



NOTTINGHAM CITY HOMES

## REVIEW OF THE SUNDRY INCOME ARRANGEMENTS

<b>Report issued:</b>	December 2009
-----------------------	---------------

<b>Audit Plan:</b>	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 Sundry Income Arrangements

### - EXECUTIVE SUMMARY -

#### INTRODUCTION

1. We have reviewed the Sundry Income arrangements at Nottingham City Homes. The review was carried out in November 2009 as part of the planned internal audit work for 2009/10.

#### 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 - Evaluations of the Effectiveness of the Internal Controls*

<b>Evaluation</b>
Reasonable Assurance

#### KEY FINDINGS

3. The key control and operational practice findings that need to be addressed in order to strengthen the control environment are set out in the Management and Operational Effectiveness Action Plans. The prioritisation of the findings are summarised below (figure 2):

*Figure 2 - Summary of Priorities of Findings*

Urgent	Important	Routine	Operational
0	2	2	0

#### MANAGEMENT RESPONSES

4. Recommendations for improvements should be assessed by the Company for their full impact before they are implemented.

#### RELEASE OF REPORT

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

Date draft report issued:	27 <sup>th</sup> November 2009
Date draft report issued:	11 <sup>th</sup> December 2009
Date management responses recd:	17 <sup>th</sup> December 2009
Date final report issued:	18 <sup>th</sup> December 2009



**MANAGEMENT ACTION PLAN**  
**PRIORITY 1, 2 AND 3 RECOMMENDATIONS**

Risk	Finding	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
Timely action is not taken to recover monies due thereby leading to bad debts.	The intended Service Level Agreement is currently in draft format, but includes a section for setting out the monitoring and liaison arrangements. The information currently provided by the Council is limited and the detail provided and the timeliness of reporting has deteriorated in recent months due to staffing changes at the Council. The Company should ensure that the reporting requirements in the Service Level Agreement includes the level of detail required but also includes details of the recovery action being taken and the date of the last action.	Recommendation 2: The reporting requirements of the Company be included in the Service Level Agreement with consideration being given to including details of the recovery action being taken and the date of the last action.	2	<i>A Service Level Agreement, including the reporting requirement, is to be agreed by both parties and compiled in advance of the new Financial Year.</i>  <i>Consideration to be given to withdrawing from the SLA and managing the recovery of sundry income in-house i.e. details on debt recovery action(s) would be readily available within the NCH Finance Team.</i>	31 <sup>st</sup> March 2010	<i>Jo Worster - NCC Finance Team Leader and Darren Phillips – Head of Finance (Company).</i>  <i>Julie Crook – Director of Finance, ICT &amp; Governance.</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.
---	---------	------------------------------------------------



Risk	Finding	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
Timely action is not taken to recover monies due thereby leading to bad debts.	The analysis provided by the Council's debt recovery function, although limited, does illustrate that the level of sundry income debt has increased markedly over recent months. This may in part be due to the change in the way that invoices are paid with the backlog being cleared in due course. The level of outstanding debt that is over 3 months old, however, has also increased markedly and steadily from £130k in April 2009 to £360k in September 2009.	Recommendation 3: Regular meetings be held with the debt recovery function at the Council that focus on recovery performance and this requirement be built in to the Service Level Agreement when it is introduced.	2	<p>Agreed with NCC that regular meetings between NCH Finance and NCC's new Sundry Income Supervisor to review monthly aged debt reports will be arranged and included in the SLA for the new year.</p> <p>Consideration will be given to the timeliness and format of these meetings, subject to any decision on the responsibility for managing and recovering NCH debt i.e. the future of the SLA.</p>	<p>Immediate</p> <p>31<sup>st</sup> March 2010</p>	<p>Jo Worster - NCC Finance Team Leader and Darren Phillips – Head of Finance (Company).</p> <p>Darren Phillips – Head of Finance (Company) and Andrew Oliver – NCC Sundry Income Supervisor.</p>

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.
---	---------	------------------------------------------------



Risk	Finding	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
Failure to direct the process through approved policy & procedures.	Whilst the relationship between the Council and the Company is understood, the Financial Regulations do not set out the arrangements for reporting outstanding monies due from the Council as they do for non-Council debt. It should be noted that the oldest outstanding debt relates to transactions between the two.	Recommendation 1: The arrangements for the reporting of aged debt that relates to the Council be referred to in the Financial Regulations.	3	<b>COMPLETE</b> <i>Financial Regulations have been updated and regulation 3.3.29 requires that all City Council debt &gt; 1 year old is reported to the Finance and Audit Committee as part of the year-end outturn reporting cycle.</i>	<i>Immediate</i>	<i>Darren Phillips – Head of Finance (Company)</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.
---	---------	------------------------------------------------



Risk	Finding	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
Timely action is not taken to recover monies due thereby leading to bad debts.	A review of recovery action indicates that the Council's approach is to issue delinquency notices that are automatically generated by the One World finance system. There was no recorded evidence on the system of any additional debt recovery action that has been taken by the Council.	Recommendation 4: The expected recovery and escalation processes be incorporated in to the Service Level Agreement when it is introduced. The agreement should include the circumstances in which an external debt recovery agent is be used and at what stage legal action should be considered to cover this eventuality should it arise in the future.	3	<i>To be addressed as part of the compilation of the SLA for the new year.</i>  <i>Consideration will be given to whether the use of external debt recovery agencies and legal action would provide VFM in relation to recovering NCH debt and ultimately whether this needs to be detailed within the SLA.</i>	31 <sup>st</sup> March 2010	Jo Worster - NCC Finance Team Leader and Darren Phillips – Head of Finance (Company).

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**

<b>Item</b>	<b>Management Comments</b>
No Operational Effectiveness Matters identified	<i>N/A.</i>

ADVISORY NOTE

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

**- DETAILED REPORT -**

**SCOPE AND LIMITATIONS OF THE REVIEW**

6. The review considered the raising of accounts other than for rents and service charges, collection of income, receipting, storage and the banking of income received by the organisation. The scope of the review did not include identification of the activities giving rise to income for the organisation, the basis of calculating the rates to be charged or that all income receivable has been identified.
7. The limitations and the responsibilities of management in regard to this review are set out in the Annual Plan.

**ASSESSMENTS OF THE KEY RISK CONTROL OBJECTIVES**

8. 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 mitigating the key control risks is provided. The assessments are:

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

**MATERIALITY**

9. The budget for Sundry Income for 2009/10 is approximately £984,000. As at the end on October 2009, income stood at £753,470 compared to a budget of £573,710. The main reason for this favourable variance was continued Supporting People income to fund the costs associated with the retention of the START Team. This income was not included in the 2009/10 budget as NCH lost the contract to manage and administer this work. However, the costs and related income of the START Team will remain with NCH until such time as the team, and related budgets, are formally transferred to the new managing agent.

**AUDIT FINDINGS**

<b>10. Risk</b>	Failure to direct the process through approved policy & procedures.
<b>Risk Control Objective</b>	Arrangements in place provide for compliance with established policies, procedures, laws and regulations.
<b>Evaluation</b>	From the review of the documentation and tests carried out the Control Evaluation is: <b><u>Reasonable Assurance</u></b>

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

11.1 The arrangements for income, including banking, are set out in the Financial Regulations. These were last updated in November 2009.

11.2 The Financial Regulations set out the need to properly record and account for income that has been received, and to ensure it is banked in a timely manner. The Financial Regulations set out that 'if income from sources other than the City Council is not recovered within three months of invoicing, the Chief Executive must be notified and further action agreed'. Whilst the relationship between the Council and the Company is understood, the Financial Regulations do not set out the arrangements for reporting outstanding monies due from the Council as they do for non-Council debt. It should be noted that the oldest outstanding debt relates to transactions between the two. It is recommended that the arrangements for reporting debt due from the Council be formalised which can then inform as to what recovery action then needs to be taken.

*Recommendation 1: The arrangements for the reporting of aged debt that relates to the Council be referred to in the Financial Regulations.*

11.3 There are documented procedures in place for the use of the One World finance system and there are also process maps and procedures available to Finance staff covering operational aspects.

<b>12. Risk</b>	Losses arising from unauthorised action by staff.
<b>Risk Control Objective</b>	Arrangements in place provide for safeguarding the organisation's assets and interests from avoidable losses.
<b>Evaluation</b>	From the review of the documentation and tests carried out the Control Evaluation is: <b><u>Reasonable Assurance</u></b>

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

**Risk: Income is not collected due to delays in informing the debtor of the sum due.**

13.1 The majority of debtors relate to existing arrangements with Nottingham City Council or other RSLs that buy into service provision such as the Homelink choice based letting scheme. There are a number of local residents who are in properties that are

not owned by Nottingham City Homes who subscribe to the Nottingham On Call alarm service. These are treated as individual debtors. Work is also carried out to Council related properties such as local schools and leisure centres.

- 13.2 Terms and conditions and comprehensive information on methods of payment are clearly set out on the invoice generated within One World.
- 13.3 Invoices are posted directly to the debtor by the Finance section. They are not referred back to the originating department, ensuring they are issued in a timely manner.

**Risk: Timely action is not taken to recover monies due thereby leading to bad debts.**

- 13.4 Recovery action is undertaken by the City Council for which the Company pays a fee. The current arrangements are not formalised by way of a Service Level Agreement, something the current Head of Finance is looking to introduce for the next financial year.
- 13.5 The charge for this debt recovery is based on historical charges, however, it is included with other charges that the Company pays the Council for other related services such as banking and cashiering and is not separately identifiable. Discussions with the Head of Finance indicated that once the costs of the debt recovery can be separately identified as the arrangements are formalised, a review of whether the service provided represents value for money can be undertaken, along with other options, such as bringing the service in-house, a course of action that is supported by Internal Audit.
- 13.6 The intended Service Level Agreement is currently in draft format, but includes a section for setting out the monitoring and liaison arrangements. The information currently provided by the Council is limited and the detail provided and the timeliness of reporting has deteriorated in recent months due to staffing changes at the Council. Changes in the way in which the Council now processes payments has also led to payments from the Council being delayed. The most recent report, showing debt as at September 2009, just provided a summary of debt by age, a graph plotting the level of debt by age at each month end for the current financial year and debtor days at the end of each month for the current financial year. Previous reporting did include a summary of the debt for each customer/debtor and the individual invoices that make up this summary. The Company should ensure that the reporting requirements in the Service Level Agreement includes the level of detail required but also includes details of the recovery action being taken and the date of the last action.

*Recommendation 2: The reporting requirements of the Company be included in the Service Level Agreement with consideration being given to including details of the recovery action being taken and the date of the last action.*

- 13.7 The analysis provided by the Council's debt recovery function, although limited, does illustrate that the level of sundry income debt has increased markedly over recent months. This may in part be due to the change in the way that invoices are paid with the backlog being cleared in due course. The level of outstanding debt that is over 3 months old, however, has also increased markedly and steadily from £130k in April 2009 to £360k in September 2009. It is recommended that regular meetings are held with the Council that focus on recovery performance and that this is incorporated in to the Service Level Agreement. This should allow flexibility to ensure that the frequency of the meeting is appropriate to the performance of the section.

*Recommendation 3: Regular meetings be held with the debt recovery function at the Council that focus on recovery performance and this requirement be built in to the Service Level Agreement when it is introduced.*

- 13.8 Credit limits can be set within the finance system, however, with the current client base it has not been considered necessary in the past to apply these. This is

something that may be considered should the amount of external work undertaken by the Company increase.

- 13.9 A review of recovery action indicates that the Council's approach is to issue delinquency notices that are automatically generated by the One World finance system. There was no recorded evidence on the system of any additional debt recovery action that has been taken by the Council. It is acknowledged that a significant proportion of work undertaken is in relation to Council properties and that payment is generally not at risk. It is recommended that the expected recovery and escalation processes be incorporated in to the Service Level Agreement when it is introduced. The agreement should include the circumstances in which an external debt recovery agent should be used and at what stage legal action should be considered to cover this eventuality should it arise in the future.

*Recommendation 4: The expected recovery and escalation processes be incorporated into the Service Level Agreement when it is introduced. The agreement should include the circumstances in which an external debt recovery agent is be used and at what stage legal action should be considered to cover this eventuality should it arise in the future.*

**Risk: The organisation is unaware as to whether it has received all the income due.**

- 13.10 Although not strictly considered as Sundry Income, the process whereby invoices for the Management Fee and weekly invoices in respect of 'consolidated' repairs orders was also reviewed. In respect of the Management Fee, regular monthly invoices are raised during the first week of each month and these have historically been paid in a timely manner. The latest payments, however, have been delayed due to the change in the way that invoices are processed at the City Council.
- 13.11 Testing also highlighted that payments in relation to maintenance works also took place in a timely manner, although these too have recently been delayed. There is a robust reconciliation process between the repairs system, ROCC, and the One World finance system that is part on the month end process, and this is supported by procedures.

-----