East Lothian Council

REPORT TO: Audit and Governance Committee

MEETING DATE: 20 May 2014

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 for the Housing Revenue Account.

3 BACKGROUND

3.1 A review of the Housing Revenue Account was undertaken as part of the audit plan for 2013/14.

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 EQUALITIES IMPACT ASSESSMENT

5.1 This report is not applicable to the well being of equalities groups and Equality Impact Assessment is not required.

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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DATE	8 May 2014

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 2013/14. 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

- There was a lack of checking procedures in place to ensure that rent increases were correctly updated on the Orchard system – errors were identified in the rent increases applied to some temporary homeless properties leased from Registered Social Landlords. *Risk – loss of income to the Council.*
- 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.*
- The procedures for calculating rent charges for homeless properties require review – rent points had not been updated on the Orchard system for homeless properties. *Risk – lack of a consistent approach.*
- No review has been undertaken of properties to which service charges are currently applied. *Risk – inappropriate charges may be made.*
- There was a lack of detailed procedures in place to provide guidance to staff responsible for the billing process. *Risk – errors and irregularities may occur and remain undetected.*
- There was insufficient information and explanations on file to support adjustments made during the billing process following annual rent increases. *Risk – lack of a clear audit trail.*

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   **May 2014**

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 approach adopted for identifying annual rent increases.	Medium	Depute Chief Executive (Resources & People Services)/ Service Manager – Community Housing	Agreed – to be reviewed.		August 2014
3.2.2	Management should ensure that a physical inspection is undertaken of all properties added to the HRA to ascertain the property attributes. Management should ensure that a consistent approach is adopted for updating the rent points on the Orchard system.	Medium	Service Manager – Community Housing	Agreed Agreed		May 2014 March 2015
3.2.3	Management should ensure that rents for all ELC homeless properties are based on the rent points.	Medium	Service Manager – Community Housing	Agreed		March 2015
3.3.1	Management should ensure that a review of the service charge process is undertaken.	Medium	Service Manager – Community Housing	Agreed		March 2015

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.3.1 (cont)	For Housing Association properties all rent increases applied on the Orchard system should be supported by appropriate documentary evidence.	Medium	Systems Development and Business Support Team Leader/ Homelessness Manager	Agreed – source documentation to be obtained from the Homelessness Section.		May 2014
	Appropriate checks should be carried out by the Homelessness Section to ensure that property tenure types are correctly recorded on the Orchard system.		Homelessness Manager	Agreed		July 2014
	The Homelessness Section should be provided with reports of all rent increases applied to homeless properties.		Systems Development and Business Support Team Leader	Agreed – reports to be passed to the Homelessness Section.		May 2014
3.4.1	Management should ensure that detailed procedures are in place for staff responsible for the annual billing process. Management should ensure that a clear audit trail exists for all adjustments made during the annual billing process.	Medium	Systems Development and Business Support Team Leader	Agreed – procedures in place for the 2014/15 annual billing.		May 2014

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.4.2	**Appropriate checks should be carried out to ensure that the number of properties that have been excluded from receiving an annual rent charge letter is correct.** **Management should ensure that the number of letters produced by Document Outsourcing is reconciled to the total number of current tenancies.**	**Medium**	**Systems Development and Business Support Team Leader**	**Agreed**		**May 2014**
3.4.4	**Evidence should be obtained to confirm the date of dispatch for the annual rent charge letters.**	**Medium**	**Systems Development and Business Support Team Leader**	**Agreed**		**In place**
3.5.2	**Management should ensure that adequate procedures are in place for informing relevant staff of stock transfers from the HRA.**	**Medium**	**Service Manager – Community Housing**	**Agreed**		**May 2014**

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.5.2 (cont)	**Management should ensure that reconciliations of property control totals between the Moores Books and the Orchard system are undertaken on a regular basis.** **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.**	**Medium**	**Service Manager – Community Housing**	**Agreed – the Housing Service is considering moving from using Moores Books (hard copy) to electronic records. The Moores Books can be archived for future reference as required.** **Agreed – stock reconciliation will be checked and verified annually as part of the Scottish Housing Regulator's new Social Housing Charter reporting requirements.**		**May 2014**

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.