

Internal Audit

Final Report

**Department of Neighbourhood
& Planning**

Housing Rents

9th May 2011

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Distribution List

Final Report to:	Corporate Director – DNP Service Director - Housing Head of Housing Management Housing Manager Housing System Administrator
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EXECUTIVE SUMMARY

Overview

An Internal Audit review was undertaken on Housing Rents throughout quarter 4 of 2010/11. This area was last subject to review by Internal Audit in 2009/10 and is reviewed annually as a key financial system.

The review focused on the administrative and management controls supporting the Housing Rents function. A separate review is being undertaken of IT controls which will focus on the Simdell system itself.

Housing rents are administered through the Housing Revenue Account (HRA) which is a ring fenced account separate from the General Fund. In December 2010, on the date of the local government finance settlement, a written ministerial statement on the reform of the housing revenue account subsidy system was issued. A proposed start date for the new system was reported as April 2012, with the new arrangements being introduced through the Localism Bill.

All authorities currently in the HRA Subsidy system will need to give considerable thought to the reform and to work through the probable implications, so as to be ready for the DCLG's announcement of indicative figures. Self financing will be implemented through a one-off settlement payment between each council and central government, determined by a valuation of each council's social housing business.

The government will use the basic method for calculating the debt reallocation that was consulted on in March 2010, basing it on a 30-year notional business plan of income and expenditure for each landlord. A payment to or from a council will then be made to reflect the difference between the value of the business and the housing debt currently supported under the HRA. The income assumptions will be based on the existing social rent policy that rents will converge with standard housing association rents in 2015/16.

Other points from the government's reforms which housing finance professionals should be looking at include:

- The revision of the discount rate for calculating the net present value of the council's housing business to 6.5% from 7%, as originally modelled.
- The identification of expenditure for management, maintenance and major repairs as these will be included in the costs used in the valuation.
- The calculation of treasury management costs and planned demolition costs as there will be funding to reflect these.
- The cost of returning 75% of net receipts from right to buy sales to the Exchequer, although this loss of income will be built into the valuation of the council's business.

Looking forwards, the new self financing system is a change which could potentially offer:

- An end to the centralised subsidy system where annual decisions have encouraged short term actions.
- Fully devolved local financing where rents are kept and used locally to maintain homes

- Greater transparency for tenants and a stronger relationship between tenants and their council landlord.
- Encouragement to better long term asset management.
- Rewards of control, flexibility and planning to the council's housing management and finance teams.

On a more local level, the Housing Management team have commenced a project to procure a new housing management system to upgrade the current Simdell system. The procurement process is being determined initially by undertaking soft market testing of IT solutions. Suppliers being considered are Orchard Housing, Northgate, Civica, Aareon UK, Capita and MIS Housing.

The new system will be required to include all standard housing modules, such as rent accounting and arrears management, estates management, responsive repairs, planned maintenance, asset management, void management, contract management, and document management.

The planned date for implementation of the new system is June 2012.

Audit Opinion

The Internal Audit opinion for Housing Rents is a **Substantial Assurance**. This means that whilst there is a basically sound system of control, there are weaknesses which may put some of the service objectives at risk.

This review of Housing Rents has found fewer risks than in the previous year, and this is reflected in the improvements in control implemented by the team over the past few year, including:

- The implementation of paperless weekly balancing documentation and the establishment of management oversight and authentication of all weekly reconciliations
- The creation of a Simdell report showing all closed accounts accessible by the Housing Benefit Overpayments Officer to facilitate the prompt halt of housing benefit payments following the closure of a rent account.
- The introduction of changes to the reporting of rent arrears performance figures enabling arrears figures to be reported following the posting of weekly income onto Simdell.
- The improvement in void periods between tenancy changes following a process review and the adoption of a new approach, which has been corporately recognised through the corporate awards process.
- Business continuity arrangements have been discussed between ICT Services and Housing Management and steps to ensure appropriate coverage for critical tasks are in place.

However, for the second year, the failure to ensure thorough verification of the calculations in the HRA rent restructuring RSL formula spreadsheet prior to upload into the live system, has led to many tenants being over charged and the consequent need to adjust accounts to correct the error.

In addition, although the overall level of current tenant arrears has decreased, the number of tenants with substantial arrears has increased. The issue of inconsistent, untimely and ineffectual debt management within Neighbourhood Management has been reported on previously.

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High Risk Issue

Risk	Action Proposed by Management	Profile Ref
<p>Failure to conduct effective verification checks on standing data changes to rent liabilities prior to actual adjustment and implementation risks:</p> <ul style="list-style-type: none">• Errors not being detected;• Financial loss; and• Reputational damage.	<p>The Head of Housing Management will liaise with the Chief Accountant to ensure that a verification of any rent or service charge is undertaken.</p>	1

Medium Risk Issue

Risk	Action Proposed by Management	Profile Ref
<p>Failure to pursue current tenant arrears in line with council policy, and on a timely basis, risks tenants' inability to repay debts, unrecoverable arrears and financial loss to the council.</p>	<p>A review of resources and training available to housing officers will be undertaken to ensure that rent arrears are dealt with promptly and in line with policy</p>	5

Three low risk issues have also been reported. These are discussed in the Audit Findings section and Action Plan included in the body of this report.

Risk Profile

The following profile shows Management's assessment of the likelihood and impact of the risks identified during the audit.

These actions will seek to ensure that risk management strategies are put in place to avoid or reduce the identified risks, and to ensure that any residual risks are appropriately managed to reduce any impact or likelihood of these risks materialising. Frequent monitoring and management of identified risks is essential.

The numbers stated on the risk map refer to the risk references identified above, as well as to any low level of risks detailed in the body of the report.

Impact	Significant				
	Moderate			5	1
	Minor		4		
	Insignificant		2	3	
		Rare	Unlikely	Possible	Almost Certain
		Likelihood			

AUDIT SCOPE AND OBJECTIVES

Audit Scope

To provide assurance that the systems of internal control established for the administration and management of Housing Rents are operating adequately and effectively.

Control Objectives

The objectives of this audit are to seek assurance that:

1. All properties are identified and accurately recorded in the rent accounting system.
2. The gross rent and other charges have been correctly calculated in respect of each dwelling and correctly recorded in the tenants rent accounts.
3. All rent collections are correctly and promptly credited to the tenants' rent accounts.
4. All tenancy changes are correctly approved and recorded.
5. Rent and service charges are correctly identified with the HRA and general fund and are subject to reconciliation between Simdell and SAP.
6. Effective procedures are in place to pursue and recover current and former tenant arrears including arrangements with legal services.

AUDIT FINDINGS

Control Objective 1:

All properties are identified and accurately recorded in the rent accounting system.

1.1 Procedures and Standing Data

The Systems Administrator has written procedures for the control of rental properties and the creation of rent accounts and tenancies, including procedures for the weekly balancing of rent accounts, clearance of suspense accounts, analysis of rent debits, account transactions, arrears and the creation of new tenancies and rent accounts.

The Simdell system is the rent and property masterfile, which includes data for each property including tenancy dates and transactions. The Housing Management access database also details all properties by either dwelling type or by address.

In quarter 4 each year, following the Cabinet's approval of the formula rent in accordance with rent restructuring, the Housing Systems Administrator amends standing data by uploading a spreadsheet into the Simdell test facility. Sample checks are then undertaken to ensure the accuracy of the download prior to uploading onto the live system.

In addition, the Senior Principal Accountant – Housing undertakes a comparison of properties detailed on Simdell to those on the HRA rent restructuring RSL formula spreadsheet maintained by Central Finance.

1.2 Changes to Housing Stock Balance

Testing was undertaken to verify that Housing Management are formally notified of dwellings that are sold, deleted or added to the property base, and that these are correctly adjusted on the master file.

The movement in overall balance of property numbers as agreed at the last audit in November 2009 was verified to the overall balance on the property base as at November 2010. In total, there had been 21 property changes which resulted in a net base increase of seven properties:

- 14 new properties at Eagle Park and Sparrow Street; less
- 6 Right to Buys
- 1 Void demolition

A check was also made of all properties reported as sold on the Capital Receipts spreadsheets maintained by Central Finance; these were agreed to those recorded within Simdell and confirmed as correct by the Leasehold and Sales Manager.

Testing of accounts for all properties deleted from the property database confirmed that all of the rent accounts had been subsequently cleared to zero as appropriate, and all but one account had been closed on a timely basis. This anomaly arose due to an excess 6 weeks' rent debits being charged to the account in error following completion of the sale of the property.

On closure, testing found that two accounts had zero balances whilst the remaining four accounts had a credit balance, all of which were appropriately refunded to the former tenant.

Control Objective 2:

The gross rent and other charges have been correctly calculated in respect of each dwelling and correctly recorded in the tenants rent accounts.

2.1 Amendments to Standing Data

All rent charges must have clearly defined policies and assessment procedures. Therefore, it is vital that all standing data revisions for formula rent for each property are in accordance with appropriate authority and approved by Cabinet.

During November 2010, due to the absence of the Senior Principal Accountant – Housing, a specialist housing consultant from ConsultCIH (consultants for the Chartered Institute of Housing) was recruited to calculate the required 2011/12 rent increase under current guidance.

Upon reviewing the HRA rent restructuring RSL formula spreadsheet, the consultant found however, that an error had been made. Although the formula for calculating the rent had been applied correctly, incorrect actual rent figures for 2009/10 had been used as the basis for the calculation. This error arose from use of the original figures for 2009/10 and not the subsequent correct recalculation and upload of revised rent charges reflecting the high RPI.

This error has therefore meant that almost 50% of tenants have had an increase of above the RPI plus 0.5% plus £2 (although it is worth bearing in mind that this was a negative RPI of 1.4%). Testing of a random sample of 20 tenant accounts found that the impact in most cases is likely to be just a few pence error per week, however, it is anticipated that there may be a few cases where the error is as much as £1.50 per week.

Consequently, tenants have seen a higher than appropriate increase or reduction in the rents that they should have been required to pay. Nevertheless, as rent restructuring aims to converge actual rents with the formula rents, it does mean in reality that smaller rent increases or larger deductions can be applied in forthcoming years.

It should be noted also that housing benefit claimants remain unaffected as they have been funded for the costs of any rents.

In order to address this error, housing management have proposed to calculate the required credit for the full year for each rent account, and then to add these credits to their respective accounts at the end of the financial year. Tenants will be notified of the credit made to their rent accounts during April 2011.

It is hoped that this approach will ensure that the correct rent is charged to accounts for the full year and to minimise the risk of any adverse publicity.

Risk 1

Failure to conduct effective verification checks on standing data changes to rent liabilities prior to actual adjustment and implementation risks:

- **Errors not being detected;**
- **Financial loss; and**
- **Reputational damage.**

2.2 New Occupancies

A review of 15 new tenancies concluded that, in each case, the Rent Accounts team had been informed promptly of the start date of the new tenancies and accounts had been set up promptly. Also, rent and additional charges for each property were found to be applicable, and agreed to those applied to the previous tenant's occupancy, with one exception, where a 1p difference existed with the new tenancy. This is a very minor error.

2.3 Closure of Rent Accounts

For a sample of 15 closed accounts, testing was undertaken to verify that accounts are closed on a timely basis following the end of a tenancy, that any transactions occurring after the end of a tenancy are correct, or if incorrectly posted, reversed on a timely basis.

In most cases, accounts had been closed on a timely basis, with on average 4.4 working days being taken from the end of tenancy to close accounts (range from 0 days to 18 days). In last year's audit, we reported an average 1.5 days to close an account. Also, of the fifteen cases tested, three still had balances remaining.

Further, there are certain types of transactions which are regularly found to occur following the end of a tenancy. For example, from testing, these included:

- Weekly rental debit – predominantly only 1 week's additional rent (range 1 week to 4 weeks)
- Weekly housing benefit entitlement – predominantly only 2 week's entitlement (range 1 week to 3 weeks)
- Weekly supporting people entitlement

To assist in ensuring that housing benefit payments to rent accounts are halted promptly following the closure of an account, the Housing Systems Administrator has designed a Simdell report which can be accessed directly by the Housing Benefit Overpayments Officer. This report shows all closed rent accounts between selected dates, and has facilitated the prompter suspension of Housing Benefit after the closure of a rent account.

Control Objective 3:

All rent collections are correctly and promptly credited to the tenants' rent accounts.

3.1 Reconciliation of Simdell Control Accounts for Daily Takings

A walkthrough test of the reconciliation conducted for week 32 (2010/11) concluded that the weekly Simdell control totals reported on the Rent Accounts Transaction Summary (RATAS) agreed to the Debit Analysis Summary Report (DASR) and the Account Transaction Summary Report (ATSR), with the exception of one minor error.

A variation of £167.44 exists between the weekly debit figures as reported on the RATAS and that reported on the DASR. This variance is not material and is noted as in previous years' Internal Audit reports. The Housing Systems Administrator and Finance staff are aware of this variable discrepancy between reports; it results from Simdell's internal functions that calculate and allocate monthly payments depending on the dates paid. Errors are always small and not material.

The week's total income for Standing Orders, Direct Debits, Post Office Giro Receipts and Cash Office takings was also confirmed against the BACS feeder and Civica reports (although this was not possible for one date, as discussed in section 3.2), and with Giro Receipts also corresponding to bank statement balances.

3.2 Separation of Duties and Verification Checks

A separation of duties is maintained between debit control and rent collection.

The balancing reports are prepared by the Systems Administrator and are saved electronically. All weekly balancing documentation is contained within weekly folders within the Housing Common Area / Simdell Balancing. A spreadsheet has been established as a cover sheet which contains key balancing information and a section for authentication.

Since June 2010, the weekly balancing has been independently checked and signed off by the Business Improvement Manager. This is an improvement on the previous year, as the reconciliation process is being overseen and signed off by management and therefore independent verification is undertaken.

Testing of one week's reconciliation (week 32) found that in seeking to reconcile the Simdell figures to the cash receipting system, that due to the failure of Civica running on the 15th November, no cash postings were made on this date. Consequently, these postings were then added to the postings due to be made on the 17th November. However, when files are added, they become merged such that it is not possible to identify those postings relating to the each separate week.

This is a weakness of SAP – as it prohibits the ability to identify payments due in a particular period wherever file postings fail and require adding to another file posting.

3.3 Suspense Account

Examination of the suspense account found that in the financial year up to the end of January 2011, all suspense account transactions had been cleared on a timely basis with the majority of entries being cleared on the date of posting.

3.4 Rent Refunds

Requests for rent refunds are received from Neighbourhood Managers via email, from the Vacation of Property forms for closed accounts, from the Rent Accounts Officer for Right to Buy properties, and occasionally from the Overpayments Officer within Housing Benefit for any refunds arising from changes to Housing Benefit.

Upon receipt of a refund request, the Finance and Admin Assistant checks the rent account within Simdell to verify that the account is in credit. A one-time vendor payment request form is then completed and forwarded via email to the Housing Manager for approval, and onward processing and approval by Business Services Accounts Payable. Simdell is then updated to reflect the rent refund on the tenant's account.

Business Services Accounts Payable then send confirmation that the payment has been authorised to the Finance and Admin Assistant and a cheque raised for payment via SAP.

It is noted that refunds in respect of Housing Benefit and Supporting People are actioned prior to any refunds being processed for payment to tenants. If the tenant is deceased, refunds are paid to the next of kin or to the administrators of the deceased's estate.

Testing was undertaken in respect of a random sample of 10 former tenants' and 5 current tenants' rent refund payments processed during 2010/11. It was confirmed that:

- All payments had been accurately transacted within Simdell and processed on a timely basis (average processing period of 5 working days).
- In 14/15 cases, the email confirmation from Business Services Accounts Payable was retained showing that payments had been authorised by the Housing Manager and processed on SAP.
- An adequate separation of duties is operated between requests for refunds, recording the refund within the rent accounts, and the processing of payments.

In addition, each of the sampled refund requests was tested against the SAP one time vendor payments system, as well as to the accounts payable system. All payments had been processed through SAP on a timely basis, with the exception of one payment which was not found, and for which no supporting One Time Vendor Request confirmation was traced. This discrepancy was notified to the Finance and Admin Assistant at the time of testing.

Risk 2

Failure to undertake periodic reconciliations of all rent refunds requested to payments processed on SAP risks an inability to confirm that all tenants have been fully and completely recompensed.

3.5 Current and Former Tenants' Credit Balances

Testing was undertaken to confirm that procedures for the refund of credit balances are efficient and effective, through a review of current and former tenants' credit balances.

5 current and 5 former tenant accounts with the highest credit balances were examined, and consideration given to the actions taken to monitor, amend or refund balances.

Current Tenants

Since last financial year, the current tenant credit balance total has fallen by 16% from £216,000 in December 2009 to £181,000 in February 2011. A total of 1,767 accounts are in credit of which only seven are in excess of £1,000.

A review of the current tenant accounts with the highest credit balances as at 1st February 2011 found that:

- The average balance of the five cases sampled was £1,711.
- The average equivalent in weeks' rent ranged between 14 to 30 weeks excess payment.
- For each case, the relevant Neighbourhood Managers confirmed they would speak with the tenants concerned to arrange a refund, cancel direct debit payments or other action, as appropriate.

It was noted that although Neighbourhood Managers are pro-active in monitoring arrears balances, some are not pro-active in monitoring credit balances. This is poor customer service especially where large credit balances accrue.

Former Tenants

The former tenant credit balance total as at 1st February 2011 was £21,000. This has fallen by 13.5% from £24,000 in December 2009. A total of 533 accounts are in credit of which only two exceed £400. However, the aged tenancy end date profile strongly suggests that many of these credit balances should be written back on to the accounts. Findings included:

- 144 accounts (27%) which were closed in excess of 6 years ago with balances totalling £9,500.
- One account closed in 1993 (18 years ago) and yet the credit balance remains on the account. There are also accounts closed in 1996, 1997, 1998 and so on. A decision should be taken to either undertake one final trace for these tenants or credit these balances to the holding account.
- 102 accounts (19%) have a credit balance of less than £1 (total under £35). All of these accounts should have these balances written on and the accounts cleared.
- 117 accounts (23%) have a credit balance of £1 to £10 (total £470). All of these accounts should have these minimal balances written on, and as appropriate for the age of the closed account, have the credit balance moved to the holding account.

A review of the five former tenant accounts with the highest credit balances as at 1st February 2011 found that:

- The highest credit balance was £421 with an average balance of £366 for the top 5 credit accounts. The average number of weeks' rent overpaid was 4.7 weeks.
- Although, two accounts' credit balances had been cleared, three credit balances remained – all relating to accounts closed between 2 and 6 years' ago. For one of these cases, the former tenant's new address is unknown, and so this balance will require crediting to the holding account to clear.
- No instructions have been found in respect of any of the accounts tested to indicate that Neighbourhood Managers have sought to facilitate the clearance of these accounts.

Risk 3

Failure to adequately monitor credit balances will result in overpayments of rent which are not refunded to tenants on a timely basis. This is poor customer service.

3.6 Standing Orders

For a sample of 10 standing order payments from December 2010, all were successfully traced from the Civica transaction listing to the corresponding Simdell rent account. All had been promptly and accurately posted.

3.7 Direct Debits

For a sample of 10 direct debits paid in week 39, it was confirmed that BACS payments had been correctly authorised and reflected in Simdell.

The Direct Debit BACS File control report for week 39 was confirmed as agreeing to the BACS Input Report for live Submission. This report detailed 354 records totalling £76,000. From this report, 10 direct debits were reviewed. All were found to have been correctly credited to tenants' accounts on Simdell on a timely basis.

Control Objective 4:

All tenancy changes are correctly approved and recorded.

4.1 Void Properties

From the current listing reported on the voids database as at 7th March 2011, a total of 23 properties were confirmed voids. This is a notable improvement on the last and prior years, when as at 21st January 2010, 44 properties were reported as void, and in January 2009, 61 properties were listed.

This improvement is partly due to the introduction of the Choice Based Lettings scheme and county wide advertisement of available properties, together with a faster turnaround of maintenance on properties.

Examination of a sample of 10 void properties from the current list of voids on the Voids database found that:

- The average sampled void period was 22 days – this is within the target void period for upper quartile performance to reduce average number of days to re-let to 24 by March 2012.
- Delays in re-letting properties over the past year have shown that since week 7, the average void re-letting duration has been steadily declining from a peak of 49 days to a current average re-let period of 26 days.
- For most properties, delays in re-letting arise from properties which are either sheltered scheme or leased properties. Other issues with re-letting are commonly based on the desirability of the property itself or its location.
- The period of turnover of maintenance on properties (issuing of works to contractors) was very prompt in almost all cases; with the longest delay being 7 days (the vast majority were 1 or 2 day delays).

4.2 Tenancy Transfers and Closure of Account

From a sample of 10 tenancy transfers selected from the Completed Voids database report, it was found that old rent accounts are closed on a timely basis with an average closure period of under 3 working days. This is an improvement on the previous year.

The clearance of balances from rent accounts was also undertaken on a timely basis, with an average clearance period of under 3 working days from the date of closure. However, one account was found where a debit balance still remains on the account. This was not cleared before the transfer took place, and has not been transferred to the new tenancy account.

Vacation of Property forms were found and matched to the property vacations.

Risk 4

Failure to clear arrears owed by tenants before offering new tenancies is contrary to policy and risks arrears not being cleared.

Control Objective 5:

Rent and service charges are correctly identified with the HRA and general fund and are subject to reconciliation between Simdell and SAP.

5.1 Reconciliation of Simdell to SAP

A Central Finance Accounting Technician supports the Senior Principal Accountant for Housing, who is responsible for conducting the Simdell / SAP reconciliation. This is undertaken weekly following the weekly actioning of HRA figures cost and income figures.

The Systems Administrator for Housing Rents has enabled the Accounting Technician access to the Housing Common Area / Simdell Balancing where all documentation relating to the weekly rents reconciliation is held, including the Cumulative Summary Reports (CSRs), the Debit Analysis Summary Report (DASR) and the Account Transaction Summary Report (ATSR).

The Accounting Technician transfers weekly income and cost data manually to a spreadsheet maintained on the Finance team's Housing Rents HRA folder within the FIS Common Area and reconciles this data to the CSR for all transactions, to the DASR for void losses and to the ATSR for Housing Benefits.

Documentation held in respect of week 40 was reviewed and testing confirmed that cumulative totals transferred to the Finance reconciliation spreadsheet were accurately incorporated and were reconcilable to the CSR, DASR and ATSR.

In addition, checks were made of the supporting journal calculations and GL Upload document for week 40 for the rent debits due for HRA, Short Term Leased Properties (STL) and gypsy traveller site properties, the total rent debit, the total Housing Benefit debit and all write offs. These were all found to be correct.

Control Objective 6:

Effective procedures are in place to pursue and recover current and former tenant arrears including arrangements with legal services.

6.1 Total Rent Arrears

As at 14th March 2011, current tenant arrears of £509,572 had decreased by 5.8% since January 2010, and former tenant arrears of £191,044 had decreased by 27.3%. The net effect shows an overall decrease in total arrears of £103,241 or 12.8%.

Current Tenant Arrears – 14th March 2011		
Value Range	Value £	Number of Records
£2,000 or over	31,813	12
£1,000 - £1,999	95,575	72
£500 - £999	119,429	177
Under £500	262,755	2,279
Totals	509,572	2,540

Former Tenant Arrears – 14th March 2011		
Value Range	Value £	Number of Records
£2,000 or over	72,759	24
£1,000 - £1,999	66,363	44
£500 - £999	22,677	32
Under £500	29,245	170
Totals	191,044	270

Comparison of Current and Former Tenant Arrears					
Period	Current Arrears £	Former Arrears £	Total £	Difference £	Change
Week 46 2008/09	509,815	248,196	758,011		
Week 43 2009/10	541,022	262,835	803,857	+ 45,846	6% Increase
Week 49 2010/11	509,572	191,044	700,616	- 103,241	13% Decrease
In Year Movement	- 31,450	- 71,791	103,241		
% Change	- 6%	- 27%	‘ - 13%		

This decrease in debt is laudable, and officers should seek to maintain this through continued effective debt management arrangements, and early intervention by Neighbourhood Managers to prevent increasing and unmanageable levels of debt on tenants' rent accounts.

As part of the Improvement Plan, following the Audit Commission's inspection in February 2010, Housing Management staff have identified opportunities for improving arrears performance. A recent Housing Management Rent Arrears report details some of the opportunities already introduced:

- A service level agreement with Community 4 enabling housing officers to establish at the outset of a tenancy whether the new tenants would benefit from assistance. To date, 80 tenants have been referred.
- Mobile swipe card chip and pin machines to enable officers to collect rent by card payment at tenants' homes. This will be introduced in the coming weeks.
- Monthly meetings between the Area Manager and officers to discuss and track progress on arrears and their recovery.
- Defined days when all officers will be tasked with visiting those tenants in arrears to discuss arrangements for repayment and to collect payments wherever possible.

It is noted that the Housing Team have a performance target for current tenant arrears of 1.6% of the forecast net rent debit. As at 14th March 2011, the net rent debit stood at £22,117,541 and applying the value of current tenant arrears as at week 49 of 2010/11, this gives an achievement of percentage of the gross debit of 2.3%.

6.2 Current Tenant Arrears

As at the date of testing, current tenant arrears had decreased by 5.8% since last year, although cases exceeding £2,000 had increased by 9% in value.

An examination of the highest 5 current tenant arrears cases, ranging from £2,519 to £3,919, found that:

- The rent arrears policy had not been consistently applied.
- There has been failure to respond to increasing rental debt as it arises, in a consistent and timely manner.
- In two cases, over reliance has been placed upon the results of pending housing benefit applications being successful, with the result of only partial or no clearance of outstanding rent balances. This delay by Neighbourhood Managers has resulted in critical action not being taken resulting in excessive unpaid balances.
- In all cases, Neighbourhood Managers had failed to refer the cases for court action in a timely manner. It is noted however, that even when court action is taken, judges are sometimes reluctant to make orders which have a realistic chance of clearing the debt.

Risk 5

Failure to pursue current tenant arrears in line with council policy, and on a timely basis, risks tenants' inability to repay debts, unrecoverable arrears and financial loss to the council.

6.3 Former Tenant Arrears

As at the date of testing, former tenant arrears had decreased by 27.3% since last year and cases exceeding £2,000 had decreased by 37% in value.

The highest 5 cases of former tenant arrears were tested, ranging from £3,725 to £5,095. It was found that:

- Appropriate action has been taken by the Recovery Officer in each case in pursuing former tenants through Lester Aldridge and tracing agencies.
- A repayment arrangement has been set up and is being effectively complied with in one case.
- In the other four cases however, evidence suggests that the former tenants are untraceable, or that even in the event of being re-traced, do not have adequate income or assets to make repayment of the debt. It was found that in 3 of these 4 cases, Council Tax had been unable to trace these debtors for council tax arrears, and in two of these cases, the debt had been passed for write off. Consideration should be given to undertaking this action also.

Given the size of the outstanding balances in the cases examined, it is realistic to conclude that these amounts may not be recovered resulting in notable loss of revenue to the council.

Examination of the arrears management process leading up to the end of tenancy and referral to the Recovery Officer concluded again that action by Neighbourhood Managers had been untimely and fails to adhere to policy. This has inevitably resulted in:

- Unnecessary cases of excessive debt.
- Limited likelihood of recovery of former tenant arrears.

6.4 Rent Write Offs

Write offs are processed for former tenant rent arrears, so the Recovery Officer has discretion to raise a request to write off arrears where it is considered unlikely the debt will be recovered or is uneconomic to pursue.

The Recovery Officer maintains three registers, one each for debts under £100, between £101 and £999, and debts over £1,000.

In line with recognised write-off protocol, the Head of Housing Management authorises the write off of all debts under £1,000 and the Chief Finance Officer authorises those debts over £1,000.

Ten write off cases were examined with values ranging from £421 to £2,918. In all cases, the write off had been appropriately recorded in the ledger, approved by an appropriate officer, transacted accurately in Simdell, included within a cumulative weekly journal raised in SAP, and the reasons for the write offs were sound.

ACTION PLAN

Risk Ref	Cross Ref	Risk & Implications	Audit's Risk Rating	Management's Risk Rating	Action Proposed by Management	Responsible Officer and Target Date
1	2.1	<p>Failure to conduct effective verification checks on standing data changes to rent liabilities prior to actual adjustment and implementation risks:</p> <ul style="list-style-type: none"> • Errors not being detected; • Financial loss; and • Reputational damage. 	High	<p>High</p> <p>Impact: Moderate</p> <p>Likelihood: Almost certain</p>	The Head of Housing will liaise with the Chief Accountant to ensure that a verification of any rent or service charge is undertaken.	<p>Head of Housing Management / Chief Accountant</p> <p>October 2011</p>
2	3.4	Failure to undertake periodic reconciliations of all rent refunds requested to payments processed on SAP risks an inability to confirm that all tenants have been fully and completely recompensed.	Low	<p>Low</p> <p>Impact: Insignificant</p> <p>Likelihood: Unlikely</p>	Finance and Admin Assistant to request confirmation by e-mail that shared services have processed refund through SAP	<p>Finance and Admin Assistant</p> <p>With immediate effect</p>

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3	3.5	Failure to adequately monitor credit balances will result in overpayments of rent which are not refunded to tenants on a timely basis. This is poor customer service.	Low	Low Impact: Insignificant Likelihood: Possible	Housing Assistant to purge old accounts and regularly check future cases	Housing Assistant June 2011
4	4.2	Failure to clear arrears owed by tenants before offering new tenancies is contrary to policy and risks arrears not being cleared.	Low	Low Impact: Minor Likelihood: Unlikely	Those involved in letting process to be reminded of need for arrears to be cleared before offering new tenancies and ensuring that they are cleared before allowing sign up.	Housing Manager With immediate effect
5	6.3	Failure to pursue current tenant arrears in line with council policy, and on a timely basis, risks tenants' inability to repay debts, unrecoverable arrears and financial loss to the council.	Medium	Medium Impact: Moderate Likelihood: Possible	A review of resources and training available to housing officers will be undertaken to ensure that rent arrears are dealt with promptly and in line with policy	Housing Manager June 2011

Explanation of Audit Opinion and Risk Rating

Audit Opinion

Full Assurance – There is a sound system of control designed to achieve the service objectives, with key controls being consistently applied.

Substantial Assurance – Whilst there is a basically sound system of control, there are weaknesses which may put some of the service objectives at risk.

Limited Assurance – Weaknesses in the system of control are such as to put service objectives at risk.

No Assurance – Control is generally weak leaving the system open to significant error or abuse.

Risk Profile Matrix Rating

Red = High Risk

High level risks are significant risks to the effective delivery of the service. Risk management strategies should be put in place to appropriately manage the identified risks within a short timescale. Frequent monitoring of the management of identified risks is essential.

Amber = Medium Risk

Medium level risks are risks which must be managed to ensure the effective delivery of the service. Monitoring of the risk should be regularly undertaken.

Green = Low Risk

Low level risks are risks which are not considered significant to the effective delivery of the service, but which should nevertheless be managed and monitored using existing management processes.