



Internal Audit Report
Review of Controls Operating over House Rents
Issued: October 2015
Final

Level of Assurance	Good - The control framework is of a good standard with only minor elements of risk identified which are either accepted or being dealt with by management.
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Executive Summary

1.0 Introduction

As at 31st March 2015, the Council owned 6,834 houses and 860 garages and the rent received for 2014/15 was approximately £23.3 million. These properties, and the associated rental charges, are managed through the Capita system.

Midlothian Council continues to make significant investment in affordable housing with 940 Council owned houses being built since 2006. There is an anticipated increase in demand for affordable housing. Midlothian Council undertook a recent review (Housing Need and Demand Assessment) which projected that a total of 5,571 new affordable homes will be required in Midlothian by 2032. This will present the Council with further challenges.

The rents charged for houses are calculated using a points system based on the number of bedrooms and the type of properties. An exception to this general rule is properties used for temporary homeless accommodation which are charged at specific rents. New build properties are also charged at a 25% premium on older stock.

A rent strategy was approved by Midlothian Council in February 2011 which included agreement to increase rents by 6% each year over the period 2011/12 to 2015/16. A consultation on a rent strategy for the period 2016/17 to 2018/19 is currently taking place for an agreed approach to rent setting which will be reported to Cabinet. The average rent in Midlothian is currently £65.51 per week (including temporary homeless accommodation) for a Council House and £11.28 per week (excluding VAT) for a garage.

Rental charges may be paid by a number of methods including cash, cheque, debit or credit card (£2.50 charge for credit cards), direct debit, standing order, direct deduction from benefits, by automated telephone payment system, or through the Midlothian Council website. Payments may also be made through Paypoint/Payzone outlets (including post offices) by cash or by using a rent payment card. 48.75% of customers pay their house rents by direct debit which is the method actively encouraged by the Council. The Council is currently exploring the feasibility of customers being able to view their rent and council tax accounts online.

2.0 Objectives of the Audit

The objective of the audit was to review the adequacy of controls over the house rent system with coverage limited to billing, charging and collection (excluding arrears management).

A copy of the terms of reference for the review is attached at Appendix 2.

3.0 Conclusion

We noted a number of processes and controls that were operating effectively, these included:

- annual rent increase letters were being issued 4 weeks prior to any increase in charges;
- income collected through the cash receipting system was being accurately posted to the house rent system (Capita) and general ledger;
- the housing benefit system (Open Revenues) was being reconciled to the house rent system (Capita);
- new builds were being added to the house rent system accurately and house sales were being removed from the house rent system in a timely and accurate manner;
- the Council offers a wide choice of payment methods to tenants;
- a pending tenancy report is run on a weekly basis to ensure all properties are charged rent; and
- rent collections and other housing statistics are prepared and monitored by management on a regular basis.

A small number of issues were identified during the audit review which included:

- there were a number of credit balances on rent accounts which need to be reviewed and if appropriate refunded to customers;
- there are currently 245 Garages which have not been let for a number of months resulting in lost income to the Council;
- garage site rental charges have not been up-rated every year with the last increase dating to 2011/12;
- testing by Audit identified a small number of errors in figures provided to the Scottish Government on Housing Stock and Rent Collection;
- Discretionary Housing Payment forms did not include the Council's Data Protection Statement;
- rent levels quoted on the Council's website were historic and did not reflect the current charges; and
- testing identified 2 properties (out of 6,908) that had not been included in the automated update for rent increase. The property class code had been incorrectly updated. These 2 properties were not up-rated by 6% in 2013/14 which resulted in a minor loss of revenue.

Given that the control framework is of a good standard with only minor elements of risks identified we have rated the strength of the internal controls over the House Rent system as **Good**. We have rated the strength of the internal controls over House Rents in accordance with the table on page 8.

4.0 Audit Issues and Management Action Plan

4.1 Credit Balances

As at the 3rd March 2015, there were 675 former tenant accounts in credit with a monetary value of £59,805. 57 of these accounts exceeded £250 and 3 accounts exceeded £1,000 (one of which dated back to 2002). Management have indicated that rent statements including credit balances were sent to current tenants in April 2015 but the Council does not proactively review to refund where the customer does not make contact with the Council or is a former tenant. Management have indicated that there are resource limitations within the Arrears Section and as a consequence effort is concentrated on overdue debt recovery rather than refunding credit balances. Under the Tenancy Agreement the agreed rent is set out. Accordingly if for whatever reason there is a surplus, the Council is not entitled to that money (under the contract) and the surplus should therefore be returned.

No	Recommendation	Priority	Manager	Target Date
1	<p>The properties identified with a credit balance should be investigated and a refund made where applicable.</p> <p><u>Management Comment</u></p> <p>Management are currently reviewing the number of former tenant accounts in credit and will take action on those exceeding £250. 20 of the 57 accounts have already been cleared.</p> <p>Rent statements for existing tenants with a credit balance will continue to be sent on an annual basis.</p>	Medium	Revenues Manager Operations	31/12/15

4.2 Garages and Garage Sites

4.2.1 Letting performance

The Council owns 860 garages and approximately 500 garage sites (land leased by the Council to customers who erect their own garage) which it rents out to council housing tenants (at a cost of £587 and £52 per annum respectively) and the public generally (at an annual cost of

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£704 and £52 respectively). It was noted however that there are significant numbers of these garages and garage sites which are not currently leased and therefore the Council is not obtaining income on these.

It was reported by Management that Midlothian Council, despite local advertising, has a surplus of garage and garage sites for rent; and there is limited demand due to the availability of free parking.

4.2.2 Garage sites

Rents for garage sites have not been increased since 2011/12 and are not subject to regular rent reviews. The Council collects approximately £13,500 per annum through these sites.

4.2.3 Recording of the number of garage sites

The allocation and administration of Council garage sites is managed by the Housing Services team with individual allocation of sites recorded on customer records within the Integra system. Manual files are maintained for each site and it is this manual recording which is used to control the Council stock. We noted however that the list recording the number of garage sites, produced from the manual files, was not up to date and had not been adjusted for the number of sites sold or unavailable through fire damage etc. The Council, therefore at the time of the audit review, did not have an accurate record of the number of garage sites held (500 sites are currently let or available for let rather than the 523 recorded).

No	Recommendation	Priority	Manager	Target Date
2	Management need to review current letting strategies over garages and garage sites with the aim of improving upon the number that are let. <u>Management Comment</u> Management are currently reviewing new advertising strategies and reviewing best practice.	Medium	Housing Services Manager	31/12/15
3	A review of rent charged for garage sites should be undertaken on a regular basis.	Medium	Housing Services Manager	31/12/15
4	Accurate records should be maintained of the number of garage sites under Council	Low	Housing	31/12/15

No	Recommendation	Priority	Manager	Target Date
	<p>ownership.</p> <p><u>Management Comment</u> The turnover for leasing garage sites is expected to be low. Therefore, management will ensure garage sites are reviewed and updated on an annual basis.</p>		Services Manager	

4.3 A small number of errors were identified in the figures supplied to CIPFA which are used for Scottish Government Returns

On an annual basis, CIPFA sends out a questionnaire to local authorities requesting details of the Councils housing stock and rent collection. A small number of issues were identified by Internal Audit in the CIPFA return reported at the end of 31st March 2014.

4.3.1 Housing stock

The Scottish Government publishes statistics on the total number of houses held by each local authority. The audit found a small number of minor errors. 2 properties were double counted in the CIPFA return. This had occurred through the properties being converted from temporary to permanent accommodation which created two property references for the same properties. We also noted one property that was not handed over to the Council until after the cut off date for the return but was included in the figures.

4.3.2 Purchase schemes included in the public sector housing stock

‘Mortgage to Rent’ is a government established scheme which provides support to home owners who are experiencing difficulty in paying a mortgage or any loan that is secured against their property. The property is purchased by the Council and the home owner will continue to live in the property and pay a monthly rent to the Council. As at 31st March 2014, the Council had 14 ‘Mortgage to Rent’ agreements. The CIPFA guidelines states that dwellings subject to house purchase schemes should be excluded from Council housing stock figures reported as part of the CIPFA return, however it was noted that they had been included in error.

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4.3.3 Sheltered dwellings

Within the CIPFA return the Council is also required to report on the number of sheltered dwellings (properties used for the elderly or those with special needs). We noted that due to an administrative error, this had been misreported at 63 rather than 22 on the return.

No	Recommendation	Priority	Manager	Target Date
5	Information reported on the CIPFA returns should be subject to independent checking by a second officer to decrease the risk of error. <u>Management comment</u> Returns will be checked by a second officer prior to dispatch.	Medium	Head of Customer and Housing Services	31/03/16

4.4 Housing Website and Manual Forms

Discretionary Housing Payments (DHP) may be made to claimants to cover any benefit shortfall. Applicants must complete a form in order to receive these payments (DHP form). It was noted however that these forms do not have a Council Data Protection Act statement included and it may not therefore be sufficiently clear to the applicant how the data provided may be used by the Council. In addition, we found that the rent charges published on the Council's website were 2 years out of date.

No	Recommendation	Priority	Manager	Target Date
6	The DHP form should contain a DPA statement.	Medium	Revenues Manager Operations	Complete
7	Rent charges on the Council's website should be updated on an annual basis. <u>Management Comment:</u> Rent charges have been updated for the current year and will be updated on an annual basis going forward.	Low	Housing Services Manager	Complete

4.5 Annual Bulk Up-rating

On an annual basis, rent charges are increased following the Rent Strategy agreed by Midlothian Council and annual rent increase letters are sent out to current tenants in February each year (giving 4 weeks' notice of rent increase). Reconciliations and checks are undertaken to ensure all customer's rent accounts are increased to the correct rate, there are no imbalances or system background failures and annual rent increase letters are sent out in a timely manner. A factor report spreadsheet was established in 2009 by Financial Services to ensure rent charges are updated accurately and this is updated every year by Administration and Systems Control and checked against the rates up-rated on the house rent system. Testing however identified the following:

- not all processing steps are signed off in the annual bulk up-rating to evidence that they have been completed and reviewed. This increases the risk of either processing steps not being undertaken or errors not being detected; and
- we identified 2 properties (out of 6,908) that were not up-rated correctly in 2013/14 and were not treated as standard tenants. It was reported that when rent account charges are increased, the rent charge reason is set to "annual rent increase" on the house rent system. However the two properties class coding was set up incorrectly. The result of this was that the properties were not up-rated by 6%.

No	Recommendation	Priority	Manager	Target Date
8	All processing steps in the annual bulk up-rating should be prepared and reviewed by two members of staff and this should be formally evidenced.	Low	System Group Leader	29/02/16

4.6 House Sales Recorded Incorrectly

38 properties were sold during 2014/15. We noted one minor instance of a house sale being incorrectly updated on Capita as a garage termination. Errors in update to the system may cause corruption to management reporting.

No	Recommendation	Priority	Manager	Target Date
9	House sales should be correctly recorded on the housing system.	Low	System Group Leader	Complete

Definitions of Ratings

Audit Opinion

Level of Control	Reason for the level of Assurance given
Excellent	The control framework is of a high standard with no unacceptable risks identified.
Good	The control framework is of a good standard with only minor elements of risk identified which are either accepted or being dealt with by management.
Average	The overall control framework is of an average standard. Some weaknesses have been identified in the controls and improvements are possible.
Weak	The control framework is weak and requires improvement as significant issues exist with the adequacy and effectiveness of the Internal Control arrangements. These control deficiencies could result in financial loss or reputational damage to the Council.
Poor	The control framework is inadequate or ineffective and the issues identified require immediate attention to prevent financial loss or reputational damage to the Council.

Recommendation Rating

Priority	Risk Definition
High	Legal / regulatory issues would normally be regarded as high risks. Strategic risks would normally be regarded as high risks. Financial impact - £50K plus and / or national press interest
Medium	£5K - £49K and / or local press interest
Low	Under £5K and / or no press interest.

Distribution

- Members of the Audit Committee
- Kenneth Lawrie, Chief Executive
- John Blair, Director, Resources
- Eibhlin McHugh, Director, Health and Social Care
- Kevin Anderson, Head of Customer and Housing
- Gary Fairley, Head of Finance and Integrated Service Support
- Simon Bain, Housing Services Manager
- Jacqui Dougall, Commercial Services Manager
- Mike O'Rourke, Business Applications Manager
- Jane Harvey, Systems Group Leader
- Ken Pike, Revenues Manager Operations
- Grant Thornton, External Auditors

Audit Team

Author: Amber Ahmed, Trainee Auditor
Reviewer: Graham Herbert, Internal Audit Manager

TERMS OF REFERENCE:

Audit Objective

The objective of this audit is to review the adequacy of controls over the collection of housing rents during the financial year 14/15 with coverage limited to billing, charging and collection.

Scope of Audit

The review will focus on the key controls to ensure that:

- rent charges and increases for council houses, garages and garage sites are calculated correctly in line with the charging policy set by the Council;
- automated interfaces between payment collection systems and the house rent system are accurate and payments are correctly allocated to tenants' accounts;
- rent statements and notification of rent charge increases are raised accurately and in a timely manner;
- management and financial information, including the risk register, is relevant, accurate and timely; and
- access to the house rent system is controlled effectively.

The main areas involved in the review will be Revenues, Financial Services and Administration and Systems Control.

Excluded from the Scope of the Audit

The following areas will not be reviewed as part of this Audit:

- Arrears recovery and write off of irrecoverable debt as this is planned for a separate audit;
- The allocation of council houses to tenants;
- The daily administration involved in tenancy processing;
- Void properties;
- Properties on special schemes such as 'spend to save'; and
- Private leasing scheme properties.

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Potential Risks
Key potential risks identified include: <ul style="list-style-type: none">• Rent charges are inaccurately calculated or are incorrectly raised, cancelled or applied resulting in poor service to tenants or financial loss to the Council;• Payments are not applied timeously or correctly to tenants' accounts resulting in poor service to tenant or financial loss to the Council;• Incorrect management decisions or reporting due to inaccurate or inadequate records; and• Unauthorised access, amendments to or loss of data due to ineffective controls within the house rents system.
Audit Approach
The audit approach consists of: <ul style="list-style-type: none">• fact finding interviews with relevant employees;• review of appropriate documentation which includes any risk reviews that have been conducted and risk registers that are in place;• interrogation of any relevant systems and sample testing as required;• closure meeting with local management to discuss the findings and any recommendations from the review;• draft and final reporting; and• presentation of the final report to the Audit Committee.
Timescales & Reporting
<p>The audit will commence in February 2015 and is expected to be completed by the end of April 2015 and be reported in June 2015.</p> <p>Any issues arising will be communicated directly to local management as they are identified during the course of the audit. A formal audit report will be produced summarising the findings and recommendations of the review and will be presented to the Audit Committee.</p>
Information Requirements
Access to all relevant systems, documentation and employees.