PERTH &
KINROSS
COUNCIL

Internal Audit Report
Housing and Community Care
Housing Rents Assignment No.16-18
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 Revenue and Capital Budgetfor 2016-17, used 7,480 council houses as a basis for the HRA budget.

Scope and Limitations

In order to arrive at an opinion on the achievement of the control objectives, the audit involved the review of procedures and interviews with staff and teams within Housing & Community Care, Housing and Strategic Commissioning, based in York Place, also Pullar House and locality offices. The audit did not examine the debt collection processes as the management and control of rent arrears is planned to be reviewed under a separate audit.

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..

Control Objective 1: To ensure PKC housing rental charges are accurately identified, collected and credited to the correct account;

Auditor's Comments: Rent charges are identified, calculated and controlled via data held on the Council's housing rents system, Northgate. Operational activities associated with the maintenance and updating of system records for rent charges, tenancy and property changes and payments received are extensively documented. However, a number of procedures would benefit from review and update to ensure that they are fully fit for purpose, and the consistent application of version control. The Council's housing stock records are regularly reviewed and verified for changes against other sources of data.

Our review confirmed that changes to housing stock and tenancy details are timeously updated in rent system records but record keeping of supporting

documentation was found to differ across offices.

Housing rental income is credited to appropriate Council financial ledger income accounts but there are no procedures in place to ensure that the rents system and financial ledgers are regularly reconciled. These procedures were put in place during the audit.

To assist in the maximisation of the collection of housing rents, Housing staff have been issued with cash receipt books during 2016. Although the use of receipt books was accompanied by a written procedure, there would be benefit in updating the procedures with regard to the retention of spoiled / cancelled receipts and the oversight of the banking of cash collected. Tenants can pay housing rents using a wide range of methods and facilities. Procedures are in place to ensure that all payments received are reconciled between the Council's bank accounts and financial ledgers but reconciliations between tenant records and bank statements are not clearly documented.

Strength of Internal Controls:	Moderately Strong

Control Objective: 2.   to ensure PKC housing rental charges are calculated correctly in accordance with the Council's Rent Strategy and Financial Regulations;
Audit Comments; In accordance with Financial Regulations, a joint report – the HRA Strategic Financial Plan & Rent Strategy – is submitted to the Housing & Health Committee early in each calendar year by the Depute Chief Executive, HCC (Corporate & Community Development Services) & Head of Finance, setting out details of the rent strategy & HRA budgets for 5 years ahead. This was approved in January 2016 by the Committee as set out in the Scheme Of Administration.

Internal Audit has confirmed that approved rent increases are correctly set up on the rents system for implementation from the beginning of the new financial year. |

Strength of Internal Controls:	Strong

Control Objective: 3.   To ensure that PKC records of housing rental charges are accurate, up-to-date and secure.
Audit Comments: Records of housing rental charges can only be amended by approved housing rent system users. Access to the Northgate housing rent records system is controlled through a clear application and authorisation process with individual users' access levels set up to match specific job descriptions by the HCC Business Improvement Systems Team following receipt of completed request forms from line managers. User access rights may also be amended / terminated on the written authority of managers.

A range of system user reports are available to facilitate the periodic management review of system users. However, this control is not currently implemented.

Internal Audit testing confirms that ongoing tenant and property record system updates are input accurately and timeously, with procedures in place for regular |

supervisory checks and sample audit reviews.	
Strength of Internal Controls:	Strong

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 HCC 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

This report will be issued to the following officers:

B Malone, Chief Executive

J Fyffe, Senior Depute Chief Executive

B. Atkinson, Director (Social Work),

L Cameron, Head of Housing & Strategic Commissioning

J Symon, Head of Finance

L Simpson, Head of Legal and Governance Services

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

G Taylor, Head of Democratic Services

P Dickson, Complaints & Governance Officer

External Audit

Authorisation

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

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Jacqueline Clark
Chief Internal Auditor
Date: 6 March, 2017

Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	Rents system procedures	Low
2	Retention of supporting documentation	Low
3	Reconciliation of income between Housing Rents system and financial ledgers	Medium
4	Cash receipting procedure	High
5	Housing rents system user access controls	Low

Appendix 2: Action Plan

Action Point 1 - Rents system procedures

A large number of housing rents system procedures and guides are in place, many updated in 2015. They provide step by step guidance in how to undertake each specific action but do not include any explanation as to why or when the action should be completed.

In addition, the Application Support Team undertake numerous checking and reporting activities in accordance with daily /weekly /monthly activity checklists. There is scope to review the number of control actions listed in the weekly checklist to ensure that they are all appropriate,.

There is also scope to ensure that the procedures are subject to consistent version control.

Management Action Plan

The Housing Rents System procedures and the checklist will be reviewed and updated to include the purpose of the controls. Consistent version control will be applied to the documents.

Importance:	Low
Responsible Officer:	R Williams, Team Leader – Income Maximisation
Lead Service:	Housing and Community Care
Date for Completion (Month / Year):	July 2017
Required Evidence of Completion:	Updated checklist and system procedures for rents and rent arrears.

Auditor's Comments

Satisfactory

Action Point 2 - Retention of supporting documentation

Although a certain amount of the documentation in support of rental property tenancies is held in electronic form, most are currently held in paper files within area offices.

Internal Audit found inconsistencies in the range of documents held across different offices which indicates that either documents which are not required are being stored unnecessarily or some documents which should be stored are not being held in files. The Service has highlighted that this would have been because there has been a project to scan such documents in order to minimise the information held in files in offices. As part of the scanning project, officers have reviewed the contents of the files.

Consideration should be given to the range of documentation required to be held compatible with meeting the requirements of the Service, without the unnecessary commitment of resources.

Management Action Plan

The Service has undertaken a project to scan all files, which has rationalised what is held in the physical files in localities.

Importance:	Low
Responsible Officer:	M Dow, Service Manager, Housing
Lead Service:	Housing and Community Care
Date for Completion (Month / Year):	Completed
Required Evidence of Completion:	Guidance issued on the range of documentation to be held on property files

Auditor's Comments

Satisfactory

Action Point 3 - Reconciliation of income between Housing Rents system and financial ledgers

Housing rental income generated by the housing rents system is posted to the financial ledgers via manual journal each month. However, there is no reconciliation procedure in place to ensure that values on the two systems are in agreement.

Management Action Plan

Procedures for the reconciliation of income between the Housing Rents system and the financial ledger have been updated.

Importance:	Medium
Responsible Officer:	F Lambie, Accountant
Lead Service:	Corporate and Democratic Services
Date for Completion (Month / Year):	Completed
Required Evidence of Completion:	Reconciliation procedure put in place

Auditor's Comments

Satisfactory

Action Point 4 - Cash receipting procedure

In order to assist in the maximisation of housing rental income and encourage tenants to make payments whenever possible, Housing staff have been issued with cash receipt books to enable the acceptance of cash payments. The issue of receipt books was accompanied by a cash receipting procedure.

Sample testing confirms that the cash receipting procedure is being followed and that cash received is paid into the Council's bank accounts and credited to tenants' rent accounts, apart from one cash payment identified which had been placed in an office safe for security but subsequently overlooked for banking.

Examination of receipt books confirms that spoiled receipts are being held in receipt books in accordance with the issued procedure.

However, not all offices ensure spoiled receipts are clearly marked cancelled, also there are no management checks in place to ensure that all receipts are either banked or cancelled.

Management Action Plan

The Service will introduce a management control of checking receipt books to ensure that cancelled / spoiled receipts are held and marked as such. The control will include a reconciliation to ensure that all income collected has been banked. Procedures will be updated to take account of these controls.

Importance:	High
Responsible Officer:	R. Williams, Team Leader Income Maximisation
Lead Service:	Housing and Community Care
Date for Completion (Month / Year):	April 2017
Required Evidence of Completion:	Enhanced cash receipting procedure

Auditor's Comments

Satisfactory

Action Point 5 - Housing rents system user access controls

Access to the Northgate housing rent records system is restricted to Housing staff with job defined levels of user access rights. Users' access rights are set up, amended or terminated by Housing & Community Care's Business Improvement Systems Team in response to individual authorisations from Housing managers. However there is no periodic management review process in place to ensure that only intended users have appropriate access rights.

The Northgate system includes a Logged in Users report which, when run, lists all system users who have not logged into the system for a pre-determined period of time. This report is run on an ad-hoc basis by the Business Improvement Systems team and enquiries made into all listed users to confirm whether they should continue to have access rights or whether these should be terminated.

In order to provide assurance that housing rent records can only be accessed by authorised users, System user reports and Logged in User reports should be run periodically in accordance with agreed timetables and records maintained to confirm management responses are received and acted upon by the Systems team.

Management Action Plan

The Service reviewed system access in January and no issues were highlighted. These reports are now run as part of a monthly routine and any issues will be dealt with.

Importance:	Low
Responsible Officer:	M Dow Service Manager
Lead Service:	Housing and Community Care
Date for Completion (Month / Year):	Completed
Required Evidence of Completion:	Processes for the periodic management review of housing rents system users are agreed and implemented

Auditor's Comments

Satisfactory