



Internal Audit Report  
Housing and Community Care  
Housing Rents 12/05  
November 2012

## Final Report

Chief Executive's Service  
Finance Division  
Perth & Kinross Council  
2 High Street  
Perth PH1 5PH



## Background and Introduction

This assignment forms part of the Internal Audit plan for 2012/2013, as approved by Audit Sub-Committee on 27th March 2012. Audit testing for the assignment took place between July and September 2012.

As at 31st March 2012 the Housing Service, part of Neighbourhood Services, Housing and Community Care (HCC) had 7343 properties in settlements dispersed throughout Perth and Kinross.

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

The Housing Revenue Account (HRA) has a final budget for 2012/2013 of £24.151 million.

The Strategic Policy and Resources Committee meeting of 20<sup>th</sup> June 2012 approved £38,848.23 be written off in respect of rent charges raised for former tenants and also court expenses incurred where it had not been possible to collect the rent during financial year ended 31 March 2012.

In August 2011 the current tenant arrears as a percentage of net rent due was 7.67% above the target of 6% for March 2012. As at June 2012 the corresponding level of rent arrears was 7.52%

The Service has implemented an action plan to reduce rent arrears level and is currently undergoing a period of restructuring which includes moving the Rent Arrears Team from Revenues & Benefits into Neighbourhood Services.

## Acknowledgements

Internal Audit acknowledges with thanks the co-operation of the Housing and Community Care teams during this 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: To ensure PKC housing rental charges are accurately identified, collected and credited to the correct account.
Auditor's Comments: Rent charges are identified from data on the housing stock register. The register's annual housing stock figure is checked by verifying stock changes during the year.

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Audit testing confirmed rent charges on the housing system were in line with amounts collected and accurately posted to the correct tenant's accounts. There was a £43,852.63 difference between the general ledger and the housing rental system at financial year end 2012 which has not yet been reconciled. Tenancy change amendments were also promptly input to systems. There are, however, inconsistencies in how area Housing offices process weekly tenancy audit reports.

Some housing rent procedures are not documented and others are in need of review. Also, the intranet site does not clearly state staff roles and responsibilities. This is partly explained by the ongoing Housing and Community Care restructuring exercise.

Strength of Internal Controls:

Moderately Strong

Control Objective: To ensure PKC housing rental charges are calculated correctly in accordance with the Council's Rent Strategy and Financial Regulations.

Auditor's Comments: The Executive Director (Housing and Community Care) submitted the Housing Revenue Account Strategic Financial Plan to 2016/17 to the Housing and Health Committee (HHC) on 1 February 2012. This report, in accordance with the Financial Regulations, included a review of housing rental charges. Procedures and controls are in place to ensure increases in rents following such review are calculated and correctly implemented.

The report also included reference to a previously approved decision to undertake a review of the rent charging structure which the Service is no longer proceeding with at this time. The Rent Strategy Committee paper was shared with the Tenants & Residents Federation prior to committee however the website has not been updated.

Strength of Internal Controls:

Moderately Strong

Control Objective: To ensure the adequacy of the arrangements for the detection and recovery of housing rent arrears and the identification of the related debt write offs.

Auditor's Comments: There is no formally approved rent arrears policy for detection and recovery of rent arrears. Procedures document the actions for the recovery of rent arrears. Audit testing confirmed action was taken in accord with these procedures. The current Service restructure has moved responsibilities for rent arrears from Revenues and Benefits to Neighbourhood Services. Consequently, procedures and the Service scheme of delegation require to be updated to reflect these changes.

Scope exists for improving rent arrears performance monitoring reports. This is currently being addressed by the Service developing a more sophisticated suite of

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performance measures to allow more detailed analysis of arrears information.

A rent arrears action plan is in place, the stated purpose of which is to implement and monitor a range of actions and activities to reduce rent arrear levels.

Figures reported as former tenant arrears debt written off for the financial year ended March 2011 in the form of Statutory Performance Indicators (SPI) marginally differed from the write off amount approved by Committee.

Strength of Internal Controls:

Moderate

### 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.

### 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 distributed to:

B Malone, Chief Executive

D Burke, Executive Director, Housing and Community Care

J Walker, Depute Director, Housing and Community Care

L Cameron, Head of Housing & Strategic Commissioning

A Taylor, Head of Finance & Support Services (HCC)

## Internal Audit Report

N Copland, Business & Resources Manager

J Symon, Head of Finance

P Dickson, Complaints & Governance Officer

M Kay, Senior Committee Officer

External Audit

### Authorisation

The auditor for this assignment was D McCreddie. The supervising auditor was D Farquhar.

This report is authorised for issue:

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Jacqueline Clark

Chief Internal Auditor

Date: 2 November 2012

## Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	Housing Stock Reconciliation	Medium
2	Roles and Responsibilities	Medium
3	Rent Charging Structure	Medium
4	Checking New and Terminated Tenancies	Low
5	Procedures	Low
6	Reporting Rent Arrears Performance	Medium
7	Computer Permission Rights	Low
8	Secure Tenancy Numbers	Low
9	Reconciliation of Housing Rent Ledger Income	Low
10	Rent Arrears Policy	Medium
11	Former Tenant Arrears Write Off	Medium





## Appendix 2: Action Plan

### Action Point 1 - Housing Stock Reconciliation

A process is in place for the verification and reconciliation of the movements within the housing stock; however the Service was unable to provide any housing stock reconciliation procedures for example stipulating roles, accountabilities and timescales. In addition, there was no management oversight of this routine.

### Management Action Plan

The Neighbourhood Services Manager will ensure procedures are documented and approved that stipulate the roles and accountabilities, such as management oversight checks and the required timescales/frequencies for the housing stock reconciliation process.

Importance:	Medium
Responsible Officer:	L Cooper, Neighbourhood Services Manager
Lead Service:	Housing and Community Care
Date for Completion (Month / Year):	March 2013
Required Evidence of Completion:	Copy of approved procedures

### Auditor's Comments

Satisfactory

## Action Point 2 - Roles and Responsibilities

A restructure in May 2012 within Housing and Community Care (HCC) moved the roles and responsibilities for housing rents and rent arrears from Revenues and Benefits to Neighbourhood Services. However, the following evidences that documentation needs updating to reflect the restructure:

The HCC Senior Management Team intranet page details the Head of Finance and Support Services as responsible for housing rent and the Revenues and Benefits page states they collect rents. The July rent statements detail the Revenues & Benefits Manager's name.

The HCC Scheme of Delegation delegates authority to recommend writing off rent arrears to the Benefits/Revenues Manager and not Neighbourhood Services. The Scheme also delegates authority to recommend the annual rent setting to the Head of Housing. But, HCC Finance and Support Services prepare this Committee report.

Without adequately documented roles and responsibilities, misinterpretations and inconsistencies may occur.

## Management Action Plan

1) The Neighbourhood Services Manager will arrange for the HCC Senior Management Team and Revenues and Benefits/Neighbourhood Services intranet pages to be updated to reflect the housing rents responsibilities of the Head of Housing & Strategic Commissioning and Neighbourhood Services. Rent statements and system generated letters will be updated to detail the Neighbourhood Services Manager's name and Area Housing Managers will sign adhoc letters.

2) The Neighbourhood Services Manager will liaise with the Business and Resource Manager to ensure that the Scheme of Delegation is amended in line with recent structural and procedural changes.

Importance:	Medium
Responsible Officer:	L Cooper, Neighbourhood Services Manager
Lead Service:	Housing and Community Care
Date for Completion (Month / Year):	December 2012
Required Evidence of Completion:	1) Intranet page and rent statement with Neighbourhood Services name. 2) Revised Scheme of Delegation

## Auditor's Comments

### Action Point 3 - Rent Charging Structure

A report submitted to Housing & Health Committee on 20 August 2008 stated that the Service had commissioned a consultant to project manage a rent restructuring exercise, the outcomes of which would be reported to Committee early 2009. The Service advised that the consultant did not conclude the initial stages of the exercise until 2011 and they reported that the exercise was very complex, would take a significant time to complete and would require resources to be taken away from front line services to undertake the task.

The Service therefore decided that, due to the costs and staff time which would be required, there would be little benefit in continuing with this exercise and therefore included reference to this in the Housing Revenue Account Strategic Financial Plan report submitted to the Housing and Health Committee on 1 February 2012.

The Service has accepted that this paragraph could have been better placed elsewhere within the report to highlight that such a decision had been taken.

In addition, there are references to the Rent Charging Structure review which would lead tenants to believe that this is still ongoing accessible from the Council's website. The auditor was advised that tenants had been informed that the review was no longer taking place at this time via Tenants Federation meetings.

### Management Action Plan

The Service will ensure that all reference to the rent charging structure review will be reviewed and clarified to ensure that tenants are clear that the review is no longer taking place at this time and will be considered again at a future date.

Importance:	Medium
Responsible Officer:	L Cooper, Neighbourhood Services Manager
Lead Service:	Housing and Community Care
Date for Completion (Month / Year):	December 2012
Required Evidence of Completion:	Updated PKC website page

### Auditor's Comments

Satisfactory

## Action Point 4 - Checking New and Terminated Tenancies

The HCC systems team provides reports detailing new and terminated tenancies entitled "Requiring Audit Checks" to each Area Housing Manager. Entries remain on reports until the Area Housing Managers review and update their records. Audit testing revealed inconsistencies in the approach to actioning these reports. There was also no evidence of line management oversight checking of the checks, or system exception reporting of items not reviewed after a predefined period.

### Management Action Plan

The Neighbourhood Services Manager will develop and approve written procedures which stipulates the expected standards when Area Housing Manager's review new and terminated tenancies reports. These procedures will also detail line management oversight checking of these reports such as checking a new system based exception report that details items not checked by Area Housing Managers after a predetermined period of time.

Importance:	Low
Responsible Officer:	L Cooper, Neighbourhood Services Manager
Lead Service:	Housing and Community Care
Date for Completion (Month / Year):	February 2013
Required Evidence of Completion:	Written approved procedures

### Auditor's Comments

Satisfactory

## Action Point 5 - Procedures

The current tenant rent arrears procedures were last updated in March 2009 and in need of review as evidenced by a stated review date of April 2011. Likewise the former tenant arrears management policy procedure & good practice manual is dated July 2007 and quotes 2006 - 07 performance. Both procedures refer to the Revenues and Benefits Team although they concern Neighbourhood Services.

Some Housing processes tested by the auditor were not documented, for example, checking of items posted to the Housing Rents Suspense account and the issue of quarterly rent statements.

The lack of up to date documented procedures may result in errors and or inconsistencies.

## Management Action Plan

The Neighbourhood Services Manager will review the appropriateness of maintaining current tenant and former tenant arrears procedures. Thereafter the procedures will each be updated or combined into one tenant arrears procedure. They will also be updated to show they belong to Neighbourhood Services.

Procedures will be written and approved in respect of checking of the housing rents suspense account and issuing of quarterly rent statements.

Importance:	Low
Responsible Officer:	L Cooper, Neighbourhood Services Manager
Lead Service:	Housing and Community Care
Date for Completion (Month / Year):	February 2013
Required Evidence of Completion:	Written approved procedures

## Auditor's Comments

Satisfactory

## Action Point 6 - Reporting Rent Arrears Performance

Audit testing revealed rent arrear performance reports are regularly produced. At the date of audit testing, rent arrears performance was not available to Housing staff via the key service information section of their intranet site. The Service advised such information was detailed in information for senior management, the Rent Arrears Steering Group and Area Housing Managers.

The form of current performance reports allows limited contextual analysis of arrears information. However, the Service is developing a more sophisticated suite of performance reporting measures, which will allow more detailed analysis of rent arrears trends in particular information as to the age, values and recovery rates.

In addition, the June 2011 Business Management and Improvement Plan (BMIP) quoted rent arrears targets of 5.5% for 2012/13 and 5% for 2013/14. The June 2012 BMIP quotes different targets of 6% for 2012/13, 5.9% for 2013/14 and no 2014/15 target.

### Management Action Plan

Rent arrears performance will be discussed at a local level with Housing Officers, Area Team Assistants and Revenues Assistants with all relevant rent arrears performance information placed on the intranet site on a monthly basis.

Rent arrears performance reports will be rolled out detailing the analysis of rent arrears by trends, age, values and recovery rates.

The Neighbourhood Services Manager will arrange for the Business Management and Improvement Plan (BMIP) to be updated to include the 2014/15 rent arrears target.

Importance:	Medium
Responsible Officer:	L Cooper, Neighbourhood Services Manager
Lead Service:	Housing and Community Care
Date for Completion (Month / Year):	March 2013
Required Evidence of Completion:	1) Extract from updated intranet performance page 2) Updated monthly rent arrears performance reports

### Auditor's Comments

Satisfactory

## Action Point 7 - Computer Permission Rights

Audit testing revealed the Repairs and Maintenance Manager and a Benefits Assessor held housing rent computer permission rights not required to carry out their current roles.

Incorrect permission levels may increase the risk of unauthorised or fraudulent amendment to records.

### Management Action Plan

The Neighbourhood Services Manager will ensure housing rent computer permission rights are held by the appropriate officers and arrange for the removal of the housing rents computer permission rights for the Repairs and Maintenance Manager and a Benefits Assessor as identified by the audit.

Importance:	Low
Responsible Officer:	L Cooper, Neighbourhood Services Manager
Lead Service:	Housing and Community Care
Date for Completion (Month / Year):	November 2012
Required Evidence of Completion:	Confirmation computer rights removed for the 2 staff identified by the audit.

### Auditor's Comments

Satisfactory

## Action Point 8 - Secure Tenancy Numbers

A Neighbourhood Services Strategy Report was submitted to Housing and Health Committee on 14th March 2012 stating the Council has 7,167 secure council tenancies.

The Auditor was unable to identify any correlation between the above figure and the 7,113 tenancies detailed in the annual rent increase work of 27th February 2012 or the 7,140 tenancies shown in recent rent arrears work.

It was accepted by the Auditor that the differences may be timing issues, but the Service was unable to provide any evidence of reconciliation or linkage between the different figures.

Inconsistencies in records may result in inappropriate reporting.

## Management Action Plan

The Neighbourhood Services Manager will remind the Service to use an audited secure tenancy figure that includes the date of the data when writing reports detailing the number of secure tenancies.

Importance:	Low
Responsible Officer:	L Cooper, Neighbourhood Services Manager
Lead Service:	Housing and Community Care
Date for Completion (Month / Year):	December 2012
Required Evidence of Completion:	Copy of reminder to the Service

## Auditor's Comments

Satisfactory



## Action Point 9 - Reconciliation of Housing Rent Ledger Income

The Service based accountant as part of his scrutiny role carries out an annual reconciliation of the housing rent income posted to the general ledger and the income posted to the Housing rental computer system.

At financial year end 2012 the general ledger was overstated by £43,852.63 and at the date of audit testing the reason for the difference had not been identified and corrected.

### Management Action Plan

The Service will identify and post the relevant entries relating to the timing differences or identify any other reason(s) for the £43,852.63 difference between the Houlive and Integra systems at financial year end March 2012.

Importance:	Low
Responsible Officer:	Neil Copland, Business & Resource Manager
Lead Service:	Housing and Community Care
Date for Completion (Month / Year):	March 2013
Required Evidence of Completion:	Difference reconciled and entries posted

### Auditor's Comments

Satisfactory

## Action Point 10 - Rent Arrears Policy

The Service rent arrears action plan refers to the review of the Rent Arrears Policy. However, there is no formal Council policy approved at senior level stipulating how the Council deals with the detection and recovery of rent arrears.

In the absence of such a formal and approved Rent Arrears Policy the Auditor reviewed the current tenant rent arrears procedures, former tenant arrears procedures and Neighbourhood Services strategy and observed they all include rent arrears policies/strategies statements not wholly aligned to each other.

The absence of a dedicated policy or strategy, approved at an appropriate level, may result in a lack of direction or misinterpretation of requirements.

## Management Action Plan

The Neighbourhood Services Manager will draft a formal Rent Arrears Policy for approval at Committee level which stipulates how the Council deals with the detection and recovery of rent arrears.

Importance:	Medium
Responsible Officer:	L Cooper, Neighbourhood Services Manager
Lead Service:	Housing and Community Care
Date for Completion (Month / Year):	March 2013
Required Evidence of Completion:	Approved Rent Arrears Policy

## Auditor's Comments

Satisfactory

## Action Point 11 - Former Tenant Arrears Write Off

The Strategic Policy and Resources Committee (SP&R) meeting of 20th June 2012 approved the former housing tenant arrears write off for financial year end 31 March 2012. The report stated "the Council's systems have already been amended to show the written off accounts pending approval by the Committee". As at the September audit testing date the accounting entries had not been made to tenant accounts.

Audit testing also revealed a difference between the former tenant arrears write off approved by SP&R on 15th June 2011 of £36,854.20 for the financial year ended March 2011 and the £36,492.26 Statutory Performance Indicator (SPI) for 2011/12 as reported to Audit Scotland. The Service advised the £361.94 discrepancy was due to different records being used to calculate the SP&R and SPI figures.

### Management Action Plan

The Neighbourhood Services Manager will either arrange for the accounting entries for housing rents write offs to be processed prior to the Strategic Policy and Resources Committee report or liaise with Finance Division to amend the wording in future reports.

The Neighbourhood Services Manager will develop a procedure that ensures the former tenant arrears written off figure used for the Statutory Performance Indicator either agrees with or is reconcilable with the corresponding figure reported to SP&R.

Importance:	Medium
Responsible Officer:	L Cooper, Neighbourhood Services Manager
Lead Service:	Housing and Community Care
Date for Completion (Month / Year):	June 2013
Required Evidence of Completion:	1) Confirmation 12/13 write offs processed by June 13 or reworded SP&R report. 2) Procedures stating SPI and SP&R write offs figure need agree or be reconciled.

### Auditor's Comments

Satisfactory

