



NOTTINGHAM CITY HOMES

REVIEW OF THE RENT COLLECTION ARRANGEMENTS

Report issued:	November 2008
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Audit Plan:	2008/09
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The matters raised in this report are only those that came to the attention of the auditor during the course of the internal audit review and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. This report has been prepared solely for management's use and must not be recited or referred to in whole or in part to third parties without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. TIAA neither owes nor accepts any duty of care to any other party who may receive this report and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our report.

Business Assurance

Review of the Rent Collection Arrangements

- EXECUTIVE SUMMARY -

INTRODUCTION

1. TIAA has reviewed the Rent Collection arrangements at Nottingham City Homes. The review was carried out in October 2008 as part of the planned internal audit work for 2008/09.

SUMMARY

2. Two Key Risk Control Objectives were identified and tested and based on the findings from this work an overall evaluation of the overall adequacy of the internal controls was established (figure 1 below).

Figure 1 - Evaluation of the Effectiveness of the Internal Controls

System	Evaluation
Rent Collection	Limited Assurance

KEY FINDINGS

3. The following significant matters were identified which need to be addressed in order to strengthen the control environment.
 - A full review of the users with access rights to the rents system is required. It was noted that one previous NCH staff member had moved to Spirita Housing and was still using his NCH logon.
 - The safe combination at the St Anns area housing office had not been changed after a staff member with knowledge of the code had left.

OPERATIONAL EFFECTIVENESS MATTERS

4. The principal purpose of the review was to assess the effectiveness of the internal control arrangements in mitigating against risk. Operational Effectiveness action points were identified and opportunities for enhancements to the current arrangements are set out in the Operational Effectiveness management action plan.

MANAGEMENT RESPONSES

5. Effective implementation by management of the recommendations made in this report is important for the maintenance of a reliable internal control system. Recommendations for improvements should be assessed by the Company for their full impact before they are implemented. Management responses have been received for all the recommendations made in this review.



MANAGEMENT ACTION PLAN

Para. Ref.	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
19.4	The safe combination at the St Anns area housing office be changed.	1	COMPLETE. <i>St Anns' safe combination has now been changed.</i>	<i>Immediate</i>	<i>Bill Hayward – Area Housing Manager</i>
19.9	A full review of the users with access rights to the rents system be undertaken.	1	<i>A review was undertaken in May 2008. Another review will take place in November 2008 and every six months thereafter.</i>	<i>End of November 2008</i>	<i>Mark Lawson - Performance Improvement Manager (Housing).</i>
16.1	The risk of changes in RTB legislation be considered for inclusion in the Company's risk map.	2	<i>To be incorporated into TEM risk register, reviewed on a quarterly basis, and in the TEM Service Plan.</i>	<i>End of December 2008</i>	<i>Bill Hayward – Area Housing Manager</i>
16.2	The documented procedures be amended to make reference to the requirements about complying with the Data Protection Act with regard to holding of personal data.	2	COMPLETE. <i>Procedure Manual has been updated to incorporate this information.</i> <i>Arrears Manual – version 1.7. section 1.1.</i> <i>All Rents teams to be reminded.</i>	<i>Immediate</i>	<i>Mark Lawson - Performance Improvement Manager (Housing).</i>
16.3	Sensitive information be held in a secure location to control unauthorised access to sensitive personal data.	2	<i>A lockable storage cupboard will be obtained to store this information.</i>	<i>End of November 2008</i>	<i>Richard Holland – Interim Rents Manager.</i>
16.4	Consideration be given to providing tenants with information about the Company's rent policy and rent levels across the Company's stock and in the relevant local authority area.	2	COMPLETE. <i>An article has gone out to tenants on this matter in the Tenants Newsletter – see issue 16. page 4 – and this will be publicised annually hereafter.</i>	<i>Immediate</i>	<i>Richard Holland – Interim Rents Manager.</i>

PRIORITY GRADINGS

1	URGENT	fundamental control issue on which action should be taken immediately.
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2	IMPORTANT	control issue on which action should be taken at the earliest opportunity.
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3	ROUTINE	issue on which action should be taken.
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Review of the Rent Collection Arrangements

Para. Ref.	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
19.2	All daily cash overs and unders be recorded at area housing offices.	2	COMPLETE. <i>Overs and unders to the amount of £20 and over are recorded in central log in each housing office (Appendix G of the Banking and Cash Handling Procedures). Copies are sent to AHM, Head of Finance and City Finance.</i>	<i>Immediate</i>	<i>Area Housing Managers – Various</i>
19.3	All explanations for cashier reversals be recorded.	2	COMPLETE. <i>Explanations are recorded (Appendix F of the Banking and Cash Handling Procedures) and reversals log sheets are held centrally at each office.</i>	<i>Immediate</i>	<i>Area Housing Manager – Various</i>
19.6	The rents suspense account be regularly reviewed and signed off by the Team Leader.	2	<i>The rents suspense account will now be reviewed monthly.</i>	<i>Immediate</i>	<i>Andy Webb - Rents Admin. Team Leader</i>
19.7	The Tenancy Attribute Changes report be reviewed and signed off by the Head of Rents (Rents Manager) on a quarterly basis.	2	<i>To be completed in future. Consideration to undertake a review on a monthly basis – will however review on a quarterly basis in the meantime.</i>	<i>Immediate</i>	<i>Andy Webb - Rents Admin. Team Leader & Richard Holland – Interim Rents Manager.</i>
19.1	Consideration be given to the rotation of cash collecting rounds.	3	<i>One of the three current Rent Collectors is due to retire in the next 3 months. A review of the rounds including the regular rotation will be considered at this point. NCH have also commissioned a piece of work to review all cash payments, which will include the Rent Collector service.</i>	<i>End of January 2009</i>	<i>Rob Haque - Central Rents Team Manager.</i>

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Review of the Rent Collection Arrangements

Para. Ref.	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
19.5	Consideration be given to moving old items from the rents suspense account.	3	<p>COMPLETE.</p> <p><i>This money belongs in Nottingham City Council's I.T. system. NCH has previously acknowledged the need to regularly clear down rents suspense items and has raised the issue with the NCC.</i></p> <p><i>NCC Head of Finance (HRA) has again been informed (17/11/08) of the need to clear old items from the rent suspense account and NCH await a response.</i></p>	<i>Immediate</i>	<i>Andy Webb - Rents Admin. Team Leader in consultation with NCC Head of Finance (HRA).</i>
19.8	The standard authorisation form be used to request tenancy date and key element amendments.	3	<p>COMPLETE.</p> <p><i>A standard form is now in place to address this issue. 'request to extend tenancy commencement date pro-forma'.</i></p>	<i>Immediate</i>	<i>Andy Webb - Rents Admin. Team Leader and Lettings Managers (3).</i>

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OPERATIONAL EFFECTIVENESS MATTERS

Para. Ref.	Item	Management Comments
18.2	The format of the statements be amended to make it clear that they are not demands for payment.	<i>This will be implemented on the next rent statements that are due to go out. Central Rents Team Manager has been advised.</i>

ADVISORY NOTE

Operational Effectiveness Matters need to be considered as part of management review of the procedures, rather than on an one-by-one basis

- DETAILED REPORT -

SCOPE AND LIMITATIONS OF THE REVIEW

6. The objective of the review was to assess the effectiveness of the key risk controls which provide assurance that the Rent Collection system is operated in accordance with the Company's requirement.
7. The review included the arrangements for the collection of rents including Housing Benefits. The review did not include the calculation of rents, the collection of service charges, letting arrangements, void management, or the acquisition and disposal arrangements for properties.
8. The responsibility for a sound system of internal controls rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses that may exist. Neither should internal audit work be relied upon to identify all circumstances of fraud or irregularity, should there be any, although the audit procedures have been designed so that any material irregularity has a reasonable probability of discovery. Even sound systems of internal control may not be proof against collusive fraud.
9. For the purposes of this review reliance was placed on management to provide internal audit with full access to staff and to accounting records and transactions and to ensure the authenticity of these documents.

ASSESSMENTS OF THE KEY RISK CONTROL OBJECTIVES

10. Details of the two Key Risk Control Objectives that were reviewed and the individual assessments of the effectiveness of the control arrangements are shown below (figure 2 below).

Figure 2 - Summary of the Evaluations of the Key Risk Control Objectives

Risk	Control	Assurance Assessment
Failure to direct the process through approved policy & procedures.	Arrangements in place provide for compliance with established policies, procedures, laws and regulations.	Limited Assurance
Losses arising from unauthorised action by staff.	Arrangements in place provide for safeguarding the organisation's assets and interests from avoidable losses.	Limited Assurance

11. This review identified and tested the controls that are being operated by the Company and an assessment of the combined effectiveness of the controls in meeting each of the Key Risk Control Objectives is provided. Internal controls can only provide reasonable and not absolute assurance against misstatement or loss. The limitations on assurance include the possibility of one or more of the following situations, control activities being circumvented by the collusion of two or more persons, human error, or the overriding of controls by management. Additionally, no assurance can be provided that the internal controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks that may arise in future. The assessments, which are based solely on the audit carried out are:



Substantial Assurance	robust series of internal controls in place which should ensure continuous and effective achievement of the control objective.
Reasonable Assurance	reasonable number of internal controls in place, however may not be operated all the time.
Limited Assurance	the controls in place are not sufficient to ensure the continuous and effective achievement of the control objective.
No Assurance	fundamental breakdown or absence of core internal controls.

MATERIALITY

12. The total rent debit for 2007/08 was £83,210,256. The rent debit for 2008/09 year to date (to w/c 08/09/08) is £37,647,431 against a proposed budget of £79,672,080.

RELEASE OF REPORT

13. The table below sets out the history of this report.

Date draft report issued:	14 th October 2008
Date management responses recd:	18 th November 2008
Date final report issued:	19 th November 2008

- DETAILED REPORT -

14. Risk	Failure to direct the process through approved policy & procedures.		
Risk Control Objective	Arrangements in place provide for compliance with established policies, procedures, laws and regulations.	Evaluation	From the review of the documentation and tests carried out the Control Evaluation is: <u>Limited Assurance</u>

15. The following matters were identified in reviewing the Key Risk Control Objective:
- 15.1 There is an Income Management policy in place that was approved by the Board in February 2007.
 - 15.2 The Interim Head of Rents has overall responsibility for the management of the rents system. He took over the post in mid September.
 - 15.3 The risk of changes in RTB legislation has been identified by other organisations but it is not currently in the Company's risk map. (Recommendation 16.1 refers).
 - 15.4 The Financial Regulations dated June 2008 state that "All rental income due shall be the responsibility of the Director of Housing who will ensure that the necessary detail is recorded on the Housing IT system. The Director of Housing shall ensure strict adherence to the Company's rent policies and procedures and in particular, shall ensure that all cases of rent arrears are investigated promptly and appropriate action taken."
 - 15.5 There are documented procedures in place for the administration, accounting and collection of rents. These were prepared in 2005 and are available in the Company's intranet site. These procedures do not explicitly refer to the requirements about complying with the Data Protection Act with regard to holding of personal data. (Recommendation 16.2 refers).
 - 15.6 A copy of a previous tenant's death certificate and Last Will and Testament were not held securely within the rents office. (Recommendation 16.3 refers).
 - 15.7 Tenants have not been provided with information about the Association's rent policy and rent levels across the Company's stock and in the relevant local authority area. (Recommendation 16.4 refers).
 - 15.8 Rent performance (BV66a, b, c & d) is reported to the Performance and Regulatory Committee on a quarterly basis.

16.	Recommendations:	Priority
16.1	The risk of changes in RTB legislation be considered for inclusion in the Company's risk map.	2
16.2	The documented procedures be amended to make reference to the requirements about complying with the Data Protection Act with regard to holding of personal data.	2
16.3	Sensitive information be held in a secure location to control unauthorised access to sensitive personal data.	2
16.4	Consideration be given to providing tenants with information about the Company's rent policy and rent levels across the Company's stock and in the relevant local authority area.	2

17. Risk	Losses arising from unauthorised action by staff.		
Risk Control Objective	Arrangements in place provide for safeguarding the organisation's assets and interests from avoidable losses.	Evaluation	From the review of the documentation and tests carried out the Control Evaluation is: <u>Limited Assurance</u>

18. The following matters were identified in reviewing the Key Risk Control Objective:

Risk: The means for tenants to pay their rent do not provide the maximum opportunity for regular and timely payments to be made thereby leading to increases in the level of rent arrears.

18.1 Rent can be paid by direct debit, by standing order, at PayPoints, at the Post Office, by telephone, on the Internet, by cheque through the post and at Nottingham City Homes and Nottingham City Council offices.

Nottingham City Council provide a door to door rent collection service for elderly and disabled tenants, these calls are broken down into areas and collected on a fortnightly basis (or monthly for small amounts i.e. insurance only).

The split by payment type is calculated monthly and for year to date 08/09 is: -

Branch/collector 50.5% (56.7% last year)

Debit/credit card 16.8% (14.8% last year)

Direct debit 19.3% (15.4% last year)

Internet 3.0% (2.3% last year)

Pay Point 6.3% (4.7% last year)

Standing order 4.2% (6.0% last year).

- 18.2 Statements are sent out quarterly and also on request from the tenant. Receipts are sent out for all payments received through the post. Any payments received by the Central rents Team at Houndsgate are paid in using the cashiers at the Guild Hall. The format of the statements does not make it clear that they are not demands for payment. (Operation Effectiveness Matter).
- 18.3 There are three rent collectors employed collecting council tax and rent from 21 rounds. The collectors are based at either of two area housing offices, Lenton and Bilborough. There is no rotating of collection rounds. (Recommendation 19.1 refers).
- 18.4 All amounts collected are recorded on a card and this record is transferred onto the tenant's rent card. The collectors enter the rent amounts onto the rent system daily upon completion of the round. The cash is bagged separately and collected daily by Loomis.
- 18.5 The duty supervisors at the area offices produce a daily reconciliation of the amount of cash and cheques declared against the expected figures generated by the cash system (Radius). This is sent to the Cashiers and Banking team at NCC and the Rents Team Leader at NCH. Cashiers overs and unders are reported on the daily reconciliation sheet which is e-mailed to the Rents Team Leader and NCC. The regional offices maintain a central log of daily over and under figures. This had not been completed at the Bestwood office since February 2008. (Recommendation 19.2 refers).
- 18.6 Refunds can only be performed by supervisors and are recorded on a Reversals log. No explanations had been entered for reversals of £71.00 and £169.20 completed at the St Ann's office on 01/09/08. (Recommendation 19.3 refers)
- 18.7 A security issue was noted at the St Ann's office whereby the safe lock is able to hold only one combination and this has not been changed since a member of staff with knowledge of this code left in August 2008. (Recommendation 19.4 refers).

Risk: Delays in updating individual rent records means that management action cannot be taken in a timely manner which could lead to an increase in the level of rent arrears.

- 18.8 There is a weekly reconciliation completed between Northgate, Radius (the cash system) and One World (the ledger). The Rents Team Leader completes this. At the time of the audit this had been completed up to 22nd August.
- 18.9 The rents suspense account is reconciled daily. There are several old items in this account dating back to October 2001. The total of the credit items is £23,216 and £1,742 debit items. The internal audit review carried out in March 2007 recommended that management consider a policy for dealing with aged items in suspense and the possibility of removing some of these from the rents system. At the time of the current review this recommendation had not yet been implemented. (Recommendation 19.5 refers).
- 18.10 Discussions with the Rents Team Leader identified that he reviews the suspense account but this has not been completed since September 2007. (Recommendation 19.6 refers).

18.11 Only members of the central rents team can make changes to tenancy start dates and key elements. These changes are requested by the branch managers of the area housing offices and are processed by the Rents Team Leader. A Tenancy Attribute Changes Report is completed quarterly. The report for quarter one has not been reviewed and authorised. A standard authorisation form has been devised to be used to request amendments. Discussions with the Rents Team Leader identified that some requests are being received by email. (Recommendations 19.7 and 19.8 refer).

Risk: Ineffective security and failure to review standard control reports may lead to unauthorised payments being made with consequential financial loss to the organisation.

18.12 Discussions with the HR administrator identified that records exist from April 2007 for agency staff, therefore where no record exists, this could mean that the employee was agency from prior to this date. A monthly list of leavers is sent by HR to the ICT team.

18.13 A sample of user access accounts to the rents system were reviewed and the following issues were identified: -

- Hyacinth Francis – no HR record – account still live,
- Jagadeesh Chennam – no HR record – account still live,
- Dora Godfrey – no HR record – account still live,
- Sobia Ajaz – agency March 07 to June 07 – account still live,
- Carina Thomas - agency March 07 to June 07 – account still live,
- Timothy Chambers – moved to Spirita Housing 04/04/08 – NCH account still live and in use up to 24/09/08.

The following user accounts, although not marked with a job role end date, had been locked: -

- Alison Garner – no HR records
- Leigh Rhodes – left 29/06/08
- Janine Edwards – left 18/05/08.

(Recommendation 19.9 refers)

19	Recommendations:	Priority
19.1	Consideration be given to the rotation of cash collecting rounds.	3
19.2	All daily cash overs and unders be recorded at area housing offices.	2
19.3	All explanations for reversals be recorded.	2



19.4	The safe combination at the St Anns area housing office be changed.	1
19.5	Consideration be given to moving old items from the rents suspense account.	3
19.6	The rents suspense account be regularly reviewed and signed off by the Team Leader.	2
19.7	The Tenancy Attribute Changes report be reviewed and signed off by the Head of Rents on a quarterly basis.	2
19.8	The standard authorisation form be used to request tenancy date and key element amendments.	3
19.9	A full review of the users with access rights to the rents system be undertaken.	1
