



Internal Audit Report
Housing and Community Safety
Rent Arrears Assignment No.16-19
March 2017

Final Report

Finance Division
Corporate and Democratic Services
Perth & Kinross Council
2 High Street
Perth PH1 5PH

Internal Audit

“Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”. Public Sector Internal Auditing Standards (PSIAS)

On 27th March 2013, the Council’s Audit Committee approved the PSIAS as the relevant standard for its Internal Audit activity.

Background and Introduction

This audit was carried out as part of the audit plan for 2016/17, which was approved by the Audit Committee on 30 March 2016.

The Council is required by statute to record separately in the Housing Revenue Account (HRA) all income and expenditure relating to the provision, improvement and management of Council Housing.

The HRA final accounts for 2015/16 indicate rental income of £25.102 million. Gross rent arrears as at 31 March 2016 were £2.715 million, and a bad debt provision of £2.031 million was included against outstanding rent charges raised against ongoing and former tenants plus court expenses incurred.

The purpose of the audit was to review the adequacy of the arrangements in place for monitoring and minimising rent arrears.

Scope and Limitations

In order to arrive at an opinion on the achievement of the control objectives, the audit included reviews of practices and interviews with staff within Housing and Community Care, Neighbourhood Services, at Pullar House, locality offices and Corporate & Democratic Services’ Finance Division. The audit did not include rent arrears relevant to the general fund.

Control Objectives and Opinions

This section describes the purpose of the audit and summarises the results. A ‘control objective’ is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating describing, on the basis of the audit work done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

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| Control Objective: 1. to ensure that arrangements for the detection and recovery of housing rent arrears are appropriate and effective and in compliance with Financial Regulations |
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| Auditor’s Comments: Housing rent arrears are identified on the housing rents system (Northgate) when rents indicated as due are not offset by payments received. System reports listing all tenants with arrears are produced each week for recovery action to be taken in line with the Council’s rent recovery policy. The policy sets out the escalating recovery actions to be taken by housing officers and |
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is made available for all users of housing services via the Council's web page. An updated version of the policy was approved at the November 2016 meeting of the Housing & Health Committee although at the time of the audit this had not yet been made available on-line. It is noted that the Northgate system process of automatic escalation of arrears recovery actions against accounts in arrears can be suspended without management intervention. This represents a potential management control weakness.

To facilitate improvements to the minimisation and control of rent arrears, revised procedures have been introduced from January 2016 within Housing Services with the focus on early and systematic arrears recovery actions. These actions comprise primarily of early contact with, and the engagement of, the individual tenants. All actions are recorded against tenant accounts on the rent records system and reports produced in varying amounts of detail for regular review by locality teams, co-ordinators, managers, scrutiny groups, SMT and committees. There is scope to improve the clarity of purpose and scope of some of the internal reports produced.

For management purposes, rent arrears may be usefully divided between current or former tenants, residential or non-residential and net or gross of write-offs. The reports of rent arrears and recovery actions taken are comprehensive and are the subject of considerable scrutiny but the actual content of different reports is not always made clear which could allow for misinterpretation or misunderstanding to arise.

Recent reports of arrears collection performance indicate results are improving although it is too early to assess whether the revised processes introduced are adequate to reduce the long term level of rent arrears.

The housing rent arrears recovery policy includes actions to be applied if it becomes clear that the recovery of any particular rent arrears debts will not be possible or practicable and the debt should be written off. A revised procedure for the write off of rent debts was included in the November 2016 paper to the Housing and Health Committee and sets out the actions to be followed through to receiving the annual approval for the write off at the June meeting of the Strategic Policy and Resources Committee, in compliance with Financial Regulations. There is scope to develop this further in order to ensure that all actions are undertaken on a timely basis for writing off debts once approved by Committee.

Strength of Internal Controls:

Moderately Strong

Control Objective: 2. to ensure that the calculation and reporting of rent arrears and related bad debt provision are accurate and appropriate

Auditor's Comments: Internal Audit acknowledges the progress being made in the management of rent arrears and the increased oversight by Housing management.

The calculation of rent arrears is undertaken automatically by the housing rents system based on the weekly calculations of rents becoming due, offset by the input of payments received. Unpaid rental amounts are then included on the numerous regular arrears reports. Monthly versions of these system reports are used by

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Finance to generate detailed and accurate journal postings to the financial ledgers for all aspects of housing rents activities (rental income, arrears debtors, debt write-offs etc).

It was noted that whilst the monthly journal creation process incorporates a self-checking mechanism to ensure accuracy there is no separate reconciliation carried out to ensure that the housing rental system and financial ledgers are in agreement.

To ensure that the Housing Revenue Account presents a fair view of the assets and liabilities of the housing rents activity it is necessary to adjust the total rent arrears debt outstanding to include a provision for the write off of bad debts. This provision is calculated at the end of each financial year based upon the latest level of debt. There is scope to improve procedures in this regard.

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| Strength of Internal Controls: | Moderate |
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Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

Where the audit has identified areas where a response by management is required, these are listed in Appendix 1, along with an indication of the importance of each 'action point'. Appendix 2 describes these action points in more detail, and records the action plan that has been developed by management in response to each point.

It is management's responsibility to ensure that the action plan presented in this report is achievable and appropriate to the circumstances. Where a decision is taken not to act in response to this report, it is the responsibility of management to assess and accept the risks arising from non-implementation.

Achievement of the action plan is monitored through Internal Audit's 'follow up' arrangements.

Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

Acknowledgements

Internal Audit acknowledges with thanks the co-operation of Housing and Strategic Commissioning staff during this audit.

Feedback

Internal Audit welcomes feedback from management, in connection with this audit or with the Internal Audit service in general.

Distribution

The draft report will be issued to the following officers:

B Malone, Chief Executive

J Fyffe, Senior Depute Chief Executive

B. Atkinson, Director (Social Work),

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L Cameron, Head of Housing & Strategic Commissioning

J Symon, Head of Finance

C Mailer, Senior Service Manager, Housing

M Dow, Neighbourhood Operations Service Manager

R Williams, Team Leader, Income Maximisation

S.Strathearn, Business Improvement Manager

F Lambie, Accountant

L Simpson, Head of Legal and Governance Services

K McNamara, Head of Community Planning, Strategic Commissioning and Organisational Development

P Dickson, Complaints & Governance Officer

External Audit

Authorisation

The auditor for this assignment was D Brownlow. The supervising auditor was J Clark

Jacqueline Clark
Chief Internal Auditor
Date: 6 March 2017

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Appendix 1: Summary of Action Points

| No. | Action Point | Risk/Importance |
|-----|---|-----------------|
| 1 | Updated policy | Low |
| 2 | Arrears system escalation suspension procedure | Medium |
| 3 | Contents of arrears reports | Low |
| 4 | Bad debt write off procedure | Low |
| 5 | Reconciliation and bad debt provision calculation | High |

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Appendix 2: Action Plan

Action Point 1 - Updated Policy

The Policy for Current and Former Tenant Rent Arrears was approved at the November 2016 meeting of the Housing and Health Committee but is not yet available via the Council's web page.

Management Action Plan

The Policy is now linked to the Rent Arrears and Advice page on the Council's website.

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| Importance: | Low |
| Responsible Officer: | R Williams, Team Leader – Income Maximisation |
| Lead Service: | Housing and Community Care |
| Date for Completion (Month / Year): | Completed |
| Required Evidence of Completion: | The updated policy document is made available on the PKC web page |

Auditor's Comments

Satisfactory

Action Point 2 - Arrears system escalation suspension procedure

The rent arrears management system includes a weekly escalation process to ensure that tenant accounts recorded as in arrears are the subject of systematic reporting and follow-up each week, unless the escalation action is indicated as suspended. The Northgate V.6 User Guide for the Rent Arrears Process, includes the instruction to 'remember to set the end date for the suspension'. This reliance on officers' memories presents a risk that debts will not be pursued in accordance with the approved rent arrears escalation process if the suspension procedure is not appropriately managed or supervised

Management Action Plan

The Service has reviewed and updated its processes and procedures so that reports are considered on a weekly basis by Locality Coordinators. This change took effect from January 2017 and reports are now being considered weekly and are also considered by the monthly Operations and Performance Scrutiny meetings.

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| Importance: | Medium |
| Responsible Officer: | R Williams, Team Leader – Income Maximisation |
| Lead Service: | Housing and Community Care |
| Date for Completion (Month / Year): | Completed |
| Required Evidence of Completion: | New guidelines for the activation and control of the escalation suspension process |

Auditor's Comments

Satisfactory

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Action Point 3 - Content of rent arrears reports

Rent arrears can be divided into numerous categories for management reporting and control purposes, ie current and / or former tenant arrears, residential and / or non-residential arrears and arrears gross or net of debts written off. There is scope to improve the documentation of some procedures or guidelines for the production of some internal reports, some of which do not clearly specify the basis of arrears included.

Management Action Plan

The Service will review the reports which are provided to ensure that they clarify the content and purpose.

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| Importance: | Low |
| Responsible Officer: | R Williams, Team Leader – Income Maximisation |
| Lead Service: | Housing and Community Care |
| Date for Completion (Month / Year): | August 2017 |
| Required Evidence of Completion: | Report production procedure produced and report contents to be specified within each report |

Auditor's Comments

Satisfactory

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Action Point 4 - Bad debt write off procedure

Individual tenant records had not been updated at the time of the review and the document does not provide guidance on the amendment of the rent records system for write offs once approved by the Strategic Policy & Resources Committee.

Management Action Plan

- 1) All relevant records have now been updated.
- 2) Procedures will be updated to ensure the appropriate treatment of bad debts which have been written off.

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| Importance: | Low |
| Responsible Officer: | R Williams, Team Leader – Income Maximisation |
| Lead Service: | Housing and Community Care |
| Date for Completion (Month / Year): | 1) Completed 2) July 2017 |
| Required Evidence of Completion: | 2) Revised bad debt write off procedure |

Auditor's Comments

Satisfactory

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Action Point 5 - Reconciliation and Bad Debt Provision Calculation

Financial ledgers are updated for all aspects of housing rents activities (rental income, arrears, in-year debt write-offs etc) via the input of monthly journals which are created based on monthly Northgate system reports.

It was noted that, whilst the monthly journal creation process incorporates a self-checking mechanism to ensure accuracy throughout the financial year, there is no journal to account for the value of write offs approved annually by SP&R Committee, and no reconciliation process to ensure that the housing rents system and financial ledgers are in agreement at year end.

Furthermore, the annual bad debt provision adjustment is calculated under the year-end accounting process and is based upon a rents system gross age of debt analysis report. The bad debt provision does not take account of bad debts approved for write off at the year end or any adjustments to assumptions to reflect the latest rent arrears collection performance.

Management Action Plan

The processes and procedures which ensure the accuracy of the final accounts with regard to ensuring the reconciliation of the housing rents system and financial ledgers for arrears written off have been updated.

Procedures for the calculation of the annual bad debt provision have been updated.

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| Importance: | High |
| Responsible Officer: | F Lambie, Accountant |
| Lead Service: | Corporate and Democratic Services |
| Date for Completion (Month / Year): | Completed |
| Required Evidence of Completion: | Procedure for accounting for annual bad debt write offs and reconciling rent system records with financial ledgers |

Auditor's Comments

Satisfactory