

# Final Audit Report

## Housing Rents

### Nottingham City Homes

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NOTTINGHAM CITY COUNCIL

CITY AUDIT SERVICES



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# 1 Executive Summary

- 1.1 We have recently reviewed the key controls operating within the Rents Income system, as part of our routine coverage of Nottingham City Homes.

This review sought to ensure that all income due from housing rents is properly identified, collected and accounted for, is under appropriate management control and that arrears are carefully monitored and appropriate recovery action taken.

- 1.2 We consider that the controls operating within the system are good, with no evidence of fundamental weakness which may present a material risk to the Company and would require urgent attention by management.

- 1.3 We have identified a number of medium risk areas where improvements could be made, which are discussed later in the report. We have not identified any significant problem with the accuracy of processing transactions.

- 1.4 It is pleasing to note that the actual performance figures for current tenants indicate a continued reduction in the number of cases and the amount of arrears.

	2005-06	2006-07	2007-08 (to 29-09-07)
Proportion of Rent Collected	95.91%	95.50%	95.37%
Number of tenants with arrears of more than seven weeks worth of rent	11.13%	10.60%	10.27%
Number of tenants with rent arrears	31.34%	22.92%	21.35%
Number of tenants evicted for rent arrears	1.52%	1.28%	1.11%
Current Tenant Arrears	£4,149,574	£3,875,255	£3,723,248
Former Tenant Arrears	£2,543,207	£2,084,679	£2,575,640

## 2 Introduction

- 2.1 Housing Rents is considered to be a key financial system and consequently, is planned for review each year by City Audit Services.
- 2.2 As ALMO to the City Council, Nottingham City Homes is responsible for the collection around £80m in rent income from approximately 29,000 homes and 1,000 leasehold properties.

## 3 Scope and Approach

- 3.1 The scope for this review covers risks to the control system in the following areas: -

<b>General</b>	<ul style="list-style-type: none"><li>• Access rights</li><li>• Authorisation limits</li><li>• Performance monitoring</li></ul>
<b>Debit</b>	<ul style="list-style-type: none"><li>• Calculation of gross rent &amp; service charges</li><li>• Changes to gross rent &amp; service charges</li></ul>
<b>Collection</b>	<ul style="list-style-type: none"><li>• Income process (excluding income collection)</li><li>• Suspense accounts</li><li>• Reconciliations</li><li>• Refunds - processing and approval</li></ul>
<b>Recovery</b>	<ul style="list-style-type: none"><li>• Recovery action</li><li>• Suppressed Recovery Action</li><li>• Write-offs</li></ul>
<b>Follow-up</b>	<ul style="list-style-type: none"><li>• Agreed recommendations made in previous report (issued</li></ul>

- 3.2 Our approach to this audit has been to: -

- Meet with the Service Manager to obtain background information and to establish any particular areas of concern.
- Identify existing controls through discussion with appropriate staff;
- Evaluate existing controls against “expected” controls (CIPFA based)
- Test operation of existing controls (through sampling)
- Prepare draft & final reports to senior management; to include matters arising and suggested areas for improvement in the control system.

- 3.3 Matters arising are discussed in the following section and Action Plan.

## 4 Matters Arising

### General

- 4.1 Rent collection and arrears totals for the first quarter of 2007-08 were included in a joint report by the Head of Finance and the Head of Performance and Best Value to the Board on 26<sup>th</sup> July 2007. Performance for the second quarter has not yet been presented to the Board.
- 4.2 Rent collection and arrears totals for the end of 2006-07 have not yet been reported to the Board.
- 4.3 The following Best Value Performance Indicators for the first half year were reported by the Head of Performance and Best Value to the Performance & Regulatory Committee on 30<sup>th</sup> October 2007.

		Target	Actual
BV066a	Proportion of Rent Collected	97.35%	95.37%
BV066b	% of tenants owing more than 7 weeks rent	8.5%	10.3%
BV066c	% of tenants in arrears who have had Notice Seeking Possession served	19%	21.3%
BV066d	% of tenants evicted as a result of rent arrears	0.9%	1.11%

- 4.4 An earlier audit report identified the absence of a regular review of users & user rights within the Rents system. The previous Head of Finance reported to the Audit Committee in January that "a summary of users".....would "be revisited quarterly." However, no reviews have been carried out in 2007-08.

### Rent Debit

- 4.5 We have previously expressed concern with the quality of information provided on requests from Area Offices for a change in the tenancy commencement date or the removal of an "element", and the absence of management review/ approval for such cases.

We are pleased to note that considerable progress has been made in this area.

- A quarterly Tenancy Amendment Report has been introduced which summarises the total value for each type of change actioned and provides details of exception cases (eg date changes greater than 6 weeks). The report is reviewed and signed by the Head of Area Operations - Income Management. A full listing of all identified cases is retained by the Rents Manager.

- A procedure document for approval of changes is currently being drafted.
  - The Head of Area Operations - Income Management is planning to introduce a system where "exceptions" from the approved criteria for changes are referred to him or senior management for approval before being actioned.
- 4.6 The Rents Admin Team Leader runs and reviews periodic exception reports such as missing NRENT charge code (HRA property, complying with the Government formula on rents) or Current Rent < £20. From these reports and a report of properties with HUPC charge code (Housing Dept Use; 100% Concession), we have identified a small number of minor queries, which the Rents Manager has agreed to review.
- 4.7 34 properties were identified with no rent and 2 properties with a rent of £2. Most properties have been used by Area Offices or Sheltered Schemes for many years, although other users were NACRO, Sure Start and Community Point.

It is not clear how this "free use" has been approved over the years, or whether this matter should be reported to the City Council for approval or noting.

- 4.8 The Rents Admin Team Leader's weekly update of new tenancies into the rents module has identified a number of Registered Social Landlord properties, which appear to have been mis-posted in the Estate module.

## **Income**

- 4.9 Reconciliations of income to rents postings & income to ledger have been carried out on a daily basis throughout the year. At the time of our visit (23-10-07) the reconciliation had been completed up to the 29<sup>th</sup> June.
- 4.10 Reconciliations progress is now included in the monthly Business Review meeting.
- 4.11 Our review of refunds identified two cases where the tenant had died and the refund cheque had been made out in the personal name of an executor. Although the supporting documentation included a copy of a will, indicating the executors, it did not include a death certificate.
- 4.12 The balances on the Suspense Account at 29<sup>th</sup> October are detailed below: -

Year of transaction	Account "0"			Account "1"		
	Number	Debit £	Credit £	Number	Debit £	Credit £
2001-02	115	315	5,277	18	45	8,990
2002-03	59	504	3,704			
2003-04	63	40	2,569			
2004-05	47	314	2,481			
2005-06	37	271	1,020			
2006-07	156	60	2,620			
2007-08	256	8,571	5,152			
	<b>739</b>	<b>10,075</b>	<b>22,823</b>	<b>18</b>	<b>45</b>	<b>8,990</b>

4.13 The Suspense Account 0 included a debit item on 12-10-07 for £8,536.24. This was a contra transaction due to an incorrect double posting of wage deductions by Salaries & Wages. The Rents Manager will raise this issue with appropriate staff.

4.14 The Rents Manager now reviews the Suspense Account balance on monthly basis.

## Recovery

4.15 Arrears cases have been suitably monitored throughout the period by the Area and Central teams. It is pleasing to note that the performance figures for current tenants are generally in line with expectations.

	2005-06	2006-07	2007-08 (@ 29-09-07)	
Number of tenants with arrears of more than seven weeks worth of rent	3,226	2,810	2,877	
Number of tenants with rent arrears	12,014	11,744	11,950	
Number of tenants evicted for rent arrears (rolling 12 months)	442	370	318	
Total rent arrears				
	Current	£3,673,821	£3,596,776	£3,723,248
	Former	£2,062,018	£2,137,279	£2,575,640

4.16 Escalation suspensions have continued to be monitored by the Rents Manager throughout the year. At the time of audit the Live Disputes Entered report listed 66 such cases.

4.17 Although the total of write-off batches is matched to a "Global" report, there is no evidence of this reconciliation on the Write-off file. Reports of write-offs are signed by the Rents Manager.

4.18 Write-offs of £201,691 & write backs £41,539 were reported to the Performance & Regulatory Committee on 30-10-07.

4.19 Write-offs for 2006-07 of £1,796,405 & write backs of £92,912 were reported to the Performance & Regulatory Committee on 20-06-07.

## Follow-up of Previous Recommendations

4.20 We have reviewed agreed recommendations contained in the report issued in May 2007 for satisfactory implementation. In summary: -

Number of Recommendations			
Made	Agreed	Implemented	%
8	8	7	87.5

4.21 The one outstanding recommendation with a “priority” of Medium relates to the control of changes in the tenancy commencement date or the removal of an “element. This recommendation has been partially implemented and the outstanding issues are discussed in paragraph 4.5 above.

Ref	Recommendation (Summary)	Priority
2	<p>A - Requests for changes in the tenancy commencement date or the removal of an “element”, should be consistent, properly approved and should be subject to periodic management review (for quality/ performance monitoring).</p> <p>B - The Financial Delegation Framework should be amended to include this area</p> <p>C – Management may wish to use the report requested from Housing IT which lists all cases where the tenancy commencement date was changed in a given period.</p>	Medium

## 5 Action Plan

Ref	Matter Arising	Recommendation	Priority	Management Response	Responsibility and Target Date
<b>General</b>					
02	<p>No reviews of users &amp; user rights within the Rents system have been carried out in 2007-08.</p> <p><b>Risk</b> Potential unauthorised use of the system</p>	Users & user rights in the Rents system should be reviewed regularly.	Low	<p>Agreed</p> <p>Reviews will be carried out annually, subject to Housing ICT co-operation</p>	<p>Rents Manager</p> <p>31-Dec-07</p>
<b>Rent Debit</b>					
03	<p>Amendments to Tenancy start/ end dates and removal of elements.</p> <ul style="list-style-type: none"> <li>• A procedure document for approval of changes is currently being drafted.</li> <li>• The Head of Area Operations - Income Management is planning to introduce a system where "exceptions" from the approved criteria for changes are referred to him or senior management for approval before being actioned.</li> </ul> <p><b>Risk</b> The rent charge may be incorrect</p>	The controls over amendments to Tenancy start/ end dates and removal of elements should be introduced as soon as possible	Medium	<p>Agreed.</p> <p>Exceptions will also be forwarded to the City Council's Head of Housing Finance for consideration &amp; scrutiny.</p>	<p>Rents Manager</p> <p>30-Nov-07</p>

Ref	Matter Arising	Recommendation	Priority	Management Response	Responsibility and Target Date
04	<p>34 were identified with no rent and 2 properties with a rent of £2. Most properties have been used by Area Offices or Sheltered Schemes for many years, although other users were NACRO, Sure Start and Community Point. It is not clear how this "free use" has been approved over the years, or whether this matter should be reported to the City Council for approval or noting.</p> <p><b>Risk</b> The rent charge may be incorrect</p>	The status of the properties identified with no, or minimal rent should be clarified and approval sought from the City Council, if required	Low	<p>Agreed</p> <p>Such cases are regularly reviewed by the Team Leader, Rent Administration.</p> <p>A report indicating all cases will be forwarded to the City Council's Head of Housing Finance for consideration &amp; approval.</p>	<p>Rents Manager</p> <p>31-Dec-07</p>
05	The Rents Admin Team Leader's weekly update of new tenancies into the rents module has identified a number of Registered Social Landlord properties, which appear to have been mis-posted in the Estate module.	The mis-posting of Registered Social Landlord tenancies should be reviewed	Low	<p>Agreed</p> <p>This issue will be raised with Housing ICT and with Allocations as this should not occur.</p>	<p>Rents Manager</p> <p>31-Dec-07</p>
<b>Income</b>					
06	<p>Our review of refunds identified two cases where the tenant had died and the refund cheque had been made out in the personal name of an executor. Although the supporting documentation included a copy of a will, indicating the executors, it did not include a death certificate.</p> <p><b>Risk</b> Refund of income may be transferred incorrectly and may be misappropriated</p>	Procedures/ Policy for dealing with deceased tenants should be implemented	Low	<p>Agreed in part.</p> <p>Notifications of death are received from the registry &amp; recorded. Death certificates are taken on termination of tenancy.</p> <p>This matter will be discussed with Legal to ensure current practice is fit for purpose.</p>	<p>Rents Manager</p> <p>31-Dec-07</p>

Ref	Matter Arising	Recommendation	Priority	Management Response	Responsibility and Target Date
<b>Recovery</b>					
07	<p>Although the total of write-offs is matched to a "Global" report, there is no evidence of this reconciliation on the Write-off file. Reports of write-offs are signed by Rents Manager.</p> <p><b>Risk</b> Write-off action may not be authorised</p>	Evidence to support the match of write-offs to the "Global" report should be maintained.	Medium	<p>Agreed.</p> <p>Reports have been produced, signed off &amp; should have been in the Write Off folder (currently with Audit)</p>	<p>Rents Manager</p> <p>30-Nov-07</p>

Signed..... Date.....  
(Service Manager or above).

## Glossary of Terms

### 1 Categorisation of Recommendations

The recommendations within this report have been categorised by City Audit Services as:

High Priority	A fundamental weakness which presents material risk to the audited body and requires urgent attention by management.
Medium Priority	A significant weakness whose impact or frequency presents an unacceptable risk to the audited body that should be addressed by management.
Low Priority	The audited body is not exposed to any significant risk, but the recommendation merits attention.

In all cases Internal Audit will follow up implementation of the recommendations by the agreed date.