deadline</th> </tr> </thead> <tbody> <tr> <td data-bbox="928 898 997 1211">Agreed</td> <td data-bbox="928 573 997 898">Lettings Manager</td> <td data-bbox="928 138 997 573">March 2017</td> </tr> </tbody> </table>	Agreed/Disagreed	Responsible Officer	Deadline	Agreed	Lettings Manager	March 2017
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Agreed	Lettings Manager	March 2017						

Control Area 4: Manual Adjustments	
Priority	Detailed Finding/Rational
2	<p>The 'Rent Accounting Procedures – Manual adjustments, transfers, refunds and allowances' document states that, 'Requests for manual adjustments and for transfers between accounts must be recorded on TRANSFER BETWEEN ACCOUNT OHMS action sheet (Appendix 1). The Rent Accounting Officer will make the necessary adjustment to OHMS using the screen shown below.'</p> <p>Examination of a sample of 10 manual adjustments identified four cases where manual adjustment forms (i.e. TRANSFER BETWEEN ACCOUNT OHMS action sheet) had not been completed and thus authorisation was not evident and the reasons for the manual adjustments were not detailed.</p> <p>Where TRANSFER BETWEEN ACCOUNT OHMS forms are not completed and where reasons for adjustments are not maintained, there is a risk that inappropriate adjustments may be made.</p>
Management Response	Agreed/Disagreed
Agreed	Agreed
Responsible Officer	Deadline
Head of Income & Lettings	March 2017

Control Area 5: Rent Debits								
Priority	Recommendation 4	Detailed Finding/Rational						
2	The decision to apply affordable rent at 65% of the market value rather than 80% should be formally reviewed.	<p>Schedule 2 of the Welfare Reform Act 2017 specifies how rents for new tenancies will be determined. For social rents this is using the formula rent for 2015 to 2016 and applying a 1% reduction in each relevant year and for affordable rents this is using the affordable rent for 2015 to 2016 and applying a 1% reduction in each relevant year.</p> <p>It was confirmed that the rent for new tenancies of Council housing stock is correctly applied using either the social rent or the affordable rent. However, it was determined that the affordable rent applied is only 65% of the market value, when up to 80% of the market value may be applied. Audit has been unable to determine the rationale or obtain a copy of the decision.</p> <p>(It should be noted that affordable rent only relates to new builds or newly acquired social housing stock, which for Croydon Council totals just over 100 properties).</p> <p>Where the affordable rent applied is only 65% of the market value rather than 80%, there is a risk that the Council may not be maximising its rental income from housing stock.</p>						
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Control Area 7: Collections									
Priority	Recommendation 5								
2	<p>All tenants who are employees of the Council wishing to pay their rents through salary deductions should be required to sign an appropriate salary deduction agreement. Signed salary deduction letters should be saved on SharePoint.</p>								
	<p>Detailed Finding/Rational</p> <p>The Employment Rights Act 1996, paragraph 13 (1) 'Right not to suffer unauthorised deductions' states that, 'An employer shall not make a deduction from wages of a worker employed by him unless— (a) the deduction is required or authorised to be made by virtue of a statutory provision or a relevant provision of the worker's contract, or (b) the worker has previously signified in writing his agreement or consent to the making of the deduction. In this regard, a Council employee who wishes to pay rent deductions from salary should complete and sign an agreement'.</p> <p>The documentation retained for sample of 10 tenants who have elected to have their rent deducted from their monthly salary payments was examined and the following identified:</p> <ul style="list-style-type: none"> • One case where a salary deduction letter was not sent out; and • Three cases where salary deduction letters were sent (on 9 May 2016) but had not been signed and returned by the employees. Evidence was not provided to show that unreturned letters were followed up. <p>Where appropriately signed agreements for the deduction of rents from salaries are not held, there is a risk that the Council may be in breach of the Employment Rights Act 1996 which could result in penalties and fines being levied against the Council.</p>								
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4. Priority 3 Recommendations

Recommendation	Findings
<p>a) The rates set by Thames Water should be applied on OHMS.</p>	<p>Examination of the charges reconciliation statements identified 91 instances where Thames water rates were different from actual rates applied on OHMS. Discussions with the Rent Accountant established that rates provided by Thames water were in some instances not considered correct. For example two ground floor flats at the same address, one in the front and one at the rear, with the same rateable value of 232 on OHMS have been quoted different water rates and rateable values by Thames water.</p> <p>Where additional charges are levied on tenants at a rate different to that demanded by Thames Water, there is a risk that the Council may be perceived to be incorrectly levying charges.</p>
<p>b) The reconciliation between the general ledger and OHMS system should be evidenced as checked.</p>	<p>Audit established that reconciliations between the general ledger and the OHMS system were conducted on a cumulative basis (April, May and June 2016 reconciliations merged and July, August, September 2016 reconciliations merged). In all cases examined, as the reconciliations were saved on SharePoint, it was easy to determine who had prepared these, however, these were not evidenced as checked.</p>

Audit Terms of Reference

Housing Rents

1. INTRODUCTION

- 1.1 The Council has a housing stock of approximately 15,000 properties and rent is collected by the three District Offices (North, East and South/Central) with a central control team. Rent is managed using the Northgate Open Housing Management System (OHMS)
- 1.2 The audit is being undertaken as part of the Internal Audit plan for 2016/2017 as agreed by the Councils General Purposes and Audit Committee.

2. OBJECTIVES AND METHOD

- 2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of controls/processes around Housing Rents.
- 2.2 The audit will for each area included in the scope:
- Document and evaluate the risks and controls for each process;
 - Walkthrough the processes to consider the key controls;
 - Undertake sufficient testing of controls operating, on a representative sample basis; and
 - Reach a conclusion on the effectiveness of the controls operating and report.

3. SCOPE





- 3.1 The audit included the following areas:

Control Areas/Risks	Recommendations Made		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Regulatory, Organisational and Management Requirements	0	2	0
Tenant Transactions and Records	0	0	0
New Tenancy	0	0	0
Manual Adjustments	0	1	0
Rent Debits	0	1	1
Billing	0	0	0
Rent Collection	0	1	0
Rent Refunds	0	0	0
Reconciliation with General Ledger	0	0	1
Total	0	5	2

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:

Priority 1 (High)	Fundamental control weaknesses that require the immediate attention of management to mitigate significant exposure to risk.
Priority 2 (Medium)	Control weakness that represent an exposure to risk and require timely action.
Priority 3 (Low)	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

February 2017

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