



NOTTINGHAM CITY HOMES

REVIEW OF THE RENT SETTING & COLLECTION ARRANGEMENTS

Report issued:	July 2009
-----------------------	-----------

Audit Plan:	2009/10
--------------------	---------

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 Setting & Collection Arrangements

- EXECUTIVE SUMMARY -

INTRODUCTION

1. TIAA has reviewed the Rent Setting & Collection arrangements at Nottingham City Homes. The review was carried out in May 2009 as part of the planned internal audit work for 2009/10.

SUMMARY

2. One Key Risk Control Objective was 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 Setting & Collection	Limited Assurance

KEY FINDINGS

3. The following significant matters were identified which need to be addressed in order to strengthen the control environment.
 - The cash system (Radius), the nominal ledger (OneWorld) and the rent collection system (Northgate) have not been reconciled since 27th October 2008.
 - Revised cash handling procedures issued to the Company's area housing offices have not been trained in all cases and have been inconsistently followed.
 - Rent account credit balances are not routinely reviewed.

OPERATIONAL EFFECTIVENESS MATTERS

4. The principal purpose of the review was to assess the effectiveness of the internal control arrangements in mitigating against risk. No Operational Effectiveness action points were identified.

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 Organisation 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
16.1	The reconciliation of the cash system to the nominal ledger be brought up to date and completed on a daily basis as per the expected control.	2	<i>An exercise has already commenced to clear the backlog outstanding. The ledger will then be kept up to date on a daily basis thereafter.</i>	<i>End of June 2009</i>	<i>Andy Webb – Rents Admin Team Leader (supported by Richard Holland – Interim Rents Manager).</i>
16.3	All significant credit balances be regularly investigated with reasons and actions taken recorded.	2	<i>There will be a review at the end of each quarter of those accounts that currently have a Credit of over £1,000. Where appropriate the tenant shall be contacted after the relevant checks have been made, to refund the Credit due.</i>	<i>First review to commence by the end of June 2009</i>	<i>Andy Webb – Rents Admin Team Leader (supported by Richard Holland – Interim Rents Manager).</i>
16.4	Ensure the revised cash handling procedures are followed.	2	<i>There is an ongoing timetable of audits in place to ensure procedures are followed. First audits scheduled for July 2009.</i>	<i>End of September 2009</i>	<i>Mark Lawson</i>
19.1	Tenants be informed of the large credit balances on the rent account. The assistance of support agencies be utilised where appropriate.	2	<i>There will be a review at the end of each quarter of those accounts that currently have a Credit of over £1,000. Where appropriate the tenant shall be contacted after the relevant checks have been made, to refund the Credit due.</i>	<i>End of June 2009.</i>	<i>Andy Webb – Rents Admin Team Leader (supported by Richard Holland – Interim Rents Manager).</i>

PRIORITY GRADINGS

1	URGENT	fundamental control issue on which action should be taken immediately.
---	--------	--

2	IMPORTANT	control issue on which action should be taken at the earliest opportunity.
---	-----------	--

3	ROUTINE	control issue on which action should be taken.
---	---------	--



Para. Ref.	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
16.2	Old items held within the rents suspense account be moved to enable more detailed aged analysis to be performed.	3	<i>COMPLETE.</i> <i>An exercise has been completed to remove all old items in the suspense account. There will also be regular reviews in the future.</i>	<i>Immediate</i>	<i>Andy Webb – Rents Admin Team Leader.</i>
16.5	The standard form be used to request changes to tenancy start dates and key elements.	3	<i>The amended process & request form was launched at Housing Operations Management Team on 20th May 2009.</i>	<i>End of May 2009</i>	<i>Mark Lawson.</i>

PRIORITY GRADINGS

1	URGENT	fundamental control issue on which action should be taken immediately.
---	--------	--

2	IMPORTANT	control issue on which action should be taken at the earliest opportunity.
---	-----------	--

3	ROUTINE	control issue on which action should be taken.
---	---------	--



OPERATIONAL EFFECTIVENESS MATTERS

Para. Ref.	Item	Management Comments
	No Operational Effectiveness Matters were raised.	

ADVISORY NOTE

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

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 Setting and Collection system is operated in accordance with the organisation's requirement.
7. The review considers the arrangements for the collection of rents including Housing Benefits. The scope of the review does not include the collection of service charges or the management and recovery of arrears.
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.	Reasonable Assurance

11. This review identified and tested the controls that are being operated by the Organisation 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 Company has 29,078 residential properties and 4,439 garages on which it can charge rent.

RELEASE OF REPORT

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

Date draft report issued:	21 st May 2009
Date management responses recd:	8 th July 2009
Date final report issued:	10 th July 2009

- 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: <p style="text-align: center;"><u>Limited Assurance</u></p>

15. The following matters were identified in reviewing the Key Risk Control Objective:
- 15.1 There is an Arrears Management Manual in place dated November 2008 (currently version 1.8 in operation). This contains the Company's rent collection policies and detailed procedures in relation to both residential (current and former tenants) and garage rent. This is available on the Company's intranet site.
 - 15.2 Details of training provided to rents staff are included in the Arrears Management Manual. This includes competency assessments, personal development plans and annual benefit refresher training. The role of the Financial Inclusion Officer includes undertaking a calculation of potential benefits entitlement, help and advice with claiming any benefits due and giving advice on budgeting.
 - 15.3 The Company's Financial Regulation dated May 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."
 - 15.4 Information on how tenants can pay their rent is included in the Tenants Handbook 2008-09. This includes details of setting up a direct debit, how to pay at a PayPoint, The Post Office, by telephone, by post, using the internet, at the Company's and Nottingham City Council offices. A quarterly prize draw has been introduced by the Company whereby all tenants who pay by direct debit or who have a clear balance are selected at random by a panel of tenants and will cash amounts of £50 or £100. Details of this scheme with terms and conditions are sent out with rent statements. A facility has been set up to allow tenants to view their rent account details on-line. After registering, the account will show debits and payments on rent and insurance accounts. A link has been provided from this site for payments to be made over the internet.
 - 15.5 Rent collection rates for the second half of the financial year 2008/09 are: -
 - Branch/rent collector 47.7% (56.7% last year),
 - Debit/credit card 17.8% (14.8% last year),
 - Direct debit 22.3% (15.4% last year),
 - Internet 3.3% (2.3% last year),
 - PayPoint 5.4% (4.7% last year),
 - Standing order 3.5% (6.0% last year).

- 15.6 The cash system (Radius), the nominal ledger (OneWorld) and the rent collection system (Northgate) are expected to be reconciled on a daily basis. The results of the reconciliation are maintained on a spreadsheet. At the time of the audit review this had not been completed since 27th October 2008. (Recommendation 16.1 refers).
- 15.7 The rents suspense account is reviewed on a daily basis and periodically reviewed by the Rents Team Leader. At the time of the audit review this had been completed up to 5th May and reviewed by the Rents Team Leader on 20th April. There are several old items in this account dating back to October 2001. The internal audit reviews carried out in March 2007 and October 2008 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 16.2 refers).
- 15.8 Neither the Rents team nor Rent Account Managers routinely review credit balances. Refunds are only made upon a request in writing from the tenant. (Recommendation 16.3 refers).
- 15.9 The rents clerk makes a schedule of refund requests. These are authorised by the Rents Manager up to £1500 and by NCC above this amount. Payments are made to a third party on receipt of the necessary legal paperwork (death certificate, will, solicitors letter).
- 15.10 Changes to tenancy start dates and key elements are requested by the branch managers of the area housing offices and are processed by the Rents Team Leader. The Rents Team Leader completes a quarterly Tenancy Attribute Changes Report. This is presented to the Tenancy, Estate and Allocations Monitoring meetings and signed off retrospectively by the Assistant Director of Housing. Discussions with the Rents Team Leader identified that the standard authorisation form in place to request changes to tenancy start dates and key elements is not used always used and that requests are being received by e-mail. (Recommendation 16.5 refers).
- 15.11 The cash supervisors at the housing offices, who are independent to the cashiers, are responsible for the reconciliation of the monies taken to the cash collecting system (Radius). Revised cash handling procedures have been issued to the Company's area housing offices. These include amended Security Bag Receipt Logs where it is now required to record that the bag has been handed over to the cash collection agent (Group 4 Security) and the relevant receipt number. A review of the cash handling procedures at a sample of area offices highlighted the following: - (Recommendation 16.4 refers).
- This new Security Bag Receipt Log was not in use at the Clifton housing office. The existing recording book was in use where it is recorded that the bag has been collected but not the receipt number.
 - At the Bulwell and Aspley offices the form was in use but it had not always been recorded that the bags had been collected.
 - Discussions with the cash supervisor at Aspley identified that he had not been trained on the new cash handling procedures.
- The Customer Services Manager at Bulwell was to coach the relevant staff w/c 11th May. A security issue was noted at the Aspley office where the door to the cashier's office was left ajar during the time of the auditors visit.
-

16. Recommendations:	Priority
16.1 The reconciliation of the cash system to the nominal ledger be brought up to date and completed on a daily basis as per the expected control.	2
16.2 Old items held within the rents suspense account be moved to enable more detailed aged analysis to be performed.	3
16.3 All significant credit balances be regularly investigated with reasons and actions taken recorded.	2
16.4 Ensure the revised cash handling procedures are followed.	2
16.5 The standard form be used to request changes to tenancy start dates and key elements.	3

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: <p style="text-align: center;"><u>Reasonable Assurance</u></p>

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 Analysis of rent account credit balances showed: - (Recommendation 19.1 refers).

- Payment ref 21057753, credit balance £2,373. Arrears on the account up to February 2008 when these were cleared. The net rent payable is £7 per week. The standing order of £260 per month has not been reduced accordingly.
- Payment ref 10902341, credit balance £2,974. Arrears on the account up to June 2006 when these were cleared. Full housing benefit paid since. The standing order of £80 per month has not been cancelled.
- Payment reference 0992311X, credit balance £3,176. Net rent payable £17 per week since Sept 07. Standing order received for £115 every two weeks.

- 18.2 A sample of refunds made within the last six months were reviewed and were all found to be correctly supported by a written request from the tenant with supporting evidence where necessary to refunds made to a third party.

19. Recommendation:	Priority
19.1 Tenants be informed of the large credit balances on the rent account. The assistance of support agencies be utilised where appropriate.	2
