

## INTERNAL AUDIT REPORT

**FROM:** Audit and Risk Manager  
**TO:** Deputy Chief Executive(s)  
**C.C.** Chief Executive  
Head of Finance  
Business Support Manager  
Sustaining Tenancies  
Manager

**SUBJECT:** Housing Rents Collection  
**DATE:** 25 March 2014

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### 1. Introduction

- 1.1 In accordance with the Audit Plan for 2013/14, 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 2010/11.
- 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 5545 houses and flats which generate rental income. For 2013/14, the rental income due to the council is approximately £24.3m.
- 2.3 The council also offers 'Right to Buy' schemes and has sold 37 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 Senior Finance Officer; Principal Accountant (Housing & Property Services); and the Arrears Team Leader.
- 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 are 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 Regulations & Procedure Notes**

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

- Direct Debits;
- Refunds;
- Voids & Lettings

Reviews of these procedure and guidance notes revealed that they do not state the name of the author; date of creation; and date of review / update.

4.1.2 The Rent arrears team have a workflow schedule in place outlining the debt recovery process. Upon discussion with the Arrears Team Leader it was noted that the workflow schedule is out of date and requires updating.

### **Risk**

**The absence of up to date procedure notes, which are available to all relevant staff, may lead to erroneous and inconsistent working practices developing.**

### **Recommendation**

**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.**

**Additionally, the Rent Arrears Officer should ensure that the arrears workflow schedule is kept up to date.**

### **4.2 Council Employee Tenants**

4.2.1 Council property is rented out to employees as well as non-employees of the council. We requested a list of employees who were renting council property from the Housing and Property services, but it was ascertained following a discussion with the Senior Housing Officer that such a list is not maintained by the service area.

4.2.2 We therefore obtained, from payroll, a list of employees who were paying rent as a deduction through their monthly salary. A sample of ten employees was tested and we identified in all cases that these employees were living in council rented properties. A review was undertaken of their respective rent accounts and in each case a payment had been credited to the account in line with the deduction made through the payroll system.

4.2.3 We were provided with the 2012/13 annual declaration forms for review to ensure that staff had declared all personal interests with regards to council properties. The 2013/14 declaration forms had not been issued during the year.

- 4.2.4 Upon review of the 2012/13 declaration forms we were unable to verify whether all staff had completed the forms in 2012 as the responsible officer for collecting the forms was on long term sick at the time of the audit.

### **Risk**

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

### **Recommendation**

**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.**

## **4.3 Annual Rent Reviews**

- 4.3.1 Finance maintain a detailed annual rent setting spreadsheet which contains formulas and equations which aid in calculating the annual rent along with the rent restructuring.
- 4.3.2 A paper was presented to Executive on 13 February 2013 for approval of the annual rent increases for dwellings and garages. This was subsequently approved by Council on 29 February 2013.
- 4.3.3 The approved rent is then uploaded onto Active H by the Senior Finance Officer's team.

## **4.4 Rent Charges**

- 4.4.1 Prior to the start of a new tenancy, the prospective tenant is required to complete a tenancy agreement. Once this is completed they will receive a letter detailing their rent liability for the financial year.
- 4.4.2 The council charges tenants on a weekly basis for rent. Tenancies begin on a Monday and end on a Sunday although, in some cases, the tenant may be handed the keys prior to the Monday on which they begin to pay rent.
- 4.4.3 We tested a sample of 20 rent accounts and identified that in all cases rent had been charged since the start of the tenancy date, or in the case of tenancies that commenced prior to 1 April 2002, since the implementation of the current rent system.
- 4.4.4 A tenancy agreement was verified to be in place for each rent account reviewed, along with a record of annual rent letters being provided to the tenant. In each case a unique reference number was allocated to the individual rent account.

## **4.5 Rent Refunds**

- 4.5.1 A rent refund may occur for a number of reasons, for example the closure of the rent account; tenant error (e.g. making an over-payment); or bank error. It is preferred that the credit balance remains on the rent account so that it

can be offset against future rental charges. However, should the tenant formally request the refund the council will comply.

- 4.5.2 There are occasions when a refund will be issued without a formal request from the tenant, the most common situation is when the account has been closed and the requirement for a refund is identified.
- 4.5.3 A refund can only be processed when there is a genuine credit on the account. A refund 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.
- 4.5.4 A sample of 20 refunds was selected from the current financial year and tested to ensure full compliance in each instance with the requisite procedures. In each case a genuine credit could be identified on the account prior to the refund being processed.
- 4.5.5 In each case the refund form had been duly completed and subsequently authorised by an appropriate manager. Finally payments were made directly to the named tenant.
- 4.5.6 The only exception noted was a refund for £100.02. This refund had been processed during 2012/13 and a cheque was issued. It was not presented at the bank, however, and was duly cancelled by the council and the credit was placed back on the account.

#### **4.6 System Reconciliations**

- 4.6.1 The Principal Accountant (Housing & Property Services) performs weekly housing rent reconciliations between rent paid and rent due. He maintains a spreadsheet which captures data uploaded from the Paris system for all payments made in the week. He also uploads the direct debit payments received into the council's bank account.

#### **4.7 Rent Arrears**

- 4.7.1 In order to ensure that the council receives all rent owing and minimises the need to write off, the Arrears team actively monitors all arrears. The arrears process is automated, with a letter to the tenant automatically generated once they fall into any arrears.
- 4.7.2 If the arrears are not promptly cleared or if the tenant goes into further debt the Arrears team will send letters to the tenant informing them of the arrears and a member of the team will work with the tenant to find ways of reducing the outstanding rent debt.
- 4.7.3 A sample of 20 arrear accounts was selected for testing. In order to ensure that the full arrears process was captured we selected accounts over £100 in arrears. In each case the arrears were clearly identifiable on the rent system, including the date in which the arrears began and the subsequent increase or decrease in the value of the arrears. Whilst there is no specific requirement to enter a reason for the arrears on the system we were able to identify the

reason, i.e. changes to benefit entitlement, under occupancy charge or down to money management issues.

- 4.7.4 A record of correspondence was in place for each arrears case, including details of any payment plans that had been agreed. The rent system records details of payments made by the tenant and these could be assessed in line with the agreed payment plans.
- 4.7.5 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.

#### **4.8 Write-Offs**

- 4.8.1 Having exhausted all reasonable avenues to recover outstanding debts the council will then look to write off the debt owing from former tenants. No debts from current tenants are written-off as the council will continue to attempt to recover these from ongoing payments.
- 4.8.2 A write-off form is completed and then reviewed and authorised by an appropriate officer. The corresponding entry will be made on the rent system to record the write-off thus reducing the outstanding liability to nil.
- 4.8.3 A sample of 20 write-offs was selected from those processed during the 2013/14 financial year. Testing identified that in all instances the write-offs were found to have been appropriately authorised by a manager and in each case the corresponding entry had been made on the rent system to reduce the outstanding liability to nil.
- 4.8.4 However, in six cases it was identified that a write-off form had not been fully completed and that write-offs had been processed in batches, with one authorisation. Through discussions with the Arrears teams we were informed that small value write-offs are often processed in this manner and that authorisation is still required.
- 4.8.5 A spreadsheet detailing each of the small value write-offs on a given date was reviewed and it was noted that all items under review were individually identified. It was also noted that, in each case, the write-off value was under £100.
- 4.8.6 Through our testing of write-offs, we noted that the authorisation limits stated in the Code of Financial Practice and the Scheme of Delegation respectively differed:

##### ***Code of Financial Practice:***

Heads of Service may agree to writing off debts under their control up to £1000. In agreeing to any write off, appropriate separation of duties should be in place, with the circumstances of the case duly considered and documented. Amounts over £1,000 may only be written off after the approval of the Head of Finance.

##### ***Scheme of Delegation***

**Head of Housing & Property Services** shall have authority to:

"write off former tenant arrears or credit balances up to £750, greater than £750 has to be agreed by Head of Finance."

**Risk**

**Write offs are being approved or authorised incorrectly potentially leading to loss of income for the council.**

**Recommendation**

**The Code of Financial Practice and the Scheme of Delegation should be amended to include the correct authorisation limits for write offs.**

**4.9 Arrears Monitoring & Reporting**

4.9.1 The Arrears Team Leader 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 2010/10 to present.

4.9.2 Discussions with the Sustaining Tenancies Manager have confirmed that the arrears management information she receives is adequate and fit for purpose.

## **5. Summary & Conclusion**

- 5.1 Following our review, we are able to give a SUBSTANTIAL degree of assurance that the systems and controls in place for Housing Rents Collection are appropriate and are working effectively.
- 5.2 Minor issues were identified relating to out of date procedure notes; annual declaration of interest forms not being completed for 2013/14; and the authorisation limits for write offs differ to what is stated in the council's Code of Financial Procedures and the Scheme of Delegation.

## **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