

AUDIT COMMITTEE

Committee Report

Public

Date of Meeting: 15th August 2011

Title: AUDIT SERVICES PROGRESS REPORT

Report of: Assistant Director (Resources)

Report reference: RD.33/11

Summary:

This report summarises the work carried out by Audit Services since the previous report to Committee on 5th July 2011 and details the progress made against the 2011/12 Audit Plan up to 22nd July 2011.

Recommendations:

Members are requested to receive this report and note progress made against the agreed 2011/12 Audit Plan.

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CITY OF CARLISLE

To: Audit Committee
15th August 2011

RD.33/11

Audit Services Progress Report

1 Summary of Audit Work

- 1.1 This report summarises the work carried out by Audit Services since the previous report to Committee on 5th July 2011 and monitors progress made on the 2011/12 Audit Plan.

2 Audit Performance Against the 2011/12 Audit Plan

- 2.1 The 2011-12 Audit Plan was presented to the Audit Committee on 12th April 2011 – report RD5/11 refers.
- 2.2 To assist Members in monitoring progress against the agreed Audit Plan, **Appendix A** illustrates the work completed by the Audit Team for the 16 week period up to 22nd July 2011.
- 2.3 Members will note the progress made on a number of high risk audit reviews along with work undertaken on the National Fraud Initiative (NFI) data matching exercise, requests for unplanned work and the completion of remaining audits brought forward from 2010/11.
- 2.4 As shown in Appendix A (page 8), 171 days (32%) of the 535 total direct audit days expected in 2011/12 were delivered by 22nd July 2011, which is slightly above target for this position in the year (165 days - 31%).

3 Changes to the Audit Plan

- 3.1 The Audit Plan must be flexible to meet the changing needs of the Authority. Issues may, and do, arise during the course of the year which require Audit's attention and whilst there is a small amount of time allocated as a contingency to meet general requests and additional time allocations where necessary, actual changes to the agreed Audit Plan may be deemed necessary to accommodate larger unplanned audit assignments.

3.2 The Audit Manager is responsible for drafting the necessary changes to accommodate requests for unplanned the work in year and in some instances it may be appropriate for additional audit days to be purchased by the Authority. Any changes to the Audit Plan are discussed and agreed with the Assistant Director (Resources) and they should then be approved by the Audit Committee.

3.3 There are two changes to the agreed Audit Plan which Members are asked to consider at this time. These require the substitution of two planned audits for two unplanned audits. Both proposed amendments have been discussed and agreed with the Assistant Director (Resources).

a) There are two audits scheduled for completion which fall in the area of Procurement – Procurement General (Resources) and Tendering and Contracting (Governance/Resources). Procurement General was last examined in September 2010. As a sizable audit area, it was intended that this next planned audit should concentrate on the Authority's revised e-purchasing arrangements. However, limited developments in this area mean that it would be appropriate to postpone this review until 2012/13.

Instead, more audit time should be allocated towards the review of Tendering and Contracting, given the changes in this area through the implementation of e-tendering procedures. The balance of time remaining (10 audit days) should be released to accommodate the time taken to complete the comprehensive review of Health and Safety which was brought forward from 2010/11. Members will recall that they considered the audit report on Health and Safety at the Audit Committee meeting on 5th July 2011.

b) In May 2011, the Assistant Director (Resources) raised concern over the recovery processes surrounding Housing Benefit Overpayments and Internal Audit was asked to review this area in detail. This urgent piece of work has now been completed and it is suggested that the 15 audit days taken to complete this review should be met through an adjustment to the Audit Plan. It is suggested that the audit of Supporting People (Hostels and Resource Centre) should be deferred until 2012/13 and the time released from this deferral should be used to accommodate the Housing Benefits Overpayment Review.

This amendment has minimal impact on both the Audit Plan and audit coverage in the Community Engagement Directorate. An audit of Hostels was last undertaken in December 2009 and the Resource Centre is not yet operational, although it is intended to review associated Resource Centre contracts through other related audits which are planned later in this financial year. Also, it is understood that

additional grant funding has been sought for Supporting People in 2012/13, which makes it more practical to defer an audit in this area until next financial year.

4 Follow-up Reviews

- 4.1 There are no issues concerning follow up reviews which need to be brought to Members' attention at this time.
- 4.2 Members of the Committee received the audit report on Grants at their meeting in September 2010. Given the audit's restricted assurance rating, a comprehensive follow up of all recommendations is currently being undertaken and the outcome of this will be reported once the exercise is fully completed.

5 ICT Security Policy – Progress Update

- 5.1 The Audit report on the ICT Security was presented to the Audit Committee on 22nd June 2009 – Report CORP 20/09 refers. This was a very detailed audit review which produced 49 audit recommendations and Members have actively monitored this situation through the receipt of regular updates of the actions taken to address all audit recommendations – monitoring reports have been previously presented to the Audit Committee on 4 separate occasions. The last monitoring update on 30th November 2011 (RD 59/10 refers) advised Members that there were 4 recommendations at that time which were still to be fully implemented.
- 5.2 These remaining recommendations (A5, A6, A40 and A41) have been followed up with the ICT Shared Service Manager and the status of each has been incorporated into the action plan which has been attached as **Appendix B**.
- 5.3 Particular reference is made to the actions taken to address recommendation A6. Members of the Audit Committee, at the meeting on 24th September 2010, considered the associated risks surrounding the adequacy of data storage capacity at that that time. It was advised that whilst monthly monitoring procedures were in place, capacity planning was to be considered when the new IT infrastructure to support the ICT Shared Service was planned – this was expected by March 2011.
- 5.4 An update on progress made in respect of capacity planning advised that the new infrastructure is now in place along with the tools to monitor usage. This will enable ictCONNECT to undertake capacity planning for all systems and data stores.
- 5.5 To conclude, all remaining audit recommendations have been actioned and no further follow up work is deemed necessary.

6 Review of Completed Audit Work

6.1 At the meeting on 5th July 2011, Members agreed the changes to the format and content of audit reports in line with best practice arrangements, along with a change to reporting detail considered by the Committee. Finalised audit reports for Members consideration which have been prepared in this revised reporting style are being progressed and Members can expect to start receiving these from September 2011.

6.2 There are two final audit reports to be considered by Members at this time:

- Housing Benefit Overpayments attached as **Appendix C**. This area has been given restricted assurance and Members' attention is drawn to the key issues arising which are summarised on page 23 (para 5.1.1 – 5.1.5).
- Properties with Rents attached as **Appendix D**. This has been given reasonable assurance. Again, Members' attention is drawn to the key issues which are summarised on page 39 (para 5.1)

7 Recommendations

7.1 It is recommended that Members:

- Note the progress made towards completion of the 2011/12 Audit Plan (up to 22nd July 2011) as illustrated in **Appendix A**.
- Note the final follow up audit of the ICT Security Policy Audit Report attached as **Appendix B**.
- Receive the completed audit report on HB Overpayments attached as **Appendix C**

P. Mason
Assistant Director (Resources)

PROGRESS AGAINST THE 2011/12 AUDIT PLAN
at 22nd July 2011)

<u>Status</u>	<u>Plan Ref</u>	<u>Directorate</u>	<u>Section</u>	<u>Audit Area</u>	<u>Allocated Days</u>	<u>Days Taken</u>	<u>Comments</u>
HIGH RISKS							
Ongoing	143	Local Environment	Waste Services	Recycling	15	1	
	78	Resources	Property & Facilities	Asset Management	15		
	2	Com. Engagement	Customer Services	Customer Contact Centre	15		
	150	Resources	Corporate	Transformation	15		
	112	Resources	Corporate	Partnerships	10		
Completed		Governance/Resource s	Legal / Financial Services	Tendering & Contracting Health & Safety	10	12	*Adjustment to Plan - refer to para 3.3 (a). Final report to July 2011 Audit Committee
	37	Local Environment	Waste Services	Refuse Collection	10	0	
Ongoing	42	Local Environment	Highways	Highways Contract & Claimed Rights	15	5	
Draft Issued	5	Local Environment	Highways	Connect 2 Cycleway Project – Sustrans Grant	10	18	Additional audit assignment - see report RD20/ 11 (para 2.2).
	152	Resources	Financial Services	Capital Resources / Programme	15		Audit incorporated with Properties for Rent audit c/fwd from 2010/11. Final report to be considered at the August Audit Committee.
Completed	86	Resources	Property	Industrial Estates - lettings	10	20	
Pending	20	Com. Engagement	Museums and Gallery	Tullie House	10	1	
	4	Com. Engagement	Com. Housing & Health	Community Support	10		
Ongoing	29	Local Env. / Resources	Financial Services	Insurance (inc highways)	10	8	
Ongoing	151	Resources	Corporate	ICT Connect - Shared Service Governance Arrangements	5	7	Joint ICT review with Allerdale BC
	26	Resources	Property & Facilities Mgmt	Facilities Management / Building Maintenance	10		

Ongoing	44	Resources / Governance	Financial Service	Procurement - Tendering & Contracting	15	1
Draft Issued	81	Corporate		Risk Management Arrangements	10	16
Completed	85	Com. Engagement	Com. Housing & Health	Supporting People (Hostels & Resource Centre) - Housing Benefits Overpayments	15	15
Ongoing	15	Local Environment	Bereavement Services	Cemeteries, Crematorium	12	2
	18	Com. Engagement	Com. Housing & Health	Events	10	0
TOTAL DAYS FOR HIGHER RISK AUDITS					247	106

** Adjustment to Plan - refer to para 3.3 (b) Final report to be considered at the August Audit Committee.*

LOWER / MEDIUM / OTHER RISKS

	45	Resources	Financial Service	VAT	10	
Completed	30	Local Environment	Environmental Services	Pest Control	5	6
Pending	146	Resources	Corporate	CRB Compliance	5	1
	-	Corporate		External Grant Funding	5	
Ongoing	-	Corporate		National Fraud Initiative (NFI)	15	12
TOTAL DAYS FOR OTHER AUDITS					40	19

Final report considered by July 2011 Audit Committee
Review currently pending due to updated practices on hold

MATERIAL AUDIT REVIEWS

77	Resources	Financial Services	Income Management & Cash Collection	12
70	Resources	Financial Services	Fixed Assets	12
69	Resources	Financial Services	Main Accounting System	15
71	Com. Engagement	Revenues	Housing & Council Tax Benefits	12
76	Resources	Financial Services	Treasury Management	8
74	Resources	Service Support	Creditors	8
92	Com. Engagement	Housing	Housing Regeneration (Improvement grants)	8

126	Resources	Service Support	Payroll	10
73	Resources	Service Support	Debtors	8
75	Com. Engagement	Revenues	NNDR	10
72	Com. Engagement	Revenues	Council Tax	12
16	Local Environment	Highways	Car Parking	10

Contingency for material audits	15	10
TOTAL DAYS FOR MATERIAL AUDITS	140	10

Time taken to clear remaining draft reports from 2010/11
Note that material audit reviews are scheduled to commence in quarter 3

ICT REVIEWS

Ongoing	ICT 3	IT Strategy	10
	ICT 6	Network Controls	10
	ICT 15	Service Desk, Incident & Problem Management	10

TOTAL DAYS FOR ICT AUDITS	30	0
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CONTINGENCY

TOTAL DAYS FOR CONTINGENCY	28	16
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Relates to adhoc requests and additional time allocations

AUDIT REPORTING, PLANNING & COMMITTEE

AUDIT MANAGEMENT	40	15
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OTHER

AUDIT FOLLOW UP REVIEWS	10	5
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TOTAL AUDIT DAYS	535	171
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<u>Measure of Direct Audit Days at wk16:</u>		
Target direct audit days	165	31% expected
Actual direct audit days	171	32% delivered – ON TARGET

ICT Security Policy Action Plan – Follow up of Audit Recommendations*(updated recommendations are shaded for ease of reference)*

<u>Ref</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>	<u>Status as at 15/09/2009</u>	<u>Tasks</u>
A.1	Head of ICT	The new strategy should be agreed and released to replace the expired one as soon as possible. This will almost certainly require collaboration with Allerdale to satisfy the requirements of ICT Shared Services. <i>Since the audit, a new Shared IT Strategy has been produced. The strategy has been already been approved by Allerdale and goes before Carlisle City Council's Executive on the 5th May.</i>	B	November 2009	Completed	
A.2	Head of ICT	Given the impact to IT users, it would be good practice to ensure that future IT strategies are published to the employee intranet. <i>The latest IT strategy will be published on the intranet once it has been approved.</i>	C	November 2009	Completed	
A.3	Head of ICT	An implementation timetable should be drawn up to ensure all security principles are adopted and enforced as soon as possible.	B	November 2009	Completed	A timetable has be produced as part of the CoCo compliance this will be implemented.
A.4	Head of ICT	The group should review its future purpose and structure and decide whether the concept of bi-monthly meetings is a realistic prospect in the light of the Allerdale Shared Service arrangements.	C	November 2009	Completed	An ISG was held on 23 rd September to discuss this. The ISG has now been disbanded.
A.5	Head of ICT	As per the ICT Security Policy principles, written standards, instructions and working methods should be drawn up for the following areas:- <ul style="list-style-type: none"> α <i>Acquisition procedures</i> α <i>Documentation and recording</i> α <i>File and data control</i> α <i>Security and safety</i> α <i>Communications</i> α <i>Processing and handling of data</i> 	B	November 2009	Completed	This will be implemented as part of the Shared ICT service. A number of these standards have already been started Status 15/11/10 This has been discussed with the Infrastructure and Network Manager. He has confirmed that

<u>Ref</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>	<u>Status as at 15/09/2009</u>	<u>Tasks</u>
		<p>α Housekeeping</p> <p>See also recommendation A8.</p> <p><i>The audit exit meeting established that as part of the Shared Service Strategy with Allerdale, the ICT Section would be implementing ITIL principles. The introduction of the areas highlighted above would be a part of this.</i></p> <p><i>N.B. ITIL is the Information Technology Infrastructure Library and is a set of concepts and policies for managing Information Technology infrastructure, development and operations. In other words, a best practice approach.</i></p>				<p>the policies of Allerdale Borough Council have been adopted. The Infrastructure and Network Manager confirmed he will ensure that the minutes of the next IT Management Forum reflect that Carlisle City have formally adopted these minutes.</p> <p><u>Status at 31/7/11</u> ictCONNECT is using all the policies of Allerdale Council relation to acquisition, security and safety and the processing and handling of data. The ITIL principles are being adopted according to the service plan of ictCONNECT with has been approved by the Joint Operation Board and Strategic Board.</p>
A.6	Head of ICT	<p>It would be good practice to implement adequate procedures to monitor current capacity and periodically calculate future capacity requirements.</p> <p><i>The audit exit meeting established that disk capacity V's usage is monitored monthly along with the Exchange email server. However, capacity planning is part of ITIL and therefore improvements will probably be identified.</i></p>	C	November 2009	Completed	<p>This will be implemented as part of the Shared ICT service.</p> <p><u>Status at 31/7/11</u> The new infrastructure is now in place along with the tools to monitor usage. This will enable ictCONNECT to undertake capacity planning for all systems and data stores.</p>
A.7	Head of ICT	<p>A database of information security threats and remedies should be created and maintained.</p>	C	November 2009	Completed	<p>IT Services uses Microsoft and other software vendors' knowledge bases to monitor security threats, along with our virus software vendors threat database.</p>

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A.8	Head of ICT	Standards and procedures should be established for the following areas:- <ul style="list-style-type: none"> α <i>The information security policy</i> α <i>The file management policy</i> α <i>The access control policy</i> α <i>The password management policy</i> α <i>The system, file and data back-up policy</i> α <i>The file and data retention policy</i> 	B	November 2009	Completed	This forms part of the timetable produced as a consequence of ref. A.3. This will be completed as per the timetable. Anticipated completion date: 27 st November 2009.
A.9	Head of ICT	Guidance notes should be established for laptop users. These could also be uploaded to the employee intranet for future reference.	C	November 2009	Completed	This forms part of the timetable produced as a consequence of ref. A.3. This will be completed as per the timetable. Anticipated completion date: 27 th November 2009.
A.10	Head of ICT	Password management should be enforced through Windows group policy as a basic security requirement as soon as possible e.g. changing of passwords over a set time interval and strong passwords <ul style="list-style-type: none"> α <i>A minimum of 6 characters in length</i> α <i>A mixture of symbols, numbers and letters</i> <i>It was agreed in the audit exit meeting that this was a fundamental weakness of the Authority's IT infrastructure. It will be resolved once the Microsoft Office and Windows XP rollout has been completed. It was established that a 6-month timescale for implementation of this recommendation is a reasonable expectation.</i>	A	November 2009	Completed	This will be implemented by the 16 th October 2009.
A.11	Head of ICT	Management should assess the value of having a media record of non-Microsoft software covering the following:- <ul style="list-style-type: none"> α <i>The date of purchase and installation</i> 	D	November 2009	Completed	This will be introduced as part of an update to our asset management database.

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		<ul style="list-style-type: none"> α <i>The software version number</i> α <i>The vendor's name and contact details</i> α <i>Related release and/or patch details (dates, references, etc)</i> α <i>The location of the software, both physically and logically.</i> 				
A.12	Head of ICT	<p>Details of software licences attached to each PC should be held against the asset on the asset register.</p> <p><i>The Audit exit meeting established that the ICT Section has software that can be used to identify what is installed on a PC. Details of software on individual PC's is kept but not in a composite form. Component Management will be used to bring all this information into one place.</i></p>	C	November 2009	Completed	
A.13	Head of ICT	<p>It should be recognised that with laptops there are security considerations above those associated with a desktop PC. Apart from the potentially damaging loss of data and/or hardware, there are both health and safety and insurance issues to be understood. Guidelines for the secure use of mobile equipment should be drawn up and issued to all laptop users.</p> <p>See also recommendation A9.</p>	C	November 2009	Completed	<p>This forms part of the timetable produced as a consequence of ref. A.3. This will be completed as per the timetable.</p> <p>Anticipated completion date: 27th November 2009.</p>
A.14	Head of ICT	<p>As the disks have been put beyond use it would be prudent to dispose of these disks through the nominated 3rd party disposal company along with the other redundant IT equipment. This method will be investigated</p>	D	November 2009	Completed	<p>All disks are wiped clean by specialist software before being sent for secure recycling.</p>
A.15	Head of ICT	<p>Written procedures should be established to address cases where a virus infection has been identified.</p>	B	November 2009	Completed	<p>This forms part of the timetable produced as a consequence of ref. A.3. This will be completed as per the timetable.</p> <p>Anticipated completion date: 6th November 2009.</p>

<u>Ref</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>	<u>Status as at 15/09/2009</u>	<u>Tasks</u>
A.16	Head of ICT	<p><i>A communication exercise should be undertaken to address this situation and inform staff of their responsibilities under the policy.</i></p> <p>Since the audit, an article about the ICT Security policy has been published in the staff magazine.</p>	B	ACTIONED	Completed	In addition, a follow up article will be published in the staff magazine on the handling of confidential data.
A.17	Head of ICT	<p><i>The current situation presents a considerable security risk as it allows for an unlimited number of attempts to guess a particular login password and therefore access the IT network. Accounts should become locked after a set number of attempts. This requirement should be incorporated into any future password policy.</i></p> <p>Again, this will be resolved once the Microsoft Office and Windows XP rollout has been completed.</p>	B	November 2009	Completed	The process of implementing this has begun and will be implemented by the 16 th October 2009.
A.19	Head of ICT	<p><i>It would be good practice to keep an audit trail of o/s patches that have been released onto the network.</i></p>	C	November 2009	Completed	Microsoft Operations Manager (MOM) SUS has been implemented to manage and monitor the release of upgrades and patches.
A.20	Head of ICT	<p><i>Procedures should ensure that admin passwords are changed on a regular basis or when staff members leave the section.</i></p>	B	November 2009	Completed	<p>This forms part of the timetable produced as a consequence of ref. A.3. This will be completed as per the timetable.</p> <p>Anticipated completion date: 21st November 2009.</p>
A.21	Head of ICT	<p><i>A record of the UPS and generator tests should be maintained.</i></p>	C	Immediate	Completed	This will be completed by 24th October 2009.
A.22	Head of ICT	<p>If the 'Carlisle City Council Staff Email & Internet Policy' (January 2000) has been replaced by the ICT</p>	C	November 2009	Completed	This will be completed by 2 nd October 2009.

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		Security Policy document then it should be removed from use on the intranet. Otherwise, the existing document should be reviewed and updated as appropriate.				
A.23	Head of ICT	It would be more user-friendly if the email and internet policies were provided as a separate document as per the document 'Carlisle City Council Staff Email & Internet Policy' (January 2000). See also recommendation A.22.	C	November 2009	Completed	As the policies are updated this recommendation will be taken into account.
A.24	Head of ICT	Details of legislation relating to the use of the internet and email such as the Data Protection Act and the Computer Misuse Act should be included in the ICT Security Policy.	C	November 2009	Completed	This forms part of the timetable produced as a consequence of ref. A.5. This will be completed as per the timetable. Anticipated completion date: 27 th November 2009.
A.25	Head of ICT	A link to the Internet Code of Conduct should be supplied on the Internet Compliance Page. The current situation forces staff to agree to a code which they are currently unable to view.	C	Immediate	Completed	This will be completed by 31 st October 2009.
A.26	Head of ICT	<p>Management should assess whether there are legal implications caused by staff not having to sign a declaration acknowledging that they have read and understood either the internet or the email policy. If this policy were to be adopted, the policies and declaration could perhaps be incorporated into the staff induction training.</p> <p><i>It was agreed at the Audit exit meeting that the Head of ICT will send out an email to all staff asking for confirmation that they know where to find the policies and have also read and understood them. A response from the user's own mail account will act as an electronic signature to confirm this acknowledgement. Users who don't respond may have their internet or email access revoked. ICT should also liaise with Personnel to ensure that the above is also covered in staff induction.</i></p>	B	November 2009	Completed	

<u>Ref</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>	<u>Status as at 15/09/2009</u>	<u>Tasks</u>
A.27	Head of ICT	A new risk assessment should be undertaken to identify the risks associated with the internet and email usage	B	November 2009	Completed	An IT Health Check has been undertaken by an external company to identify security risks both internally and externally.
A.28	Head of ICT	Firewall administration duties should be reviewed. Whilst unlikely, there is still a potential for controls to be exploited without adequate separation of duties. <i>The Head of ICT has agreed to accept this risk.</i>	N/A	N/A	Completed	
A.29	Head of ICT	Change control procedures should be put in place to govern changes to and administration of the firewall.	B	November 2009	Completed	This will be completed by 24 th October 2009.
A.30	Head of ICT	A log should be set up to record any changes to the firewall.	C	ALREADY ACTIONED	Completed	
A.31	Head of ICT	The firewall administration passwords should be kept in sealed envelopes in a secure location in case they are ever needed.	C	Immediate	Completed	This will be completed by 2 nd October 2009.
A.32	Head of ICT	Whilst it is recognised that this is a safety feature, the physical security risk caused by the computer room access door 'failing open' should be reviewed. <i>The Head of ICT agreed that this is a security risk but due to the safety aspect it is a risk he accepts.</i>	N/A	N/A	Completed	
A.33	Head of ICT	A schedule should be drawn up to review the firewall logs.	C	November 2009	Completed	This will be completed by 24 th October 2009.
A.34	Head of ICT	An incident file should be set up to record the details of any security breaches and the corrective action taken.	C	ALREADY ACTIONED	Completed	
A.35	Head of ICT	Change control procedures should include website management. All changes should be documented.	C	November 2009	Completed	This has been included in Ref. A.42.
A.36	Head of ICT	The Accessibility link should be fixed so that it points to the correct location.	C	Immediate	Completed	

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A.38	Head of ICT	Password protected screen savers should be enforced by Windows Group Policy. This would improve security by locking the PC after a set period of inactivity.	C	November 2009	Completed	This has now been introduced as part of the desktop upgrade.
A.39	Head of ICT	It would be good practice to record the actual date of disposal for IT assets.	D	Immediate	Completed	New Asset Management database has this facility and the disposal date is being recorded.
A.40	Head of ICT	It would be beneficial for ICT staff to have some fire extinguisher training although this recommendation is at the discretion of the Head of ICT.	D	November 2009	Completed	A number of staff have undertaken fire warden training as part of the building fire planning.
A.41	Head of ICT	Review the classification of data sent off site and ensure that appropriate means of protection e.g. encryption are in place where appropriate. Employees should also be aware of this requirement.	C	November 2009	Completed	<p>All new USB disks include data encryption as standard.</p> <p>This task involves more work than initially thought. While the majority of data taken off site has been reviewed, there still remains the task of identifying data taken off-site that ICT Services may not be aware of.</p> <p>To be completed by 31st January 2010.</p> <p><u>Status 15/11/10</u> The classification of data is covered by the Information Protection Policy, and the Removable Media Policy addresses the encryption and security of data.</p>
A41	Head of ICT	The ICT security policy should refer users to the Data Protection policy for further information on Data Protection issues.	C	November 2009	Completed	<p>To be completed by 7th November 2009.</p> <p><u>Status 15/11/10</u> This information is addressed by the 'Legal Responsibilities Policy'.</p>

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A.42	Head of ICT	<p>The IT Section should establish Change Control Standards which adequately cover the following areas:-</p> <ul style="list-style-type: none"> □ Clarify the roles and define the controls over requesting development and implementation of changes. □ Specify how amendments need to be documented. □ Address planned and unplanned changes including emergency fixes. • The following recommendations should also be considered in respect to the Change Control standards:- <ul style="list-style-type: none"> □ Effective arrangements should be put in place to ensure that the standards are regularly reviewed and kept up to date. □ A copy of the change control standards should be issued to all IT support staff. □ Change Control Standards should include a record of all employees authorised to request program and/or data amendments. □ The Change Control standards should ensure that amendment requests are only accepted if authorised by the system owners or their authorised representatives. 	A	November 2009	Completed	<p>A Change control standard document has been produced, which is currently being reviewed by ICT management before being implemented.</p> <p>To be completed by 30th November 2009.</p>

<u>Ref</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>	<u>Status as at 15/09/2009</u>	<u>Tasks</u>
		<p>α The change control standards should specify how the amendments should be recorded.</p> <p>α A record should be maintained which enables changes to be tracked throughout their life cycle (e.g. version control).</p> <p>α The possible effects of an implementation should be evaluated including the contingency arrangements required should an implementation fail in the live environment. This could include for example, confirmation that the necessary backups are available or that any scripts used allow the changes to be rolled back.</p> <p>α Wherever possible, amendments should be tested prior to implementation on the live environment. System owners should ensure they have undertaken adequate testing.</p> <p>Any emergency changes should be fully reviewed after the event via an impact assessment.</p>				
B.1	Head of Personnel	Once established, the above policies should be incorporated into the staff induction. A refresh for existing staff members should also be considered.	B	November 2009 but dependent upon ICT producing the policies.	Completed	<u>Status 15/11/10</u> The Infrastructure and Network Manager has confirmed that as Allerdale Borough Council is the host authority, Allerdale's induction process will ensure staff are aware of the above policies. The Head of Audit at Allerdale Borough Council has been asked to confirm that this information is now included in induction programmes.
B.2	Head of Personnel	See recommendation B.1	C	November 2009 but dependent		Refer to B1

<u>Ref</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>	<u>Status as at 15/09/2009</u>	<u>Tasks</u>
				upon ICT producing the policies.		
B.3	Head of Policy & Performance	It would be beneficial to re-commence Data Protection awareness training for all staff who handle personal data. Personnel have agreed to provide the training but this needs to be driven by the Head of Policy and Performance in liaison with other Heads of Service.	C	November 2009	Completed	Addressed by report PP39/10 presented to the Audit Committee on 24 th September 2010.
B.4	Head of Policy & Performance	The Data Protection Policy should be reviewed and updated to ensure it is clear and concise and addresses the following:- <ul style="list-style-type: none"> α <i>Explains the need for such a policy</i> α <i>States the authority's attitude towards data protection</i> α <i>Clearly sets out the authority's data protection requirements</i> α <i>States the authority's data protection staffing and reporting structures</i> α <i>States the disciplinary procedures which may be invoked should employees fail to comply with the data protection policy</i> α <i>Specifically refers to the inclusion of certain structure manual records</i> 	B	November 2009	Completed	Addressed by report PP39/10 presented to the Audit Committee on 24 th September 2010.
B.5	Head of Policy & Performance	It would be beneficial for the 8 principles of the Data Protection Act to be stated in the policy overview.	C	November 2009	Completed	Addressed by report PP39/10 presented to the Audit Committee on 24 th September 2010.
B.6	Head of Policy & Performance	Procedures should be put into place to ensure that in the future, the policy is reviewed annually or immediately in the light of actual events.	C	November 2009	Completed	Addressed by report PP39/10 presented to the Audit Committee on 24 th September 2010.
B.7	Head of Policy & Performance	A communications structure should be identified to ensure that data protection issues are effectively communicated throughout the Authority.	C	November 2009	Completed	Addressed by report PP39/10 presented to the Audit Committee on 24 th September 2010.

APPENDIX C



Resources Directorate

Audit Services

**Audit of Housing and
Council Tax Benefit
Overpayments**

Final Report

6th July 2011

Directorate / Service Area	Recipient(s) of Report	Action Required
Community Engagement/ Revenues and Benefits.	Assistant Director – Community Engagement (for Information) Shared RBS Partnership Manager (for information) Benefits Manager (for action)	There are agreed actions arising from this audit review which require your attention. Please refer to the Action Plan, which is attached as Appendix A.
Resources/Financial Services.	Assistant Director – Resources (for information)	

Please note: The Chief Executive, Deputy Chief Executive, Strategic Director and relevant Assistant Directors receive a copy of the full final report (management summary and appendices showing the matters arising, recommendations and agreed actions). The Audit Committee will also be presented with a full copy of this final report at the meeting to be held on 27th September 2011.

1. Reason for the Audit

- 1.1. The audit of Housing & Council Tax Benefits forms part of the programme of annual material reviews, which focus on the fundamental systems of the Authority. Overpayments are reviewed in brief as part of this annual review.
- 1.2. In addition, recent performance data suggested that recovery rates were below trend resulting in a substantial increase in bad debt provision. A request was therefore made for Audit Services to review this area in depth.

2. Background Information/Summary of the Audit Area

- 2.1. An overpayment occurs when the claimant or landlord is paid an amount of Housing or Council Tax benefit that they weren't entitled to receive. These can happen for a number of reasons, for example:-
 - Increase of income that hasn't been declared.
 - Partner/lodger that hasn't been declared.
 - Moving home.
 - Starting work or changing jobs etc.
- 2.2. It is the responsibility of the claimant to notify the Benefits Office of any change to their circumstances.
- 2.3. Currently Carlisle City Council's overpayments are processed by 1 FTE Benefits Officer. The Senior Overpayments Officer for the Revenue and Benefits shared service is currently based in Allerdale, however, all working practices will be established as part of the Revenues and Benefits Shared Service review of overpayments.

3. Associated Risks of Providing this Service/Function

- 3.1. Examination of the Risk Registers noted the following specific risks in respect of Housing Benefit Overpayments:

Risk Description and Control Strategy (Revenues and Benefits Operational Risk Register Dated February 2010)	Type of Risk <i>(strategic / operational)</i>	Risk Score <i>H/M/L</i>
<u>Risk:</u> <i>Human Resources</i> <u>Description:</u> <i>Insufficient resources to deliver the service</i> <u>Current Action/Status Control Strategy:</u> <i>Effective recruitment procedures. Job descriptions regularly updated. Training and development monitored. Communication system in place. Tackle morale issues arising.</i>	<i>Operational</i>	<i>L (2)</i>
<u>Risk:</u> <i>Benefit Probity</i> <u>Description:</u> <i>Risk of internal fraud within the benefits software and system</i>	<i>Operational</i>	<i>M (3)</i>

<p><u>Current Action/Status Control Strategy:</u> <i>Rigorous use of test systems. Detailed manuals exist. Qualified management and robust training in place to reduce risk. Rigorous audit of all admin processes. Secure environment for cash payments</i></p>		
<p><u>Risk:</u> Revenues and Benefits Management Information <u>Description:</u> Risk of poor performance not being uncovered <u>Current Action/Status Control Strategy:</u> <i>Effective use of systems and information sharing. Users training and information checked. System maintained and software updated regularly</i></p>	Operational	M (4)
<p><u>Risk:</u> Performance Management <u>Description:</u> Risk of missing key performance reporting deadlines <u>Current Action/Status Control Strategy:</u> <i>Performance managed to timetables and monitored with work plans set out. Performance indicators produced which should be better utilised in the future under the new structure</i></p>	Operational	M (4)
<p><u>Risk:</u> Legislative changes: Awareness and Preparation <u>Description:</u> Failure to plan/prepare or be aware of new legislation and impact on claimants or taxpayers <u>Current Action/Status Control Strategy:</u> <i>Publications circulated to key staff and projects allocated</i></p>	Operational	M (6)
<p><u>Risk:</u> Shared Services New Risk <u>Description:</u> Risk of significant adverse impact on service due to shared services activity <u>Current Action/Status Control Strategy:</u> <i>Programme project plan for the implementation of shared services and project plans for work packages: all to Prince 2 project management standards. Projects monitored by Partnership Manager and specific project managers. Separate risk logs being monitored and maintained</i></p>	Operational	M (6)

4. Scope of the Audit

- 4.1. Audit testing and verification have been carried out to form an opinion over the effectiveness of systems and controls in place relating to the risks identified. Key areas for review and a summary of the findings are outlined below.

	Area Examined
1.	Policies, Procedures and Training
2.	Identification and Calculation
3.	Recording and Notification
4.	Recovery and Write offs.
5.	Reporting.

5. Overall Conclusion of the Audit Review

- 5.1. The aim of the review was to confirm the effectiveness of systems and controls that are in place to minimise key risks. A number of opportunities to further enhance controls have been identified. These are shown in Appendix A and have been brought to the attention of the relevant Assistant Director. In summary, the **key issues** arising from this review are:
- 5.1.1. Once the Shared Service internal working practices have been agreed, the system documentation will then require development or updating to encompass these possible changes. In the meantime, work should be progressed to update procedural notes for Carlisle City internal use which can then be used as a basis for alignment of each Council procedure.
- 5.1.2. From the sample taken it appears that the time taken for Assessment Officers to process the claimant's change of circumstances appears satisfactory. A swift 'turnaround' ensures that any overpayment is identified as soon as possible and the chance of recovery of the monies significantly increases.
- 5.1.3. No problems were found with regard to the relevant overpayment information being retained on the Academy system for reference. The actual overpayment invoices that are issued to the claimants are not 'user friendly', contain inaccurate information and require amendment. This should be done as part of overpayment administration review.
- 5.1.4. The controls surrounding the Recovery of Overpayments need to be carefully looked at and the initial evidence provided aids to suggest areas that need to be concentrated on. It is intended that improved recovery routines will be implemented by Jan 1st 2012 at the latest. In the interim it has been agreed that an additional officer be temporarily seconded to the Overpayment Team to ensure that each debt highlighted at the date of the review is progressed through the correct recovery process. This task is now almost complete and the necessary information has been forwarded for action. Both Shared Service and Financial Services Management will be furnished with information on recovery progress and overall prospects of recovery to inform bad debt provision for 2011/12.
- 5.1.5. The IMAN system produces a number of reports that will help to increase productivity by highlighting each stage of the recovery process each stage is at in a comprehensive manner. These should be incorporated as an important part of the weekly overpayments routine.

6. Grading of Audit Recommendations

- 6.1. Each recommendation/agreed audit action in the appendices has been allocated a grade in line with the perceived level of risk. The grading system is outlined below:

Grade	Level of Risk
A	Lack of, or failure to comply with, a key control, leading to a *fundamental weakness.
B	Lack of, or failure to comply with, a key control, leading to a significant system weakness.
C	Lack of, or failure to comply with, any other control, leading to system weakness.
D	Action at manager's discretion.

* A *fundamental* weakness includes non-compliance to statutory requirements and/or unnecessary exposure of risk to the Authority as a whole (e.g. reputation, financial etc).

6.2. There are 12 recommendations arising from this review. 10 at Grade B and 2 at Grade C.

7. Statement of Assurance

7.1. Based on the audit approach, issues and the grading of the recommendations arising from this review, it is considered that a **restricted** level of assurance can be given in relation to the systems of control (see definition below).

Level	Evaluation
1. Substantial	Very high level of assurance can be given on the system/s of control in operation, based on the audit findings.
2. Reasonable	Whilst there is a reasonable system of control in operation, there are weaknesses that may put the system objectives at risk.
3. Restricted	Significant weakness/es have been identified in the system of internal control, which put the system objectives at risk.
4. None	Based on the results of the audit undertaken, the controls in operation were found to be weak or non-existent, causing the system to be vulnerable to error and/or abuse.

Community Engagement, Revenues & Benefits

1. POLICIES, PROCEDURES AND TRAINING

Method of Review:

- Review of 2010/11 Housing and Council Tax Benefits Audit Report.
- Discussions with relevant staff.
- Examination of the Council's Overpayments Policy.

Summary of Findings:

- 1.1. All applicable benefit legislation documentation is up to date and available to all staff. Regular training up dates are provided as and when they arise.
- 1.2. There is an Overpayments Policy, however, this was last updated in 2002. Although the protocol for the treatment of overpayments (as defined by the Department of Work And Pensions HB/CTB Overpayments Guide) remains essentially the same, it would be good practice to revisit this document annually to ensure that the information (especially areas that refer to specified years) is current. This issue has been highlighted in the 2009/10 and 2010/11 Housing and Council Tax Benefit Audit and a target date of end of June 2011 was agreed. Due to resource issues, it has been requested that this date be moved back to a more realistic date of Dec 2011 for completion.
- 1.3. There are no comprehensive overpayments procedure notes available. The future development of these is imperative, especially now that the Shared Service is in situ, so that it embraces the joint consistent approach to the treatment of overpayments throughout the shared service and not just in each individual authority. – **Refer to Recommendation A1.**
- 1.4. The aim is for the shared service to have aligned procedures for key work streams – Housing Benefit Overpayments being one of those work streams. Developments in aligning procedures have been hindered due to resource constraints. It is recognised that progress in this area will be given priority; anticipated completion is not until December 2011. Given the concerns raised in this report, it is suggested that this should be in place by the end of August 2011.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A1	There are no comprehensive overpayments procedure notes available.	Benefits Manager	<p>a) As part of the Shared Service administrative 'overhaul' the Overpayments Policy needs to be updated.</p> <p>b) Additional measures are required to ensure that procedures are fully defined and documented for Carlisle City.</p> <p>Both of these documents should embrace the joint working approach of the shared service.</p>	B	<p>31st December 2011.</p> <p>31st August 2011.</p>

2. IDENTIFICATION AND CALCULATION

Method of Review:

- Review of 2010/11 Housing and Council Tax Benefits Audit Report.
- Discussions with relevant staff.
- Test a sample of 22 overpayments to confirm that they were identified quickly, and the overpayment calculated correctly.

Summary of Findings:

- 2.1. The Housing and Council Tax Benefit claim form requires the claimant to sign and date a declaration that states that they understand that it is their responsibility to report any change of circumstances and if they fail to do so that they may be liable for the overpayment. Changes of circumstances are normally processed by the Assessment Officers as a priority item. There were no issues identified regarding processing time.
- 2.2. 22 overpayments were tested to ensure that they were identified as overpayments quickly and any change of circumstances was actioned as priority. Any change of circumstances that will result in an overpayment automatically produces an overpayment letter overnight from the Academy system. These letters are given to the Benefits Officer (Support Services) to begin to pursue the overpayment process. Testing identified that the majority of the overpayments selected had been actioned on the system within a reasonable timescale. Those that weren't were due to change of circumstances not being declared by the claimant until a considerable time had elapsed.

2.3. One issue is however, that at present, the Benefits Officer (Support Services) does not have any cover when absent from the office. This means when they are not there, no overpayment work is done. This is not satisfactory as it contributes to the backlog and delays the overpayment process unnecessarily. There is to be a review of the shared service working arrangements regarding overpayments with the Benefits Manager and the Senior Overpayments Officer in the near future. Consideration should be given to injecting extra resources into the section to cover duties in the absence of the Benefits Officer. – **Refer to Recommendation A2.**

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A2	The Benefits Officer does not have any cover when absent from the office.	Benefits Manager	Arrangements should be put in place to pick up the essential elements of the Benefits Officers duties in their absence. The future successful implementation of the 'shared desktop' facility between Councils should assist in this process.	B	31 st July 2011

3. RECORDING AND NOTIFICATION

Method of Review:

- A sample of 22 overpayments was tested to ensure that:-
 - The value, reason and period of the overpayment were accurately recorded.
 - An invoice was issued to the person from whom recovery was sought and any other person affected by the decision.
 - That the information contained within the invoice was clear, accurate and concise.

Summary of Findings:

- 3.1. As previously stated, the Academy system automatically produces an overpayment notice/invoice when the overpayment is produced after a change of circumstances has been applied to the account. These are checked by the Benefits Officer (Support Services) and then sent out to the claimant dependant on the particular case. For example, if there is an ongoing fraud investigation, the overpayment notice/invoice may not be issued at that point.
- 3.2. All relevant information in relation to the actions taken by the Assessment Officers, including the effect on the benefit award that the processing of any change of circumstances may cause, is logged in the 'Information @ Work (previously IMAGES) DIP system. The 22 test cases were checked and there was no problems identified with the recording of claim assessment information for any of these cases.

3.3. The actual decision notices themselves are in a sample template format. One of those sampled was produced on 09/02/11 still quotes Peter Mason CPFA as the Head of Revenues and Benefits. This template requires amending as Revenues and Benefits Shared Service has been under the responsibility of the Community Engagement Directorate since stage one of Transformation. It was also noted that the notice itself lacks information for the claimant. Some text on page two also runs into the next word. This does not look professional, especially as the paragraph in question mentions proceedings in a criminal court. – **Refer to Recommendation A3.**

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A3	The overpayment template in Academy has inaccuracies and is unclear in places.	Benefits Manager	<p>a) The overpayment invoice template requires amendment to ensure it is more 'user friendly' for the claimant. Inaccuracies should also be amended.</p> <p>b) A sample selection of letters to claimants should be quality checked prior to posting to highlight any obvious anomalies.</p>	B	<p>30th September 2011</p> <p>30th June 2011</p>

4. RECOVERY AND WRITE OFFS

Method of Review:

- The current recovery process was established.
- Balancing reports were retrieved from the IMAN (Overpayment Recovery) system and analysed.
- 22 outstanding overpayments were traced through the system to identify any potential 'blockages' that may be preventing recovery.
- Analysis of bad debt write off reports from 2009/10 and 2010/11.

Summary of Findings:

4.1. In total at the 31/3/2011 there were 1722 debts totalling £875,000 identified as outstanding on the system.

- 4.2. As stated in section 3, if an overpayment arises due to an action from an Assessment Officer, a letter is produced overnight from the Academy system and these are passed to the Benefits Officer responsible for overpayments. Reliance is placed on these letters together with e-mails from the Assessment Officers for the Benefits Officer to be notified of all overpayments. Although testing did not highlight any obvious omissions, there is a risk, relying on this method, that some overpayments could 'slip through the net'. All details on the letters are checked against Academy details to ensure that the overpayment is true before any recovery is started. – **Refer to Recommendation A4.**
- 4.3. If the claimant is still on benefit, the overpayment is taken straight from the new award. If the claimant is no longer on benefit, an invoice is produced from Academy overnight.
- 4.4. Arrangements can be made if the claimant cannot pay in full. The Benefits Officer agrees payment arrangements for invoiced overpayments. These arrangements are not verified/authorised by another officer. The stated procedure is that an initial attempt is made to recover the maximum award they would claw back from benefits if they reapplied, however, this is negotiable if the claimant has financial problems i.e. additional debt elsewhere which limits their disposable income. This is done via the claimant completing a 'financial statement' which is then checked and verified. Some of these are cross checked to the system, i.e. stated outgoings compared with Direct Debits on claimant's bank statements. Other decisions are based on judgement. - **Refer to Recommendation A5**
- 4.5. The overpayment 'sits' on Academy. The payment arrangement does halt recovery and the outstanding overpayment is only reduced when the income is received.
- 4.6. The actual income is received through ICON (Corporate Income Management System) which is paid direct into IMAN and then Academy. If attached to benefit, it is taken direct through IMAN, which is an overpayment and recovery 'arm' of Academy, on a weekly basis as part of the general benefits run. These transactions are shown immediately. As part of the balancing process, the Service Support Assistant runs the Transaction Listing Report which shows all the payments received through ICON. This is e-mailed daily to the 'Overpayments' inbox and direct to the Benefits Officer before 10.30 a.m. and the reconciliation is one of the first duties performed. Again there is no cover for this task when the Benefits Officer is absent and this means there could be a delay in balancing income received, which then impacts on the ability to identify and rectify anomalies. A payment reconciliation spreadsheet that analyses all the payments by type is then balanced and sent to the Performance Team for their use. - **Refer to Recommendation A2.**
- 4.7. At the start of this review, the Council was using Jacobs bailiffs for their Housing Benefit overpayment cases although this has recently been reviewed and replaced by Rossendales bailiffs as they are introducing 0% recovery on overpayments for a limited period. Older overpayment cases already go to Rossendales. Jacobs send a recovery report to the Financial Services Section fortnightly, Rossendales send theirs monthly. After balancing to ICON, this sheet is passed down to the Overpayments Section where the income is posted to IMAN, which in turn credits Academy. When all these payments are balanced and paid into Academy, the Benefits Manager authorises the commission payment to the bailiffs. Discussions established that at present, no debts are currently being referred to the bailiffs as the decision has not yet been made whether to transfer the caseload to Rossendales or not. – **Refer to Recommendation A6.**

- 4.8. Assessment Officers can authorise the cancellation of some overpayments. These tend to be general assessment errors and not 'genuine' overpayments. These are referred to the Performance Team for actual processing where a detailed spreadsheet of these is maintained by the Team Leader so that division of duties exists. - **Refer to Recommendation A7.**
- 4.9. During testing of the IMAN system and the sample of 22 overpayments a number of issues were highlighted (NB. Testing was undertaken using information held on the IMAN test system as at the 19th April 2011):-
- There were far too many cases at 'Awaiting Decision' stage, these are overpayments which are mostly cases awaiting new claim forms, outstanding correspondence or further information regarding appeals etc. These debts cannot proceed through the recovery process without a manual 'push'. These are looked at by the Benefits Officer fortnightly if resources allow. At the 19th April there were 157 cases with a value of £67,098.38 sitting at that stage of recovery. Testing highlighted 14 at this stage where it was considered that the cases could have been moved by that date on by either invoicing, 'clawing back' from benefit or writing the cases off. Details of these will be passed to the Benefits Officer for action/query. - **Refer to Recommendation A8.**
 - As at the 19th April 2011 there were 131 cases with a value of £69,414.27 whereby the claimant had incurred an overpayment, the recovery process had reached a 'manual' stage i.e. 'Awaiting decision' or 'Unrecoverable' but had then been re-awarded benefit at a later stage. No claw back had been attached to the claim therefore the debt was just static in the recovery process. - **Refer to Recommendation A9.**
 - Testing of the 22 individual overpayments highlighted that there were cases where the debt is still on Academy but not being actively investigated as benefit is not in payment anymore and recovery has already begun. i.e., details on the claimant's control sheet in the DIP system show forwarding addresses as the last entry, however there is no evidence on either Academy or the DIP system that the overpayment has been pursued by whatever means at the new address. - **Refer to Recommendation A10.**
 - As at the 19th April 2011 there were 134 cases with a value of £54,083.66 sitting at the 'Not recoverable' stage of the recovery process. Comparison of the bad debt write off committee reports from 2009/10 and 2010/11 suggested that the level of write offs going to Committee had considerably reduced. The reports showed:-

26/10/09 40 @ £34,017.17

15/02/10 86 @ £77,991.09

12/04/10 88 @ £51,819.31

11/10/10 48 @ £44,819.73

14/03/11 19 @ £ 7,607.44

These results suggest that there has been a definite blockage at this stage of recovery. - **Refer to Recommendation A11.**

4.10. The 2010/11 audit of Car Parking identified a suggestion for the alternative method of recovery of car parking debts and the setting up and administration of payment arrangements which could be considered in the longer term to also apply to Housing Benefit Overpayments if management decide that this is a workable option when reviewing the shared service.

The report stated "An alternative method worthy of exploration is for payment arrangements of this type to be agreed, set up, monitored and pursued by the Revenues Recovery Team. This in-house Recovery Team is experienced in this field and their skills should be utilised."

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A4	The daily overpayments run is not reconciled.	Benefits Manager	A control report listing all overpayments produced the previous day should be ran from the Academy system and reconciled to the letters produced to ensure that all overpayments are identified and the recovery process begun in all cases.	B	31 st July 2011
A5	The Benefits Officer is the only member of staff involved in the payment arrangement process. This is primarily due to the resource issue within the section. The Benefits Manager was satisfied with the current practice whereby the Benefits Officer gets the claimant to complete a financial statement if any payment agreement 'veers away from the norm'. This is then scanned and can be revisited if any issue arises.	Benefits Manager	It would be prudent however to introduce accuracy checks on Housing Benefit Overpayments. Such checks should be carried out by the Housing Benefit Team Leader position. Such sample checks provide an additional level of assurance over accuracy and completeness of claims and introduces a layer of segregation.	C	31 st August 2011
A6	At present, cases are not being referred to bailiff stage for recovery	Benefits Manager	The decision whether or not to transfer the responsibility to Rossendales should be made as soon as possible so that the recovery process can be progressed. It was agreed to transfer responsibility to Rossendales and the first batch of outstanding cases was transferred in June 2011.	B	Completed June 2011.

A7	The Performance Team process and monitor all Assessment Officer overpayment cancellations.	Benefits Manager	For management monitoring purposes it would be beneficial if a summary of all Assessment Officer authorised overpayments be passed to the Benefits Manager on a monthly basis to keep track on the volume and reasons behind these adjustments.	C	31st July 2011
A8	There are too many cases at 'Awaiting Action' of the Recovery Process.	Benefits Manager	Attempt to increase the frequency to fortnightly in which the overpayment cases at 'Awaiting Action' stage get reviewed and to what degree. This will attempt to move cases on to the next stage of recovery more quickly. If resource issues become apparent, then this must be discussed with management to arrange the necessary support.	B	31 st July 2011
A9	Existing or new claimants with outstanding overpayments are not checked as part of the weekly routine. Report hb6100a from the Academy reporting library lists all the active claims on the system that are not in active recovery (i.e. claw back). – Also refer to recommendation A12.	Benefits Manager	The existing cases as at 19 th April should be progressed immediately. For future process, this should be ran and actioned as part of the weekly standard routine.	B	31 st July 2011
A10	Change of address information is not getting passed on in all cases. Currently Benefits Control sheets are only reviewed before recovery commences.	Benefits Manager	Assessment Officers should be reminded to inform the Overpayments Section of any information received regarding change of address however old the debt is so that the case can be reviewed, and if the overpayment is still outstanding, it can be re-invoiced.	B	31 st July 2011
A11	There are a number of outstanding cases sitting on the system that should have been passed for write off.	Benefits Manager	All the cases sitting at 'Not Recoverable' Stage should be written off immediately. In future, this report should be run and actioned in line with the Executive Committee cycle so that the cases can be presented for write off.	B	31 st July 2011

5. REPORTING

Method of Review:

- Discussions with staff.
- Scrutiny of the IMAN system, its capabilities and the relevance to the recovery process.

Summary of Findings:

5.1. It became apparent that that the control reports in IMAN and Academy are not fully utilised. To do so would be extremely beneficial as they would indicate the true picture of each stage of recovery and resources can be concentrated on progressing them in a methodical way. These established reports provide key management and performance information which are highly beneficial to recovery proceedings balancing and inform on resource requirements.

5.2. The reports currently available are:-

*hb6100 – Outstanding Invoices.

*Im6430 - No recent payments.

*Im 6040 - Recovery Document Production (all types) inc

- Reminder
- Final Reminder
- Refer to Source
- Collection Agency
- Legal Section
- Not recoverable
- Awaiting decision
- Landlord Recovery
- Orchard Credit Transfer
- DWP Reductions
- Flood Damage.

*Im6140 Customer Agreements Report.

- *Im6120 – Unallocated credit.
- *hb6460 Outstanding invoices Not in Recovery.
- *hb7040 – Landlord Deduction Case Charges.
- *hb7090 – Housing Benefit Overpayments Report
- *hb9090 – Overpayment Monitoring

-Refer to Recommendation A12.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A12	The reporting mechanism in IMAN is not being used to its full potential.	Benefits Manager	<p>The reports listed should be examined and any useful ones incorporated into the weekly routine for monitoring and balancing purposes.</p> <p>A full review of the reports available will be considered as part of the Shared Service procedure documentation to be progressed by the Team Leader (Overpayments).</p>	B	31 st July 2011

**CARLISLE
CITY COUNCIL**



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Resources Directorate

Audit Services

Audit of Properties with Rents

Final Report

04 August 2011

Directorate / Service Area	Recipients of Report	Action Required
Development Services	Property Services Manager (For Action) Building Surveying Manager (For Action) Assistant Director (Resources) (For Information)	There are matters/recommendations arising from this audit review which require your attention. Please refer to the Action Plan for Development Services, which is attached as Appendix A.

Please note: The Chief Executive, Deputy Chief Executive/Strategic Director and relevant Assistant Directors receive a copy of the full final report (management summary and appendices showing the matters arising, recommendations and agreed actions). The Audit Committee will also be presented with a full copy of this final report at the meeting to be held 15 August 2011.

1. Reason for the Audit

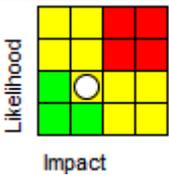
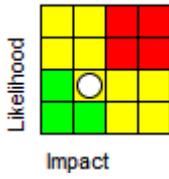
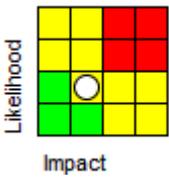
- 1.1. The audit of Properties with Rents was an unplanned review which was initially started in July 2009/10. Progress to complete the audit was hindered due to other work demands later in that year. The audit was picked up again in late 2010/11 and the original brief was expanded upon to include the review of Industrial Estates, which is considered to be a high risk audit area in the 2011/12 Audit Plan.

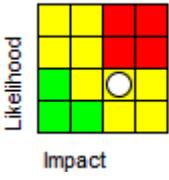
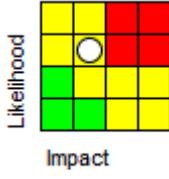
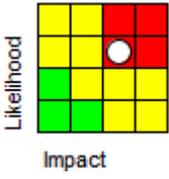
2. Background Information / Summary of the Audit Area.

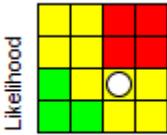
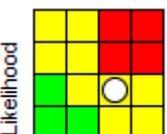
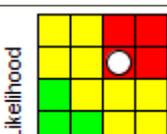
- 2.1. Property Services consists of 7 members of staff (5.25 FTE) which comprise:
1.0 x Property Services Manager;
0.5 x Surveyor;
1.2 x Technical Surveyor;
0.75 x Assistant Surveyor;
1.0 x Consultant Surveyor; and
0.8 x Graduate Surveyor.
- 2.2. The Service also utilises the help and assistance of the Council's Service Support Team for administrative purposes, which includes the maintenance of the Property Services Register – MASS database and the maintenance and storage of property files and records.
- 2.3. There is an important interdependency between Property Services, Legal Services, Facilities Management, Financial Services and Debtors regarding rent collection, insurance, rent reviews and lease renewals.
- 2.4. This audit review of 'properties with rents', properties are deemed to be land and buildings, for example land, corporate buildings, industrial estates covering income receivable from rents and leases.
- 2.5. Previous internal audit work undertaken was the review of 'Industrial Estates' for which a final audit report was issued in February 2004. The final report contained 4 grade B recommendations which under the current assurance classification (para 7.1) would equate to a 'reasonable' level of assurance.

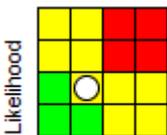
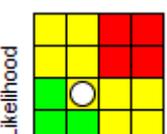
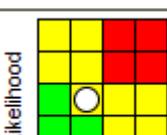
3. Associated Risks of Providing this Service/Function

3.1. Examination of the Property Services Operational Risk Register (dated 26 July 2011) noted the following risks:

Failure to implement comprehensive record system			
Present and Previous Matrices	Review Dates	Current Action Status / Control Strategy	Target Risk Matrix
	18 July 2011	Follow the management approach introduced into the team.	
	03 May 2011		
Current Impact Description	Marginal		Target Risk Date
Current Likelihood Description	Remote		01 Apr 2012
Risk Score	4	Managed By	Property Services Manager

Failure to implement priorities due to lack of project management resources			
Present and Previous Matrices	Review Dates	Current Action Status / Control Strategy	Target Risk Matrix
	18 July 2011	Council advised through performance monitoring and SMT.	
	03 May 2011		
Current Impact Description	High		Target Risk Date
Current Likelihood Description	Remote		01 Apr 2012
Risk Score	6	Managed By	Property Services Manager

Failure to maintain the Council's asset value / income flow			
Present and Previous Matrices	Review Dates	Current Action Status / Control Strategy	Target Risk Matrix
 Likelihood Impact	18 July 2011	Oversee all property, ensure that it is fit for purpose. Regularly review and monitor flow of rental income and asset value.	 Likelihood Impact
 Likelihood Impact	03 May 2011		
Current Impact Description	High		Target Risk Date
Current Likelihood Description	Remote		01 Apr 2012
Risk Score	6	Managed By	Property Services Manager

Failure to do rent reviews and lease renewals in timely fashion			
Present and Previous Matrices	Review Dates	Current Action Status / Control Strategy	Target Risk Matrix
 Likelihood Impact	18 July 2011	Monthly monitoring of progress and performance.	 Likelihood Impact
 Likelihood Impact	03 May 2011		
Current Impact Description	Marginal		Target Risk Date
Current Likelihood Description	Remote		01 Apr 2012
Risk Score	4	Managed By	Property Services Manager

4. Scope of the Audit

4.1. Audit testing and verification have been carried out to form an opinion over the effectiveness of systems and controls in place relating to the risks identified. The key areas reviewed are stated in the table, and a summary of findings has been included in Section 5 below.

	Areas Examined
1.	Policies & Procedures
2.	MASS System, Collection & Recording of Rental Income
3.	Lease Renewals & Rent Reviews
4.	Void Properties and Monitoring of Lease Conditions

5. Overall Conclusion of the Audit Review

5.1. The audit review revealed good controls to be in operation; however, areas were identified where controls could be enhanced, thus, providing the opportunity to increase the robustness of the system controls further. These are shown in appendix A and are to be brought to the attention of the Property Services Manager. In summary the key issues arising from this review are:

Further development of the Mass Database procedure notes;
 Procedure notes do not document a management version control of last review and update;
 Concerns over the accuracy and reliability of the MASS Database as there is evidence that there are properties recorded that are no longer owned by the Council;
 The audit trail of events and information within Property Services files could be improved through ensuring file inserts are identifiable – where appropriate signed and dated, ensuring there is evidence of communication to all relevant sections and the key content of phone calls are noted;
 The use of appropriate office proformas, e.g. use of 'lease renewal' for a lease renewal and use of a 'rent review' for a rent review and
 Non compliance of the 'Unoccupancy Condition' of the Councils insurance requirements.

6. Grading of Audit Recommendations

6.1. The audit process seeks to reduce risk to an acceptable level based on the efficient, economic and effective application of financial controls. Changes to controls suggested in audit recommendations are intended to achieve these benefits. This process reduces but does not, necessarily, wholly eliminate risk.

6.2. Each recommendation/agreed audit action, in Appendix A, has been allocated a grade in line with the perceived level of risk. The grading system is outlined below:

Grade	Level of Risk
A	Lack of, or failure to comply with, a key control, leading to a *fundamental weakness.
B	Lack of, or failure to comply with, a key control, leading to a significant system weakness.
C	Lack of, or failure to comply with, any other control, leading to system weakness.
D	Action at manager's discretion.

* A *fundamental* weakness includes non-compliance to statutory requirements and/or unnecessary exposure of risk to the Authority as a whole (e.g. reputation, financial etc).

6.3. There are 6 recommendations arising from this review, 3 at grade B and 3 at grade C.

7. Statement of Assurance

7.1. Based on the audit approach, issues and the grading of the recommendations arising from this review, it is considered that a **Reasonable** level of assurance can be given in relation to the systems of control (see definition below).

Level	Evaluation
1. Substantial	Very high level of assurance can be given on the system/s of control in operation, based on the audit findings.
2. Reasonable	Whilst there is a reasonable system of control in operation, there are weaknesses that may put the system objectives at risk.
3. Restricted	Significant weakness/es have been identified in the system of internal control, which put the system objectives at risk.
4. None	Based on the results of the audit undertaken, the controls in operation were found to be weak or non-existent, causing the system to be vulnerable to error and/or abuse.

1. Policies & Procedures

Method of Review

Discussion with relevant staff
Obtain copy of the Council's 'Asset Management Plan' and check that it is regularly reviewed and updated;
Ascertain that the 'Plan' is appropriately approved and staff are aware of its existence and review the contents for coverage and linkage to the Council's priorities; and
Appropriate procedures have been prepared and regularly reviewed. Relevant staff are aware of their existence and they have ready access to them when required.

Summary of Findings:

- 1) The Council's 'Asset Management Plan' has been reviewed and updated from 2009 to reflect the key issues and changes affecting the management framework and position of the City's property resources in the light of the Asset Management Review currently underway. The Plan reports on the performance indicators and progress with the Asset and Accommodation reviews.
- 2) The updated Asset Management Plan 2010 – 2015 was presented to the Executive 28 June 2010 and 26 July 2010 and the Resources Overview and Scrutiny Panel 29 July and 7 December 2010. The Plan incorporates coverage of:
 - The Council;
 - The Asset Management Plan and Council Priorities;
 - Organisational Framework;
 - Corporate Asset Objectives;
 - Performance Monitoring and Measurement;
 - Policy & Strategy;
 - Government Policy and Statutory Responsibilities;
 - The Resource Context
 - The Resource Context: Key Line of Enquiry;
 - Changes in the External Environment and Implications for Property;
 - The Existing Portfolio and Current Performance;
 - Maintenance Backlog;
 - Continuous Review and Challenge; and
 - Summary, Appendix I – National Property Performance Indicators and Appendix II – Local Performance Indicators.

Just prior to the issue of this report in final, a draft Asset Management Plan 2011-16 has been prepared and presented to the Council's Executive, 25 July 2011. The Asset Management Plan is reviewed and where necessary amended on an annual basis.

- 3) The relevant procedures requested and obtained included:
 - New Lettings Guidance Notes;
 - Consent to Assignment Guidance Notes;
 - Consent to Alter Guidance Notes;
 - Consent to Sublet (Sublease) Guidance Notes;
 - Consent to Subunderlet (Subunderlease) Guidance Notes; and
 - Surrender Procedures Flowchart.

- 4) Two areas noted during the review of the guidance notes and flow chart received included:
 - The absence of procedure notes covering the administration of the MASS database to ensure that it is accurate, reliable and complete. Procedure notes are in existence with regards to the MASS database but it is felt that these should be developed further to capture the information flows resulting in the amendment of the MASS database;
 - See Recommendation/Agreed Action 1;** and
 - A review of the guidance notes and flowchart revealed that there is no document version management in place which would indicate when they are reviewed and when they have been updated. **See Recommendation/Agreed Action 2.**

- 5) Discussions revealed that all relevant staff are aware of the existence of the Asset Management Plan and available procedure notes.

- 6) In addition, of relevance to properties with rent, a report was submitted to the Executive 30 July 2007 re VAT Partial Exemption (Feedback from Tenants). This report stated that the Executive had agreed to opt to charge VAT on all of the Council's commercial rents at its meeting 2 July 2007. This change was subject to writing to the affected tenants to notify them of this intention and giving them as opportunity to feedback any concerns. Tenant's comments were received at this meeting and they were also considered at Corporate Resources (as it was known as at this time) Overview and Scrutiny Committee 26 July 2007. Following this, the Executive confirmed its decision stood and to charge VAT on all its commercial rents.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation/Agreed Actions</u>	<u>Grade</u>	<u>Agreed Timescale for Completion</u>
1	See Summary of Findings Note 4. MASS database procedures are in existence but they do not include coverage of information flows that result in the amendment to the system.	Property Services Manager/SST Manager	Procedure notes (or flow chart) should be prepared that clearly display the process in operation to ensure the accuracy, reliability and completeness of the database. The procedures should clearly identify and record the information streams required to achieve the objective of the database.	B	End January 2012
2	See Summary of Findings Note 4. There is no document version management in place to indicate date of last review and by whom.	Property Services Manager	On each procedure note there should be document version control management which details the date the procedures have been reviewed.	C	End January 2012

2. MASS System, Collection and Recording of Rental Income

Method of Review:

Discussion with relevant staff to establish the accuracy, completeness and reliability of the MASS system.

Obtain a report from the MASS system and select a sample for testing:

- Trace details to the debtors system establishing that debtor invoices are generated timely and payment received promptly;
- Where payment has not been received there are effective measures in place to identify non-payment and appropriate follow up action/s are taken;
- Trace details to the main accounting system (MAS) ensuring that the financial sum has been correctly posted and to the correct ledger code; and
- Discussion with relevant staff to follow up and resolve areas raised during sample testing.

Summary of Findings:

- 7) An initial discussion was held with the Property Assistant (this post is part of the Service Support Team). It was revealed that the Property Assistant was responsible for the administration of the MASS database and property files. It was queried what procedures were in place to ensure that the MASS database

is kept accurate, reliable and complete. The response received was that information is passed to the Property Assistant (from Property Services) and also that the Property Assistant obtains information from committee reports as part of the Service Support Team duties and responsibilities relating to properties held within the database. The database is amended in accordance with this information which is retained on file as supporting evidence to the MASS database. The files used to store supporting documentation were seen, although specific testing relating to this discussion was not undertaken. Instead, a sample of (15) leases held within the MASS database was selected and tested. The findings of the testing revealed that reliance cannot be placed upon the MASS database as there are leases recorded within the database that the Council does not collect income from as it no longer owns the property – i.e land and/ or buildings (per the Land Registry Office, which shows the property is registered elsewhere). Although Internal Audit cannot give complete assurance on the completeness of the properties identified in MASS it is appreciated that with the supporting input from Legal and Finance (who maintain their own property records) it's a three way process/reconciliation. **See Recommendation/Agreed Action 3.**

- 8) The sample selected for testing also evaluated for the prompt and correct raising of debtor invoices and the correct and timely posting of income to the relevant ledger code in the MAS. No areas of concern were identified (for 10 of the leases), with the exception (of 5 leases which were) those classed as 'Residential Enclosures'. In brief, residential enclosures are where the land is owned by the Council which was passed on a leasehold basis to say developers who generally built properties on the land and the Council receive an income from the lease of that land. Testing revealed that these 5 leases (obtained from the MASS database) did not have any debtor invoices raised nor any income recorded within the MAS. Enquiry was made with the Property Services Manager. It was established that work was being undertaken within Property Services as part of the 'Residential Enclosures Disposal Programme' to determine which land the Council currently has ownership of. The Property Services file (containing the work undertaken in this area to date) noted 1 Enclosure which was unregistered and is being queried with the Legal Section as to whether the Council still has ownership. The other 4 Enclosures were recorded within the file as being registered elsewhere (following checks with the Land Registry Office). Checks of these Enclosures to the records held within Finance also drew a blank in establishing further details. It can be confirmed from the Finance records 2006/07 to present there were no sale proceeds recorded (assuming that if lease (for the freehold of a property) had been disposed of, sale proceeds would have been received), based on the stated assumption that the lease (for the freehold of a property) had a value, pre 2006/07.
- 9) Discussion with the Principal Law Clerk indicated that there was lease (for the freehold of property) that had been sold pre 2006/07. During 1984, the freehold of the individual properties was offered for sale to tenants and this did result in properties being disposed of and proceeds received. Observation of lease file examples (taken from a most recently updated schedule displaying unregistered properties) by the Principal Law Clerk identified that there were also other properties sold at various times prior to 2006/07, not just during 1984. It was confirmed with the Principal Law Clerk that all the deeds have been passed for registration (registration was a compulsory requirement from December 1986). However, even though properties have been registered there has been evidence that the information supplied has not all been accurately recorded by the Land Registry Office. Immediate evidence of this can be seen where the yellow has not been barred out on the Register Plans. Additional time is thereby consumed (by the Legal Section) in having to check the ownership of properties back to their records as reliance cannot be solely placed on the Land Registry Register Plans.
- 10) On follow up investigation of Residential Enclosures with the Property Services Manager, Electricity Substations were also raised. Issues are also apparent within this area whereby a review of the substations recorded within the MASS database does not tie up with the record maintained within Finance. Discussion with the Principal Law Clerk also identified the need to ascertain ownership of these sites.

- 11) In conclusion with regards to Residential Enclosures and Electricity Substations, the issues are well known by Property Services and Legal Services. There is a system in operation to identify Council owned properties and to establish the identity of unregistered properties. The latter however is time consuming but there is evidence that progress on this area is being made to address such discrepancies (communication which includes a schedule of owned properties, unregistered properties and checks to income which is being used) between Property, Legal and Finance Services.
- 12) An area which appears not to be sufficiently addressed at this present time is the accuracy, reliability and completeness of the MASS database. The purpose of the database is to include property that is owned by the Council and the associated details of the lease income receivable etc. There is clear evidence that it continues to include land & property which is known to no longer be owned by the Council, in which case these should be clearly identifiable. **See Recommendation/Agreed Action 3.**
- 13) All debtor payments were found to have been received and it can be confirmed that there are measures in place to identify non-payment and appropriate follow up action/s are taken (the non-payment and associated actions are covered annually during the material audit review of Debtors).

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation/Agreed Actions</u>	<u>Grade</u>	<u>Agreed Timescale for Completion</u>
3	<p><u>See summary of findings note 7 & 12.</u></p> <ul style="list-style-type: none"> Property included within the MASS database which is no longer owned by the Council There are leases recorded within the database that the Council does not collect income from 	Property Services Manager	Only properties owned by the Council should be recorded within the MASS database. Where there is evidence that properties are no longer owned by the Council records should accurately reflect change of ownership.	B	End January 2012

3. Lease Renewals and Rent Reviews

Method of Review:

Ascertain through discussion with relevant staff and sample testing that there is an efficient and effective system in operation to identify and oversee rent reviews and lease renewals:

In particular:

There is a trigger mechanism (MASS database) which identifies rent reviews and lease renewals in a timely manner;

Trigger notices should be sent by registered post;

Trigger notices should be sent within the necessary time limits;

Rent Reviews and Lease Renewals are undertaken in accordance to the detail contained within the property file;

Visits to the properties are undertaken and recorded as part of the property valuation process;

A rent review/lease renewal proforma has been fully completed and contains all necessary information for a property undergoing a rent review;

A notice is served when a rent review is being undertaken, stating all relevant details;

The tenant is consulted for their intent where a lease renewal is coming to an end;

All relevant information is retained on file of negotiations that take place and the final outcome;

There is a copy of the completed Rent Review Memorandum on the property file as evidence of agreement of the rent to be charged;

Where a lease has been renewed there is a copy on file;

On receipt of the completed Rent Review Memorandum/Lease renewal an internal memo is sent to all parties concerned in a timely manner e.g Finance (change in rent due), Legal, Debtors (amendment of debtors invoice) and Service Support Team (Property Assistant) to update the MASS database;

Establish the monitoring actions taken and progress in respect of each rent review and lease renewal;

Delays in rent reviews and lease renewals should be formally recorded;

Sample test rent reviews and lease renewals that have been recently undertaken to evaluate the above and to establish that they have been performed in a timely manner so that rental income is maximised.

Summary of Findings:

14) Rent Reviews and Lease Renewals Programme

The MASS Database triggers each time a rent review or lease renewal is due from the data input into the system by the Property Assistant (Service Support Team). This information is produced via a report from the system which forms the programme of lease renewals and rent reviews due for each financial year.

The rent reviews and lease renewals are triggered for capture in advance (at least one year, especially as legal notices are required to be served in the case of lease renewals) to enable review/renewal to be undertaken in a timely manner.

A programme of reviews and renewals is established from the MASS report in a spreadsheet format for each financial year which includes the following details:

- Location;
- Tenant;
- Review/Renewal (RR=Rent Review and LR = Lease Renewal);
- Date;
- Pattern (i.e. 5,7,14 or 21 years – it was stated that 5 years is the norm);
- Current Rent;
- Notice Date;
- Proposed Rent;
- Agreed Rent;
- Date Agreed; and
- Comments.

The report/programme is passed to the Property Estate Surveyor who predominantly has responsibility to undertake the rent review and lease renewal work. During testing, common to both rent review and lease renewal, it was evident that the Property Services Manager was overseeing progress of these activities with comments and directions being noted and initialled on file.

15) Rent Reviews

Discussion with the Property Estate Surveyor revealed that for a rent review the following is undertaken:

Property files

The relevant property file is obtained and reviewed, checking the details of the rent review programme of the property to the file e.g. lease pattern review is correct, review date appropriate, establishing the lease terms and conditions;
Rent review proforma is completed;

Site Visit

Arrangements are made to visit the property to see that everything is in order (in compliance to the terms and conditions of the lease) and to establish any changes that would affect the value of the property;

Office Admin

Unless the site visit identified any changes then there is no change to the proforma/lease details recorded;

Prepare property valuation and calculation of proposed rent;
Serve notice of rent review by letter to registered office of the tenant;
State rent proposal which often triggers negotiations with the tenant and it may be the time that the tenant appoints their own surveyor or legal representative;
Details of all communication is retained on file i.e. letters, e-mails and details of phone calls etc;
Once a rent figure has been agreed a rent review memo is sent to Legal Services for signing;
Once the memo has been received back signed an internal memo is sent to relevant Sections e.g. Finance, Legal, Service Support Team etc.

Sample testing of 5 rent reviews revealed the above to be in order. Only minor areas were identified which would improve the information retained on the individual property files. **See Recommendations/Agreed Actions 4.** These are:

Ensuring evidence of officer identification and date are noted on each file insert (to be specific testing highlighted one of the sample not to have had a signed and dated property visit record on file);
All sections are notified of a lease renewal (there was no evidence on one file tested and on another file there was no reference to the Debtors Section);
and
The content of all phone calls should be noted, including who the officer is speaking to, which should be signed and dated by the officer (reference was made to a phone call that had not been noted, on two occasions, within the sample tested).

16) Lease Renewals

Discussion with the Property Estate Surveyor revealed that for a lease renewal the process is similar to rent reviews. The following is undertaken:

Review the lease;
Visit the property;
Contact tenant to determine interest in renewing the lease;
Undertake property valuation and determine rental figure and consider new lease terms if necessary following property visit;
Instruct Legal to serve Section 25 notice (Legal notice to tenant stating terms proposed and new rent) – this gives the tenant to renew the lease/otherwise;
If the tenant intends to renew it often triggers negotiations;
Once agreed, instruct Legal to draft new lease and issue to prospective tenant; and
On completed return, Property Services send internal memo to Finance, Service Support Team etc.

Sample testing of 5 lease renewals revealed the above to be in order. Only one minor area was identified which would improve the information retained on the individual property files. **See Recommendation/Agreed Action 5.** This was:

2 of the sample tested had a fully completed 'lease renewal proforma' (of which one had not been dated). The other 3 of the sample had a completed 'rent review proforma' with a note below "...It is a lease renewal not a rent review." Although again 2 of these were found not to have been signed and dated by the preparer.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation/Agreed Actions</u>	<u>Grade</u>	<u>Agreed Timescale for Completion</u>
4	<u>See summary of findings note 15.</u> Property records did not always provide for a full audit trail of actions taken.	Property Services Manager	Staff should be reminded: <ul style="list-style-type: none"> • All file inserts should be signed and dated where there is no reference to an officer and time period to enable an audit trail of events; • There should be evidence on each individual property file of communication to relevant sections via internal memo and to ensure that all relevant sections are included; and • The content of all phone calls should be noted, including who the officer is speaking to. The note should also be signed and dated by the officer so there is an audit trail of events. 	C	End November 2011
5	<u>See summary of findings note 16.</u> Use of incorrect office proformas.	Property Services Manager	Staff should be reminded to ensure that the appropriate proforma is used i.e. a 'lease renewal' proforma for a lease renewal and a 'rent review' proforma for a rent review and that these are fully completed – signed and dated.	C	End November 2011

4. Void Properties and Monitoring of Lease Conditions

Method of Review:

Discuss with relevant staff regarding void properties and monitoring of lease conditions;
Establish whether there is an appropriate system in place to ensure properties are used in accordance with the lease agreement/agreed usage and are not being occupied when they are recorded as void;
There are appropriate policies/procedures in place for site visits to determine properties are used in accordance with the agreement/agreed usage and are not being occupied when they are recorded as being empty (void properties); and
Sample test void properties to ensure there is appropriate evidence of inspections having been undertaken and that they are sufficient to comply with the Council's insurance conditions.

Summary of Findings:

17) Void Properties

Discussion with the Technical Surveyor and a Consultant Surveyor revealed the following:

The Technical Surveyor identifies void properties on a day-to day basis and as soon as a property becomes vacant/occupied following vacancy the details are passed to the Facilities Section to comply with the Council's property insurance requirements;
Keys are provided to the Facilities Section from the Property Section which are securely stored and can be accessed by relevant staff;
The Facilities Section on a weekly basis carryout and record the visits to the empty properties that have been forwarded by the Technical Surveyor; and
The Facilities Section have a specific 'Empty Building Weekly Inspection Checklist' as evidence of the checks undertaken and their findings for each property;
In addition there is a cumulative sheet that details the void properties inspected and corresponding cells for each property for notes regarding occupation, plumbing, security and condition. There is space for further comments at the bottom of the sheet and the requirement to sign and date the form by the inspector. The records are filed as evidence and for future reference as evidence that inspections have been carried out and performed on a weekly basis; and
There are no specific procedures notes prepared by the Property Section regarding 'Void Properties checks for insurance purposes' although a simple but effective system was described.

A review of the Property Services 'Void Management' file maintained within the Section also revealed the following:

Inspection sheets are based upon the insurance requirements;

Per an e-mail on the file, properties have not have been inspected for a while. The e-mail on file was dated 14 October 2010 and the next file insert on file was dated 4 February 2011 suggesting weekly inspections had not been undertaken during this period (reviewed as part of audit testing below, see summary of findings note 18). Correspondence between Property Services and Facilities Management noted that the arrangements in place for the inspections has been impacted upon in terms of hand over arrangements between officers, officer sickness and staff leaving the employment of the Council. This raises the issue of cover arrangements to ensure insurance requirements are met. **See Recommendation/Agreed Action 6;**

There have been funding issues for the inspections to take place and budget codes to be used although these have subsequently been resolved; and Queries have been communicated to the Council's insurer, when appropriate. Responses from the Council's insurer based on the file evidence was acted upon.

18) Discussion with the Building Surveying Manager and the Trainee Building Surveyor (Facilities Management Section) revealed that they receive void property information or any changes to status, from the Technical Surveyor. Initial inspection is more comprehensive with the subsequent weekly reviews which are shorter to identify any changes. A standard checklist is used which is signed and dated before being filed. It was revealed during the discussion that the inspection records that are held by Facilities Management dated back to 15 October 2010, the rest had been passed to the Property Section and the Technical Surveyor. The Technical Surveyor stated that these would be contained within the 'Void Management' file.

19) A review of the 'Void Property Inspection for Insurance Purposes' sheets revealed:

That the cumulative sheets referred to by the Technical Surveyor are not being used by Facilities Management. The information requirements on the cumulative sheets include: property, occupied, plumbing, security, condition and comments. These are more aligned to insurance requirements. Instead Facilities Management use the sheet passed to them with void property details. The required details on this form seem to be more for Property Services administration and for providing information of void properties to Facilities Management. The information contained includes: property address, void date and a notes column. It has been seen that the Technical Surveyor uses the notes column to record relevant information e.g. if the properties is under offer, has now been let etc which is not specifically related to the insurance requirements. However, for Facilities Management to use this form, confusion has resulted as the void date has been manually scrubbed out and the inspection date inserted etc. **See Recommendation/Agreed Action 8.;** And The records do confirm that weekly inspections have not been carried out consistently.

20) Tenant Covenant Enforcement

Discussion with the Technical Surveyor and one of the Consultant Surveyors revealed the following:

There is no formal monitoring to ensure tenant covenant enforcement and it was said that there are insufficient staffing levels to formalise a separate process;

However

Tenants do and have informed Property Services for changes to premises that require prior approval. In some cases this may involve a 'deed of

variation’.

Informally when staff are on site (e.g. visiting properties for other reasons e.g. rent reviews and lease renewals) they do observe what is going on with regards to properties. If anything caught their attention it would be followed up to a satisfactory conclusion;

It is not expected that properties will be classed as ‘void’ without the Section already being aware. Usually where a property should be classed as ‘void’ there will be no income received by the Council which would alert relevant staff. If the property was to be occupied then this would be picked up as part of the inspection carried out for insurance purposes and raised with appropriate action taken; and

Where properties are coming to the end of a lease term, an inspection is undertaken by Property Services approximately a month before to ensure that everything is in order and to allow for any rectification by the tenant before the lease expires.

21) Properties (three properties in total) stated on the Void Property ‘Inspection for Insurance Purposes Schedule’ updated 3 May 2011 were used as a sample to test whether there was appropriate evidence of lease expiry/termination, premises inspections, meter readings and the return of keys. Testing identified no areas of concern.

22) During the testing of rent reviews and lease renewals, satisfactory evidence was seen to verify that lease conditions were reviewed and where necessary followed up to a satisfactory conclusion during the processes aforementioned.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation/Agreed Action</u>	<u>Grade</u>	<u>Agreed Timescale for Completion</u>
6	<p><u>See summary of findings note 17 & 19.</u></p> <ul style="list-style-type: none"> • Properties not inspected to comply with insurance policy requirements • The system should be reviewed to ensure that the actions taken and recorded address the insurance policy requirements 	Property Services Manager & Building Surveying Manager	To ensure appropriate systems are in place to ensure compliance with insurance requirements (including for example staffing resources for cover arrangements and sufficient evidence that the insurance requirements have been met).	B	End November 2011