

REPORT TO: Audit and Governance Committee

MEETING DATE: 19 March 2013

BY: Executive Director (Support Services)

SUBJECT: Internal Audit Report – Rent Deposit Scheme

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on the Rent Deposit Scheme.

2 RECOMMENDATION

- 2.1 That the Audit and Governance Committee note the contents of the Executive Summary and Action Plan for the Rent Deposit Scheme.

3 BACKGROUND

- 3.1 A review of the Rent Deposit Scheme was undertaken as part of the audit plan for 2012/13.
- 3.2 The main objective of the audit was to ensure that internal controls in place for the Rent Deposit Scheme were operating effectively.
- 3.3 The main findings from our audit work are outlined in the attached report.

4 POLICY IMPLICATIONS

- 4.1 None

5 EQUALITIES IMPACT ASSESSMENT

- 5.1 This report is not applicable to the well being of equalities groups and Equality Impact Assessment is not required.

6 RESOURCE IMPLICATIONS

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

7 BACKGROUND PAPERS

7.1 None

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EAST LoTHIAN COUNCIL – INTERNAL AUDIT RENT DEPOSIT SCHEME

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the Audit Plan for 2012/13, a review was undertaken of the internal controls surrounding the administration of the Rent Deposit Scheme. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- Rent deposits paid by the Council are in accordance with the levels of rent set by the Local Housing Allowance.

1.3 Areas with Scope for Improvement

- The existing procedures and guidance in place for administering the Rent Deposit Scheme require review – the procedures and guidance have not been updated to reflect the requirements of the Tenancy Deposit Schemes (Scotland) Regulations 2011. *Risk – the scheme may fail to reflect recent changes in legislation affecting rent deposits.*
- There was a failure to maintain a comprehensive record of all rent deposits paid and rent guarantees held. *Risk – omissions may occur and remain undetected.*
- No reconciliations had been performed between rent deposits recorded in the Homelessness records and the actual payments made through the Council's general ledger. *Risk – errors and anomalies may occur and remain undetected.*
- There was a lack of effective monitoring arrangements in place to ensure that all outstanding deposits are recovered timeously following the end of a tenancy. *Risk – loss of income to the Council.*
- There was a failure to adopt a consistent approach where recovery action was taken. *Risk – all amounts due may not be recovered.*
- For deposits retained by the landlord to cover damages caused by the tenant, there was a lack of clear documentation in place to confirm the Council's agreement to the amounts retained. *Risk – errors and irregularities may occur and remain undetected.*

1.4 Summary

Our review of the internal controls surrounding the administration of the Rent Deposit Scheme identified a number of areas with scope for improvement. Detailed recommendations and opportunities for improvement are contained in our main Audit Report.

Mala Garden
Internal Audit Manager

March 2013

ACTION PLAN

PARA REF	RECOMMENDATION	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.1.1	Management should ensure that the existing procedures and guidance on the Council's Rent Deposit Scheme are updated to reflect the requirements of the Tenancy Deposit Schemes (Scotland) Regulations 2011.	Homelessness Manager	Agreed – new procedures to be implemented		May 2013
3.2.1	Management should ensure that a clear audit trail exists for all rent deposits paid – all payments should be supported by an application form, an applicant's declaration and a landlord's agreement.	Homelessness Manager	Agreed – within 3.1.1 above		May 2013
3.2.2	Management should ensure that all key documentation is in place prior to the applicant being accepted on to the scheme and rent deposits being paid.	Homelessness Manager	Agreed – within 3.1.1 above		May 2013
3.3.1	Management should ensure that a complete and comprehensive record is maintained of all rent deposits paid and rent guarantees held.	Homelessness Manager	Agreed		October 2013

PARA REF	RECOMMENDATION	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.5.1	Management should ensure that rent deposits are only paid to registered landlords and to bank accounts held in their name.	Homelessness Manager	Agreed		April 2013
3.6.1	<p>Regular reconciliations should be carried out between the Council's general ledger and the Rent Deposit Register for all payments made and deposits returned.</p> <p>All differences identified should be fully investigated and where necessary, appropriate corrective action taken.</p> <p>A member of staff independent of the preparer should check the reconciliation – the reconciliation should be signed and dated as evidence of checks being carried out.</p> <p>Management should ensure that information is passed to the Council's Finance section to allow appropriate adjustments to be made where a tenancy ends and all or part of the deposit is retained by the landlord.</p>	Homelessness Manager	Agreed		June 2013
3.7.1	Management should clearly establish the total rent deposits currently outstanding.	Homelessness Manager	Agreed		June 2013

PARA REF	RECOMMENDATION	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.7.1 (cont)	<p>Effective monitoring arrangements should be in place to ensure that all outstanding deposits are recovered timeously following the end of a tenancy.</p> <p>For deposits retained by landlords to cover damages caused by the tenant, formal documentation should be held to confirm the Council's agreement to the amounts retained – consideration should be given to recovering the deposit from the tenant.</p>	Homelessness Manager	Agreed		June 2013
3.7.2	<p>Management should ensure that a consistent approach is adopted for the recovery of outstanding deposits from landlords.</p>	Homelessness Manager	Agreed		June 2013
3.8.1	<p>Consideration should be given to replacing the existing Rent Deposit Scheme with a Rent Guarantee Scheme.</p> <p>Management should ensure that the Rent Guarantee Scheme is properly set up and that clear procedures are in place outlining how the scheme will operate.</p> <p>A clear audit trail should be in place for all rent deposits which have been returned and rent guarantees issued in their place.</p>	Homelessness Manager	Agreed		April 2013