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# *Internal Audit Report 2016/2017*

## Homelessness 16/17/02

**Hastings Borough  
Council**

*Final*

*September 2017*

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**Distribution list**

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For action: Joe Powell (Housing Needs and Policy Manager)

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For information: Tom Davies (Head of Internal Audit)

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## Executive summary (1 of 3)

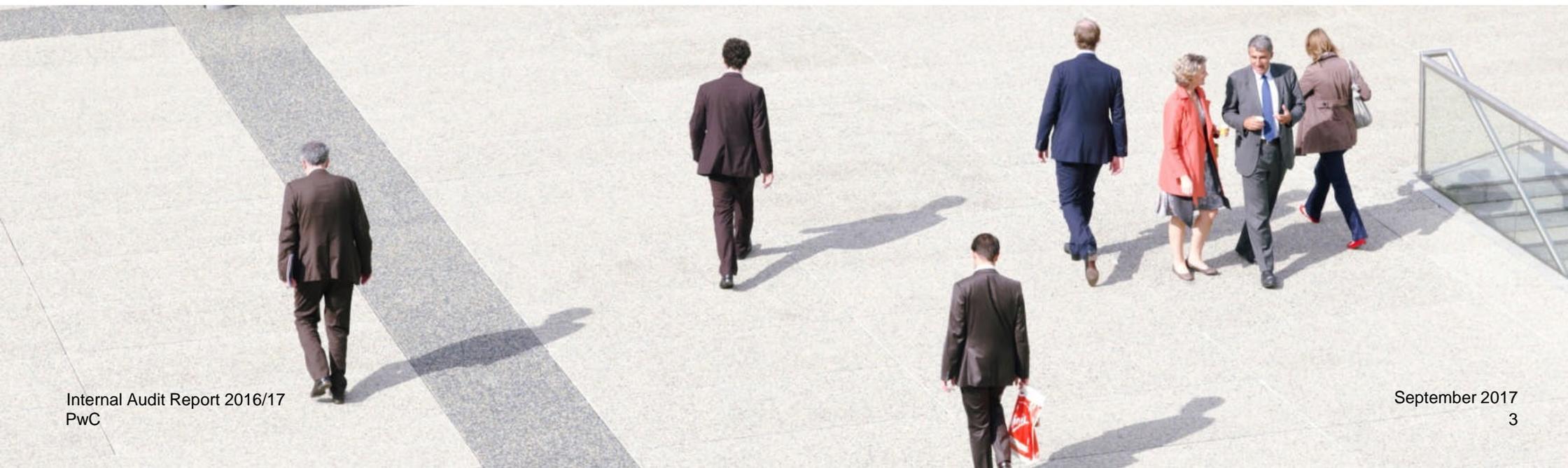
### Report classification



**Medium risk** (12 points)

### Total number of findings

	Critical	High	Medium	Low	Advisory
Control design	0	0	2	0	0
Operating effectiveness	0	0	2	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>4</b>	<b>0</b>	<b>0</b>



## Executive summary (2 of 3)



### Summary of findings

To comply with statutory legislation, primarily the Housing Act 1996, the Council has a number of mandatory duties in relation to the prevention of and response to homelessness. Our work sought to evaluate the homelessness procedures in place, whether they have been effectively applied and how the Council seeks to comply with legislation.

The Council has arrangements in place to achieve compliance with the statutory requirements to both prevent homelessness and to deal with statutory homelessness. However, we have identified areas that require management attention, particularly the effectiveness of management information, and the operation of key controls around issuing loans and providing emergency accommodation. The key controls in these areas need to be robust to ensure that the Council is compliant with its statutory requirements while providing a high quality and effective service. We have summarised our key findings below:

- There is currently inconsistent management information for monitoring performance requiring a high level of manual processing. This is partly due to the transition to a new IT system which is not currently being used to its full potential. As a result, some key information, such as the booking of emergency accommodation and issuing of loans to clients is processed on spreadsheets **(Medium risk)**.
- Deposit loans are provided to clients in certain circumstances to allow accommodation to be obtained. In a sample of 21, there was inadequate authorisation in three cases, incomplete loan agreements in ten cases and delayed recovery of deposit loans in seven cases **(Medium risk)**.
- Testing of the arrangement for emergency accommodation identified that in two cases out of 20, the Council could not verify whether accommodation was arranged, while in five cases it took over a month to be arranged **(Medium risk)**.
- While some policies and procedures have been documented, they are not comprehensive and up to date **(Medium risk)**.

Alongside the above, we identified areas where robust controls are in place. The Council has an effective budget monitoring process for homelessness as well as systems to review and react to changes in legislation. Our testing of six social letting arrangements, where the Council leases a property for three years allowing it to be used to help those at risk of homelessness, found that each had a lease agreement in place, eligibility assessments had been undertaken for the tenants and the financial information tied to the underlying records.

We would like to thank the Housing team for their support and assistance during this review.

## Executive summary (3 of 3)

**1** *Ineffective management information due to poor data quality – control design*

Medium

**2** *Inadequate sign-off and recovery of deposit loans – operating effectiveness*

Medium

**3** *Emergency accommodation has not been booked as required – operating effectiveness*

Medium

**4** *Policies and procedures are not comprehensive and up to date – control design*

Medium

### Summary of findings by areas of scope:

Area of scope	Number of findings				Finding reference
	Critical	High	Medium	Low	
Policies, procedures and compliance with statutory requirements			1		4
Roles, responsibilities and adequate separation of duties			1		2
Financial authorisation processes & Financial recording procedures			2		2 and 3
Management information			1		1
Budgetary controls			1		1
Loans and arrears collection			1		2
Compliance with the Housing Act 1996 Part VII (as amended) and evaluation of the impact of the Homelessness Reduction Bill 2016-17					

## *Background and scope*



### *Background*

The management of homelessness prevention and statutory homelessness is performed by two teams (Housing Options and Housing Solutions) within the Council who report to the Housing Needs and Policy Manager. The Housing Options team are the first point of contact for claimants when they present themselves as either being homeless or at threat of becoming homeless. The team will perform a detailed assessment to decide whether action by the Council is required, either through homelessness prevention or, when the claimant is homeless, arrangement of accommodation.

Where action is needed, the case is referred to the Housing Solutions team who will either arrange the required accommodation, in the case of statutory homelessness, or issue a loan for a deposit or rent in advance for homelessness prevention.

As part of the homelessness strategy, the Council have a social lettings arrangement (Letstart letting) in place. The arrangement allows the Council to lease a property for three years from the property owner who has applied to partake in this scheme. In this way the Council effectively becomes the landlord for that time period, with these properties being let out to people who are either homeless or face a threat of homelessness. There are currently 49 households, including three houses of multiple occupancy, under this arrangement.

The full scope of the review is contained within the Terms of Reference of the review as set out in appendix B.



## Current year findings (1 of 4)

**Ineffective management information due to poor data quality – control design**

**1**

**Rating**

**Medium**

### Finding and root cause

As part of the annual budgeting process, a budget is agreed for homelessness which is then regularly reviewed by the Housing Needs and Policy Manager and the Regeneration Accountant during the year. There is, however, limited evidence that significant variations from budget have been followed up and addressed within an action plan. Furthermore, there is limited granular reporting of financial and operational performance to management which allows them to monitor whether performance is in line with expectations.

Since July 2016 a new IT system (“Localpad”) has been used for the management of various aspects of the homelessness process. However, not all aspects of the process are managed on Localpad and there is remains a considerable level of manual input within some areas. In particular, for booking emergency accommodation and issuing loans to clients, the process is managed entirely manually. As a result of this issue, reliable data for the activity and performance of the team is not easily available for the management to monitor. Localpad is not currently used at its full potential as it is still in the roll out phase. Management are ensuring that each module functions correctly and staff are appropriately trained, prior to its launch. This is a reasonable approach and should continue in order to reduce the level of manual input/processing. Once the system is fully functioning with reliable data being accessible, greater consideration could also be given to monitoring performance through KPIs which could be extracted from the system.

### Implications

If the operational and financial performance of the Housing team is not being adequately monitored through robust reporting of management information, significant deviations in performance will not be identified which may result in non-compliance with the statutory requirements leading to adverse reputational and financial implications for the Council and potential legal challenge from citizens.

## Current year findings (1 of 4)

**Ineffective management information due to poor data quality – control design**

**1**

Rating

**Medium**

### Action plan

The Council will design procedures/update systems so that all possible processes within the relevant areas of homelessness operations can be directly managed on Localpad. This should include functionality to extract meaningful management information that is used to robustly report and manage the operational and financial performance against an agreed suite of KPIs (including those that demonstrate performance against statutory requirements).

*Responsible person/title:*

Joe Powell (Housing Needs and Policy Manager)

*Target date:*

31<sup>st</sup> December 2017

*Reference number:*

16/17/02-01

## Current year findings (2 of 4)

### Inadequate sign-off and recovery of deposit loans – operating effectiveness

2

Rating

Medium

#### Finding and root cause

As part of the homelessness prevention strategy, the Council can issue loans for the payment of deposits or rent in advance to eligible clients. The Council procedures require two members of management to sign-off the deposit slip prior to issuing a loan. We have reviewed a sample of 21 cases of loans issued to ensure that they had been adequately authorised prior to issue. In three cases there was only one manager sign-off. The total amount of loans issued in these cases was £2,820.

The Council procedures also requires the team to complete a loan agreement document for a repayment plan which has to be signed off by the team manager. We could not obtain agreements in 10 cases, with the total amount of loans issued in these cases being £12,310. The section have stated that repayment agreements were probably completed but the document given directly to the client without a copy being taken for Council records.

The collection of loans is outsourced to a third party, the Hastings & Rother Credit Union. The service is covered by an SLA. The debtor balance is passed over to the Credit Union who are responsible for the collection of the loan. The process in the event of non-payment is not clearly defined in the SLA stating:

- The CU will aim to achieve 100% recovery rate of loans on behalf of the Council. The CU will use best endeavours to achieve the highest possible collection rate.
- The CU will notify the Council if/when a Borrower has failed to adhere to the loan agreement and confirm action proposed.

However, we were informed by the Council that if repayment of the loan is not received as expected, the Credit Union sends a list of those who haven't paid to the Council. From this point a letter is sent to the client informing them that money is owed, which is also recorded on LocalPad. In our sample tested we noted seven cases of non-repayment of loans. These were only chased by the Council after the payment was due for at least three months, with two being due for over five months prior to action being taken. This delay increases the likelihood that monies will not be recovered and therefore responsibility for this process should be clarified and understood between the CU and the Council.

In all seven cases the loans were paid directly to the landlords and not to the tenants.

## Current year findings (2 of 4)

### Inadequate sign-off and recovery of deposit loans – operating effectiveness

# 2

Rating

Medium

#### Finding and root cause (continued)

While there is no one specific cause behind these issues, the lack of documented procedures, use of spreadsheets, limited monitoring and high staff turnover may all have contributed.

#### Implications

If the loans are not adequately authorised then the risk of inappropriate or fraudulent payments is increased.

If loans are not supported by a repayment plan or recovered on a timely basis then the risk of non repayment is increased leading to financial loss to the Council.

#### Action plan

Loan procedures, including obtaining the required levels of authorisation will be robustly managed and monitored to ensure compliance with agreed polices. This procedure will be documented.

*Responsible person/title:*

Joe Powell (Housing Needs and Policy Manager)

*Target date:*

31<sup>st</sup> December 2017

*Reference number:*

16/17/02-02

## Current year findings (3 of 4)

**Emergency accommodation has not been booked as required**  
– operating effectiveness

3

Rating

Medium

### Finding and root cause

At present there are 53 placements within emergency accommodation, which includes selected Bed and Breakfasts (“B&B”) and Hotels. Eligibility for the emergency accommodation of the applicants is determined by the Housing Options team. Relevant cases are referred to the Housing Solutions team who are then responsible for arranging the required accommodation. This team maintains a list of active B&B providers and current placements which is manually updated on a twice weekly basis.

We tested a sample of 20 cases requiring emergency accommodation and in two cases no supporting evidence was available to determine whether accommodation had been arranged or alternative action had been taken. The introduction of Localpad may help to address these types of issues, with a clearer indication of where required information is missing.

### Implications

If the emergency accommodation is not adequately arranged as per the required procedures then this may lead to non-compliance with the Housing Act which could result in legal challenges, adverse financial and reputational implications for the Council along with a potential increase in homelessness.

If records are not maintained of the outcome of emergency accommodation placements then the Council cannot evidence the process taken to support the client.

## Current year findings (3 of 4)

**Emergency accommodation has not been booked as required**  
– operating effectiveness

**3**

Rating

Medium

### Action plan

Procedures for booking emergency accommodation will be processed/updated on Localpad and robustly managed and monitored to ensure compliance with agreed policies. This will include monitoring the completeness of information in relation to the booking of emergency accommodation.

*Responsible person/title:*

Joe Powell (Housing Needs and Policy Manager)

*Target date:*

31<sup>st</sup> December 2017

*Reference number:*

16/17/02-03

## Current year findings (4 of 4)

**Policies and procedures are not comprehensive and up to date – control design**

**4**

**Rating**

**Medium**

### Finding and root cause

There are documented policies and procedures for some of the areas in scope for homelessness including procedures for recording and managing the personal contributions of the clients, eviction procedures and rent arrears procedures. These documents have not been updated to reflect current practice and lack effective version control. Good practice would suggest that all policies and procedures set out the version number, author, owner, date of drafting/approval and next review date.

Furthermore, the policies and procedures are not comprehensive and do not cover all of homelessness operations. This presents a business continuity risk, especially when there is a relatively high turnover of staff which has been historically the case within the Housing team.

### Implications

If policies and procedures are not complete and up to date then staff may not fully understand the processes and controls required when undertaking their responsibilities. Errors or gaps in controls may occur. Comprehensive and up to date policies and procedures enable the Council to demonstrate intent to comply with statutory duties.

### Action plan

Policies and procedures will be kept under review in light of the introduction of the new Homelessness Reduction Act in April 2018.

*Responsible person/title:*

Joe Powell (Housing Needs and Policy Manager)

*Target date:*

31<sup>st</sup> December 2017

*Reference number:*

16/17/02-03



**Appendix A: Basis of our  
classifications**

**Appendix B: Terms of  
reference**

**Appendix C: Limitations  
and responsibilities**

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# *Appendices*

## Appendix A: Basis of our classifications

### Individual finding ratings

#### Critical

A finding that could have a:

- **Critical** impact on operational performance; or
- **Critical** monetary or financial statement impact; or
- **Critical** breach in laws and regulations that could result in material fines or consequences; or
- **Critical** impact on the reputation or brand of the organisation which could threaten its future viability

#### High

A finding that could have a:

- **Significant** impact on operational performance; or
- **Significant** monetary or financial statement impact; or
- **Significant** breach in laws and regulations resulting in significant fines and consequences; or
- **Significant** impact on the reputation or brand of the organisation.

#### Medium

A finding that could have a:

- **Moderate** impact on operational performance; or
- **Moderate** monetary or financial statement impact; or
- **Moderate** breach in laws and regulations resulting in fines and consequences; or
- **Moderate** impact on the reputation or brand of the organisation.

## Appendix A: Basis of our classifications

### Individual finding ratings

Low

A finding that could have a:

- **Minor** impact on the organisation’s operational performance; or
- **Minor** monetary or financial statement impact; or
- **Minor** breach in laws and regulations with limited consequences; or
- **Minor** impact on the reputation of the organisation.

Advisory

A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

### Report classifications

The report classification is determined by allocating points to each of the findings included in the report.

Findings rating	Points	Report classification	Option A	Option B	Points
Critical	40 points per finding		Low risk	Satisfactory	6 points or less
High	10 points per finding		Medium risk	Satisfactory with exceptions	7 – 15 points
Medium	3 points per finding		High risk	Needs improvement	16 – 39 points
Low	1 point per finding		Critical risk	Unsatisfactory	40 points and over

## Appendix B: Terms of reference

The terms of reference was prepared by Tom Davies, Head of Internal Audit, and the scope of this review remains the Head of Internal Audit’s responsibility. We designed our testing procedures to address the scope which was provided to us by the Head of Internal Audit.

### Scope area

Policies, procedures and compliance with statutory requirements

Roles, responsibilities and adequate separation of duties

Financial authorisation processes & Financial recording procedures

Management information

### Test

1. Review key policies and procedures to confirm they have been reviewed on a regular basis and reflect current practice.

2. Evaluate the process the Council has in place to ensure compliance with statutory requirements. In particular who has responsibility to monitor and apply changes in applicable legislation.

1. Review job descriptions and hierarchy structure to confirm that roles are clearly defined.

2. Obtain understanding of key controls through the homelessness processes and ensure that they are designed such that no one person has the ability to process an entire transaction.

1. For a sample of cases within each homelessness finance stream test that the key controls identified above have been applied appropriately. The identified streams are:

- Deposit Loans
- Emergency B&B
- SLAs
- Paid travel for people placed in Maidstone
- Housing Benefit / Universal Credit
- Payment of client personal contribution costs

1. Obtain a list of management reports and ensure that these have been consistently produced during the year.

2. Select a sample of reports and ensure that they agree to the relevant database with minimal manipulation.

3. Verify that the reports have been discussed by management and identified issues have resulted in agreed actions that have been addressed.

## Appendix B: Terms of reference

### Scope area

Budgetary Controls

Loans and arrears collection

Compliance with the Housing Act 1996 Part VII (as amended) and evaluation of the impact of the Homelessness Reduction Bill 2016-17

### Test

1. Confirm that an agreed budget is in place and monitored during the year.
2. Verify that significant deviations from the budget have been discussed by management and identified issues have resulted in agreed actions that have been addressed.
  1. Document the loans and arrears collection process used by the Council.
  2. Evaluate the controls in place to ensure consistent collection and management of arrears.
  3. Test a sample of collections to ensure that they are in line with the agreed policy.
    1. Obtain an understanding via discussion with relevant personnel of the Council's approach to the Housing Act and Homelessness Reduction Bill.
    2. Evaluate whether the discussions held suggest that processes in place are sufficient to ensure

## *Appendix C: Limitations and responsibilities*

### *Limitations inherent to the internal auditor’s work*

We have undertaken this review subject to the limitations outlined below:

#### *Internal control*

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

#### *Future periods*

Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulation or other changes; or
- The degree of compliance with policies and procedures may deteriorate.

### *Responsibilities of management and internal auditors*

It is management’s responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management’s responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

This document has been prepared only for Hastings Borough Council and solely for the purpose and on the terms agreed with Hastings Borough Council in our agreement dated 20/03/2017. The work was performed in accordance with Hastings Borough Council's internal audit methodology and the findings reported to the Head of Internal Audit, who remains responsible for the final conclusions expressed and ratings assigned therein. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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