

**To the Chair and Members of the
AUDIT COMMITTEE**

**REVIEW OF PROGRESS IN IMPLEMENTING INTERNAL AUDIT RECOMMENDATIONS
FOR GYPSY AND TRAVELLER RENTS FOLLOW UP AUDIT 2013**

EXECUTIVE SUMMARY

1. At its previous meeting in September 2013 the Audit Committee received a report identifying progress on the Internal Audit plan. The progress report included a summary of recent audit reports including one highlighting weaknesses in the collection of historic Gypsy and Traveller rents.
2. The Audit Committee asked for more details on this audit to be presented to it and an update on progress in implementing recommendations made in the audit. This report provides this additional information.
3. The audit was completed and reported in August 2013. The full audit report summary and the detailed findings in one area where a major risk was identified are attached at **Appendix 1**.
4. The responsibility for the collection of rents was transferred to St Leger Homes (SLH) in 2010, and SLH generally performs well in relation to the collection of rents. However, the responsibility for the collection of arrears remained with the Council's strategic housing service and it was the arrangements for the collection of arrears that were the subject of this audit.
5. It should be noted that Strategic Housing management originally requested the audit review because they were aware that the identification and collection of arrears had not been effectively managed. Housing management had also sought the support of the Service Improvement Team to improve recovery arrangements.
6. The audit highlighted one major risk area related to a failure to pursue the recovery of historic arrears. The following historic arrears had been indicated during the audit:

• Rent arrears for current tenants	£52,907.40
• Water Usage arrears for current tenants	£5,953.85
• Rent arrears for former tenants	£99,672.71
• Water Usage arrears for former tenants	£19,404.81

The total value of historic arrears identified was £177,938.77. The arrangements found were such that little was known about the debtors owing these areas, even including current tenants' arrears because of doubts about names, tenancy swaps etc, and consequently there were effectively no steps being taken to recover outstanding arrears.

7. Overall, the audit report included 7 recommendations. Management Actions were agreed for each recommendation and a summary of the position in relation to the implementation of the recommendations, as at the end of October 2013, was as follows:

- 4 had been fully implemented.
- 2 were in progress but have exceeded their agreed implementation date.
- 1 recommendation was on hold pending a decision about the future responsibility for the collection of arrears.

8. There has been a generally positive response to recommendations made in the audit report to improve processes and arrangements. A summary of each of the recommendations and the current position with regard to implementation are reported below:

Rec'n	Management Response	Agreed Date	Progress
Determine the position on all historic debts and take action accordingly	A decision will be made whether to further pursue or write off the arrears accumulated prior to the transfer of income collection responsibility to SLH.	31/08/2013	IMPLEMENTED An ODR has been finalised recommending the 'paper' write-off of the £165,932 balances.
Ensure compliance with arrears processes in all cases	The current arrears process will be followed through for all cases where arrears are not continually decreasing.	31/08/2013	IMPLEMENTED The process is now followed in all cases.
Review and update the current arrears process	The SLH arrears process in place will be reviewed to establish whether it can be made more effective for the Gypsy/Traveller Service.	31/08/2013	IMPLEMENTED The process has been reviewed and re-issued to all appropriate officers.
Complete a service improvement plan	All possible improvement points will be considered and implemented immediately. An Improvement Action Plan will be drawn up to record all points, and where action	31/08/2013	IMPLEMENTED Some improvements have already been implemented. An appropriate action plan has been formulated and progress against

Rec'n	Management Response	Agreed Date	Progress
	cannot be taken straight away, target dates and responsible officers will be included. Progress against the action plan points will be monitored on a fortnightly basis.		this is being discussed weekly and reported to Senior Management Team fortnightly.
Carry out benchmarking to identify best practice	Contacts will be established with like authorities to share benchmarking information in respect of gypsy income collection rates and write offs and identify possible improvement actions.	31/08/2013	IN PROGRESS Contacts have been made and the creation of an inter authority sub regional group is underway. This will facilitate the sharing of information and best practice.
Establish a procedure for former tenant arrears	A policy and procedure will be formulated to ensure former tenant arrears are actively managed.	31/08/2013	IN PROGRESS A draft policy and supporting documentation has been created but not yet finalised or agreed.
Update the service level agreement	Comparison will be made to the costs of service within the Service Level Agreement (SLA) with St Leger Homes for the collection of council house rental income and arrears, to ensure that St Leger Homes are not currently charging for the arrears element of service. Subsequently, the SLA will be made specific as to who is undertaking the arrears function, and an updated SLA entered into.	30/09/2013	ON HOLD PENDING A DECISION ON FUTURE RESPONSIBILITY Discussions have been entered into and some updates to the SLA formulated however the agreement of an updated SLA is now on hold pending the imminent results of the recent service review.

9. Management is considering the write-off of the historic debt. There is very little prospect of recovering this debt for various reasons:

- Much of the debt that is being requested for write-off is old. It is not known where many of the debtors now are

- Gypsies and travellers are close knit communities with various extended family members often moving around together and frequently changing the occupation of plots within sites. This makes the ability to pinpoint debtors (in some cases several years after occupation) very difficult.
 - There has been poor record keeping of arrears details.
10. As a consequence of these weaknesses, the Council cannot have confidence in any recovery process and, ultimately, records relating to outstanding arrears are unlikely to satisfy any court that a specific person owes a specific debt and, therefore, lead to a successful court order.
11. Any write-off will not affect the Council's reserves as no debt was originally raised in the Council's accounts for the rent due.

RECOMMENDATIONS

12. The Audit Committee is asked:
- To note the further details provided on the Gypsy and Traveller rents audit.
 - To note progress made on recommendations made during the audit.

OPTIONS CONSIDERED & RECOMMENDED OPTION

13. This is not applicable to this report.

IMPACT ON THE COUNCIL'S KEY OBJECTIVES

14. Internal Audit assesses how effectively the Council is managing risks that threaten the achievement of the Council's objectives. Any improvement in the management of the risks will have a positive impact, thereby increasing the likelihood of the Council achieving its objectives. It provides evidence that the Council is able to respond to external challenge in a timely manner and is committed to continuous improvement.

RISKS AND ASSUMPTIONS

15. The implementation of internal audit recommendations is a response to identified risks and hence is an effective risk management action.

LEGAL IMPLICATIONS

16. There are no legal implications from this report although some of the recommendations may carry their own legal implications detailed within the originating report.

FINANCIAL IMPLICATIONS

17. There are no specific costs arising from this report.

CONSULTATION

18. There was consultation with managers at the outset, throughout and at the conclusion of the review in order to ensure that the work undertaken and findings were relevant to the risks identified and are accurate.

BACKGROUND PAPERS

19 Strategic Housing - Gypsy and Traveller Rents Follow Up Audit Report

APPENDICES

Appendix 1: Gypsy and Traveller Rents Follow Up Audit Report extract

REPORT AUTHOR & CONTRIBUTORS

Colin Earl, Head of Internal Audit, Tel 862939
E-mail - colin.earl@doncaster.gov.uk

Simon Wiles
Director of Finance and Corporate Services

Internal Audit Report

Strategic Housing - Gypsy and Traveller Rents Follow-up

Report ref: DN-PL-13-RE-SH

Report issued: 7th August 2013

Distribution:

Peter Dale, Director of Regeneration and Environment
Tracey Harwood, Interim Assistant Director - Strategic Housing
Inger Marriott, Interim Head of Service (Housing Options)
Karen Wilcock, Senior Housing Options Officer
Matthew Smith, Directorate Finance Manager

Auditors:

Louise Chappell Hartley
Principal Internal Auditor

Peter Jackson
Internal Audit Manager

CONTENTS

<u>Executive Summary</u>	3
<u>Assurance Opinion</u>	4
<u>Reasons for this opinion</u>	4
<u>Detailed Audit Report</u>	5
<u>Introduction</u>	5
<u>Objectives of the Audit</u>	5
<u>Scope of the Audit</u>	5
<u>Risk Ratings</u>	6
<u>Risk Register Considerations</u>	6
<u>Acknowledgement</u>	6
<u>Improvement Plan</u> <u>APPENDIX A</u>	7

Executive Summary

This report contains the conclusions and findings drawn from a review of the Gypsy and Traveller rental collection process.

The Gypsy and Traveller Service manage Council Owned Sites for Gypsies and Travellers as well as caravan parks. They maintain a waiting list and allocate plots on Gypsy and Traveller sites as well as enforcing tenancy conditions and ensuring repairs are carried out. The team also has a responsibility to ensure the collection of rental income due to the Council in relation to these tenancies. Income due to the Council for 2012/13 was £257,678, of which £246,826 was collected by St Leger Homes under a Service Level Agreement to manage the collection of the income. 69% of the income collected was in respect of Housing Benefit payments received directly from Housing Benefits.

St leger Homes' income collection systems are subject to annual audit review, so this review has concentrated entirely on the recovery of rental income arrears, which remains the responsibility of Strategic Housing. An overview of this process has identified risks to this process which have been reviewed to determine the current level of exposure to risk that the Council bears in this area.

The results of this review have been shown in the heat map below.

Likelihood	Very Likely			1		
	Likely					
	Possible					
	Unlikely					
	Very Unlikely					
		Slight	Moderate	Significant	Major	Critical
Impact						

The above heat map, which is consistent with the Council's Risk Management Policy, shows the level of residual risk exposure. Each of the risks assessed during the course of this audit has been plotted on the above heat map with the numbers representing the number of risks in each category. The individual risks that make up this heat map, are included in the Detailed Audit Report that follows this executive summary.

Assurance Opinion

Internal audit reports give 5 general levels of opinion. These are based on the level of risk that we assess remains at the end of our assessment, before any actions have been implemented. These 5 opinion levels are: -

- Complete assurance
- Substantial assurance
- Partial assurance
- Limited assurance
- No assurance

In our opinion, the Council is exposed to a major risk or threat from either limited or deficient control activities or from exposures to uncontrollable inherent risks. As such, we are able to provide only **limited assurance** that business objectives are likely to be achieved.

Reasons for this opinion

In 2009/10 the Gypsy and Traveller rent collection and recording processes/system were found to be 'not fit for purpose', and the responsibility for income collection and recording was passed to St Leger Homes. St Leger Homes' income collection systems are subject to annual audit review, so this review has concentrated entirely on the recovery of rental income arrears, which remains the responsibility of Strategic Housing. A significant amount of work was previously undertaken in order to identify and quantify historical rent arrears i.e. the arrears due prior to the rent collection service being transferred to St Leger Homes. However, this has not resulted in the arrears being collected. In addition, although the St Leger Homes arrears collection process has been adopted, there has been limited and sporadic compliance with it. This has resulted in significant arrears accruing once more.

69% of the income collected for 2012/13 was in respect of Housing Benefit payments received directly from Housing Benefits. It should be noted that the roll out of Universal Credit commencing October 2013, will eventually result in the full payment being made to the tenant and not directly to the landlord. Timescales have not yet been set for this to happen, however, it is imperative that collection and arrears procedures are robust in order to minimise any increase in arrears.

It should be noted that Strategic Housing management requested the audit review, being aware of the ongoing issues within the service, and had already sought the support of the Service Improvement Team.

As a result of the audit work completed, 7 recommendations have been made. All of these recommendations are included in Appendix A to this report. .

Detailed Audit Report

Introduction

The Gypsy and Traveller Service manages Council Owned Sites for Gypsies and Travellers as well as caravan parks. They maintain a waiting list and allocate plots on Gypsy and Traveller sites as well as enforcing tenancy conditions and ensuring repairs are carried out. The team also has a responsibility to ensure the collection of rental income due to the Council in relation to these tenancies.

Objectives of the Audit

The objectives of this audit were to: -

- Follow up of the implementation of previous Internal Audit recommendations
- Ensure that gypsy/traveller rental collection and arrears processes are now operating in a controlled manner
- Identify any ways to improve the collection of gypsy/traveller rent arrears
- Agree, in conjunction with Managers, control process improvements to mitigate any risks identified that are not currently being managed to an acceptable level.

All risks have been assessed using the Council's risk management arrangements and this audit was carried out in compliance with the United Kingdom Public Sector Internal Audit Standards (UKPSIAS).

Scope of the Audit

This audit has been carried out on a risk basis and also by following up on previous audit recommendations. Objectives key to the success of the rental arrears pursuit process have been identified and the appropriate associated risks assessed. Each of these risks is controlled by a series of controls, put in place by Managers to regulate exposures that threaten the key objectives of the business unit / process. A listing of the risks examined is shown below.

- Rental income is lost due to ineffective pursuit of arrears.

All our evaluations, assessments and opinions are based on the control processes identified at the time of the audit. Control processes mitigating and transferring risks were tested using information and data from the period between April and May 2013.

The extent to which each the business unit or process is threatened by unregulated risks has been rated using the Council's risk assessment criteria.

The risk ratings are as follows;

Risk Ratings

Risk	Final Score Rating	Headline Reason for Rating	Related Issues
Rental income is lost due to ineffective pursuit of arrears.	Major Impact: Significant Likelihood: Very Likely	A significant amount of income due to the authority has not been pursued on a timely basis and it is highly likely that it is now lost. Income continues to be lost due to not pursuing arrears on a timely basis, or to a satisfactory conclusion.	Iss. 2 Non completion of previously agreed actions Iss. 4 Arrears process non compliance Iss. 5 Possible improvement actions

*Improvement actions are cross referenced to the attached improvement plan (Appendix A). Implementing the actions in improvement plan A will reduce exposure to unregulated risks.

Risk Register Considerations

It has been agreed as part of this audit that the risks showing as Major in the table above will be included on the covalent risk register with the appropriate referenced action points and agreed timescales. This means that there will be clear accountability for each risk and that they will be reviewed in line with the Councils risk management policy.

Acknowledgement

Thanks are due to your staff, for taking time out of their busy schedules to provide us with information and answer our questions.

Improvement Plan

APPENDIX A

Gypsy/traveller rental income

Issue Identified

ISS.2 – Rent Arrears

The responsibility for the collection and recording of gypsy rents transferred to St Leger Homes with effect from May 2010. However, the work to review all current rent accounts in order to ascertain a true arrears figure (taking into account rebates, occupancy dates, payments received, benefits received and rent due) was not finalised until the end of March 2011, and this was in respect of current tenants only.

The results of the arrears work undertaken put the estimated total value of rent arrears accrued prior to rent collection being transferred to St Leger Homes (for tenants still in occupancy) at £52,907.40. However, it was acknowledged that there may still have been some inaccuracies in arrears figures due to tenants having the same or similar names, tenancies being swapped between members of the same family or due to tenants holding multiple occupancies etc. Additionally, there were arrears of £5,953.85 for the same period for current tenants for water usage. It is understood that current tenants were informed that these arrears were due, but not the value of the arrears.

It was also found that former tenant rent arrears, according to the gypsy database and dating back to 1998, totalled £99,672.71. However, no work had been undertaken to verify the accuracy of this figure and it is likely, given the results when verifying current tenant arrears, that some Housing Benefit payments will have been received that have not been input to offset some of these arrears. Water arrears for former tenants totalled £19,404.81.

At 12/05/2011, arrears of nearly £4,000 had already accrued for tenants where income collection had transferred to SLHD.

Agreement of the following actions was made with the Assistant Director in 2009/10 when a previous audit had been conducted: Current tenant rent and water arrears would be pursued for arrears accrued within the last 6 years and arrears accrued prior to 2005/06, where no recovery action has been instigated, would be written off as irrecoverable. Additional work would be undertaken verifying arrears for traceable former tenants within the last 6 years, who were known to still be within the Doncaster area or where there whereabouts are known and these arrears would be pursued, and a decision would be made as to whether the remainder of the arrears cases would be further pursued or written off (taking into account not only the likelihood of recovery, but also what possible effect that any write off may have on the success of future rent collection. If arrears were to be written off, then this should be done in line with Financial Procedure Rule D9, via the Director of Financial and Corporate Services). Contact would be made with like authorities to share benchmarking information in respect of gypsy income collection rates and write offs and identify possible improvement actions.

A follow up of these actions has revealed the following issues:

1. No further work had been undertaken to verify the accuracy of either current or former tenant arrears. Debtor accounts had been raised for 7 tenants arrears identified only, valued at £11,106.79. In the majority of cases no payments had been received.
2. Although the current Interim Assistant Director thought that an Officer Decision Record had been completed, to record the loss of income, one could not be found.

Anticipated Exposure: -

A significant amount of income due to the authority has not been pursued on a timely basis and it is highly likely that it is now lost.

Improvement Plan			APPENDIX A
There are no records to account for the lost income, or the decision not to pursue the income further.			
<u>Related Agreed Management Actions</u>			
<u>Action Title</u>	<u>Risk Exposure</u>	<u>Agreed Management Action</u>	<u>Responsible Officer:</u> Interim Head of Service (Housing Options)
Pursuit of historic arrears	Major	A decision will be made as to whether the arrears outstanding prior to the transfer of income collection to St Leger Homes should be further pursued or written off. This will take into account not only the likelihood of recovery, but also what possible effect that any write off may have on the success of future rent collection. If arrears are to be written off, then advice will be taken from Finance to ensure it is done in line with Financial Procedure Rule D9, via the Director of Financial and Corporate Services.	<u>Estimated Date of Completion:</u> 31/08/2013