

AGENDA ITEM: 6

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Meeting	Audit Committee
Date	20 September 2007
Subject	Internal Audit Report
Report of	Head of Internal Audit and Ethical Governance
Summary	The Committee is asked to note the outcome of the follow up of the Housing Rents and Housing Rent Deposit Scheme audits.

Officer Contributors	Head of Internal Audit and Ethical Governance
Status (public or exempt)	Public
Wards affected	N/A
Enclosures	Appendix A – Summary of previous Internal Audit work on the Housing Rent Deposit Scheme
For decision by	Audit Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	N/A

Contact for further information: Michael Bradley, Head of Internal Audit and Ethical Governance 020 8359 7151

1 RECOMMENDATIONS

- 1.1 That the Committee note the contents of the report.
- 1.2 That the Committee consider whether there are any areas on which they require additional action.

2 RELEVANT PREVIOUS DECISIONS

- 2.1 The Audit Committee on 28th June 2007, having noted the Internal Audit Annual Report for 2006/7, instructed the Head of Internal Audit and Ethical Governance, to arrange a further follow up of the Housing Rents audit and report the findings to the next Committee meeting. The Head of Internal Audit and Ethical Governance was also instructed, in consultation with the Chairman of the Audit Committee, to seek an assessment of progress made on the audit of the Housing Rent Deposit Scheme before the next meeting of the Audit Committee. During the consultation it was agreed that the progress on the Housing Rent Deposit Scheme be reported the Audit Committee.

3 CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 Continuous improvement is necessary for us to deliver our priorities. We must improve how we work and the infrastructure we work with. Our corporate services, including finance, human resources and corporate governance, play a significant part in helping us achieve our vision for:

“A smaller entity with a smaller but more efficient corporate support function and a greater concentration of resources on outcomes.”

- 3.2 We are committed to continually improving how we work to provide community leadership, community choice and higher quality services at the lowest possible price. (Corporate Plan 2007/08 - 2010/11)

4 RISK MANAGEMENT ISSUES

- 4.1 The purpose of this report is to brief the Audit Committees on the progress made by management to mitigate risks reported on the audits of Housing Rents and Housing Rent Deposit Scheme.

5 EQUALITIES AND DIVERSITY ISSUES

- 5.1 It is an overriding principle that services provided to the whole community represent value for money in terms of quality, efficiency and effectiveness. This supports the Council's obligations in meeting its public duties under Equalities legislation.

6 FINANCIAL, STAFFING, ICT AND PROPERTY IMPLICATIONS

- 6.1 None directly as a result of this report but it is for management to determine whether addressing any of the risks identified by internal audit reports will require additional resources.

7 LEGAL ISSUES

- 7.1 None

8 CONSTITUTIONAL POWERS

- 8.1 Constitution Part 3 Paragraph 2 details the functions of the Audit Committee including “To consider summaries of specific internal audit reports as requested” and “To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale”.

9 BACKGROUND INFORMATION

Housing Rents

- 9.1 Audit reviewed this area in 2005-06 and concluded at the time that satisfactory assurance could be provided that the service would achieve its objectives. In the absence of any evidence to support progress in implementing agreed management actions to mitigate reported risks by 2006-07, our follow up review concluded that the risk exposure had increased from satisfactory to limited.
- 9.2 The further follow up review in August 2007 confirmed that adequate progress has been made toward implementing the agreed management actions and therefore we have raised our assurance to satisfactory.

Housing Rent Deposit Scheme

- 9.3 The objective of the Rent Deposit scheme is to reduce the overall use of more expensive temporary accommodation by assisting clients in housing need to move into the private sector in a cost effective manner. This is achieved through the payment of the deposit on a property and a rent advance payment equal to the first month’s rent.
- 9.4 Audit reviewed this area in 2003-04 and concluded that no assurance could be provided that the service would achieve its objectives. There was no significant improvement by 2005-06 when our follow up review concluded that the risk exposure had increased from medium to high.
- 9.5 A further audit review in 2006/7 also concluded that no assurance could be provided that the service would achieve its objectives. The follow up review in August 2007 confirmed no significant progress in management action toward mitigation of the reported risks and therefore we are reporting no change to the assurance already provided. The findings, risks, agreed actions and current

position from all four audits have been summarised in Appendix A to this report.

9.6 Of the ten reported risks, only one was fully mitigated, three partly mitigated and six remained unmitigated. The two priority 1 risks that remain unmitigated are:

- Incorrect information is available for decision making purposes and allocation of housing and
- Inappropriate dealings with the public, causing a loss to the council.

9.7 One of the priority 1 risks, "Financial loss to the Council resulting from lack of effective processes for recovery of debts", was partly mitigated. We were able to confirm the following, as at the 28 August 2007 (based on service records which are not yet reconciled to the Council's financial records):

- £1.352M total deposits paid out from the start of the scheme;
- £1.079M total recoverable deposits recognised by the service, of which:
 - £0.282M has been due for immediate recovery following termination of the tenancies (service procedure does not allow us to determine the age of these debts).
 - £0.116M actually recovered to date.

Further management action will be required to address any discrepancy identified when reconciling the service records to the Council's financial records.

10 LIST OF BACKGROUND PAPERS

10.1 None.

Legal:CM
CFO:JL

Summary of Audits of the Rent deposit Scheme

First Audit April 2004	Follow-up September 2005	Second Audit November 2006	Follow-up August 2007
<p>Information Management Database to monitor expiry of tenancies expected to be in place a year earlier was still not realised.</p> <p>Recommendation 1: Implementation of IT system (Priority 1) The Resources Manager should make arrangements for the prompt implementation of the IT system.</p>	<p>Partly Implemented</p> <p>Management Comment : The IT system is implemented and is at final stage of testing. It will be up and running by 30th September 2005.</p> <p>Further Action: Implemented to Go-live stage.</p> <p>Implementation Date: September 2005</p>	<p>Information Management Arrangement for managing data and its integrity may be inadequate.</p> <p>Risk 2 Priority 1 Database integrity Incorrect information is available for decision making purposes and allocation of housing.</p>	<p>Not Implemented Effectively</p> <p>The unsuitability of the SAFFRON database module has been recognised by management and therefore all team data is now maintained on an excel spreadsheet.</p> <p>However a number of issues were noted that affect the integrity of the data kept on the spreadsheet –</p> <ul style="list-style-type: none"> - No controlled archiving on spreadsheet to enable reconstruction should the file be corrupted. - No indication of accuracy of data / not reconciled to SAP. - No password control. - No or partial cell / work sheet protection to prevent deletion / alteration to all key data. - No close off points to enable closed period monitoring, i.e. 'as at 31 March X6'.

Summary of Audits of the Rent deposit Scheme

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			<p>2. In the absence of access to a server, back up is currently made on a memory key and taken off site. This key is used to write-over previous weeks back up. However if the back-up is corrupted, prior backed-up versions are not retained in order to recover and recreate lost data.</p> <p><u>Management comment:</u> We will retain back-up archives going forward. The responsibility of providing adequate back-up facilities lies with IT therefore responsibility for this action should lie with IT as well.</p> <p>Further Action:</p> <p>1. Ensure that appropriate action is taken to ensure integrity of data held on the spreadsheet in the absence of a database.</p> <p>2. Ensure that weekly back ups are not over-written in consecutive weeks so that at any given time three consecutive</p>

Summary of Audits of the Rent deposit Scheme

First Audit April 2004	Follow-up September 2005	Second Audit November 2006	Follow-up August 2007
			backs are retained in case of data loss / corruption to current back up.. Proposed Implementation Date: October 2007.
<p>Written Procedures Comprehensive up-to-date written procedures were not in place.</p> <p>Recommendation 2: Procedure notes (Priority 2) Detailed procedure notes are drawn up and distributed amongst the Private Sector Tenancy Officers.</p>	<p>Implemented Procedures notes have been formulated and distributed to appropriate Officers.</p>	<p>Written Policy and Procedures Formal policy and procedures for qualifying offers not in place.</p> <p>Risk 8 Priority 2 Discharge of duty Reduction in the numbers of homelessness (acceptances and in temporary accommodation) may not be achieved effectively in the absence of an approved policy and procedures for "Qualifying Offers".</p>	<p>Not Implemented</p> <p><u>Management comment:</u> Qualifying offers are not relevant to the private sector team. They are more relevant to the homelessness team.</p> <p><u>Audit comment:</u> Whilst mitigation of the risk is not the responsibility of the private sector team, the service overall is still exposed to this risk.</p>
<p>Quality Control Key documentation to support assessment and approval of rent deposits were not available for all</p>	<p>Implemented Files checks are performed by Housing Assessments Officer. Documentation of checks is</p>	<p>Quality Control Key documentation to support assessment and approval of rent deposits were not available for all</p>	<p>Not Implemented Further to findings in the audit report - random file checks,</p>

Summary of Audits of the Rent deposit Scheme

First Audit April 2004	Follow-up September 2005	Second Audit November 2006	Follow-up August 2007
<p>cases. No management process to ensure quality control.</p> <p>Recommendation 3: File Reviews (Priority 1) The Resources Manager should periodically carry out file reviews to ensure that the relevant documentation is present and procedures are being complied with.</p>	<p>maintained.</p>	<p>cases. No management process to ensure quality control.</p> <p>Risk 9 Priority 2 Quality control</p> <p>Ineffective service delivery due to inadequate quality control processes.</p>	<p>landlord checks, review of procedures and sign up forms to ensure safeguarding of Council's interests and intelligence sharing across the teams not in place.</p> <p><u>Management comment:</u> Audit assistance is now requested for a checklist of required file documents and checks to be established.</p> <p><u>Audit Comment:</u> Audit will be happy to provide input when requested by the service. However it should be noted that it is Management responsibility to establish effective processes to ensure that the procedures set out by management are complied with at an operational level.</p> <p>Further Action: Ensure that appropriate processes are established for quality control.</p>

Summary of Audits of the Rent deposit Scheme

First Audit April 2004	Follow-up September 2005	Second Audit November 2006	Follow-up August 2007
			Proposed Date: November 2007.
<p>Maximise Income Due There was no process to confirm recovery of all rent advances.</p> <p>Recommendation 4: Reconciliation of Rent Advances (Priority 1) A regular (e.g. monthly) reconciliation should be carried out between rent advances paid to tenants and amounts recovered from Housing Benefits.</p>	<p>Implemented Reconciliations are being done on a bi-monthly basis.</p>		
<p>Maximise Income Due Responsibility was not assigned to ensure effective process for dealing with rent advances not fully recovered.</p> <p>Recommendation 5: Reconciliation of Rent Advances (Priority 1) Where an amount has not been</p>	<p>Implemented Outstanding amounts are identified as part of the reconciliation process.</p>		

Summary of Audits of the Rent deposit Scheme

First Audit April 2004	Follow-up September 2005	Second Audit November 2006	Follow-up August 2007
<p>recovered, or has only been partly recovered, an officer from the Private Sector Tenancy Team should be given the responsibility of following up the outstanding amount with the Housing Benefits Section to determine the reasons and take appropriate action to recover advances.</p>			
<p>Maximise Income Due There was no process to confirm recovery of all returnable rent deposit advances.</p> <p>Recommendation 6: Reconciliation of Deposits (Priority 1) A regular reconciliation should be carried out between outstanding deposits and active tenancies.</p>	<p>Partly Implemented A mail out has been sent to all Landlords, requesting status of tenancy and outstanding sums. Responses have been received and have been reviewed. Management is currently reviewing claims where there is disputes to claims.</p> <p>Further Action: Undertake reconciliations for outstanding deposits and active tenancies.</p> <p>Implementation Date: November 2005</p>	<p>Maximise Income Due There was no process to confirm recovery of all rent advances.</p> <p>There was no process to confirm recovery of all returnable rent deposit advances. Transactions on accounting records did not match the local service records. There was no process to identified and resolved promptly any errors between accounting records and local service records to ensure that amounts reported in the Council's year end statement are correct.</p> <p>Risk 4 Priority 1</p>	<p>Partly Implemented Reconciliation of service records to SAP are not undertaken currently to identify debt and ensure correct value is reported on the Council's accounts.</p> <p><u>Audit Comment:</u> Whilst we confirm that letters were sent out to Landlords to identify recoverable deposits and some monies have been recovered since, we note that the follow up process for recovery is not robust. The balance on the financial system was not know.</p>

Summary of Audits of the Rent deposit Scheme

First Audit April 2004	Follow-up September 2005	Second Audit November 2006	Follow-up August 2007
<p>Maximise Income Due Responsibility was not assigned to ensure effective process for dealing with recovery of rent deposits advanced but due for full recovery.</p> <p>Recommendation 7: Reconciliation of Deposits (Priority 1) Where a tenancy has expired and the deposit is still outstanding, an officer from the Private Sector Tenancy Team should be given the responsibility of ensuring that the landlord has received the relevant correspondence regarding the amount, and that the case has been passed to the Legal Section where appropriate for the recovery of deposits.</p> <p>Accurate Accounting Records Transactions on accounting records did not match the local</p>	<p>Partly Implemented Process for rent recovery has been formulated. Reconciliations have not taken place. Management Comment: The Housing Options Manager has been made responsible for this. Landlords have been sent a letter for pursuance of outstanding debts. Responses have been received and will be collated and appropriate action will be taken.</p> <p>Further Action: Active pursuance of debts when Landlords have not paid or refuse to pay.</p> <p>Implementation Date: November 2005</p> <p>Not Implemented</p>	<p>Recovery and reconciliation Financial loss to the Council resulting from lack of effective processes for recovery of debts.</p>	<p>Furthermore the following position, based on service records, was established that as at 28 August 2007 - Total paid deposits to date were £1,352,073 (1661 tenancies). - total recoverable deposits were £1,079,040. - there was £282,330 (approximately 350 tenancies) outstanding where tenancies had been identified by management as terminated but deposits had not been returned by the landlord. - Total paid deposits to date were £1,352,073 (1661 tenancies). - £116, 564 had been refunded to date by Landlords (LL).</p> <p><u>Management comment:</u> 1. We have initiated a dialogue (on 28.08.07) with Accounts Receivable (AR) and we anticipate that we will be passing over recoverable unpaid debts to AR for recovery by October 2007.</p>

Summary of Audits of the Rent deposit Scheme

First Audit April 2004	Follow-up September 2005	Second Audit November 2006	Follow-up August 2007
<p>service records. There was no process to identified and resolved promptly any errors between accounting records and local service records to ensure that amounts reported in the Council's year end statement are correct.</p> <p>Recommendation 8: Reconciliation of Finance and Private Sector Tenancy records (Priority 1) A regular (e.g. monthly) reconciliation should be carried out between the records of outstanding amounts held by Finance and the records held by the Private Sector Tenancy Team and prompt corrective action taken by the appropriate party on any variances highlighted.</p>	<p>Management comment: The Housing Options Manager has been recruited and this will be addressed by the person in post. The meetings are now regular with Finance.</p> <p>Further Action: Obtain records from finance and to conduct reconciliations and take corrective action to address any variances highlighted on a regular basis.</p> <p>Implementation Date: November 2005</p>		<ol style="list-style-type: none"> 2. We will assess market conditions to identify the future of the scheme. 3. We will establish a process for negotiation and claim for rent deposits, which will also enable debts to be identified. 4. We will write a DPR to make the proposed changes in relation to debt / receivables. <p>Further Action:</p> <ol style="list-style-type: none"> 1. Ensure that an appropriate and robust debt recovery process is followed for the timely recovery of outstanding debts. 2. Perform the initial reconciliation of the financial ledger to SAP to identify the status of debts / receivables and then subsequent quarterly reconciliations. 3. Establish effective debt identification and recovery processes. 4. As per management comment.

Summary of Audits of the Rent deposit Scheme

First Audit April 2004	Follow-up September 2005	Second Audit November 2006	Follow-up August 2007
<p>Accurate Budget There was no financial provision made for irrecoverable rent and rent deposit advances due.</p> <p>Recommendation 9: Bad debt provision Priority 1 A bad debt provision should be set up for deposit and rent advance payments.</p>	<p>Implemented Bad debt provision has been set up.</p>	<p>Accurate Budget There was no budgetary provision for the scheme.</p> <p>Risk 7.1 Priority 1 Budgets</p> <p>Management may be unable to assess whether the scheme has met its objectives with sound financial planning.</p>	<p>Implementation Date: October 2007</p> <p>Partly implemented A budget is in place on SAP for the PST scheme. However monitoring reports are not currently run.</p> <p><u>Management comment:</u> Monitoring reports will be produced on a quarterly basis after an initial reconciliation is carried out, as per risk 4.</p> <p>Further Action: Ensure that this initial reconciliation is completed and that monitoring is conducted on a quarterly basis.</p> <p>Proposed Implementation Date: October 2007.</p>

Summary of Audits of the Rent deposit Scheme

First Audit April 2004	Follow-up September 2005	Second Audit November 2006	Follow-up August 2007
<p>Accurate Accounting Records There was no process to identify and process irrecoverable rent and rent deposit advances due.</p> <p>Recommendation 10: Debts Written offs (Priority 1) The Private Sector Tenancy Officers should identify all those amounts, which are deemed un-collectable, and these should then be submitted to the appropriate officers for approval to write them off.</p>	<p>Not Implemented</p> <p>Management Comment: Bad debts will be identified once recommendation 7 has been implemented in full. Additional bad debt may be identified once recommendation 8 is implemented.</p> <p>Further Action: Identify un-collectable amounts for write-off purposes and gain appropriate authorisation.</p> <p>Implementation Date: December 2005</p>		
		<p>Access Control Arrangements to control systems access was inadequate.</p> <p>Risk 1 Priority 1 Password and systems access permissions Fraud or irregularity may not be prevented or detected.</p>	<p>Implemented</p> <p>1. Individual log-ins and separate passwords were verified for three staff within the service. The Senior Officer keeps sealed envelopes from all team members with their log-in details in the event that access maybe</p>

Summary of Audits of the Rent deposit Scheme

First Audit April 2004	Follow-up September 2005	Second Audit November 2006	Follow-up August 2007
			<p>be required in their absence.</p> <p>2. Team access has been reviewed and Management have noted that all members of the team require the same level of access.</p> <p>3. All team members now have read only access to the Pericles system.</p>
		<p>Efficient Business Processes Business processes not efficient.</p> <p>Risk 3 Priority 2 SAFFRON Module</p> <p>Loss of efficiency in service delivery from shortcomings in the system, replication of data and continuing with manual processes.</p>	<p>Not Implemented – Implementation delayed</p> <p><u>Management comment:</u></p> <p>1. Due to SAFFRON not being fit for purpose, a new system is to be procured.</p> <p>2. A statement of requirements has been prepared for the new system and this is to be circulated to potential suppliers to see if they are able to deliver the required specification. However the procurement decision is now beyond the control of this service and has been elevated to Head</p>

Summary of Audits of the Rent deposit Scheme

First Audit April 2004	Follow-up September 2005	Second Audit November 2006	Follow-up August 2007
			<p>of Service / Director level.</p> <p><u>Audit comment:</u> Whilst we note that SAFFRON is no longer in use, evidence was not seen to demonstrate achievement of business efficiency in the interim, i.e. reduction in manual processes, flagging up of cases where multiple claims are made on the housing register.</p> <p>Further Action: Ensure that adequate processes are in place to achieve business efficiency within the service in the interim / absence of use of SAFFRON.</p> <p>Proposed Implementation Date: October 2007</p>
		<p>Efficient and Secure Method of Payment</p> <p>Routine payments were by</p>	<p>Partly Implemented</p> <p>Payments are made by BACS. This was verified by the</p>

Summary of Audits of the Rent deposit Scheme

First Audit April 2004	Follow-up September 2005	Second Audit November 2006	Follow-up August 2007
		<p>cheque not electronic.</p> <p>Risk 5 Priority 2 Routine payments</p> <p>Financial loss to the Council resulting from inappropriate payments.</p>	<p>payments section. However reconciliations are currently not undertaken with SAP to identify duplicate payments.</p> <p>Further Action: As per action 2 – ensure that reconciliation exercises are undertaken routinely to identify any duplicate payments.</p> <p>Proposed Implementation Date: October 2007.</p>
		<p>Delegated Authority Authority for discretionary payments not formally delegated.</p> <p>Risk 6 Priority 2 Delegation of authority</p> <p>Inappropriate payments and set off's leading to financial loss to the Council in the absence of formal delegation of authority and effective processes for discretionary payments and write offs.</p>	<p>Not Implemented</p> <p>Management comment: A DPR will be written, as per risk 4, to review the current scheme of delegation and to specify the authority for write-offs and discretionary payments.</p> <p>Further Action: Ensure that the Scheme of Delegation is revised to set clear levels of authority.</p>

Summary of Audits of the Rent deposit Scheme

First Audit April 2004	Follow-up September 2005	Second Audit November 2006	Follow-up August 2007
			<p>Proposed Implementation Date: October 2007</p>
		<p>Performance Management Appropriate performance targets not set. Monitoring information either not completed or accurate.</p> <p>Risk 7.2 Priority 2 Targets Management may not be meeting expectations and service user's needs effectively.</p>	<p>Not Implemented</p> <p>Currently monitoring reports focus on number of rent deposits completed.</p> <p>A review has been completed by the service of the private sector team (PST / rent deposit scheme) and the homelessness team to identify their respective effectiveness in reducing homelessness and people in temporary accommodation.</p> <p>Management comment:</p> <p>1. Further qualitative targets will be set based on the review undertaken of the PST and Homelessness services. A target for 'deposit outcome' will also be set once all outstanding debt has been chased up.</p> <p>2. The service has not received</p>

Summary of Audits of the Rent deposit Scheme

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			<p>SP grant for the year.</p> <p>Further Action: Ensure that qualitative targets are identified and monitored to ensure service user needs are being met.</p> <p>Implementation Date: November 2007</p>
		<p>Declaration of Interest Process to identify and address potential conflict of interest not in place.</p> <p>Risk 10 Priority 1 Conflict of Interest Inappropriate dealings with the public, causing a loss to the council.</p>	<p>Not Implemented</p> <p><u>Management comment:</u> We will take this forward and establish a process for obtaining staff declarations in order to identify and mitigate against conflicts of interest by the end of September 2007.</p> <p><u>Audit comment:</u> Audit will be happy to provide input on request by the service.</p> <p>Further Action: As per management comment, ensure that an effective process</p>

Summary of Audits of the Rent deposit Scheme

First Audit April 2004	Follow-up September 2005	Second Audit November 2006	Follow-up August 2007
			<p>is established for the identification and mitigation of conflict of interest.</p> <p>Proposed Implementation Date: November 2007.</p>
Assurance Before Follow-up: Assurance After Follow-up:	Limited None	Assurance Before Follow-up: Assurance After Follow-up:	None None