

## Service Charges on Council Properties – Follow Up

### Final Internal Audit Report 2008/09

#### 1. INTRODUCTION

This internal audit follow up review has been carried out in accordance with the Internal Audit Plan for the financial year 2008/09. During the financial year 2007/08, an audit of service charges on council properties found a number of significant risks which led to a no assurance being given to sheltered housing and a limited assurance to leasehold properties.

When we published our final report in September 2007, a financial review of service charges had been commenced with the aim of providing scheme based details on committed, charged and recovered costs and income. From this work, it was intended to set revised service charges. This work, once completed, should address many of the risks identified in the audit.

In April 2008, the Head of Housing Management confirmed in a follow up request that the financial review had been completed and that revised service charges were applied from April 2008.

In this follow up audit, the impact on the application of these revised service charges has been reviewed.

**It should be noted that the scope of this audit has been restricted to only those objectives which were found to be unsatisfactory in last year's audit.**

**Appendix B** of this report shows the risks identified during this audit that we believe require consideration by managers. There are six risks in total and these have been categorized in terms of priority and type of risk. Managers Have been asked to carry out their own risk assessment in terms of impact and likelihood using the five point scale in Appendix B and show what action they will be taking, if any, to manage the identified risks. These risk assessments are plotted on a risk map in this final report.

As in previous Internal Audit reports, definitions are given of the four categories of audit assurance which can be awarded, and the level of assurance for this audit is given below.

We would like to thank all staff involved for their assistance and co-operation throughout the review period.

#### 2. BACKGROUND, SCOPE AND OBJECTIVES

##### **Background**

Over the past decade, records have shown that the actual costs incurred through the general management of both sheltered housing and leasehold properties have not been met by charges to tenants, and as a consequence, the council has overspent its budget and the Housing Revenue Account has been required to subsidise services.

## Service Charges on Council Properties – Follow Up

### Final Internal Audit Report 2008/09

#### **Scope**

This follow up review has evaluated progress made in documenting policies and procedures in relation to both sheltered housing and leasehold properties, and in seeking to achieve equality of charging across all properties with full cost recovery from charges levied.

#### **Objectives**

The objectives of the audit were to seek assurance that:

- Procedures for the administration of service charges are operated in accordance with statutory requirements and the council's agreed written policy. (SH & LH)
- Service charges are regularly reviewed and correctly assessed. (SH & LH)
- Charges are raised promptly and arrears are actively pursued to a satisfactory conclusion. (SH only)

### **3. EXECUTIVE SUMMARY AND AUDIT OPINION**

The Internal Audit opinion for Service Charges on Council Properties - Follow Up is:

- **Limited Assurance for Sheltered Housing** – This means that there are weaknesses in the system of control, which place the system objectives at risk.
- **Substantive Assurance for Leaseholder Properties** – This means that the system is basically sound but weaknesses may place the system objectives at risk.

This follow up audit has found that significant improvements have been made to the system, through the efforts of both Housing Management and Financial Services staff.

Many improvements have been made in relation to the value of charges applied to tenants; however the Department for Communities and Local Government places restrictions on the proportion or percentage with which councils can increase its charges to meet those costs in any financial year. Consequently, there continues to be under-recovery of costs through income, resulting in the continued gap between the costs of services provided by the council and income receivable from tenants for these services. However, this gap is being reduced, and will continue to do so year on year, as charges are increased over and above inflation in line with council policy and within the restrictions posed by government.

Several key areas of weakness were found during the audit, however, the two principal risks identified are in relation to sheltered housing.

- The lack of a comprehensive and consistent charging policy to ensure transparency and equality in the application of service charges across all sheltered housing tenants means that the basis for the establishment of charges open to challenge, and the council may be in breach of statutory requirements.

**Service Charges on Council Properties – Follow Up**

**Final Internal Audit Report 2008/09**

- The incomplete identification and allocation of actual costs and income by scheme, and the limited extent of coding to those schemes within the ledger, thereby restricting the opportunity to obtain management information on the true costs of each scheme.

The key risks to the council identified as a result of the audit are shown in the following table together with the proposed actions. The risk map plots all the risks according to the manager's risk assessment against the council's risk appetite: -

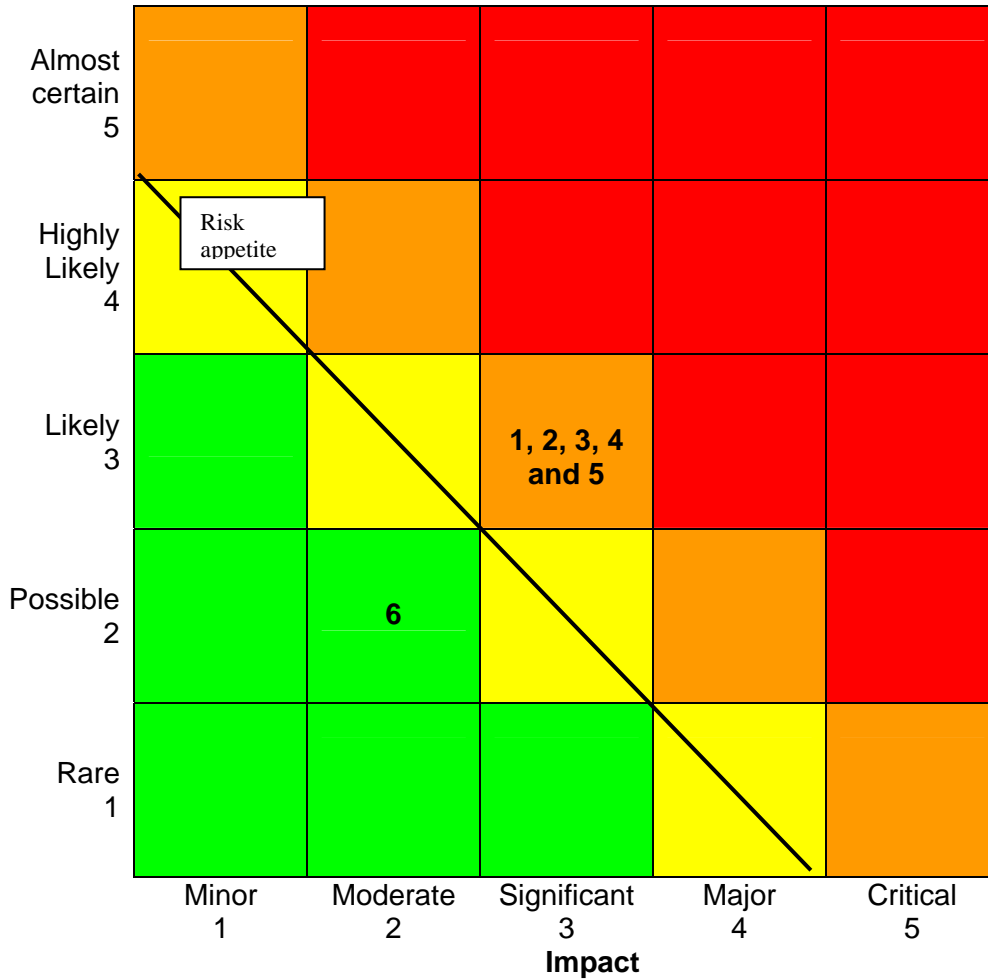
<b>Risk Category</b>	<b>Risk</b>	<b>Proposed Management Action and Target Date</b>
Financial & Operational	Management information on the financial performance of schemes is insufficient to enable a proper review, because costs are not completely identified, charged or allocated in the accounts.	Housing and Financial Services will work together to devise a method of improving financial information for each scheme.  April 2009
Financial	Service charges income does not reflect the costs of the services provided.	Progress will continue to be made to redress this imbalance by increasing service charges above the rate of inflation until such time as they balance per scheme.  Ongoing
Reputational & Impact on People	The current charging mechanism fails to ensure equity amongst tenants in the charges levied.	Further investigation will be undertaken by Neighbourhood managers to ensure that tenants are charged only for those services they receive.  July 2009
Financial	Not allocating income to schemes undermines the provision of effective financial management information.	Housing will work with Financial Services to devise a system for allocating income to schemes.  April 2009
Financial & Reputational	The absence of a consistent charging policy to tenants will result in: <ul style="list-style-type: none"> <li>• a significant loss of income to the council;</li> <li>• a failure to ensure that charges reflect costs;</li> <li>• an inability to confirm the basis for the establishment of charges levied, where made; and</li> <li>• the potential for charges levied to be open to challenge by tenants.</li> </ul>	Further investigation will be undertaken by Neighbourhood managers to ensure that tenants are charged only for those services they receive.  July 2009
Financial	Failure to ensure that all costs are recovered may be in breach of the terms of the lease agreement and lead to a budget deficit.	The Leasehold and Sales Officer will continue to work on ensuring all costs are recovered.  July 2009

**Service Charges on Council Properties – Follow Up**

**Final Internal Audit Report 2008/09**

The following risk map shows the council’s risk appetite with managers’ risk assessment of identified risks.

**Likelihood**



Following the implementation of the proposed management actions it is Internal Audit’s opinion that the improvement in internal control should lead to a higher level of assurance.

**Audit Performance Data**

Audit plan (days)	10
Actual days to final report	9
Start date of audit	3 <sup>rd</sup> November 2008
Date of draft report	15 <sup>th</sup> January 2009
Date of management response	23 <sup>rd</sup> February 2009

## Service Charges on Council Properties – Follow Up

### Final Internal Audit Report 2008/09

#### 4. FINDINGS

##### SHELTERED HOUSING

#### 4.1 Procedures for the administration of service charges are operated in accordance with statutory requirements and the council's agreed written policy.

- 4.1.1 In 2007, both the Head of Housing Management and the Head of Strategic Housing Services expressed serious concerns regarding the administration of service charges and the current budget deficit arising from the insufficient level of cost recharges. It was found that current charges were not based on a planned rational policy, but instead on inappropriate bases with variable incremental increases and no reference to actual costs incurred.

Following the 2007/08 audit, management proposed that a policy on the administration and management of service charges would be produced. As at the date of this report, the Housing Business Improvement Manager has produced a draft Policy on Service Charges in Sheltered Schemes for consideration and consultation. The policy reflects the service objectives and the need to reflect actual costs as far as possible in charges, with the aim of ensuring that tenants pay for services actually received. This draft policy will be presented to the Implementation Executive in January 2009 for approval, finalisation and adoption.

- 4.1.2 In 2007, in addition to the absence of any policy on service charges, written procedures did not exist on the administration of these charges. Full written procedures are a key control to ensure that all staff involved in the administration of service charges are able to apply the policy consistently. Housing management agreed that full written procedures should be generated as soon as a new charging regime had been agreed and was being implemented.

As at the end of November 2008, the Housing Business Improvement Manager had produced draft Service Charge Procedures for consultation. The procedures include information on what services are included and how income and expenditure are to be accounted for. Consideration has been made to the terms of the tenants' rent agreements as well as to applicable housing and rent legislation in the drafting of these procedures. It is strongly advised that once adopted, a review is undertaken annually to ensure continued compliance with legislation. This draft procedure will be presented to the Implementation Executive in January 2009 for approval, finalisation and adoption.

#### 4.2 Service charges are regularly reviewed and correctly assessed.

##### **Correct Calculation of Sheltered Scheme Costs to be Recharged**

- 4.2.1 The internal audit undertaken in 2007 confirmed that all existing service charges comply with current statutory requirements, in that they are all permitted. However, it was found that they failed to meet the statutory requirement that HRA rental income does not subsidise sheltered housing schemes, which are required by legislation to breakeven.

In order to address this, the Head of Housing Management undertook a number of consultations with the Tenant Panel and the Sheltered Housing Forum to discuss a way forward.

## **Service Charges on Council Properties – Follow Up**

### **Final Internal Audit Report 2008/09**

On Wednesday 30<sup>th</sup> January 2008, the Head of Housing Management and the Head of Financial Services put a report to Cabinet which stated that service charges and utility recoveries have “been subject of a thorough review during the year.... It will lead to convergence of costs and income on these elements..... [as] approved by the tenant panel and sheltered housing forum”. Therefore, there is no intention to recover costs lost in previous years, but to reduce the cost to income deficit year on year over a number of subsequent years.

Cabinet approved the new policy and the revised charging regime became effective from April 2008. Rates of increase have been set according to an assessment of actual increases incurred by the council. For example, utilities charges applied from April 2008 were increased by 10%, whilst water charges were only increased by 5%. Inflation is 3.9%.

Therefore, although in the current and next few years, the council continues to be at risk of not complying with relevant legislation due to the HRA subsidizing sheltered housing schemes, a process is now in place to eliminate this in due course, on a timely basis and in agreement with interested parties.

- 4.2.2 Testing of a sample of tenants across all schemes was undertaken to determine whether the application of service charges to tenants has been standardised, so that all tenants in all schemes are charged a fair weekly sum to meet the costs incurred by the council, with the recognition that costs will be currently under-recovered while convergence takes place. To achieve this, it was necessary to identify all costs and income currently incurred at the schemes and apportion any costs and income currently charged and coded centrally. The process and methodology followed are detailed in Appendix A.

#### **Utilities Costs**

- 4.2.3 Although utilities have been identified by scheme and are being charged to the specific cost centres, several discrepancies were found between the charges to some schemes. Questions therefore remain as to the reliability of these figures. For example:

1. Parsons Green and Nadder Close incur medium water charges and yet only some tenants at Nadder Close are charged for water.
2. Norfolk Road incurs low hot water and light costs, but medium water charges and yet no tenants are being charged for heating, hot water or lighting.
3. Only Parsons Green and Nadder Close are heated by fuel oil and yet a total of 8 schemes have fuel oil costs coded to them.
4. Service charges for some schemes are being charged at 2007 prices: 4 schemes are applying the same hot water charges, 1 scheme is applying the same light charges, and 2 schemes are applying the same water charge.

#### **Grounds Maintenance**

- 4.2.4 Prior to the date of this audit, grounds maintenance costs had not been apportioned between schemes, although costs were already identified by Area. During the course of this audit, the apportionment of grounds maintenance charges directly to schemes was actioned by the Accountancy Services Manager. Grounds maintenance costs are incorporated within the rent accounts within the rebatable service charge element of the account.

## Service Charges on Council Properties – Follow Up

### Final Internal Audit Report 2008/09

#### **Management and Landlord Costs**

- 4.2.5 Although some of these costs have been identified by scheme and are being charged to the specific cost centres (£48k), all other management costs (salaries, supplies and services etc) are coded centrally. These are the majority of such costs (£291k). Financial Services have been looking at these costs and the need to apportion them across schemes, with appropriate apportionment bases being determined by best practise. Financial Services have set budgets where expenditure is expected to be, and costs within the “directly allocated” are periodically checked and moved as appropriate. Nevertheless, apportionment currently stands at just 14% of all management and leasehold costs.

Testing of all schemes as a whole, as well as a sample of tenancies across all schemes, found that, as a total, costs are slightly down on last year (2007/08 = £1.1m; 2008/09 projection = £965k). However it was found that only seven of the 23 schemes currently charge an appropriate level of costs to tenants.

It is essential that the rent accounts continue to be adjusted and increased charges applied above inflation so as to more accurately reflect the true costs of the housing services provided.

#### **Risk**

**Management information on the financial performance of schemes is insufficient to enable a proper review, because costs are not completely identified, charged or allocated in the accounts.**

#### **Calculation of Service Charges Due and Relationship to Actual Costs**

- 4.2.6 The charging policy to tenants of the sheltered schemes should enable the costs incurred to be recovered across the service as a whole and also ensure equity to the tenants by linking the charges to the services provided. This follow-up audit examined the basis for the new charging regime and its impact on tenants.

Records of all council properties and tenants are maintained by the Housing Systems Administrator, within the Forest and Trees database. Within the Simdell system, which holds all rent account information, service charges to be made to each tenant are detailed. Prior to the start of each financial year, Cabinet approves the annual service charge uplift percentage, and this uplift was applied correctly for the financial year 2008/09.

Clearly the various costs and achievable income will differ by scheme due to the various constructions, locations, set ups, arrangements and numbers of tenants at each scheme. As in 2007, audit testing compared the charges levied between schemes, between different tenants within the schemes and also in comparison to the overall costs of providing the service. The results of the testing were:

## Service Charges on Council Properties – Follow Up

### Final Internal Audit Report 2008/09

- In relation to four schemes, there was no direct link between the costs attributable to each scheme (as recorded on Agresso) and the setting of the service charges on the rent account.

#### Case study 1:

Although Lynch Close tenants incur medium levels of electricity and low gas costs, they have no heating, hot water or lighting service charges.

- There are differences in the types of service charge applied which cannot be accounted for by differences in service provision or actual costs incurred.

#### Case study 2:

Reindorp Lodge, Nadder Close and The Orchard have high, medium and low water costs respectively on Agresso, and yet each of these schemes charges its tenants approximately £3.00 per week for water charges. In addition, low and medium water costs are incurred by tenants at 17 of the other 20 schemes and yet no water costs are charged to tenants.

- There are discrepancies within schemes so that tenants in similar accommodation within the same scheme do not attract the same service charges.

#### Case Study 3:

A sample of two tenancies from each scheme found discrepancies in charges applied to tenants within six schemes in relation to rebateable service charges (REBSC).

- Nadder Close - £7.83 and £8.09 per week
- Downside - £7.93 and £9.84 per week
- Westwood House - £4.78 and £6.41 per week
- Tintern Court – £6.54 and £7.95 per week
- St Marks House - £7.37 and £9.24 per week
- Norfolk Road - £4.69 and £6.54 per week

As a result the charges to tenants do not appear to be based on a coherent policy and do not reflect actual costs incurred. The new charging regime, therefore, has not overcome the problems we identified in our earlier audit.

### **Risks**

- 1. Service charges income does not reflect the costs of the services provided.**
- 2. The current charging mechanism fails to ensure equity amongst tenants in the charges levied.**

## Service Charges on Council Properties – Follow Up

### Final Internal Audit Report 2008/09

#### **Overall Financial Information on the Sheltered Schemes**

- 4.2.7 Overall the financial objective for the sheltered schemes should be to break even and not incur any cross subsidisation with other parts of the HRA. High quality financial management information is a requirement for managers to ensure that this objective is met.

This follow up review has found that although the overall costs incurred by the schemes are still not being met by income from tenants, housing benefit and Supporting People grant income, that a policy has been initiated to converge costs with income receivable.

Audit testing undertaken during May 2007 indicated that the deficit for 2007/08 would be £457k. As at the end of the 2007/08 financial year, the actual deficit was £453,814. In this current financial year, audit testing of the first six months of the year has indicated that the deficit for 2008/09 will be £277k. This is a significant improvement on the previous year, but it still falls short of breaking even by a considerable margin.

- 4.2.8 Another key finding from this follow up review is, as reported in last year's audit, that the deficit is not equally spread across the sheltered schemes. For example, on average, Westfields residents are being overcharged by £291 per property per annum, whilst Norfolk Road residents are being undercharged per property per annum by £456. Consequently any further recalculation of service charges based upon actual costs may result in significant variances for some tenants but not for others.

Further consultation with the Sheltered Housing Forum and the Tenants Panel may be necessary if additional significant changes are proposed to service charges, in order to mitigate the risk that changes could result in confusion or hardship to tenants.

#### **Management of Income**

- 4.2.9 As reported in last year's audit, most service charge income is held centrally rather than allocated out to the schemes. As at the date of testing, accounting for income for the first six months of the year, it was found that of the £199,080 of general income coded to H3\* cost centres, only £674 is directly allocated; 96% of which relates to water charges at Nadder Close. All general income from guest room lettings and day room bookings (£2,103) was also centrally charged, but readily identifiable to schemes. Furthermore, all Housing Benefit income (£196,303), which is also readily identifiable to the tenant and to the scheme, is also charged centrally (H3Y).

Similarly, none of the Supporting People Grant or housing support charges levied on non-Housing Benefit tenants are allocated to the relevant schemes. They are still coded centrally to H3Z. Strategic Housing generate a weekly report of all Supporting People qualifying accounts which is available to Financial Services on the Housing Common Area. The Supporting People Grant and housing support charges could be directly coded from this information.

#### **Risk**

**Not allocating income to schemes undermines the provision of effective financial management information.**

## Service Charges on Council Properties – Follow Up

### Final Internal Audit Report 2008/09

#### Summary of Testing Findings

4.2.10 In summary, it has been found that:

1. Service charges income does not reflect the costs of the services provided, however the new charging regime is aimed at ensuring convergence between costs and income within a few years ;
2. The current charging mechanism fails to ensure equality amongst all tenants in the charges levied;
3. Schemes which appear to be overspending or under-recovering within Agresso can appear within Simdell to be underspending or over-recovering;
4. Management information on the financial performance of schemes is unavailable or at best inaccurate because full costs are not correctly identified, charged or allocated in the accounts;
5. Comparable charges are not included on rent accounts; and
6. The income derived from housing benefit, Supporting People and the tenants themselves are centrally coded and therefore not reflected within schemes.

4.3 Charges are raised promptly and arrears are actively pursued to a satisfactory conclusion.

4.3.1 Testing was undertaken to determine whether adequate records are kept of all liable clients and that charges are applied to rent accounts on a weekly basis. Two tenants were selected at random from each scheme, a total of 46 tenants in all. It was found that 12 tenants (26%) appeared to have been charged incorrectly, or at least inconsistently and inequitably in both the types of charges incurred and in the actual cost of these various charges. Indeed, some tenants are not charged for services at all. The failure of the council to charge tenants with the costs of services rendered, means that the council is missing the opportunity to recover some if not all of its costs.

Type of Service	No. Schemes with Same Charge Within the Scheme	No. Schemes with Differing Charges	No. Schemes With No Charge At All
Heating	15	0	8
Hot Water	15	0	8
Lighting	9	0	14
Water	2	1	20
REBSC	17	6	0

The range of charges applied to the schemes were found to be as follows:

Type of Service	Charge £
Heating	0.00 to 9.99
Hot Water	0.00 to 3.92
Lighting	0.00 to 2.45
Water	0.00 to 3.16
REBSC	4.12 to 9.84

## Service Charges on Council Properties – Follow Up

### Final Internal Audit Report 2008/09

#### Risks

The absence of a consistent charging policy to tenants will result in:

- a significant loss of income to the council;
- a failure to ensure that charges reflect costs;
- an inability to confirm the basis for the establishment of charges levied, where made; and
- the potential for charges levied to be open to challenge by tenants.

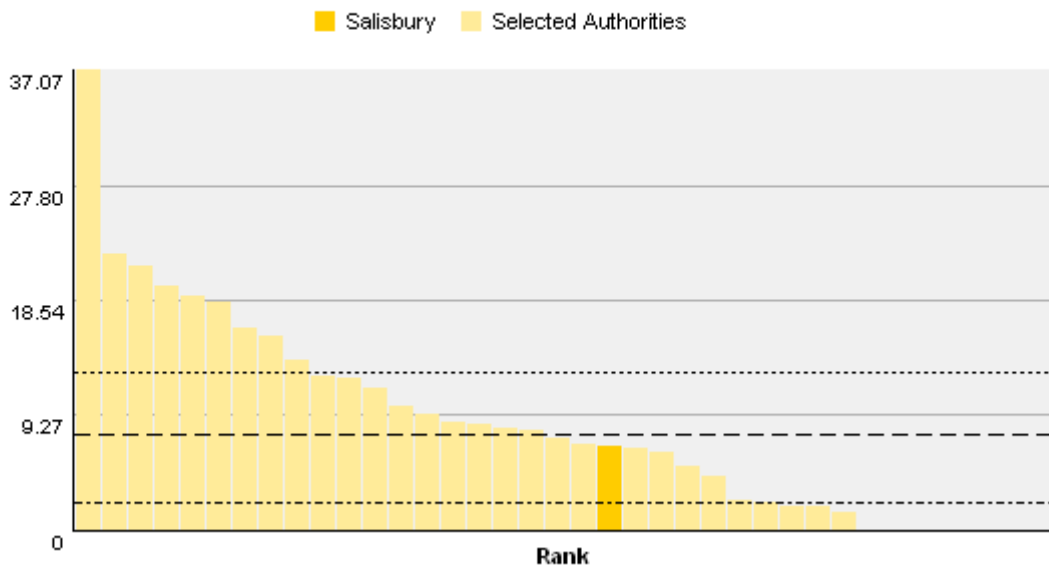
#### 4.4 Statistical Data on Annual Average Service Charges

4.4.1 As part of last year's audit, a statistical report was run to compare the annual average service charges on sheltered schemes levied by non-metropolitan district councils in England, as compared to those levied by Salisbury. It was found that in 2006, Salisbury ranked 25 out of 38; the highest charge being £37.19, Salisbury's being £6.23 and the lowest being £1.30. A similar statistical report was run for 2008. It was found that Salisbury ranked 21 out of 30. A summary of notable charges is as follows:

Rank	Local Authority	Charge £
1	Guildford	37.07
8	New Forest	15.59
20	Winchester	6.96
21	Salisbury	6.70
30	Harrogate	1.38

4.4.2 These findings are illustrated in the following graph, which suggests that the council continues to charge one of the lowest levels of service charges amongst other non-metropolitan districts.

**HRA Dwellings for Rent (included in Total Stock): Sheltered Dwellings - Annual Average Service Charge. (£)**



## Service Charges on Council Properties – Follow Up

### Final Internal Audit Report 2008/09

#### LEASEHOLD PROPERTIES

4.5 Procedures for the administration of service charges are operated in accordance with statutory requirements and the council's agreed written policy.

- 4.5.1 In 2007, a policy for the administration of service charges to leasehold properties had not been devised. At this time, senior management expressed serious concerns regarding the issue of service charges and the current budget deficit. It was agreed that, following restructuring of the Housing Management Service Unit, a policy would be drafted.

As at the date of this audit, the Business Improvement Manager had produced a draft Leaseholder Service Charge Policy, in consultation with the Leasehold and Sales Manager and the Head of Housing Management. The draft policy reflects the service objectives and the need to recover all reasonable costs, with the aim of ensuring that leaseholders pay for services actually received. This draft policy will be presented to the Implementation Executive in January 2009 for approval, finalisation and adoption.

- 4.5.2 In 2007, in addition to the absence of any policy on leaseholder service charges, written procedures did not exist on the administration of these charges. As stated in 4.1.2 above, it is essential that full written procedures are produced for all staff involved in the administration of service charges, and that there is consistency, sound bases and transparency throughout the process.

As at the end of October 2008, the Housing Business Improvement Manager had produced a draft Service Charge Procedures in consultation with the Leasehold and Sales Manager and the Head of Housing Management. The procedures include information on leaseholder rights, the annual service charge, the charges policy, repairs responsibilities, and applicable legislation. In addition, the Housing Business Improvement Manager has produced a draft Leaseholder Handbook which gives tenants clear guidance on service charges, paying invoices and leaseholder rights, responsibilities and duties. These draft procedures will be presented to the Implementation Executive in January 2009 for approval, finalisation and adoption.

It is strongly advised that once the new policy and procedures are adopted, a review is undertaken annually to ensure continued compliance with legislation.

4.6 Service charges are regularly reviewed and correctly assessed.

- 4.6.1 Existing service charges comply with current statutory requirements, in so far as they are all permitted. However, as reported in 2007, these charges do not meet the statutory requirement that the HRA rental income does not subsidise leaseholder costs, which should be met by the general fund.

In last year's audit, it was found that the leaseholder service charge of £98.00 had not been reviewed in at least the previous 7 years, and therefore, had not been increased to take account of the actual management costs, non-management costs and inflation.

## **Service Charges on Council Properties – Follow Up**

### **Final Internal Audit Report 2008/09**

In March 2007, the Housing Finance / Admin Assistant issued a report to the HRA Business Plan Project Board detailing existing costs of leasehold services, the costs of the Housing Management restructuring and the likely increase in service charges which would be required to meet these costs. A review by the Board confirmed the need to revise the administration fee, so as to include management costs not currently charged.

Following consultation with the Leaseholder Panel in the autumn 2007, the old annual administration fee of £30 was replaced by the new management fee of £58.66 with effect from April 2008.

Testing in this current financial year has confirmed that the new charge goes some way to meeting the management costs to the council of services to leaseholders. Provided that similar significant increases occur year on year until a break even position is achieved, the service will be able to meet its obligations to recover full costs of services rendered to leaseholders.

Once in place, the new policy will aim to eliminate HRA subsidisation on a timely basis and in agreement with interested parties.

#### **Risk**

**Failure to ensure that all costs are recovered may be in breach of the terms of the lease agreement and lead to a budget deficit.**

## Service Charges on Council Properties – Follow Up

### Draft Internal Audit Report 2008/09

#### Appendix A - Methodology for Apportioning Costs and Income to Individual Sheltered Schemes

All costs and income associated with the sheltered schemes were identified. These included:

<u>Cost Centres</u>	H3A to H3W	Individual sheltered schemes
	H3Y	Landlord costs
	H3Z	Grouped costs

All costs included within H3Y and H3Z were apportioned across the individual schemes by number of properties, as this was considered to be the most appropriate and easily identifiable and usable cost driver.

All income included within H3Y and H3Z was apportioned across the individual schemes by number of properties; however, other cost drivers were more appropriate for the following types of income:

- 800s relating to H3Y which were apportioned by the proportion of all annual service charge income excluding REBSC income billed per scheme.
- 825 relating to H3Z which was apportioned by number of tenants per scheme and within schemes by those in receipt of housing benefit and by those who are not.

<u>Account Codes</u>	Utilities	220	Electricity
		221	Fuel oil
		222	Gas
		290	Water
	Grounds Maintenance	240	Split between Area 1 (G12) and Area 2 (G13)
	Management	100s	Employee and employer staff costs
		200s	Premises costs excluding utilities and grounds
		300s	Transport costs
		400s	Supplies and services costs
		500s	Agency and contracted services costs
		600s	Special items costs
	Income	800s	All types of income

## Service Charges on Council Properties – Follow Up

### Draft Internal Audit Report 2008/09

#### APPENDIX B

Every audit is awarded an 'Assurance' rating which relates to the efficacy of the systems of control examined during the audit. These are set out below:-

<b>Full Assurance</b>	The system of control is designed to achieve the system objectives and the key controls tested are effective.
<b>Substantive Assurance</b>	The system is basically sound but weaknesses may place the system objectives at risk.
<b>Limited Assurance</b>	There are weaknesses in the system of control, which place the system objectives at risk.
<b>No Assurance</b>	Control is weak and the system is open to the risk of abuse or error.

#### **The Manager's Risk Assessment and Action Plan**

##### The Audit Priority

This gives an indication of the relative importance of the control weakness and risks identified on a scale of \* to \*\*\*\*\*. This takes into account factors such as the corporate impact of the risk, financial materiality, the council's core values and service provision.

##### The Manager's Risk Assessment

This should be carried out for the risk identified in accordance with the council's risk management policy and thereafter form part of the unit's risk register. (**Impact:** Critical, Major, Significant, Moderate, Minor **Likelihood:** Almost certain, Highly likely, Likely, Possible, Rare)

##### The Proposed Management Actions

This should be completed for each risk or group of risks. Where no action is proposed then this should be clearly stated. For any actions, the risk owner, deadline and resource implications should then be identified.

**Service Charges on Council Properties – Follow Up**

**Draft Internal Audit Report 2008/09**

**Manager’s Risk Assessment and Action Plan**

<b>Ref.</b>	<b>Risk</b>	<b>Audit Priority * to *****</b>	<b>Manager’s risk assessment (Impact / Likelihood)</b>	<b>Proposed management action</b>	<b>Risk owner, deadline for action and resource implications (if any)</b>
1	<p><u>Financial &amp; Operational</u></p> <p>Management information on the financial performance of schemes is insufficient to enable a proper review, because costs are not completely identified, charged or allocated in the accounts.</p> <p><b>4.2.5</b></p>	****	3/3	Housing and Financial Services will work together to devise a method of improving financial information for each scheme.	<p>Head of Housing Management in liaison with Accountancy Services Manager</p> <p>April 2009</p>
2	<p><u>Financial</u></p> <p>Service charges income does not reflect the costs of the services provided.</p> <p><b>4.2.6</b></p>	****	3/3	Progress will continue to be made to redress this imbalance by increasing service charges above the rate of inflation until such time as they balance per scheme.	<p>Head of Housing Management</p> <p>Ongoing</p>
3	<p><u>Reputational &amp; Impact on People</u></p> <p>The current charging mechanism fails to ensure equity amongst tenants in the charges levied.</p> <p><b>4.2.6</b></p>	***	3/3	Further investigation will be undertaken by Neighbourhood managers to ensure that tenants are charged only for those services they receive.	<p>Head of Housing Management</p> <p>July 2009</p>

**Service Charges on Council Properties – Follow Up**

**Draft Internal Audit Report 2008/09**

Ref.	Risk	Audit Priority * to *****	Manager's risk assessment (Impact / Likelihood)	Proposed management action	Risk owner, deadline for action and resource implications (if any)
4	<p><u>Financial</u></p> <p>Not allocating income to schemes undermines the provision of effective financial management information.</p> <p><b>4.2.9</b></p>	***	3/3	Housing will work with Financial Services to devise a system for allocating income to schemes.	<p>Head of Housing Management in liaison with Accountancy Services Manager</p> <p>April 2009</p>
5	<p><u>Financial &amp; Reputational</u></p> <p>The absence of a consistent charging policy to tenants will result in:</p> <ul style="list-style-type: none"> <li>• a significant loss of income to the council;</li> <li>• a failure to ensure that charges reflect costs;</li> <li>• an inability to confirm the basis for the establishment of charges levied, where made; and</li> <li>• the potential for charges levied to be open to challenge by tenants.</li> </ul> <p><b>4.3.1</b></p>	*****	3/3	Further investigation will be undertaken by Neighbourhood managers to ensure that tenants are charged only for those services they receive.	<p>Head of Housing Management</p> <p>July 2009</p>

**Service Charges on Council Properties – Follow Up**

**Draft Internal Audit Report 2008/09**

Ref.	Risk	Audit Priority * to *****	Manager's risk assessment (Impact / Likelihood)	Proposed management action	Risk owner, deadline for action and resource implications (if any)
6	<u>Financial</u>  Failure to ensure that all costs are recovered may be in breach of the terms of the lease agreement and lead to a budget deficit.  <b>4.6.1</b>	***	2/2	The Leasehold and Sales Officer will continue to work on ensuring all costs are recovered.	Head of Housing Management  July 2009