

# Housing Rents

## Internal Audit Final Report 09\_10 1.14



<b>Assurance rating this review</b>	High
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### Distribution List

Chief Executive - Peter Sloman  
Interim Executive Finance Director – Nigel Pursey  
Heads of Finance - Penny Gardner/Sarah Fogden  
Head of Oxford City Homes – Graham Bourton  
Service Accountant – Suzan Smart  
Executive Director – Mel Barrett  
Performance Board



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# Background and scope

## Introduction

This review was undertaken as part of the 2009/10 Internal Audit Plan agreed by the Audit Committee.

This report has been prepared solely for Oxford City Council in accordance with the terms and conditions set out in our letter of engagement. We do not accept or assume any liability or duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted or referred to without our prior written consent.

## Background

Housing services including rent setting, collection and maintenance of tenant accounts is carried out by Oxford City Homes. Rent is set on an annual basis based on central government guidance

Tenant accounts are maintained by the rents team who are responsible for chasing arrears and making changes to tenancies on the rent system iWorld. Payments can be made by several methods including direct debit and payment card. Payments are reconciled to the general ledger and bank statements by the Finance Business Unit.

Our review identified the following areas of best practice:

- Up to date and comprehensive procedure notes in place
- Thorough organisation of re-letting of properties
- Rent increases are implemented promptly and accurately

## Approach and scope

### Approach

Our work is designed to comply with Government Internal Audit Standards [GIAS] and the CIPFA Code.

### Scope of our work

In accordance with our Terms of Reference (Appendix 1), agreed with the Head of Oxford City Homes, we undertook a limited scope audit of Housing Rents.

This limited scope audit involved a review of the design of the key controls together with detailed testing to determine whether the controls are operating in practice.

### Limitations of scope

The scope of our work was limited to those areas identified in the terms of reference.



**Staff involved in this review**

We would like to thank all client staff involved in this review for their co-operation and assistance.





Name of client staff
Suzan Smart - Service Accountant
Graham Bourton - Head of City Homes
Sarah Fogden - Head of Finance
Amanda Pitman - Rent Team Manager

# Our opinion and assurance statement

## Introduction

This report summarises the findings of our review of Housing Rents

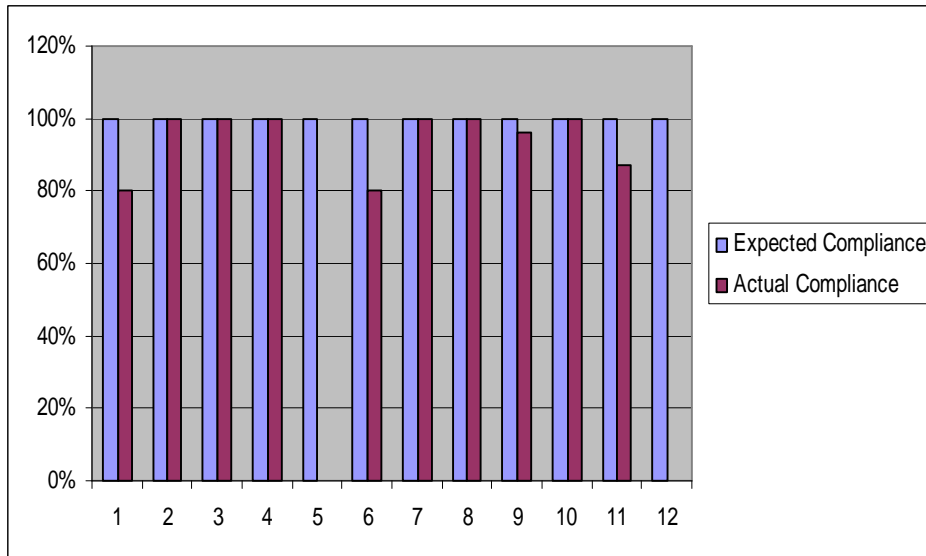
Each of the issues identified has been categorised according to risk as follows:

Risk rating	Assessment rationale
 Critical	Control weakness that could have a significant impact upon, not only the system, function or process objectives but also the achievement of the <b>authority's objectives</b> in relation to:  the efficient and effective use of resources the safeguarding of assets the preparation of reliable financial and operational information compliance with laws and regulations.
 High	Control weakness that has or is likely to have a significant impact upon the achievement of key <b>system, function or process</b> objectives.  This weakness, whilst high impact for the system, function or process does not have a significant impact on the achievement of the overall authority objectives.
 Medium	Control weakness that: <ul style="list-style-type: none"> <li>• has a low impact on the achievement of the key system, function or process objectives;</li> <li>• has exposed the system, function or process to a key risk, however the likelihood of this risk occurring is low.</li> </ul>
 Low	Control weakness that does not impact upon the achievement of key <b>system, function or process</b> objectives; however implementation of the recommendation would improve overall control.

# Executive Summary

<p><b>Department:</b> <b>Audit Owner:</b> Graham Bourton</p> <p><b>Date of last review:</b> 2007-08</p>	<p><b>Overall Opinion:</b> <b>High Assurance</b></p> <p>Our work found some low impact control weaknesses which, if addressed would improve overall control. However, these weaknesses do not affect key controls and are unlikely to impair the achievement of the objectives of the system. Therefore we can conclude that the key controls have been adequately designed and are operating effectively to deliver the objectives of the system, function or process.</p>	<p><b>Direction of Travel</b></p> <p>No previous review has been conducted by PwC. Follow up on previous auditors recommendations has been detailed below.</p>	<p><b>Number of Control Design issues identified</b></p> <p><b>0</b> Critical <b>0</b> High <b>1</b> Medium <b>1</b> Low</p>	<p><b>Number of Controls Operating in Practice issues identified</b></p> <p><b>0</b> Critical <b>0</b> High <b>2</b> Medium <b>1</b> Low</p>																								
<p><b>Follow up of prior year issues</b></p> <table border="1"> <thead> <tr> <th>Rating</th> <th>Implemented or not applicable</th> <th>Outstanding or Partially implemented</th> </tr> </thead> <tbody> <tr> <td><b>Critical</b></td> <td><b>0</b></td> <td><b>0</b></td> </tr> <tr> <td><b>High</b></td> <td><b>0</b></td> <td><b>0</b></td> </tr> <tr> <td><b>Medium</b></td> <td>2</td> <td>0</td> </tr> <tr> <td><b>Low</b></td> <td>2</td> <td>1</td> </tr> </tbody> </table>			Rating	Implemented or not applicable	Outstanding or Partially implemented	<b>Critical</b>	<b>0</b>	<b>0</b>	<b>High</b>	<b>0</b>	<b>0</b>	<b>Medium</b>	2	0	<b>Low</b>	2	1	<p><b>Other Considerations</b></p> <table border="1"> <thead> <tr> <th>Use of Resources-related</th> <th>Corporate Plan- related</th> </tr> </thead> <tbody> <tr> <td>None noted</td> <td>None noted</td> </tr> <tr> <th>VFM-related</th> <th>Financial Reporting related</th> </tr> <tr> <td>None noted</td> <td>Housing Rents balances may be misstated if reconciliations are not performed</td> </tr> </tbody> </table>		Use of Resources-related	Corporate Plan- related	None noted	None noted	VFM-related	Financial Reporting related	None noted	Housing Rents balances may be misstated if reconciliations are not performed	<p><b>Scope of the Review</b></p> <p>Our objective is to undertake a review of Housing Rents to verify that an adequate level of controls exist over the setting, collection and accounting for Housing Rents.</p>
Rating	Implemented or not applicable	Outstanding or Partially implemented																										
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# Compliance Summary



## Tests Performed:

1. Outstanding arrears collected in line with policies
2. Availability of documentation to support the 'removal' of properties from the Council's records (i.e.: demolished / sold properties).
3. Prompt re-letting of housing properties following the closure of a tenant account.
4. Correct calculation and application of 2009-10 rent parameters to properties
5. Evidence of timely preparation and review of key system reconciliations (i.e.: between General Ledger, Housing Rents and Cash Receipting systems).
6. Existence of supporting tenancy agreements for current ('live') tenant accounts.
7. Write-offs granted for a valid reason and authorised in line with Council financial regulations.
8. Outstanding arrears actively pursued, in line with the Council's escalation policies.
9. Refunds granted for a valid reason and appropriately authorised.
10. Information regarding Rent Team performance made available to senior management on a regular basis.
11. Access to the rents system authorised in line with Council procedures, and is limited to relevant Council employees,
12. Suspense accounts reviewed regularly with all items cleared on a timely basis.

# Limitations and responsibilities

## Limitations inherent to the internal auditor's work

We have undertaken the review of Housing Rents, subject to the following limitations.

### Internal control

Internal control, no matter how well designed and operated, can provide only **reasonable** and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgement in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

### Future periods

The assessment of controls relating to Housing Rents is that historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

## Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We shall endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.



# Findings and recommendations

Ref	Control weakness found	Specific risk	Risk rating	Recommendations	Management response	Officer responsible & implementation date
<b>Control design</b>						
1	The Council currently has no system in place to identify overpayments or credit balances on accounts. It is the tenant's responsibility to notify the Council where a refund may be required.	Rent revenues may be collected, to which the Council is not entitled.  Refunds may not be awarded on a timely basis.	● Medium	An overpayments report should be run on a regular (monthly) basis and signed as reviewed by the appropriate staff member.	<b>Agreed</b> Controls are in place <ul style="list-style-type: none"> <li>• Credit with Court Costs checked weekly</li> <li>• Credits with FTA checked monthly</li> <li>• Credits with Recharge accounts checked Quarterly</li> <li>• Credits on closed accounts on-going and refreshed Quarterly</li> <li>• Trail of resulting transactions on Business Object report and I-world.</li> </ul>	<b>Amanda Pitman</b> <b>Process already in place</b>

Ref	Control weakness found	Specific risk	Risk rating	Recommendations	Management response	Officer responsible & implementation date
2	Daily reconciliations are performed between the Council's rents (iWorld), cash receipting (CISS) and general ledger systems. These key control account reconciliations are not reviewed.	Errors or omissions may not be identified on a timely basis leading to an increased risk that balances may be misstated.	● Low	Key control account reconciliations should be reviewed by an independent officer and signed to evidence this process.	<b>Agreed</b> Reconciliations are now being reported	<b>Denise Sheppard</b> <b>Implemented</b>
<b>Operating Effectiveness</b>						
3	Formal tenancy agreements should be in place for all Council properties. In 5/25 current tenancy accounts tested, tenancy agreements could not be provided.	The Council has no legal contract with tenants if issues were to occur.  Unclear audit trail. Audit can have limited assurance over this control where no supporting documentation is available	● Medium	The Council should ensure that agreements are in place for all rental accounts. These should be retained.	<b>Agreed</b> Tenancy Agreements are not always a legal requirement. In many cases, for a number of reasons the Council does not hold a paper tenancy agreement. Exceptions will be documented in procedure notes  Ongoing review of tenancy files to ensure that a record of those tenancies without paper agreements is kept.	<b>Martyn Mumford</b> <b>Ongoing</b>

Ref	Control weakness found	Specific risk	Risk rating	Recommendations	Management response	Officer responsible & implementation date
4	<p>System access rights for 20 users of iWorld were examined by audit. The following issues were noted:</p> <ul style="list-style-type: none"> <li>• 2/20 users were no longer employed by the Council;</li> <li>• A completed new user form was not in place for 1 new starter</li> <li>• 5/20 users were found to have access rights that were inappropriate for their job role.</li> </ul>	Increased risk of unauthorised system access.	<p>● Medium</p>	<p>Team managers should submit a new starters / leavers form to IT to request access. Consideration should be given to producing a similar form for leavers.</p> <p>Access lists should be reviewed on a periodic (annual) basis to ensure that access rights are reasonable.</p>	<p><b>Agreed</b></p> <p>A new starter, leaver and change form has been in use since April 2009.</p> <p>Each quarter a list of active users is generated and emailed to retrospective managers. The systems team will then remove access but only on line manager's authorisation.</p> <p>An access rights report will be generated annually for review by line managers.</p>	<p><b>Vikki Fensome</b></p> <p><b>Ongoing</b></p>

Ref	Control weakness found	Specific risk	Risk rating	Recommendations	Management response	Officer responsible & implementation date
5	It was noted during testing of the daily reconciliations between the Cash Receipting (CIS), General Ledger (Agresso) and Housing Rents (IWorld) that one reconciling item has not been cleared since September 2009 (£400)	Balances and rent accounts may be misstated if reconciling items are not cleared.	● Low	Reconciling items should be cleared on a timely basis. Best practice would indicate a resolution should be found within 1 month.	Agreed	Denise Sheppard Implemented

## Follow up of prior year recommendations

Recommendation		Significance	Response to recommendation	09/10 update
1	<p>The property values from 1999 are used as the basis for setting formula rents, which are used to determine actual rents each year.</p> <p>These values have been understated since the start of rent restructuring in 2002. The full valuation of the Authority's housing stock was carried out in 2000; therefore, the valuations had to be adjusted back to 1999 values. This adjustment was based on the average percentage price rise increase between 1999 and 2000 (24%), rather than the average decrease required to lower the 2000 values back to the 1999 values (19%). The Chief HRA Accountant states that the calculation of the 1999 property values was reviewed and approved by the ODPM. We have requested evidence of this review, however, this has not been provided.</p>	<p>● Medium</p>	<p>We accept that an error was made in rebasing rents to 1999 values. We can correct this from 2008/2009, but the effect on the subsidy is nil.</p> <p>Responsible officer – Dave Higgins, Chief HRA Accountant.</p>	<p><b>Implemented</b></p>

Recommendation	Significance	Response to recommendation	09/10 update
<p>2</p> <p>Increases to service charges are limited to RPI + 0.5% each year by the DCLG. In 2006-07 this was a total of 3.2%. This limit means that tenants who had no net service charges at the time of rent restructuring cannot be charged service charges, because their maximum increase will be £0 each year. Therefore, any service charge which is calculated should be fully rebated. We identified that in respect of 2006-07, there was an error in a formula within the service charge calculation spreadsheet which meant that tenants with zero net service charge in 2005-06 did not automatically receive a full rebate. Therefore, their service charges in 2006-07 exceed the statutory limit. This error affected 138 properties and the cumulative amount may be £327.44 per week. We understand that a review of the service charge spreadsheet takes place annually before uploading onto the rents system, by the Chief HRA accountant, but this review is not evidenced.</p>	<p>●</p> <p>Medium</p>	<p>The service charges highlighted in the auditor sample are currently being checked to ascertain whether any over billing has occurred or not. Completion of our checks has identified that 111 properties were affected. Service charge refunds have been credited to tenants' accounts with a total value of £23k.</p> <p>Controls now in place should ensure that such an error would be identified before rent accounts sent out.</p> <p>All service charge calculations will be reviewed ahead of Rent billing for 2008/9</p>	<p><b>Implemented</b></p>

Recommendation		Significance	Response to recommendation	09/10 update
3	The rent increase spreadsheet is reviewed by a separate officer before it is uploaded into the rent system. However, this review is not evidenced.	● Low	Agreed Responsible officer – Roy Summers – Business Services Manager Timescale – April 2008	<b>Not Applicable</b>
4	The rent system cannot currently calculate the rent increases each year. Therefore, the housing stock has to be downloaded into an Excel spreadsheet and the rent increases have to be manually calculated for each property.  We understand that this process takes a couple of weeks. During this time the housing stock can change as disposals are made and properties are refurbished. This can mean the download is no longer accurate. Changes in the housing stock in 2006-07 during the rent calculation period meant that the rents were incorrectly calculated for four properties, and the rent increases implemented on these four properties were	● Low	Agreed- system update planned. Responsible officer – Dave Higgins, Chief HRA Accountant Timescale – January 08.	<b>Implemented</b>



Recommendation		Significance	Response to recommendation	09/10 update
5	The rent increase notifications state the statutory maximum rent increase each year. The notifications state the total rent payable, along with a breakdown of its constituent elements. However, the notification does not provide prior year figures for the total rent figure or for the constituent rent elements for Comparison.	● Low	Agreed, the letters will be amended to incorporate this information subject to a system software capability.  Responsible officer – Roy Summers - Business Services Manager Timescale – March 2008.	<b>Implemented</b>



# Appendix 1 - Terms of Reference

## Objectives and deliverables

### Objectives

Our objective is to undertake a review of Housing Rents to verify that an adequate level of controls exist over the setting, collection and accounting for Housing Rents

### Deliverables

Our deliverable will be a report detailing our findings with regard to our assessment of the design and effectiveness of controls in place over the Housing Rents system.

## Our scope and approach

### Scope and approach

Our work will focus on identifying the guidance, procedures and controls in place to mitigate key risks through:

- Documenting the underlying guidance, policy and processes in place and identifying key controls;
- Considering whether the policies and procedures in place are fit for purpose; and
- Testing key controls.

The key points that we will focus on are:

- All payments are receipted completely, accurately and in a timely fashion;
- Reconciliations of the housing systems to the cash received and general ledger systems are performed on a regular basis and are appropriately reviewed by senior management;
- The annual calculation of rent debit is performed promptly and is reconciled to property records to ensure accuracy;
- Any changes to housing stock are recorded and supported by a clear audit trail;
- Debt collection, recovery and write-off procedures are sufficient to ensure that delay in receiving rent payments and loss of income is minimised. Arrears are monitored on a regular basis;
- Rent rebates are calculated correctly and supported by appropriate evidence;
- Rent increases are implemented promptly and accurately for all tenants, and have been appropriately approved;
- Management information is adequate to support prediction of rent trends and key performance indicators are set and monitored;
- The IT system is appropriately secure with only authorised personnel able to alter Housing Rents parameter files; and

- Adequate arrangements are in place for dealing with potential fraud.

We will discuss our findings with the Service Accountant and Head of Service or nominated representative to develop recommendations and action plans. A draft report will be issued to the Head of Service and Heads of Finance for review and to document management responses.

### Limitation of scope

The scope of our work will be limited to those areas identified in the terms of reference.

### Stakeholders and responsibilities

Role	Contacts	Responsibilities
Service Accountant	Suzan Smart	<ul style="list-style-type: none"> <li>▪ Review draft terms of reference</li> <li>▪ Review and meet to discuss issues arising and develop management responses and action plan</li> <li>▪ Review draft report.</li> <li>▪ Implement agreed recommendations and ensure ongoing compliance.</li> </ul>
Head of Oxford City Homes	Graham Bourton	<ul style="list-style-type: none"> <li>▪ Receive agreed terms of reference</li> <li>▪ Receive draft and final reports.</li> </ul>
Heads of Finance	Penny Gardner/Sarah Fogden	
Interim Executive Finance Director	Nigel Pursey	
Chief Executive	Peter Sloman	<ul style="list-style-type: none"> <li>▪ Receive final report</li> </ul>

### Our team and timetable

#### Our team

Chief Internal Auditor	Chris Dickens
Audit Manager	Katherine Bennett

Auditor	Andy Yeates
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**Timetable**

Steps	Date
TOR approval	December 2009
Fieldwork commencement	14th December 2009 (T)
Fieldwork completed	T + 2 weeks
Draft report of findings issued	T + 4 weeks
Receipt of Management response	T + 6 weeks
Final report of findings issued	T + 7 weeks

**Budget**

Our budget for this assignment is 10 days. If the number of days required to perform this review increases above the number of days budgeted, we will bring this to management attention.

**Terms of reference approval**

These Terms of Reference have been reviewed and approved:

.....

Graham Bourton  
Signature (Head of Oxford City Homes)

.....

Chris Dickens  
Signature (Chief Internal Auditor)

## Appendix 2 - Assurance ratings

Level of assurance	Description
<b>High</b>	<p>No control weaknesses were identified; or</p> <p>Our work found some low impact control weaknesses which, if addressed would improve overall control. However, these weaknesses do not affect key controls and are unlikely to impair the achievement of the objectives of the system. Therefore we can conclude that the key controls have been adequately designed and are operating effectively to deliver the objectives of the system, function or process.</p>
<b>Moderate</b>	<p>There are some weaknesses in the design and/or operation of controls which could impair the achievement of the objectives of the system, function or process. However, either their impact would be less than significant or they are unlikely to occur.</p>
<b>Limited</b>	<p>There are some weaknesses in the design and / or operation of controls which could have a significant impact on the achievement of key system, function or process objectives but should not have a significant impact on the achievement of organisational objectives. However, there are discrete elements of the key system, function or process where we have not identified any significant weaknesses in the design and / or operation of controls which could impair the achievement of the objectives of the system, function or process. We are therefore able to give limited assurance over certain discrete aspects of the system, function or process.</p>
<b>No</b>	<p>There are weaknesses in the design and/or operation of controls which [in aggregate] could have a significant impact on the achievement of key system, function or process objectives and may put at risk the achievement of organisation objectives.</p>



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