

REPORT TO: Audit and Governance Committee

MEETING DATE: 20 June 2017

BY: Depute Chief Executive (Resources & People Services)

SUBJECT: Internal Audit Report – Housing Revenue Account

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on the Housing Revenue Account.

2 RECOMMENDATION

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

3 BACKGROUND

- 3.1 A review of the Housing Revenue Account was undertaken as part of the audit plan for 2016/17.
- 3.2 The main objective of the audit was to ensure that the internal controls in place 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 INTEGRATED IMPACT ASSESSMENT

- 5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

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 HOUSING REVENUE ACCOUNT

1. EXECUTIVE SUMMARY

1.1 Introduction

A review of the internal controls surrounding the administration of the Housing Revenue Account was undertaken as part of the Audit Plan for 2016/17. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- The Orchard system provides a clear audit trail for each property including the property details, tenancy history and the rent account transactions.
- All income collected through the Income Management System is correctly posted to both the Orchard system and the Council's general ledger.
- Adequate arrangements are in place to ensure compliance with legislation in respect of the rent setting process.
- Systems are in place to ensure that all fortnightly housing rent transactions from the Orchard system are correctly updated in the general ledger.

1.3 Areas with Scope for Improvement

- In some cases, errors were identified in the rent increases applied to temporary homeless properties leased from Registered Social Landlords. *Risk – failure to ensure accuracy and completeness.*
- There was a lack of regular reconciliations between the property control totals in the Moores Books and the Orchard system. *Risk – errors and irregularities may occur and remain undetected.*
- In a number of cases anomalies in the tenancy information held on the Orchard system were identified, including incorrect tenure types and duplicate tenancies. *Risk – errors and irregularities may occur and remain undetected.*
- The arrangements in place for processing housing rent refunds require review – a number of errors were identified including a batch of refunds being paid twice in error. *Risk – overpayments may occur.*
- There were delays in quarterly reconciliations being undertaken between the Orchard system and the general ledger and in some cases differences identified had not been investigated. *Risk – errors and irregularities may occur and remain undetected.*
- There was a lack of a clear written methodology for calculating and allocating costs to the Housing Revenue Account. *Risk – an inconsistent approach may be adopted.*

1.4 Summary

Our review of the Housing Revenue Account identified a number of areas with scope for improvement. Detailed findings and recommendations are contained in our main Audit Report.

**Mala Garden
Internal Audit Manager**

June 2017

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.1	Management should review the adequacy and effectiveness of the current model used for setting rents.	Medium	Service Manager – Community Housing	Agreed – exercise to review the HRA model including rent and service charge policy underway.		February 2018
3.2.2	For all properties added to the housing stock, Management should ensure that the property attributes are obtained from a physical inspection of the property.	Medium	Service Manager – Community Housing	Agreed – consistent approach to be applied for all new housing stock, forms will be completed by Community Housing Officers.		June 2017
3.3.1	<p>Management should ensure that a review is undertaken of service charges that are currently applied to properties.</p> <p>Management should ensure that appropriate checks are undertaken of rent increases applied to Housing Association and homeless properties – the Homelessness Section should be provided with reports of the rent increases applied.</p>	Medium	<p>Service Manager – Community Housing</p> <p>Revenues Systems Development and Business Support Team Leader/ Homelessness Manager</p>	<p>Agreed – see action for 3.2.1 above.</p> <p>Agreed – reports to be passed to the Homelessness Section for checking.</p>		<p>February 2018</p> <p>June 2017</p>

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.3.1 (cont)	<p>Any discrepancies identified in the rent increases applied should be promptly corrected by the Homelessness Section. The Revenues Systems Development and Business Support Team should be notified of all changes.</p> <p>Management should ensure that rent increases are only applied for Housing Association properties following appropriate confirmation being received from the Housing Association.</p>	Medium	<p>Homelessness Manager</p> <p>Revenues Systems Development and Business Support Team Leader</p>	<p>Agreed</p> <p>Agreed</p>		<p>June 2017</p> <p>June 2017</p>
3.4.1	<p>Management should ensure that the tenancy information held on the Orchard system is accurate and complete – appropriate action should be taken to close duplicate or invalid tenancies.</p> <p>Management should ensure that the annual rent charge letters sent out for Housing Association properties exclude information on ELC rent increases.</p>	Medium	<p>Service Manager – Community Housing</p> <p>Revenues Systems Development and Business Support Team Leader</p>	<p>Agreed – housekeeping exercise to be carried out.</p> <p>Agreed – procedures will be updated to split the files sent to Critiqom. Inserts advising of the ELC rent increase will be removed for HA properties.</p>		<p>June 2017</p> <p>June 2017</p>

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.4.1 (cont)	Management should undertake a review of garages recorded as void on the Orchard system to determine if the Council is making the best use of its garage stock.	Medium	Service Manager – Community Housing	Agreed – review of garages to be undertaken as part of the Housing Asset Management Strategy.		January 2018
3.4.2	Management should ensure that a reconciliation is undertaken between the number of properties identified for a rent increase and the number of properties that receive an annual rent charge letter.	Medium	Revenues Systems Development and Business Support Team Leader	Agreed		June 2017
3.4.5	Evidence should be obtained to confirm the date of dispatch for the annual rent charge letters.	Medium	Revenues Systems Development and Business Support Team Leader	Agreed		In place
3.5.2	Management should ensure that reconciliations of property control totals between the Moores Books and the Orchard system are undertaken on a regular basis.	Medium	Service Manager – Community Housing	Agreed – revised procedure for verification now in place.		June 2017

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.5.2 (cont)	<p>Management should ensure that a reconciliation sheet is prepared to evidence the reconciliation being carried out – all supporting documentation from the Orchard system should be retained.</p> <p>A person independent of processing should check the reconciliation of the property control totals and sign the reconciliation sheet as evidence of the check being carried out.</p>	Medium	Service Manager – Community Housing	Agreed		June 2017
3.6.3	Management should ensure that all transfer allowances processed through the Income Management System are reconciled to the list of 'non-cash payments'.	Medium	Revenues Systems Development and Business Support Team Leader	Agreed		June 2017
3.7.2	Management should ensure that quarterly reconciliations between the Orchard system and the general ledger are carried out timeously – differences identified should be investigated.	Medium	Service Manager – Business Finance	Agreed – quarterly reconciliations will be carried out timeously and material differences identified will be investigated.		June 2017

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.7.2 (cont)	<p>Management should review the current approach adopted for processing refunds.</p> <p>Management should ensure that all overpayments in respect of refunds are promptly recovered from the tenants.</p> <p>Appropriate checks should be undertaken to ensure that refunds are correctly coded on the Orchard system.</p> <p>Management should ensure that refunds are posted to the correct refund ledger code in the general ledger.</p>	Medium	<p>Revenues Systems Development and Business Support Team Leader</p> <p>Rent Income Team Leader</p> <p>Rent Income Team Leader</p> <p>Revenues Systems Development and Business Support Team Leader/Principal Accountant (Financial)</p>	<p>Agreed – the refund process has now been automated and will no longer be processed through the Creditors Section.</p> <p>Agreed</p> <p>Agreed – all refunds will now be correctly coded as part of the automated process.</p> <p>Agreed</p>		<p>In place</p> <p>In place</p> <p>June 2017</p> <p>June 2017</p>

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.8.1	<p>Management should ensure that a clear written methodology is developed for calculating and allocating costs to the Housing Revenue Account.</p> <p>Management should ensure that service areas provide appropriate documentation to support expenditure posted to the Housing Revenue Account.</p>	Medium	Service Manager – Business Finance	<p>Partly agreed – see below.</p> <p>Currently working with Budget Holders and HRA service users to increase transparency of costs charged to HRA.</p> <p>Review of historic internal recharges to ensure that charge remains appropriate.</p> <p>Discussions ongoing around enhanced training for Budget Holders.</p> <p>External review of HRA budget model with any further need to prepare additional specific guidance explored in line with wider review.</p>		<p>Ongoing</p> <p>December 2017</p> <p>2017/18</p> <p>December 2017</p>

Grading of Recommendations

In order to assist Management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
High	Recommendations which are fundamental to the system and upon which Management should take immediate action.
Medium	Recommendations which will improve the efficiency and effectiveness of the existing controls.
Low	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.