

Oxford City Council

Housing Rents

Internal Audit Report
2014/2015
April 2015

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
Distribution List

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This report has been prepared by PwC in accordance with our engagement letter dated 1 July 2013.

Internal audit work was performed in accordance with PwC's Internal Audit methodology which is aligned to the Public Sector Internal Audit Standards. As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

Executive summary

Report classification	Total number of findings					
 <p>Medium risk (8 points)</p>	Critical	High	Medium	Low	Advisory	
	Control design	0	0	0	2	0
	Operating effectiveness	0	0	1	3	0
	Open prior year findings	0	0	0	0	0
	Total	0	0	1	5	0

Summary of findings:

We evaluated the controls and processes the Council has in place for housing rents for both permanent housing and temporary accommodation.

We identified **one medium risk** issue relating to the timeliness of income reconciliations. The daily rent reconciliation was being performed an average of 6 days after date and in 8 of the 20 cases tested the delay was over a week. There was also no process for independent review of the reconciliation. Timely reconciliation and review is a key control to mitigate the risk of misstatement of rental income.

We also identified **five low risk** issues relating to:

- Refund reconciliations
- Processing new tenancies (temporary accommodation)
- Right to Buy processing
- Right to Buy valuation
- Arrears recovery

The Council reorganised its debt recovery team as of 1 September 2014. We considered the processes and controls around arrears recovery and raised one low risk issue (as listed above).

We used Computer Assisted Audit Techniques (“CAATs”) to identify potential discrepancies in the accuracy and completeness of housing rents, our procedures covered the following areas :

- Identification of properties charged rent in the year but not present in the year end portfolio
- Identification of properties in the year end portfolio but not charged rent
- Properties were charged the correct rent (rent to apply) for the expected number of periods
- The general ledger reconciliation to the housing system

The results highlighted a number of exceptions; these have been followed up with management and we were able to obtain evidence to clear all findings.

The overall report classification has been assessed as medium risk.

Future considerations

Universal Credit:

In April 2015 the government will be rolling out the next stage of Universal Credit to new claimants. Oxford City Council was one of the authorities to pilot the scheme and therefore no significant impact is expected on the council. Eventually Universal Credit will be brought in for everyone claiming the benefits and tax credits it replaces. It is hoped that the scheme will help claimants and their families to become more independent and will simplify the benefits system by bringing together a range of working-age benefits into a single payment. The potential impact on arrears could be significant as the scheme expands but the Council will be better placed to implement changes and deal with the challenges it poses.

The council has proactively continued with direct payments for tenants and have changed processes to manage arrears. The council managed to get approximately 88% of individuals in the pilot scheme to sign up to direct debits, this will remain key as the scheme expands. The Council is well positioned with 60% of all housing revenue received directly from tenants and the remaining 40% from housing benefits. The proportion received directly from tenants is higher than most local authorities, which again highlights the strong position of the Council. The plans to deal with universal credit could be considered for internal audit review in 2015/16.

Right to Buy (RTB) disposals

Recent statistics released by the Department of Communities and Local Government (DCLG) for Q1 of 2014/15 showed that between April and June 2015, local authorities across the country sold an estimated 2,845 dwellings under the Right to Buy scheme. This is 31% higher than the 2,171 sold in the same quarter of

2013/14.


As at October 2014 Oxford City Council had sold 29 properties through the Right to Buy scheme and a number of others are currently in the process being sold. A total of 46 were sold in 2013/14. The growing levels of Right to Buy sales need to be met with new builds to ensure that the level of social housing is maintained. The Council has started to build some new properties during the year but none of these have yet been occupied. They come under the Affordable Housing Programme (AHP) in which the Council will build 113 new properties using £2.4m of the Homes and Communities Agency (HCA) grant.

National RTB sales in 2014/15 are yet to reach the levels before the financial crisis; sales in 2014/15 Q1 were only 61 per cent of those in 2006/07 Q1, therefore one can anticipate growing level of sales/applications going forward. As RTB applications increase there is a need to consider the threat of potential fraud and this may be something the Council may wish to consider for future internal audit review

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1. Detailed current year findings

1. Income reconciliations – Operating effectiveness

Finding		
<p>We assessed the Council’s process for reconciling cash receipts on Paris, to the rental income management system, Northgate and the financial accounting system, Agresso. This reconciliation is performed daily and ensures the figures across all three systems match and any discrepancies are identified and resolved.</p> <p>We selected a sample of 20 days, checking that the reconciliation had been carried out in a timely manner and that it had been reviewed. We found that reconciliations had been carried for all 20 days. However they were carried out an average of 6 days after the day being reconciled. In 8 out of 20 cases, the reconciliation was performed 7 days or more after the date being reconciled. The longest delay was 25 days on one of the samples.</p> <p>We also found that no review of the reconciliation was performed; this would have allowed the delays in carrying out the reconciliations to have been detected and addressed. The lack of review of the cash/rent/general ledger reconciliation was also noted when we last performed this review in January 2012 and an action was agreed to implement a monthly review.</p>		
Risks		
<p>There is a risk that rental income may be misstated, and action to address reconciling items is not taken in a timely manner.</p>		
Action plan		
Finding rating	Agreed action	Responsible person / title
Medium 	<p>Staff responsible for preparing the reconciliation will be reminded of the need to do so in a timely manner.</p> <p>Going forward the reconciliation will be performed within 3 days of the date being reconciled. A system of reviewing the reconciliations on a monthly basis will be introduced.</p>	<p>Anna Winship (Financial Accounting Manager)</p> <hr/> <p>Target date:</p> <p>30 April 2015</p>

2. Refund reconciliations – Operating effectiveness

Finding

A monthly reconciliation is performed between Northgate and Agresso systems for rent refunds. When the management accountant identifies reconciling items, these are sent to the relevant managers in the income recovery team for resolution.

We selected a sample of 2 months, and confirmed that the reconciliation had been carried out and actions had been sent to the relevant managers. However, confirmation that the required action has been taken is not obtained from the managers, instead this is checked via the reconciliation in the following month.

We also note that no independent review was performed to ensure the reconciliation had been performed.

Risks

There is a risk that rental income is misstated and that action to address reconciling items is not taken in a timely manner.

Action plan

Finding rating	Agreed action	Responsible person / title
Low 	A system of reviewing the reconciliations on a monthly basis will be introduced. Procedures will be put in place requiring the relevant managers to respond with confirmation of the actions they have taken regarding the reconciling item.	David Watt (Finance Business Partner) Target date: 30 April 2015

3. Processing new tenancies (temporary accommodation) – Control design

Finding


A master list of all new temporary accommodation tenancies is maintained in the housing allocations department and is manually updated on a daily basis. The details are then processed into Northgate.

Although the spreadsheet clearly highlights which tenancies need to be set up on Northgate, we found that there is no process for periodically reconciling Northgate with the manual spreadsheet maintained by the housing allocations team.

Risks

There is a risk that new tenancies may not be set up on Northgate therefore rent or service charges not collected.

Action plan

Finding rating	Agreed action	Responsible person / title
5 Low 	Procedures will be put in place to ensure that the manual list is reconciled to a report from Northgate on a monthly basis.	Tom Porter (Allocations Manager) Target date: 30 April 2015

4. Right to Buy processing – Operating effectiveness

Finding

Where a tenant successfully applies for and purchases a property under Right to Buy (RTB), the tenancy on the income management system should be ended. For houses, this is a complete closedown, whilst for flats the rent charge is removed but the account is left partially open for a service charge to be added. The rent account should be cleared with any credit balance refunded to the tenant.

We selected a sample of 5 completed right to buy disposals and reviewed the tenancy end date and the balance on the account. In one case we found that the property had a credit balance remaining on the account which was a result of the following:

- the original rental credit balance from the end of tenancy had not been refunded; and
- the tenant had continued to pay into the rent account instead of the service charge account on several occasions. Although the rent account had been closed the system does not prevent payments from being received into it the account. If accounts were to be shut down and any subsequent payments went to a suspense account, this could help avoid the risk of them sitting undetected on a closed rent account.


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With the above case there was a two day gap between the completion date and the date on which the service charge became effective. We noted that the housing rents team are not currently notified of the completions of RTB directly from legal.

Risks

There is a risk that payments are not refunded to former tenants in a timely manner.

Action plan

Finding rating	Agreed action	Responsible person / title
<p>Low</p> 	<p>The rents team will be added to the distribution list for completed Right to Buys that legal send out on a monthly basis; this will then be actioned within the month to resolve credits on the account.</p> <p>Inquiries will be made as to whether closed rent accounts could be set to no longer receive payment. Any attempts to pay into the rent account could then be posted to a suspense account and addressed as required.</p> <p>Staff will ensure that any service charge is set up based on the date of sale.</p>	<p>Damon Venning (Housing Rents Manager)</p> <p>Target date:</p> <p>30 April 2015</p>

5. Right to Buy valuation– Operating effectiveness

Finding


The Council engaged the services of an external firm of RICS qualified valuers in November 2012, prior to this time valuations were performed in house. They are employed to give an arm’s length independent valuation report which the Council can rely upon and submit in appeal cases where the applicant asks the District Valuer to determine the price. They have a professional duty to get the valuation figure right after visiting the property and analysing comparable properties to arrive at their determination.

As part of our audit we reviewed a sample of 5 RTB disposals which occurred during the year and obtained details of the latest valuation. In one instance we found the valuation upon which the property was sold took place over 2 years before the date of disposal. The property was sold in June 2014 and the latest valuation upon which the sale was based on took place on in May 2012.

Risks

There is a risk that valuations are out of date therefore properties not sold at a fair price.

Action plan

Finding rating	Agreed action	Responsible person / title
Low 	<p>The Council will ensure that the valuation of all RTB sales is no later than a year before the disposal date.</p> <p>Procedures to monitor this have already been put in place. The valuation firm, Marshalls have been appointed as the Council’s external valuation contractor rather than carrying out valuations in house. This has helped manage the increased valuations required as a result of the growing number of applications.</p>	Martin Shaw (Project Manager, Housing & Property Services) Target date: 30 April 2015

6. Arrears recovery – Control design

Finding

At the time of the audit (October 2014), the Council's arrears figure was £1.01m this is comparable to the figure of £1.16m in October 2013. If the figures are smoothed to take account of timing differences, the "real" arrears balances have only increased a small amount, from £752k in March 2014 to £765k in October 2014.

Under the new process for arrears management, staff receive a list of arrears every fortnight. The team work through these balances to ensure sufficient follow up action is taken to address each case. We reviewed a number of reports detailing accounts which are in arrears and the latest action taken for each case, we were satisfied that cases were being looked at regularly by officers to maximise chances of recovery.


We examined the process followed for four cases in detail and considered any potential gaps. We note the following:

- 79 1. The system does not allow for identification of tenants who have ceased payment but are shown in credit on the system. In one case a tenant had ceased payment however the account was in credit due to an error in Housing Benefit. As a result no recovery action was taken and this resulted in increased arrears once the housing benefit error was resolved.
2. The recovery process has potential vulnerability to unexpected staff absence. In one of the cases reviewed we found that staff absence resulted in delays in the steps required for recovery.

Risks

There is a risk rent arrears may build up and may not be managed in a timely manner.

Action plan

Finding rating	Agreed action	Responsible person / title
Low 	<p>All accounts where the team are notified of housing benefit being suspended will be looked at and contact made with the tenant to start recovery procedures if applicable.</p> <p>Individual members of staff have been allocated cases and given responsibility to follow cases through. This avoids cases being moved between officers. Process will be put in place for cases to be reallocated where staff have unexpected long periods of absence.</p>	<p>Damon Venning (Housing Rents Manager)</p> <hr/> <p>Target date: 30 April 2015</p>

Appendix 1: Basis of our classifications





Individual finding ratings

Finding rating	Assessment rationale
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • <i>Critical</i> impact on operational performance (quantify if possible); or • <i>Critical</i> monetary or financial statement impact (quantify if possible = materiality); or • <i>Critical</i> breach in laws and regulations that could result in material fines or consequences (quantify if possible); or • <i>Critical</i> impact on the reputation or brand of the organisation which could threaten its future viability (quantify if possible).
High	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • <i>Significant</i> impact on operational performance (quantify if possible); or • <i>Significant</i> monetary or financial statement impact (quantify if possible); or • <i>Significant</i> breach in laws and regulations resulting in significant fines and consequences (quantify if possible); or • <i>Significant</i> impact on the reputation or brand of the organisation (quantify if possible).
Medium	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • <i>Moderate</i> impact on operational performance (quantify if possible); or • <i>Moderate</i> monetary or financial statement impact (quantify if possible); or • <i>Moderate</i> breach in laws and regulations resulting in fines and consequences (quantify if possible); or • <i>Moderate</i> impact on the reputation or brand of the organisation (quantify if possible).
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • <i>Minor</i> impact on the organisation's operational performance (quantify if possible); or • <i>Minor</i> monetary or financial statement impact (quantify if possible); or • <i>Minor</i> breach in laws and regulations with limited consequences (quantify if possible); or • <i>Minor</i> impact on the reputation of the organisation (quantify if possible).
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

Report classifications

Findings rating	Points
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

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Report classification	Points
 Low risk	6 points or less
 Medium risk	7– 15 points
 High risk	16– 39 points
 Critical risk	40 points and over

Oxford City Council

Terms of reference – Housing Rents

To: *Damon Venning, Housing Rents Manager*
Dave Scholes, Housing Strategy & Needs Manager

From: *Kate Mulhearn, Internal Audit Manager*

This review is being undertaken as part of the 2014/15 internal audit plan approved by the Audit and Governance Committee.

Background

Oxford City Council has a housing stock of approximately 7,600 properties across the city of Oxford. Rent is collected for these properties by the Housing Rents team. In addition, the Council owns 120 temporary accommodation properties for which rent is collected by the Housing Needs team. Rent is managed using the Northgate Housing system.

This audit will focus on reviewing the Council's rental income for both permanent housing and temporary accommodation. We will use computer data analysis ("CAATs") to identify any potential for discrepancies against defined expectations, as well as identifying and testing the controls the Council has in place.

Scope

We will review the design and operating effectiveness of key controls relating to Housing Rents during the period 2014/15. The sub-processes and related control objectives included in this review are:

Sub-process	Control objectives
The value of rental and service charge income recorded in the general ledger reconciles to the housing systems.	<ul style="list-style-type: none">• The total value of rent debits and service charge income generated by your housing scheme reconciles to the general ledger (This will be tested using Data CAATs see Appendix 2).
Reconciliations	<ul style="list-style-type: none">• Reconciliations of the housing system to the cash received and general ledger systems are performed on a regular basis by the Council and are appropriately reviewed by senior management.
Housing and temporary accommodation rental income is complete and accurate	<ul style="list-style-type: none">• Rent debits charged per property are complete and accurate (This will be tested using Data CAATs see Appendix 2).
Changes to Housing Stock	<ul style="list-style-type: none">• Any changes to housing stock are recorded and supported by a clear audit trail.
Recovery of Income	<ul style="list-style-type: none">• Debt collection, recovery and write-off procedures are sufficient to ensure that delay in receiving rent payments and loss of income is minimised.• Processes are in place and operating effectively to ensure rent arrears are recovered from former tenants.• Arrears are monitored on a regular basis.

Rent Increases	<ul style="list-style-type: none"> • Rent increases are implemented promptly and accurately for all tenants, and have been appropriately approved.
Housing Rent System Security	<ul style="list-style-type: none"> • The IT system is appropriately secure with only authorised personnel able to alter Housing Rents parameter files.
Management Information	<ul style="list-style-type: none"> • Management information is adequate to support prediction of rent trends and key performance indicators are set and monitored.

Limitations of scope

The scope of our work will be limited to those areas outlined above.

Audit approach

Our audit approach is as follows:

- Obtain an understanding of the Council's Housing Rents processes and controls through discussions with key personnel, review of systems documentation and walkthrough tests;
- Identify the key risks relating to Housing Rents;
- Evaluate the design of the controls in place to address the key risks;
- Test the operating effectiveness of the key controls.
- We will perform Data CAATs over the Housing Rents Population including the following tests:
 - Identify properties charged rent in the year but are not present in the year end portfolio
 - Identify properties in the year end portfolio but not charged rent
 - Test if properties were charged the correct rent (rent to apply) for the expected number of periods
 - Test the general ledger to housing system reconciliation

Internal audit team

Name	Role
Richard Bacon	Engagement Leader
Chris Dickens	Chief Internal Auditor
Kate Mulhearn	Audit Manager
Anjm Shahbaz	Audit Team Leader
Stephanie Hardy	Team Member
Chris Wood	Data Analyst

Appendix 3: Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken the review of Housing Rent, subject to the limitations outlined below.

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 judgment 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

Our assessment of controls relating to Housing Rents is for the 2014/15 year.

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 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.

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