

INTERNAL AUDIT REPORT

FROM: Audit and Risk Manager **SUBJECT:** Housing Rent Collection
TO: Deputy Chief Executive (BH) **DATE:** 25 July 2017
C.C. Chief Executive
Head of Finance
Business Administration
Manager
Income Recovery & Financial
Inclusion Manager
Housing Strategy &
Development Manager
Sustaining Tenancies
Manager
Portfolio Holder (Cllr PP)

1 Introduction

- 1.1 In accordance with the Audit Plan for 2017/18, 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 March 2014.
- 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 The Housing Rents system is called Active H.
- 2.2 The council has 5,504 houses and flats which generate rental income. For 2017/18, the rental income due to the council is approximately £26.9m.
- 2.3 The council also offers 'Right to Buy' schemes and has sold four properties in the current financial year.

3 Scope and Objectives of the Audit

- 3.1 An extensive examination has been undertaken using the CIPFA systems-based control evaluation models. This entailed completion of Internal Control Questionnaires (ICQs) and testing of controls in accordance with evaluation programmes. Detailed testing was performed to confirm that controls identified have operated, with documentary evidence being obtained where possible, although some reliance has had to be placed on discussions with

relevant staff, including the Housing Services Business Administration Manager and the Income Recovery & Financial Inclusion Manager.

3.2 The objectives that have been considered as part of this audit include:

- Staff within Housing Finance are aware of relevant regulations and have access to relevant procedural documentation.
- Council employees that are also tenants have declared this interest and are up-to-date with the rent payments.
- Annual rent reviews are performed, with rents subsequently approved at the appropriate level.
- Rents are charged at the correct rate, with rents received allocated to the correct tenant's account.
- Rent refunds are only undertaken when the tenant has no outstanding arrears.
- Appropriate reconciliations are performed against other relevant systems (e.g. the income system and the general ledger).
- Rent arrears are correctly calculated.
- Write-offs are only approved once all relevant recovery avenues have been taken and exhausted.
- Management is aware of current rent collection and arrears levels.

3.3 The CIPFA Matrices for Housing Rents were used. The expected controls under these matrices are categorised into the following areas:

- (1) Calculation and Collection; and
- (2) Rent Arrears Management and Collection.

3.4 Some specific tests were not performed as they were either considered not relevant to the operations at the Council or are covered under separate audits (e.g. data security is covered under a specific IT audit of the Housing Rents system).

4 Findings

4.1 Recommendations from Previous Report

4.1.1 The current position in respect of the recommendations from the audit reported in March 2014 is as follows:

Recommendation	Management Response	Current Status
1 The procedures and guidance notes held by Housing and Property Services should be reviewed periodically and updated by a nominated officer. This should be evidenced by the inclusion of a version control table.	The procedure notes will be reviewed on an annual basis.	The procedures and guidance notes are constantly reviewed and worked through at weekly team meetings. All procedures are saved in the same place and a new version control table will be developed.

Recommendation	Management Response	Current Status
Additionally, the Rent Arrears Officer should ensure that the arrears workflow schedule is kept up to date.	The Income Recovery & Financial Inclusion Officer carries out monthly audits on each Rent Arrears Officer weekly workflow and tasks to ensure that all have been completed.	Implemented See 4.2 below.
2 The Business Support Manager should ensure that the annual declaration forms are completed annually by all relevant staff. Additionally, the spreadsheet containing the names of staff, who have completed the form, should be saved and stored on a shared drive, to ensure that it can be readily available for inspection at any time.	The annual declaration forms will be issued annually and a central record maintained on the shared drive.	Last collected July 2016 and due to start again shortly. Hard copies are retained by Business Support. See 4.3.4 below.
3 The Code of Financial Practice and the Scheme of Delegation should be amended to include the correct authorisation limits for write offs.	The write off authorisation limits have been amended to reflect the Code of Financial Practice and the Scheme of Delegation.	Completed See 4.9.4 below.

4.2 Regulations & Procedure Notes

4.2.1 Housing Services have procedure and guidance notes which are saved on the shared drive and are accessible by all relevant staff, detailing various administrative processes, for example:

- Direct Debits;
- Refunds;
- Voids & Lettings

A review of these procedure and guidance notes revealed that they do not state the name of the author or the date of creation or next review date.

4.2.2 The Income Recovery and Financial Inclusion Manager is currently in the process of reviewing and updating the arrears and debt recovery procedures in line with the revised Policy. The deadline for completion is December 2017.

Risk

Without assigned ownership, expected review dates or version control, procedure documents may not be reviewed and updated in a timely manner, resulting in inappropriate, inadequate and out of date guidance for staff.

Recommendation

As previously recommended the procedures and guidance notes held by Housing Services should be reviewed periodically and updated by a nominated officer. This should be evidenced by the inclusion of a version control table detailing the responsible officer, issue date and next review date.

Furthermore, this should also be included when the Income Recovery and Financial Inclusion Manager develops the revised procedures for arrears and debt recovery.

4.3 Council Employee Tenants

- 4.3.1 Council property is rented out to employees as well as non-employees of the Council. A list of employees who were renting council property was requested from Housing Services, but it was advised that the only list retained is of employees who pay rent via deduction from salary. Therefore, there is no record of employees who pay rent by other means, e.g. direct debit.
- 4.3.2 The list detailed 12 employees and testing was undertaken which confirmed that all 12 lived in Council rented properties. The Business Administration team prepare the list each month and verify the details and the tenancies before sending to the Payroll team, who process the list and run the payroll. By reviewing the respective rent accounts for each individual, Internal Audit were able to confirm that a payment had been credited to the account in line with the deduction made through the payroll system in each case.
- 4.3.3 The 2016/17 annual declaration forms were provided for review and testing was undertaken to ensure that staff had declared all personal interests with regards to Council properties. The forms had been issued in July 2016 and it was confirmed that all had been completed and returned in July and August 2016.
- 4.3.4 Upon review of the forms it was established that they were all for Housing Support team members. Further investigation found that each service area is required to issue forms to their own employees and retain the forms in their own log. There is no central log or register maintained by Housing Support, even though it manages the rent accounts. Furthermore, as in 4.3.2 above, the Business Administration Manager is unaware of other employees across the Council who rent Council properties but pay rent by means other than payroll deductions.

Risk

Without maintaining a log of all employees renting Council properties, there is no way of monitoring payments and defaults of Council employees.

Failure to issue and complete annual personal declaration forms may lead to fraud / malpractice taking place.

Recommendation

The Business Administration Manager should coordinate the issue and retention of annual declaration forms for all staff across the Council and a central register should be maintained of completed forms. A log should then be produced of all Council employees who are also Council tenants, regardless of the method of rent payment.

4.4 Annual Rent Reviews

- 4.4.1 The annual rent changes are calculated by the Principal Housing Accountant, approved and signed off by the Executive committee. For 2017/18, Executive approval of the rent levels was at its meeting held on 8 February 2017, enabling time to update the system and give the statutory notice to tenants.
- 4.4.2 The Executive paper was presented to Full Council at its meeting on 22 February 2017 and the rent changes subsequently approved.
- 4.4.3 A 1% decrease for all housing tenancies was approved and actioned on the Active H (Rent) system by amending the appropriate system parameter to do this on mass. This is prepared in advance and uploaded after Committee approval.
- 4.4.4 The accounts are then reviewed in batches dependant on the tenancy type and the letter required. In the weeks from the bulk upgrading, new tenancies are checked manually from the new Lets report run every week and, at the start of the new financial year, a further check is undertaken from the weekly charging report to ensure that all accounts have amended correctly.

4.5 Rent Charges

- 4.5.1 Prior to the start of a new tenancy, the prospective tenant is required to complete and sign a tenancy agreement. Once this is completed they will receive a letter detailing their rent liability for the financial year.
- 4.5.2 The Council charges tenants on a weekly basis for rent.
- 4.5.3 A sample of 20 rent accounts was tested which confirmed that a Tenancy Agreement was in place in all cases and rent had been charged from the of tenancy commencement date. In addition, annual rent letters had been issued to tenants to inform them of the change in rent.
- 4.5.4 A further sample of five tenancy agreements was obtained for new lets from January to March 2017 and testing was performed to check that they had been signed by the new tenant. In all cases the new tenant was allocated a unique reference number, different from the previous tenant and a new Tenancy Agreement was in place. In one case the Tenancy Agreement had not been signed by the tenant.

Risk

Where Tenancy Agreements are not signed by tenants, there is no evidence that they have agreed to the contractual terms and conditions of the tenancy which therefore may be open to dispute.

Recommendation

All Tenancy Agreements should be signed and dated by the respective tenants and then retained on file.

- 4.5.5 A sample of batch income receipts was selected from the PARIS income system and Housing Benefit income, for three days in April 2017. This listed all payments received and posted on the respective days. Confirmation of income posted to the rent system for the same days was obtained and all totals from the batch listings were agreed to the rent system postings and also to the respective bank statements. Further to this, a sample of individual payments was chosen and it was confirmed that these were correctly posted to the correct tenants' rent accounts.

4.6 Rent Refunds

- 4.6.1 A rent refund may occur for a number of reasons, for example the closure of the rent account, tenant overpayment or bank error. It is now accepted practice to make refunds without being requested to by the tenants where the circumstances are appropriate (usually where a sizeable credit balance is created as the result of a backdated benefit award).
- 4.6.2 The refund process enforces a separation of duties between initiating and authorising the transaction to effect payment. Additionally, release of the payment has to be authorised by an officer at team leader level or above.
- 4.6.3 The refund can only be processed when there is a genuine credit on the account and a form must be completed and signed off by the officer requesting the refund. This is then authorised by a manager with the appropriate approval limits and finally the payment is made directly to the tenant.
- 4.6.4 A sample of ten refunds was selected from the current financial year and it was confirmed that a genuine credit was identified on the account prior to the refund being processed in all sampled cases.
- 4.6.5 In addition a refund form had been properly completed and authorised by an appropriate manager.
- 4.6.6 Payments were made directly to the named tenant in all but one case and the system had been updated to record the refund transaction. One case was only recently sent for payment. Of the nine payments, six were made by BACS and three by cheque. The only exception noted was a refund for £100.02.

4.7 System Reconciliations

- 4.7.1 Reconciliations of rent paid and rent due are undertaken on a weekly basis by the Principal Housing Accountant. He maintains a spreadsheet of data uploaded from the Paris income system for all payments made in the week

and also uploads the direct debit payments received into the Council's bank account.

4.8 Rent Arrears

- 4.8.1 The Income Recovery and Financial Inclusion team monitors all rent arrears for the Council. There is an automated arrears process and the system generates letters to tenants if their accounts fall into arrears.
- 4.8.2 If the arrears are not promptly cleared or if the tenant goes into further debt the Arrears team send letters to the tenant informing them of the arrears. There are four Arrears Officers, who are assigned a 'patch' for which they are responsible. They work with the tenant to find ways of reducing the outstanding rent debt.
- 4.8.3 The Arrears Officers monitor their respective accounts on a weekly basis, producing reports out of the MIS management system, by running weekly tasks and workflows. This report is used to monitor accounts over a four-week period.
- 4.8.4 A sample of ten current tenancies and five former tenants in arrears was selected for testing and Internal Audit were able to confirm that the arrears were clearly identifiable on the rent system, including the date when the accounts first went into arrears and the subsequent increase or decrease in the value of the arrears.
- 4.8.5 In all cases there was a full record of correspondence, including details of any payment plans that had been agreed. In addition the rent system records details of payments made by the tenant and, in all but one case, payments were currently in receipt. In one former tenant's case benefit payments had not been received since September 2016 and a review letter had been issued in December 2016.
- 4.8.6 Records of all housing benefit payments made to the tenants were also identifiable and any legal fees for which the tenants were liable had been added to the costs tab on their account.

4.9 Write-Offs

- 4.9.1 In relation to former tenant arrears, if all reasonable avenues to recover outstanding debts have been exhausted, the Council will consider writing off the debts. Current tenant arrears are not considered for write off as the Council will continue to attempt to recover these from ongoing payments.
- 4.9.2 The Income Recovery and Financial Inclusion Manager produces a list of all irrecoverable arrears on a periodic basis (when there are a sufficient number of cases) detailing the reason for write off and including individual and an overall total of debt. The list is attached to a Write Off form and sent to the Sustaining Tenancies Manager and copied to the Business Administration Manager. The form is reviewed and authorised by the former and if the total amount to be written off is above £1,000, is countersigned by the Head of Housing. Once approved and authorised, the accounts are written off on the rent system thus reducing the outstanding liability to nil.

- 4.9.3 A sample of three Write Off lists was selected and it was established that each form had been properly completed and signed. A sample of individual accounts was then selected and it was confirmed that the approved amount had been written off to reduce the outstanding liability to nil.
- 4.9.4 Through the testing of write-offs, it was confirmed that the authorisation limits stated in the Code of Financial Practice and the Scheme of Delegation were now the same and the Head of Housing Services now has authority to, "write off former tenant arrears or credit balances up to £1000, greater than £1000 has to be agreed by Head of Finance".
- 4.9.5 It was established that Management Information reports in relation to written off rents are not routinely produced for Council managers. However, the Council is part of a benchmarking group and its performance in relation to 'rents written off as a percentage of rent due' is measured and compared to other comparator organisations.
- 4.9.6 The Council's rents written off as a percentage of rent due averages 0.69% over the last three years (2014/15 to 2016/17), which is in the lower quartile for the comparator group, i.e. higher than most organisations.
- 4.9.7 Efforts are being made to improve the collection rate and reduce the arrears and the amounts written off (see 4.10.3 below).

Risk

Council management may not be aware of the loss of income from uncollectable rents and amounts written off.

Recommendation

Write off information should be included in the quarterly performance report to ensure the Council is aware of the uncollectable rent total and year to date rents written off.

4.10 Arrears Monitoring & Reporting

- 4.10.1 The Income Recovery and Financial Inclusion Manager produces a monthly statistics report for the Sustaining Tenancies Manager. The report contains charts which illustrate:
- The debt level in the current year against previous years;
 - The performance rate of collecting the debt for the current year; and
 - A table of accumulative debt since 2014 to present.
- 4.10.2 In addition total rent arrears as a percentage of rent debit is one of the service measures reported in the quarterly corporate Management Information.
- 4.10.3 Furthermore, the Council's participation in the Midlands Best Practice Group, provides a comparison of the Council's rent and arrears collection with other similar organisations, including Housing Associations. The Council is currently on an improvement path to move into the top quartile performance. To get there, the arrears as a percentage of debit target is 2.1% by the end of 2019.

The outturn last year (2016/17) was 2.78% and the target this year (2017/18) is to reach 2.3%.

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 Housing Rents Collection are appropriate and are working effectively.

5.2 The assurance bands are shown below:

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, identified relating to:

- Responsibility for review and updating procedure notes
- Retaining a list of all Council employees who are also Council tenants
- Retention of signed Tenancy Agreements
- Management reporting of write-offs of uncollectable rents.

6 **Management Action**

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

Richard Barr
Audit and Risk Manager

Action Plan

Internal Audit of Housing Rents Collection – July 2017

Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer(s)	Management Response	Target Date
4.2.2	As previously recommended the procedures and guidance notes held by Housing Services should be reviewed periodically and updated by a nominated officer. This should be evidenced by the inclusion of a version control table detailing the responsible officer, issue date and next review date. Furthermore, this should also be included when the Income Recovery and Financial Inclusion Manager develops the revised procedures for arrears and debt recovery.	Without assigned ownership, expected review dates or version control, procedure documents may not be reviewed and updated in a timely manner, resulting in inappropriate, inadequate and out of date guidance for staff.	Low	Business Administration Manager	Agreed. The rent procedures and guidance notes will be reviewed and updated as suggested.	October 2017.

Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer(s)	Management Response	Target Date
4.3.4	The Business Administration Manager should coordinate the issue and retention of annual declaration forms for all staff across the Council and a central register should be maintained of completed forms. A log should then be produced of all Council employees who are also Council tenants, regardless of the method of rent payment.	Without maintaining a log of all employees renting Council properties, there is no way of monitoring payments and defaults of Council employees. Failure to issue and complete annual personal declaration forms may lead to fraud / malpractice taking place.	Low	Business Administration Manager	It is not thought that a central register is warranted. However, the documentation for all Housing Services staff will be maintained.	Annually in July.
4.5.4	All Tenancy Agreements should be signed and dated by the respective tenants and then retained on file.	Where Tenancy Agreements are not signed by tenants, there is no documentary evidence that they have agreed to the contractual terms and conditions of the tenancy which therefore may be open to dispute.	Low	Housing Advice and Allocations Manager	Agreed. This should happen anyway.	Ongoing.

Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer(s)	Management Response	Target Date
4.9.7	Write off information should be included in the quarterly performance report to ensure the Council is aware of the uncollectable rent total and year to date rents written off.	Council management may not be aware of the loss of income from uncollectable rents and amounts written off.	Low	Income Recovery & Financial Inclusion Manager	A discussion will be held with Finance to ascertain whether the quarterly performance reports are the most appropriate place for this information to be circulated and action will be taken accordingly.	March 2018.

* 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.