



Internal Audit Report
Housing and Community Care
Rent Arrears Assignment No.14-10
November 2014

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 2014/15, as approved by the Audit Committee on 2 April 2014. The purpose of the audit is to review the adequacy of the arrangements in place for the minimising, monitoring and management of rent arrears.

As at 31st March 2014 the Council had 7,400 properties in settlements dispersed throughout Perth and Kinross of which 7,199 were tenanted. Neighbourhood Services, part of Housing Services, operate four Area Housing Offices to provide services to tenants including support and mediation in neighbour disputes, management of void properties and community involvement events. The Area Housing Office's role includes the management of rent arrears ensuring housing rental income is optimised in order to maintain and manage the housing stock in compliance with legislation and good practice.

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 revenue budget for 2014/15 is £26.192 million. Total rent arrears as at 31 March 2014 were £1.888 million, and a bad debt provision was made of £1.180 million in respect of rent charges raised in respect of former tenants and court expenses incurred.

Scope and limitation

In order to arrive at an opinion on the achievement of the control objectives, the audit included a review of the policies and procedures over the activities of Neighbourhood Services in relation to rent arrears and their management, review of case files, and interviews with Neighbourhood Services and Housing & Community Care and Chief Executive's Finance Officers. The audit did not include rent arrears within the general fund e.g. accommodation and services to homeless people.

Acknowledgements

Internal Audit acknowledges with thanks the co-operation of Neighbourhood Services and Finance Officers 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.

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<p>Control Objective: To ensure adequate arrangements for the detection and recovery of housing rent arrears and the identification of the related bad debt provision.</p>	
<p>Auditor's Comments:</p> <p>Arrangements for the detection of housing rent arrears were examined and were found to be adequate. This was evidenced by a reporting regime which ensures the accurate maintenance of tenants' accounts and the circulation of reports which enable Area Teams to intervene promptly. Relevant factors are taken into account when assessing the level of bad debt provision as part of the annual budget process.</p> <p>However, the operational procedures pre-date the current rent arrears policy and require to be revised. The Auditor noted that a review of procedures is under way.</p> <p>Details of contact with tenants are recorded on Northgate (Housing System) in compliance with legislation and local procedures. Whilst instances of effective engagement were demonstrated which produce positive results in the reduction of rent arrears, there were inconsistencies identified in the treatment of cases across the Council area.</p> <p>There is no reconciliation between approved debts written off by Strategic Policy and Resources Committee (SP&R) and those written off within Northgate.</p> <p>In addition, the value of sequestered debt written off from Northgate has not been formally reported to either Housing & Community Care's Senior Management Team or included in the Annual Report to SP&R.</p> <p>The audit recognised that there were conflicting pressures between pursuing rent arrears and supporting tenancies.</p>	
<p>Strength of Internal Controls:</p>	<p>Moderate</p>

<p>Control Objective: To ensure the validity of the basis for the rent arrears calculation</p>	
<p>Auditor's Comments:</p> <p>The Service produces a monthly Rent Return from Northgate Housing System which is used to determine the level of rent arrears. Reconciliation and regular monitoring of the Rent Return ensures that the level of arrears is properly declared.</p>	
<p>Strength of Internal Controls:</p>	<p>Strong</p>

<p>Control Objective: To examine the established or proposed arrangements to mitigate the impact of welfare reform on rent arrears</p>	
<p>Auditor's Comments:</p> <p>Internal Audit has reviewed the established and proposed arrangements to mitigate the impact of welfare reform on rent arrears.</p> <p>Perth and Kinross Joint Welfare Reform Steering Group (JWRSG) was established to mitigate the impact of Welfare Reform through joint working with partner agencies. This has involved working with NHS Tayside, Registered Social Landlords, Citizens' Advice Bureau etc. to raise awareness and provide information and training in order to support residents in the area as a result of the changes made to benefits and the way they are paid. Housing and rent arrears provide one of the work streams of this group.</p> <p>During the Audit, Housing and Community Care established a Tenancy Sustainment Team. The team's primary focus is to maximise income through the provision of advice, information and access to other services (including Welfare Rights) for vulnerable tenants, in particular those whose income has been affected by welfare reform e.g. under occupancy charge and "benefits cap". The formation of the team is considered a positive step. The team will also increase the use of technology for rent payments and reminders in order to reduce the level of rent arrears.</p> <p>Housing & Community Care also undertake a range of other welfare reform mitigation activities which may impact on rent arrears including increased communication and engagement events and support to existing and potential tenants.</p> <p>Internal Audit cannot at this stage arrive at an opinion on the effectiveness of these arrangements.</p>	
<p>Strength of Internal Controls:</p>	<p>Strong</p>

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.

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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 has been distributed to:

B Malone, Chief Executive

J Walker, Executive Director, Housing & Community Care

L Cameron, Head of Housing & Strategic Commissioning

J Symon, Head of Finance

C Mailer, Senior Service Manager

A Collinge, Project Officer - Income Maximisation

G Taylor, Head of Democratic Services

P Dickson, Complaints & Governance Officer

External Audit

Authorisation

The auditor for this assignment was A Gallacher. The supervising auditor was M Morrison.

This report is authorised for issue:

Jacqueline Clark

Chief Internal Auditor

Date: 3 November 2014

Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	Rent Arrears Procedures	Medium
2	Current Rent Arrears and Former Tenant Rent Arrears Policy	Low
3	Reconciliation of Bad Debt Write Off	Medium
4	Rent Accounts in Arrears subject to Sequestration	Low

Appendix 2: Action Plan

Action Point 1 - Rent Arrears Procedures

The Operational Policy and Procedural Manual Rent Arrears was most recently reviewed in November 2012. The policy for Current Rent Arrears and Former Tenant Rent Arrears was approved by Housing & Health Committee in November 2013 and contained a shift in emphasis towards tenancy sustainment. As such, the procedures are not up to date and do not reflect the current policy.

The auditor noted the absence of:

A cohesive process for the administration and resolution of rent arrears;

Clarity of different officer roles to ensure that a consistent approach is observed in meeting the expectations of the Service;

How officers should use Northgate to implement the procedures including the suppression of automated escalation activities, where appropriate;

How Tenancy Sustainment Team will support the work of the Area Housing Offices in reducing the level and incidence of rent arrears, in addition to providing support to vulnerable tenants;

Any management actions, including case review, in ensuring the implementation of the current policy.

In addition, the Procedures manual for the production of reports from Northgate was found to be out of date and incomplete.

Management Action Plan

- a) Operational procedures have been drafted which address the points raised which will align with the approved policy. These are currently with senior housing management for final amendments.
- b) Procedures for Northgate Reporting will be revised and updated.

Importance:	Medium
Responsible Officer:	A Collinge, Income Maximisation Project Officer
Lead Service:	Housing and Community Care
Date for Completion (Month / Year):	a) December 2014 b) January 2015
Required Evidence of Completion:	Approved Procedures

Auditor's Comments

Satisfactory

Action Point 2 - Current Rent Arrears and Former Tenant Rent Arrears Policy

The Rent Arrears and Former Tenant Rent Arrears Policy, as approved by Housing & Health Committee in November 2013, stated that it is due for review in October 2014.

This Policy contains some factual inaccuracies as regards the legal and regulatory regime; in particular reference to an inapplicable section of the Housing (Scotland) Act 2010 and a section on Performance Indicators which are no longer statutorily required.

Management Action Plan

This policy is currently subject to review.

Importance:	Low
Responsible Officer:	A Collinge, Income Maximisation Project Officer
Lead Service:	Housing and Community Care
Date for Completion (Month / Year):	March 2015
Required Evidence of Completion:	Revised Policy

Auditor's Comments

Satisfactory

Action Point 3 - Reconciliation of Bad Debt Write Off

Former Tenant Rent Arrears form part of the annual report to SP&R which requests approval for the write off of bad debts. Following approval, debts are removed from individual tenant accounts by the relevant officer.

There is no reconciliation between approved debts written off by Strategic Policy and Resources Committee and those written off within Northgate.

Management Action Plan

Reconciliation will be carried out between approved debts written-off and Northgate batch reports. This will be subject to management review.

Importance:	Medium
Responsible Officer:	A Collinge, Income Maximisation Project Officer
Lead Service:	Housing and Community Care
Date for Completion (Month / Year):	December 2014
Required Evidence of Completion:	Reconciliation containing evidence of management review

Auditor's Comments

Satisfactory

Action Point 4 - Rent Accounts in Arrears subject to Sequestration

Rent Arrears which have been the subject of the Committee report requesting approval for the write off of bad debt only pertain to former tenants. This report does not include reference to current tenants with rent arrears whose debts have been the subject of sequestration.

Such Rent Arrears have historically been written off within the Housing Rents system without formal reporting to H&CC Senior Management Team or notification to Committee.

The number of sequestrations for which there is a liability for housing rent arrears has this year been included in the Performance Management Framework but not the value of debts cancelled in this way. The value of such irrecoverable debt for the first six months of this year is £16,000.

Management Action Plan

The value of rent arrears sequestrations will be included in:

- a) the Performance Management Framework; and
- b) the Annual Report to SP&R.

Importance:	Low
Responsible Officer:	A Collinge, Income Maximisation Project Officer
Lead Service:	Housing and Community Care
Date for Completion (Month / Year):	a) December 2014 b) June 2015
Required Evidence of Completion:	a) Performance Management Framework to include rent arrears sequestration values b) Sequestration values to be included as part of Annual Debt Write off Approval Report to SP&R

Auditor's Comments

Satisfactory