

Final Internal Audit Report

Housing Rent and Accounting

July 2018

Distribution:

- Director of Residents and Gateway
- Head of Housing Solutions
- Head of Income and Lettings
- Accountancy Manager

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

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 for these 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 2017/18.

2. Key Issues

Priority 1 Issue

Evidence of appropriate authorisation was not available for two out of the 10 refunds tested, **(Issue 6)**.

Priority 2 Issues

Some procedure notes were not up-to-date, **(Issue 1)**.

Eight out of the sample of 10 tenancy visit checks examined were carried out more than three weeks after the tenant move in date, **(Issue 2)**.

There was reliance on the Finance Officer (Gateway and Welfare Services) for key parts of the rent setting and monitoring processes, however, there was no alternate officer trained to complete these tasks, **(Issue 3)**.

The rationale for the decision to use 65% of market rate instead of 80% for affordable rents was not available **(Issue 4)**.

Appropriate signed salary deduction agreements were not available for three out of 10 sampled employees, **(Issue 5)**.

3. Actions and Key Findings/Rationale

<u>Control Area 1: Regulatory, Organisational and Management Requirements</u>	
Priority	Action Proposed by Management
2	We will review & update the rent accounting procedures.
	<p>Detailed Finding/Rationale – Issue 1</p> <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 procedures notes and guidance were 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 last modified in 2012 and did not evidence subsequent review.</p> <p>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>
Responsible officer	Deadline
Head of Income and Lettings	July 2018

Control Area 3: New Tenancies

Priority		Action Proposed by Management	Detailed Finding/Rationale – Issue 2
2	Have checked all eight NTVs and can confirm that the findings are correct. We have recently introduced an online service within tenancy and as such all NTVs are logged and the Operational Managers will now monitor all visits ensuring targets are met and actioned as appropriate. Therefore, I am confident that 100% NTVs will be completed within deadline.	<p>In order for tenants to be bound to the terms and conditions of a tenancy agreement, a copy must be signed and then stored on file. New tenancy visits are undertaken within three weeks of tenancy start date 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>Examination of the records for a sample of 20 tenancies identified that eight tenant visits were undertaken more than three weeks after the respective tenancy start dates:</p> <ul style="list-style-type: none"> • 1, start date 09/10/2017 and tenant visit date 05/11/2017; • 2, start date 09/10/2017 and tenant visit date 01/11/2017; • 3, start date 09/10/2017 and tenant visit date 07/11/2017; • 4, start date 10/07/2017 and tenant visit date 02/09/2017; • 5, start date 10/07/2017 and tenant visit date 03/08/2017; • 6, start date 10/07/2017 and tenant visit date 04/08/2017; • 7, start date 10/07/2017 and tenant visit date 21/09/2017, and • 8, start date 10/07/2017 and tenant visit date 21/09/2017. <p>Where tenants are not checked within three weeks of the tenancy start date to make sure they have taken residency, there is a risk that subletting and other issues are not detected in a timely manner.</p>	
Responsible officer		Deadline	
Head of Tenancy and Neighbourhood Services		July 2018	

Control Area 5: Rent Debits

Priority	Action Proposed by Management	Detailed Finding/Rationale – Issue 3
2	A new Business Systems Team has been created (April 2018). For Housing there will be 3 designated officers, working as a team to support Housing, who will now be able to assist with the rent setting and monitoring processes.	<p>In order to help ensure that all staff act in compliance with regulatory requirements and that duties are conducted in a consistent, economic, efficient and effective manner, appropriately trained staff should be in post with access to relevant procedure notes and guidance.</p> <p>During the course of the audit it was evident that there was reliance on the Finance Officer (Gateway and Welfare Services) for key parts of the rent setting and monitoring processes, however, there was no alternate officer trained to complete these tasks.</p> <p>Where there is reliance on one person for key tasks, there is a risk to business continuity should this person no longer be available.</p>
Responsible officer	Head of Gateway Service Development	
	Deadline	
	July 2018	

Control Area 5: Rent Debits

Priority		Action Proposed by Management	Detailed Finding/Rationale -- Issue 4
2	Discussion has taken place with Members. Important to administration that rents the Council are charging are affordable rents. 65% of the market value is rent level Members are happy with and have no plans to increase to 80% of market rent.		<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 2016 to 2017 and applying a 1% reduction in each relevant year and for affordable rents this is using the affordable rent for 2016 to 2017 and applying a 1% reduction in each relevant year.</p> <p>It was confirmed that the rent for new tenancies of Council housing stock had been 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 for, or obtain a copy of, this 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>
	Responsible officer	Deadline	
	Director of Residents and Gateway	July 2018	

Control Area 7: Rent Collection		Detailed Finding/Rationale – Issue 5				
Priority	Action Proposed by Management					
2	Rent accounting officers will be required to complete a checklist to ensure staff sign the rent deduction document.	<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 a sample of 10 tenants who have elected to have their rent deducted from their monthly salary payments was examined and eight were identified where evidence of formally agreed salary deductions were not found.</p> <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>				
	<table border="1"> <thead> <tr> <th>Responsible officer</th> <th>Deadline</th> </tr> </thead> <tbody> <tr> <td>Head of Incomes and Lettings</td> <td>July 2018</td> </tr> </tbody> </table>	Responsible officer	Deadline	Head of Incomes and Lettings	July 2018	
Responsible officer	Deadline					
Head of Incomes and Lettings	July 2018					

Control Area 8: Rent Refunds

Priority		Action Proposed by Management	Detailed Finding/Rationale – Issue 6
1	We are confident that appropriate authorisation limits are being followed. Due to recent restructure the Operational Managers will now sign all refunds under £1,500.		<p>If the Rent Accounting Officer deems that a refund request is valid, authorisation must be obtained from an Income Manager in the case of the refund being less than £1,500 and by the Lettings Manager if the refund is more than £1,500.</p> <p>A sample of 10 tenant refunds was selected and appropriate authorisation was confirmed for all of these except for two of the sample where supporting documents for the refunds were not made available.</p> <p>Where refund documentation and evidence of appropriate authorisation is not available, there is a risk that inappropriate refunds have been made.</p>
	Responsible officer	Deadline	
	Head of Incomes and Lettings	July 2018	

TERMS OF REFERENCE

Housing Rent and Accounting

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 is being undertaken as part of the agreed Internal Audit Plan for 2017/18.

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.

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 It should be noted that, whilst temporary accommodation records are also held on OHMS, these were not included in the scope of the audit. The audit focused solely on rental derived from the Council's housing stock.





3.2 The audit included the following areas:

Control Areas/Risks	Issues Identified		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Regulatory, Organisational and Management Requirements	0	1	0
Tenant Transaction and Records	0	0	0
New Tenancies	0	1	0
Manual Adjustments	0	0	0
Rent Debits	0	2	0
Billings	0	0	0
Rent Collections	0	1	0
Rent Refunds	1	0	0
Reconciliation with General Ledger	0	0	0
TOTAL	1	5	0

DEFINITIONS FOR AUDIT OPINIONS AND RECOMMENDATIONS

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 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.

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