

# Final Internal Audit Report

## Housing Rents (Reduced Scope)

### June 2020

**Distribution:** Executive Director Health, Wellbeing and Adults (Final only)  
Director of Housing Assessment and Solutions  
Head of Income, Lettings, Home ownership and Renewal  
Head of Finance, Resources and Accountancy

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

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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 At the start of 2018/19, Croydon's HRA (Housing Revenue Account) consisted of 13,572 homes, 2,375 leasehold flats and 1,101 blocks. Rental payments from tenants are collected by 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 In line with the requirements of the Welfare Reform and Work Bill, which requires all registered providers of social housing in England to reduce rents by 1% a year for four years from 2016/17, rents for existing and new tenants for 2019/20 reflected this 1% per annum reduction. The average social rents in Croydon are as set out below:

	Average weekly Council rent 2018/19	Average weekly Council rent 2019/20
1 Bed	£85	£84
2 Bed	£103	£102
3 Bed	£125	£124

- 1.3 Where tenants are eligible for receipt of Housing Benefit, the level of benefit will reflect the lower rent.
- 1.4 This audit, which had a reduced scope from a full housing rents audit, was undertaken as part of the agreed Internal Audit Plan for 2019/20.

### 2. Key Issues

<b>Priority 1 Issue</b>
Appropriate signed agreements were not held for deductions from staff salaries for rent payments. <b>(Issue 3)</b>
<b>Priority 2 Issue</b>
It was established that the Rent Accounting Team was not aware of the Council's anti-money-laundering policy and that refunds had been issued by the same method as original payment because this was considered best practice rather than because of the policy. <b>(Issue 1)</b>
Testing of a sample of five manual adjustments identified a transfer between accounts which was not authorised. <b>(Issue 2)</b>

The Priority 3 issue is included in section 4 below.

3. Action and Key Findings/ Rationale

<b><u>Control Area 1: Refunds</u></b>						
<b>Priority</b>	<b>Action Proposed by Management</b>	<b>Detailed Finding/Rationale – Issue 1</b>				
<b>2</b>	<p><b>Training</b></p> <p>Rent Accounting Officers (RAO) carrying out or requesting transfers, completed e-learning training:</p> <ul style="list-style-type: none"> <li>• Counter Fraud and Corruption</li> <li>• GDPR Refresher (2020)</li> <li>• Good Governance and Awareness</li> </ul> <p><b>Procedure</b></p> <p>The Housing Income Rent Refund Procedure. The procedure was revised and adopted in January 2020, to include “Proceeds of Crime” (Anti-Money Laundering). Instructions on processes and personal responsibilities and how to report any suspected case of potential fraud.</p> <p>The RAO’s have now completed all requisite training.</p>	<p>The Council has an anti-money-laundering policy in place. In the case of housing rents, the main provisions of the anti-money-laundering policy are those relating to refunds, where it is required that refunds are issued by the same method of payment as the original payment.</p> <p>Sample testing confirmed that refunds were being issued by the same method of payment as the original rent payment; however, discussions with the Income &amp; Lettings Manager established that the Rent Accounting Team were not aware of the Council’s anti-money-laundering policy and that refunds had been issued by the same method as original payment because this was considered best practice rather than because of the policy.</p> <p>Although refunds appear to be being processed in compliance with the anti-money-laundering policy, the unfamiliarity of the Rent Accounting Team with anti-money-laundering procedures presents a risk of accidental non-compliance.</p>				
	<table border="1"> <thead> <tr> <th><b>Responsible officer</b></th> <th><b>Deadline</b></th> </tr> </thead> <tbody> <tr> <td>Head of Income, Lettings, Home ownership and Renewal</td> <td>Implemented</td> </tr> </tbody> </table>	<b>Responsible officer</b>	<b>Deadline</b>	Head of Income, Lettings, Home ownership and Renewal	Implemented	
<b>Responsible officer</b>	<b>Deadline</b>					
Head of Income, Lettings, Home ownership and Renewal	Implemented					

<b><u>Control Area 2: Manual Adjustments</u></b>		
<b>Priority</b>	<b>Action Proposed by Management</b>	<b>Detailed Finding/Rationale – Issue 2</b>
<b>2</b>	<p>The transfer processed in July 2019 was £45.70 credit from a ceased house account to a garage account. Usual practice to transfer available credit from ceased account to any current account for same tenant.</p> <p>This transaction had to be reversed because the original credit wasn't a true credit.</p> <p>All Rent Accounting Officers (RAO) have been instructed by email that all requests for transfers and refunds, require approval from an authorising officer.</p> <p>The Housing Income Rent Refund Procedure:</p> <p>All transfer &amp; refund requests require authorisation from an Operational Manager.</p> <p>All requests are monitored by the authorising Operational Manager, Income and Lettings team.</p> <p>Monthly manual adjustment checks made by Operational Manager and a further 20% check is completed by Housing Income Control Manager,</p>	<p>Any manual adjustments, which include refunds and transfers between accounts, to tenant's rental accounts on OHMS are required to be approved by a manager prior to being actioned by a rent accountant. A standard form for recording these adjustments, with the signature of the approving manager, is in place.</p> <p>Testing of a sample of five manual adjustments identified a transfer between accounts which was not authorised, for £45.70. Discussion with one rent accountant established that he was under the impression that transfers between accounts did not require managerial approval.</p> <p>Where it is possible for adjustments to be made to accounts without appropriate approval, there is a risk of fraudulent adjustments or of accounts being credited despite a tenant not having made payment.</p>

	Business System Team. Records are held in SharePoint.	
<b>Responsible officer</b>	<b>Deadline</b>	
Head of Income, Lettings, Home ownership and Renewal	Implemented	

<b><u>Control Area 3: Reconciliations to the General Ledger</u></b>		
<b>Priority</b>	<b>Action Proposed by Management</b>	<b>Detailed Finding/Rationale – Issue 3</b>
<b>1</b>	<p><b>Salary Deductions</b></p> <p>The findings were correct and although the Rent Accounting team had always sent letters requesting consent to deduct salary, not all responded, but the team believed no response as acceptance.</p> <p>All employees/tenants were sent new forms in March 2020, requesting a response with a signed consent to deduct from salary/pension. However, to date not all forms have received back into the Rent Accounting Team.</p> <p>I have noted that we are continuing to take salary deductions from employees who have not returned forms and therefore, we are still putting ourselves at risk that these deductions may have to be repaid.</p> <p><b>Action</b></p> <p>In March officers identified all employees where consent had not been received. They wrote to them asking them to return the form within 14 days &amp; provide explanation why their consent is needed to continue deductions. If they do not</p>	<p>The Employment Rights Act 1996 requires that any deductions made from an employee’s salary, other than tax, NI and pensions, are agreed in writing. A small number of Council employees who are also Council tenants pay their rent via salary deduction. The Rent Accounting Team send a list of tenants paying their rent using salary deduction to the Council’s Payroll Team.</p> <p>Examination of the records held for a sample of employees, whose rent was being paid as a salary deduction, could not locate the signed agreement by the employees for these deductions.</p> <p>It was explained that the Rent Accounting Team sends a new form to all employees/tenants paying their rent via salary deduction at the start of each financial year; however, most employees/tenants had not returned a signed, updated form. The Rent Accounting Team continues to request salary deductions and takes the lack of complaint from these employees to constitute implicit agreement to the deduction.</p> <p>The Payroll Team were unaware of this practice, believing that the Rent Accounting Team held appropriate signed consent forms for the deductions.</p> <p>Where salary deductions are made without express written consent, there is a breach of the Employment Rights Act 1996 and a risk that these deductions may have to be repaid.</p>

	<p>respond, we will have to cease the deduction and another payment method would need to be put in place to pay the rent.</p> <p>We would point out however, we have not been challenged by any employee with regards to their deductions. We will write to those again who have failed to respond.</p> <p>Failing a response, we will seek guidance on stopping the deduction, which would lead to an increase in rent arrears, but would mean we are fully compliant to the Employment Rights Act, 1996.</p>	
Responsible officer	Deadline	
Head of Income, Lettings, Home ownership and Renewal	31 July 2020	



**4. Priority 3 Issue**

Action Proposed by Management	Finding
<p><b>Website</b></p> <p>Website compliant to current guidance and regulations.</p> <p>Reviewed in November 2019 &amp; incorrect information was removed.</p> <p>Croydon Council “Paying Rent” web page reviewed June 2020 and remains compliant.</p> <p>Link  <a href="https://www.croydon.gov.uk/housing/counciltenants/paying-rent/rent">https://www.croydon.gov.uk/housing/counciltenants/paying-rent/rent</a></p>	<p>The gov.uk website details that, <i>‘The ban on credit and debit card surcharges is effective across the EU from Saturday 13th January 2018, and will apply to all purchases made where the banks of the consumer and retailer are within the EEA. In the vast majority of other circumstances surcharges are capped at the cost to the retailer for processing the payment.’</i></p> <p>The Council’s website provides guidance to residents on how to pay their housing rents; however, included within this guidance is the following wording, <i>‘Please note there is a surcharge of 1.65% if you pay by credit card. There is no surcharge for debit cards.’</i></p> <p>While discussions (and internal audit testing) confirmed that surcharges are not levied on credit card payments, this wording is misleading.</p>

## 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 This audit is being undertaken as part of the agreed Internal Audit Plan for 2019/20.

#### 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 This audit examined the Council's arrangements for Housing Rents and included the following areas:

Control Areas/Risks	Issues Identified		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Refunds	0	1	1
Manual Adjustments	0	1	0
Reconciliations with the General Ledger	1	0	0
<b>TOTAL</b>	<b>1</b>	<b>2</b>	<b>1</b>

## 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 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 identified issues 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 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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