

## **Item: 6.4**

**Monitoring and Audit Committee: 17 February 2022.**

**Internal Audit Report: Rent Arrears.**

**Report by Chief Internal Auditor.**

### **1. Purpose of Report**

To consider internal audit on procedures and controls relating to Rent Arrears.

### **2. Recommendations**

The Committee is invited to note:

#### **2.1.**

That Internal Audit has undertaken an audit of processes and controls relating to rent arrears.

#### **2.2.**

The findings contained in the internal audit report, attached as Appendix 1 to this report, relating to processes and controls relating to rent arrears.

**It is recommended:**

#### **2.3.**

That the Committee review the audit findings to obtain assurance that action has been taken or agreed where necessary.

### **3. Background**

#### **3.1.**

The management of rent arrears for Council owned properties is the responsibility of the Housing Management section. The Housing Management section is the first point of contact for anyone experiencing difficulties in paying their Council House rent.

#### **3.2.**

The section aims to deal with rent arrears to make the most of the income from rent to ensure that they provide good quality services to all their tenants; meet their financial commitments; and help tenants prevent their debts from increasing to unmanageable levels. The main focus was on changes brought in by the COVID-19 pandemic and how the Council responded to these in relation to rent arrears.

### **3.3.**

The objective of this audit was to confirm that there are policies and procedures in place for the management and collection of rent arrears which were adapted accordingly during the pandemic, that tenants are informed of the methods of payment available, and advice and support is given to anyone struggling to pay, particularly where circumstances were affected by the pandemic.

## **4. Audit Findings**

### **4.1.**

The audit provides adequate assurance that the processes and procedures relating to rent arrears are well controlled and managed.

### **4.2.**

The internal audit report, attached as Appendix 1 to this report, includes two medium priority recommendations within the action plan. There are no high-level recommendations made as a result of this audit.

### **4.3.**

The Committee is invited to review the audit findings to obtain assurance that action has been taken or agreed where necessary.

## **5. Corporate Governance**

This report relates to the Council complying with governance and scrutiny and therefore does not directly support and contribute to improved outcomes for communities as outlined in the Council Plan and the Local Outcomes Improvement Plan.

## **6. Financial Implications**

There are no financial implications associated directly with the recommendations in this report.

## **7. Legal Aspects**

Complying with recommendations made by the internal auditors helps the Council meet its statutory obligations to secure best value.

## **8. Contact Officers**

Andrew Paterson, Chief Internal Auditor, extension 2107, email [andrew.paterson@orkney.gov.uk](mailto:andrew.paterson@orkney.gov.uk).

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## **9. Appendix**

Appendix 1: Internal Audit Report: Rent Arrears.



## Internal Audit

### Audit report

### Rent Arrears

Draft issue date: 23 November 2021

Final issue date: 3 February 2022

<b>Distribution list:</b>	<b>Executive Director of Education, Leisure &amp; Housing</b> <b>Head of Community Learning, Leisure &amp; Housing</b> <b>Interim Head of Finance</b> <b>Revenues Manager</b> <b>Service Manager (Housing, Homelessness and Schoolcare Accommodation)</b> <b>Team Leader (Housing and Homelessness)</b>
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## Audit Opinion

Based on our findings in this review we have given the following audit opinion.

**Adequate**

**Some improvements are required to enhance the effectiveness of the framework of governance, risk management and control.**

A key to our audit opinions and level of recommendations is shown at the end of this report.

## Executive Summary

This audit reviewed the procedures and controls in place regarding rent arrears of Council tenants. The main focus was on changes brought in by the COVID-19 pandemic and how the Council responded to these in relation to rent arrears.

Our review provides adequate assurance that controls are in place and operating well but there are some improvements which would enhance the control environment.

Several areas of good practice were identified during the audit including:

- There are comprehensive policies and procedures which cover all aspects of rent arrears.
- Procedures were adapted during the pandemic in accordance with Scottish Government guidance.
- Tenants were kept informed of the changes which affected them, and contact was maintained throughout the pandemic.
- Regular monitoring of rent arrears is undertaken to identify where action is required.
- Arrears are clearly shown on a tenant's rent account as well as details of any repayment agreements made.
- Former tenant rent arrears are pursued through the debtor's system and follow the Council's debt recovery procedures.

The report includes recommendations which have arisen from the audit. The number and priority of the recommendations are set out in the table below. The priority headings assist management in assessing the significance of the issues raised.

Responsible officers will be required to update progress on the agreed actions via Pentana Risk.

Total	High	Medium	Low
2	0	2	0

The assistance provided by officers contacted during this audit is gratefully acknowledged.

## Introduction

The management of rent arrears for Council owned properties is the responsibility of the Housing Management section. They are the first point of contact for anyone experiencing difficulties in paying their Council House rent.

The section aims to deal with rent arrears to make the most of the income from rent to ensure that they provide good quality services to all their tenants; meet their financial commitments; and help tenants prevent their debts from increasing to unmanageable levels.

The COVID-19 pandemic has led to changes in the way that rent arrears can be pursued by the Council and the way that tenants can make payments.

This review was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing.

## Audit Scope

The scope of this audit was to confirm:

- That there are policies and procedures in place for the management and collection of rent arrears which were adapted accordingly during the pandemic.
- That tenants are informed of the methods of payment available, and advice and support is given to anyone struggling to pay, particularly where a tenant's financial circumstances were affected by the pandemic.
- That arrears are identified, monitored, and appropriate action taken to reduce the debts and to confirm this action is within the scope of the Scottish Government Covid guidance.
- That rent accounts are updated timeously to reflect payments made.
- That there is a procedure in place for writing off aged debt.

# Audit Findings

## 1.0 Changes brought by the COVID-19 Pandemic

- 1.1 In March 2020 when the COVID-19 pandemic hit, the Council Offices were required to close, and staff needed to work from home. This required time for staff to become IT enabled to do their jobs from home. The Housing Section sent a letter to its tenants to explain the changes which were being imposed and how this would affect them.
- 1.2 Procedures were adapted to limit contact with tenants wherever possible during the early stages of the pandemic. Welfare telephone calls were also made to all tenants to establish if they required any assistance with follow up calls made at the tenants' request. Referrals to other agencies were also offered to those struggling with their bills.
- 1.3 Customer Services were closed both in Kirkwall and Stromness for a significant period. Therefore, in general, payments could only be made online or by telephone during this time.
- 1.4 The monitoring of rent arrears continued except for notice of eviction proceedings which could not be issued for a period specified by the Scottish Government through the Coronavirus (Scotland) Act 2020, an emergency law brought in to protect renters in Scotland from eviction during coronavirus. These have now resumed, and some cases are with Legal Services for actioning. There were also regular monthly meetings of Senior staff in respect of Serious Rent Arrears (over £1.6k) throughout the pandemic.
- 1.5 The level of rent arrears increased during the pandemic which is not unexpected given the circumstances and uncertainties people were experiencing. The Housing Section could not undertake face to face contact with tenants in arrears during the early stages of the pandemic. Doorstep visits could be carried out in the latter part of 2020 and this was done where all other forms of communication had failed. In line with Scottish Government guidance, home visits have recently resumed and arrangements are being made to visit tenants where required.
- 1.6 Arrears have been closely monitored throughout the pandemic with Housing Officers being provided with a weekly report of arrears for their patch and weekly meetings held to discuss these and the action required. The Housing Section has issued more letters during the pandemic in place of home visits when these were not possible.

## 2.0 Arrears Monitoring

- 2.1 Performance reports show that the level of rent arrears due to the Council has increased over recent years and particularly during the pandemic. As a result, there is now an increased focus by the Council on improving these figures and reducing the amount of money owed by tenants by tightening up the procedures followed.
- 2.2 There are several factors which affect the level of rent arrears experienced by the Council including the introduction of Universal Credit which is paid to claimants directly rather than to the Council as was the case with the previous system. When a tenant in receipt of Universal Credit is in rent arrears of 8 weeks or more the Council can make a request to the Department for Work and Pensions to deduct an agreed amount which is then paid to the Council instead.

- 2.3 Voluntary arrangements will always be the first option pursued with a tenant in arrears. When arrears are identified there are a series of letters which will be used to pursue the debts as well as telephone calls and home visits to contact tenants at an early stage in the process.
- 2.4 Testing of a sample of rent accounts in arrears confirmed that action is taken to contact tenants in arrears and make payment arrangements to repay the arrears. It was identified that due to changes in procedures imposed by the pandemic the weekly arrears meetings held no longer include the rents section who are responsible for monitoring rent accounts and sending out arrears letters. This has led to the process being slightly disjointed and the possibility of a duplication of effort when contact is being made with tenants.
- 2.5 It is recommended that the process followed for recovery of rent arrears is reviewed to ensure a co-ordinated approach is taken where the roles of the Rents section and the Housing section are clearly set out to avoid any possible duplication of effort.

#### **Recommendation 1**

- 2.6 Through the review of the rents system for a sample of rent accounts it was confirmed that recovery action includes reminder notices and visits to tenants. The system does not have the capability currently to produce reminders automatically with these instead produced manually using the rent arrears reports. Once produced the details will be pasted onto the amalgamated notepad on a tenant's rent account by the Rents section. This also relies on the Housing Officers advising the Rents section of any correspondence they have sent, or visits made so that these details can also be recorded.
- 2.7 The procurement exercise currently being undertaken to enhance the system capabilities should be progressed to completion at the earliest opportunity to ensure the system is as automated and efficient as possible to aid the collection of rent arrears. This would include looking at the possibility of the automatic production of reports and arrears letters and a diary function to keep track of the stages of the rent arrears process.

#### **Recommendation 2**

## Action Plan

Recommendation	Priority	Management Comments	Responsible Officer	Agreed Completion Date
<p>1. It is recommended that the process followed for recovery of rent arrears is reviewed to ensure a joint approach is taken where the roles of the Rents section and the Housing section are clearly set out to avoid any possible duplication of effort.</p>	Medium	<p>Agreed. The management teams in both services will discuss this and put a new process in place setting out the responsibilities of the Finance and Housing services for rent arrears/recovery work</p>	Revenues and Benefits Manager	April 2022
<p>2. The procurement exercise currently being undertaken to enhance the system capabilities should be progressed to completion at the earliest opportunity to ensure the system is as automated and efficient as possible to aid with the collection of rent arrears.</p> <p>This would include looking at the possibility of the automatic production of reports and arrears letters and a diary function to keep track of the stages of the rent arrears process.</p>	Medium	<p>Agreed. The Council's software suppliers have been contracted to provide enhancements with an 18-month time frame for completion. Further work to be done internally to look at the automatic production of reports, letters and the diary function.</p>	Service Manager (Housing, Homelessness and Schoolcare Accommodation)	April 2023



## Key to Opinion and Priorities

### Audit Opinion

Opinion	Definition
<b>Substantial</b>	The framework of governance, risk management and control were found to be comprehensive and effective.
<b>Adequate</b>	Some improvements are required to enhance the effectiveness of the framework of governance, risk management and control.
<b>Limited</b>	There are significant weaknesses in the framework of governance, risk management and control such that it could be or become inadequate and ineffective.
<b>Unsatisfactory</b>	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.

### Recommendations

Priority	Definition	Action Required
<b>High</b>	Significant weakness in governance, risk management and control that if unresolved exposes the organisation to an unacceptable level of residual risk.	Remedial action must be taken urgently and within an agreed timescale.
<b>Medium</b>	Weakness in governance, risk management and control that if unresolved exposes the organisation to a high level of residual risk.	Remedial action should be taken at the earliest opportunity and within an agreed timescale.
<b>Low</b>	Scope for improvement in governance, risk management and control.	Remedial action should be prioritised and undertaken within an agreed timescale.