

FROM: Audit and Risk Manager **SUBJECT:** Right to Buy
TO: Head of Housing & Property Services **DATE:** 30 August 2016
C.C. Chief Executive
Deputy Chief Executive (BH)
Head of Finance
Housing Strategy &
Development Manager
Business Administration
Manager

1 **Introduction**

- 1.1 In accordance with the Audit Plan for 2016/17, an examination of the above subject area has been undertaken and this report presents the findings and conclusions drawn from the audit for information and action where appropriate. This topic was last audited in April 2006.
- 1.2 Wherever possible, findings have been discussed with the staff involved in the procedures examined and their views are incorporated, where appropriate, into the report. My thanks are extended to all concerned for the help and cooperation received during the audit.

2 **Background**

- 2.1 At the time of the previous audit, the number of property sales under the Right to Buy (RTB) scheme were dwindling. This, together with a generally low risk profile, led to the audit being removed from the Audit Plan.
- 2.2 Due to a recent upsurge in sales, as a result of increases in the amount of discount available, it was felt that the audit should be reinstated. 42 properties were sold under the scheme in 2015/16 and 21 sales had been completed during the current financial year at the commencement of this audit.

3 **Scope and Objectives of the Audit**

- 3.1 The audit was undertaken to test the management and financial controls in place.
- 3.2 In terms of scope, the audit covered the following areas:
- Policies and procedures
 - Application and sales
 - Valuations
 - Procurement of related services

- Subsequent property sales
- System record maintenance.

3.3 The audit programme identified the expected controls. The control objectives examined were:

- The council maintains appropriate levels of specific housing stock in identified areas
- Work is performed to a consistent standard
- Applications are processed in a timely manner
- Properties are only sold to eligible tenants
- The correct amount is paid for properties sold
- Money is not laundered through the council through use of the scheme
- Tenants have access to appropriate appeal and complaint channels if they feel that decisions and valuations are incorrect
- Property valuations are realistic in relation to the prevailing market conditions
- Value for money is achieved via the appropriate procurement of services relevant to the sale of council houses
- Tenants are aware of the terms of the scheme in relation to any subsequent sale of the property
- The council receives all monies due
- All debts relating to the property are clear before sales are completed
- Repairs and maintenance are not undertaken to properties that the council is not responsible for.

4 Findings

4.1 Recommendations from Previous Report

4.1.1 The report relating to the previous audit of this topic, undertaken in April 2006, did not include any recommendations.

4.2 Policies & Procedures

4.2.1 The council does not have its own policy document with regards to the properties that are eligible or ineligible for purchase under the scheme. Instead, this is driven by the legislation, with the ineligible properties being those that are sheltered housing properties or those that are suitable for the elderly or disabled.

4.2.2 Similarly, there is no policy covering which properties the council may buy back should the purchaser subsequently sell on the property. The Business Administration Manager (BAM) advised that these would be considered on a case-by-case basis, although it is rare that the council would buy them back, as they would have to be purchased at market rate and there are limited funds available.

4.2.3 Procedure notes are in place for processing application received on the Active H Case Processing module, although these are slightly out of date in terms of the officers referred to.

- 4.2.4 It was suggested that an overall set of procedure notes for the process had been in place at one stage, although the Business Administration Assistant (BAA), who deals with the applications at present, suggested that she had also made her own notes.

Risk

Applications received may be dealt with incorrectly.

Recommendation

Procedure notes should be updated to reflect current practices and staffing.

4.3 **Application & Sales**

- 4.3.1 A sample of applications received under the RTB scheme was chosen from spreadsheets maintained by staff within the Business Administration team in Housing & Property Services. This sample included live cases and closed cases where the properties had been sold.
- 4.3.2 Testing confirmed that all applications had been processed in a timely manner, with relevant documentation being issued and valuations being performed appropriately.
- 4.3.3 An issue was, however, noted with two of the 'live' cases as they had actually been closed, with the applications being cancelled. One had been notified to the council but the spreadsheet had not been updated accordingly and in the other case Legal Services at Warwickshire County Council had not notified the council that the application had been closed.

Risk

Appropriate maintenance works may not be undertaken at the properties if it is thought that they are still the subject of a RTB application.

Recommendation

Regular communication (e.g. quarterly) should take place with Legal Services regarding the status of open cases.

- 4.3.4 As part of the processing of the applications a number of checks are performed including the eligibility of the tenants to purchase the property. There was evidence that checks had been performed in eleven of the fifteen sampled cases, with the forms being annotated.
- 4.3.5 Two of the other application forms had a number of significant omissions and, whilst the information could be obtained from the Active H system, the forms should have been returned for completion.

Risk

Applications may be incorrect.

Recommendation

Staff should be reminded to check that all relevant detail is included on the application forms received.

- 4.3.6 The discounts to be awarded to applicants are calculated upon entry of details to a spreadsheet. The calculation of the figures is formula driven and, upon review of the latest spreadsheet, the formulae appear to be correct.
- 4.3.7 The sample testing undertaken confirmed that the discount spreadsheet included the correct details and the correct discount had been awarded in eleven cases. In three further cases, there was a discrepancy between the actual length of the tenancies and the figure included on the spreadsheet, but this did not affect the discount awarded (i.e. they already qualified for the maximum amount available to them).
- 4.3.8 However, in the other case, there was an unresolved query relating to an inherited tenancy which had not been taken into account when the discount was calculated, with the discount potentially being £6,700 less than should have been awarded.

Risk

Applicants may not receive the correct discount.

Recommendation

Clarification should be sought on the process for taking inherited tenancies into account when calculating discounts.

- 4.3.9 The BAM advised that a 'further questions' document is now being issued during the application process which includes Money Laundering Regulations to try to ensure that applicants can prove where the money for the purchase is coming from. This process has only recently been introduced and was not, therefore, relevant to the samples chosen.

4.4 Valuations

- 4.4.1 Godfrey Payton (GP) are contracted to carry out the property valuations on behalf of the council. The BAM advised that their qualifications to undertake this role would have been checked as part of the procurement process (see below).
- 4.4.2 There is no formal process in place for the council to check the valuations provided. However, the tenant has a right to appeal the valuation received, and these are considered by the District Valuer (DV). The sample testing performed identified one completed sale where the DV had provided a valuation and this was £8,000 below the valuation provided by GP.
- 4.4.3 The tenants will obviously only appeal the valuation if they feel that it is too high. A cursory search of the Housing RTB drives (sold and live) identified seven revaluations, with the four most recent (June 2015 to April 2016) highlighting two cases where the DV had provided a lower value than GP and two where the DV's valuation was higher.
- 4.4.4 The BAM advised that, if we had any concerns, the council could call GP in to explain their valuations. The council also has the right to appeal valuations performed by the District Valuer.

4.5 **Procurement of Related Services**

- 4.5.1 As highlighted above, the council uses GP for valuing properties. A contract is also in place with Hancock, Wheeldon & Ascough to undertake structural surveys where required.
- 4.5.2 The contract register highlighted that these were legacy arrangements and the comments included suggested that work had started in October 2014 to procure single services covering all properties, including those being sold under RTB, but this has still not materialised.
- 4.5.3 The Housing Strategy & Development Manager advised that the department is now looking to procure services just for RTB properties again with this currently being in hand with Procurement.

4.6 **Subsequent Property Sales**

- 4.6.1 The terms of the RTB scheme require purchasers to repay some of the discount if they sell on the property within specified timescales. They should also offer the property back to the council or another social landlord for purchase at market rate.
- 4.6.2 When the transfer documents are drawn up by Legal Services, standard clauses are inserted into the documents that cover these requirements. These are then recorded by the Land Registry so they should be picked up by solicitors as part of any subsequent sales.

4.7 **System Record Maintenance**

- 4.7.1 When a property is being sold, the council requires the rent account to be clear before the sale can be completed. Upon review of Active H, it was confirmed that this had been the case for each of the sampled sales.
- 4.7.2 The status of the property on the system should also be changed upon the sale of the property to ensure that repairs and maintenance are not undertaken on them. Again, upon review, it was confirmed that the system had been appropriately updated in each of the sampled cases.

5 **Conclusions**

- 5.1 Following our review, in overall terms we are able to give a SUBSTANTIAL degree of assurance that the systems and controls in place in respect of Right to Buy applications and sales are appropriate and are working effectively.
- 5.2 The assurance bands are shown overleaf:

Level of Assurance	Definition
Substantial Assurance	There is a sound system of control in place and compliance with the key controls.
Moderate Assurance	Whilst the system of control is broadly satisfactory, some controls are weak or non-existent and there is non-compliance with several controls.
Limited Assurance	The system of control is generally weak and there is non-compliance with controls that do exist.

5.3 Minor issues were, however, noted relating to:

- The need for procedure notes to be updated
- Two closed cases still being shown as live on the RTB spreadsheets
- Incomplete application forms being accepted
- Staff being unsure on how to deal with inherited tenancies which may have led to a discount awarded being incorrect.

6 **Management Action**

6.1 The recommendation arising above is reproduced in the attached Action Plan (Appendix A) for management attention.

Richard Barr
Audit and Risk Manager

Action Plan

Internal Audit of Right to Buy – August 2016

Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer(s)	Management Response	Target Date
4.2.4	Procedure notes should be updated to reflect current practices and staffing.	Applications received may be dealt with incorrectly.	Low	Business Administration Manager	Agreed. There is an intention to reduce the dependency on spreadsheets, so this will be undertaken once the new processes are established.	End of October 2016.
4.3.3	Regular communication (e.g. quarterly) should take place with Legal Services regarding the status of open cases.	Appropriate maintenance works may not be undertaken at the properties if it is thought that they are still the subject of a RTB application.	Low	Business Administration Manager	Agreed. This will be set up.	With immediate effect.
4.3.5	Staff should be reminded to check that all relevant detail is included on the application forms received.	Applications may be incorrect.	Low	Business Administration Manager	Agreed. Staff will be reminded.	With immediate effect.
4.3.8	Clarification should be sought on the process for taking inherited tenancies into account when calculating discounts.	Applicants may not receive the correct discount.	Low	Business Administration Manager	Agreed. Clarification will be sought.	With immediate effect.

* Risk Ratings are defined as follows:

High Risk: Issue of significant importance requiring urgent attention.

Medium Risk: Issue of moderate importance requiring prompt attention.

Low Risk: Issue of minor importance requiring attention.