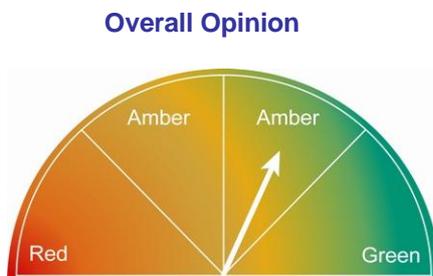


Slough Borough Council

Multiple Housing Occupation

Internal Audit Report (7.12/13)
30 August 2012



Recommendations Raised

| HIGH | MEDIUM | LOW |
|------|--------|-----|
| 0 | 3 | 1 |

Overview:

This audit was undertaken as part of the internal audit plan for quarter one of 2012/13.

We found that the controls in place were adequately designed with the exception that procedures and guidance had not been subject to a regular review and pricing lists for Houses of Multiple Occupancy (HMO) licences had not been subject to a recent review to ensure the Council are receiving the going rate.

The weakness in the application of the HMO framework related to inspections. Sample testing identified that two six monthly reviews had not been completed in a timely manner and evidence of the Housing Health and Safety Rating System were not sufficiently robust. If an incident was to occur where an inspection had not been appropriately completed the Council's reputation could be adversely affected.

CONTENTS

| Section | Page |
|------------------------------|------|
| Executive Summary | 1 |
| Action Plan | 3 |
| Findings and Recommendations | 5 |
| Additional Details | 10 |

| | | | |
|---------------------|----------------|----------------|--|
| Debrief meeting | 14 June 2012 | Auditors | Daniel Harris, Associate Director Chris Rising, Senior Manager Andrew Patterson, Assistant Manager Edward Snook, Auditor |
| Draft report issued | 5 July 2012 | | |
| Responses received | 30 August 2012 | | |
| Final report issued | 30 August 2012 | Client sponsor | Neil Aves, Assistant Director Housing Services |
| | | Distribution | Neil Aves, Assistant Director Housing Services Julie Evans, Strategic Director of Resources Emma Foy, Acting Head of Finance |



This review has been performed using RSM Tenon's bespoke internal audit methodology, **i-RIS**.

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

This report is prepared solely for the use of Board and senior management of Slough Borough Council. Details may be made available to specified external agencies, including external auditors, but otherwise the report should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

© 2010 - 2012 RSM Tenon Limited

RSM Tenon Limited is a member of RSM Tenon Group

RSM Tenon Limited is an independent member firm of RSM International an affiliation of independent accounting and consulting firms. RSM International is the name given to a network of independent accounting and consulting firms each of which practices in its own right. RSM International does not exist in any jurisdiction as a separate legal entity.

RSM Tenon Limited (No 4066924) is registered in England and Wales. Registered Office 66 Chiltern Street, London W1U 4GB. England

1 EXECUTIVE SUMMARY

1.1 INTRODUCTION

An audit of Multiple Housing Occupation was undertaken as part of the approved internal audit periodic plan for 2012/13.

Any property which is occupied by three or more persons who do not live together as a single family and who share amenities such as kitchen and bathroom facilities are mandatory properties to have a multiple housing occupancy licence.

The Houses of Multiple Occupancy (HMOs) are monitored by a team of four individuals within the Council's Housing Team, with additional support from the Business Support Team. The Housing Team provide licences to those applicants that fulfil the HMO specification and where the appropriate licence fee has been received.

HMOs are subject to an inspection programme, whereby a visit is conducted within six months of the licence being issued and HMOs can also be subject to an audit at any point in their lifespan.

HMOs are monitored through the use of a register that records key details on each HMO and the Council also has two performance indicators relating to HMOs:

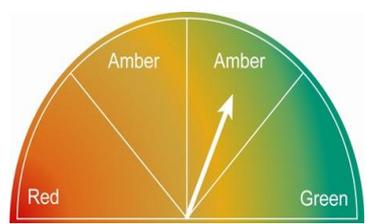
- Number of verifiable Houses in Multiple Occupation in your administrative area; and
- Estimated total number of HMOs in your area, including verifiable HMOs.

An Additional Licensing Report was completed in July 2011 and approved by the Cabinet, which identified properties in the Chalvey Community where more than three or more persons who did not form a single household that could come within the scope of additional licencing. Section 56 of the Housing Act 2004 enables Local Authorities to designate HMOs within an area of the district that are not licensable under the mandatory scheme to require a licence. In affect this enables the Council to have additional powers to address poorly managed HMOs that are having a detrimental effect on Slough.

The audit was designed to assess the controls in place to manage the following objective and risk:

| | |
|-----------|--|
| Objective | To provide assurance that the Council is offering good standards in Houses of Multiple Occupation (HMO). |
| Risk | The Council's reputation could be brought in to disrepute or the Council could be held liable if risks relating to HMO are not managed. For instance, health and safety matters or vulnerable people being inappropriately placed in HMOs. |

1.2 CONCLUSION



Taking account of the issues identified, the Council can take reasonable assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.

However we have identified issues that, if not addressed, increase the likelihood of the risk materialising.

The above conclusions feeding into the overall assurance level are based on the evidence obtained during the review. The key findings from this review are as follows:

Design of control framework

We found that the following controls were designed adequately:

- The Flare System has security in place to make sure a limited number of people are able to access the Licences. In addition to narrow the responsible people for the licencing a small number of staff have access to the password protected public register.
- All licences are authorised by an appropriate level of authority in the form of the Housing Standards Manager, sample testing confirmed that this was operating effectively.
- Licenses are only issued by the Housing Standards Manager, whilst the Licences Decision is signed off by two employees. In addition the Housing Standards Manager does not have access to the Public Licences Log and therefore the Council maintains adequate segregation of duty throughout this process. Sample testing verified that this process was being strictly followed.
- The Council has a publicly accessible HMO Licence Register, which provides details to the public on houses in each area where HMO's licences have been given.
- The Council has an appropriate Inspection programme in place, to ensure HMO properties are of a sufficient and safe standard for residents to live.
- The Flare system provides a user of a log, when they go onto the system, of areas where resolution is required. The system does not allow the user to simply delete the issue and requires a date to be added of when the work has been completed.
- The Council has two performance indicators in place, which compares the number of HMO's identified against an estimated number of HMO's in Slough.

In addition we found the following weaknesses in the design of the Multiple Housing Occupancy control framework:

- The Council has a Private Sector Housing Procedures, which identifies the process to be followed for identifying potential HMO's prior to the licencing of the HMO. However, this had not been subject to a regular review and did not include details of the level of authority that had approved the documented process.
- The Council has created a HMO Licencing pathways and timings Flowchart, and an accompanying process document, which provides clear concise information around the processing of a HMO licence. However, this also had not been subject to a regular review and did not include details of the level of authority that had approved the documented process.
- The amount charged by the Council, has been communicated to members of the public through the initial application pack, the amount charged has also been authorised by the Council. Sample testing during this review confirmed that applicants had been appropriately charged. However, the pricing had not been subject to a review since July 2010 and therefore the Council could potentially forgoing additional revenue if this rate is no longer appropriate.

Application of and compliance with control framework

We found that a number of controls identified above were not adequately complied with. We identified the following weaknesses which resulted in one high and one medium recommendation:

- Sample testing found that two six monthly inspections had not been completed in an appropriate timeframe. If an incident was to occur at a HMO which had not been subject to an inspection the Council's reputation could adversely be affected.
- Sample testing found that no evidence other than a record on the FLARE system had been retained to demonstrate Housing Health and Safety Rating System (HSSRS) inspections had been completed in the lifespan of a HMO licence. There is the potential risk that the FLARE System could be incorrectly updated and if an incident was to occur where in-fact an inspection had not been conducted then the Council's reputation could be adversely affected.

2 ACTION PLAN

The priority of the recommendations made is as follows:

| Priority | Description |
|------------|--|
| High | Recommendations are prioritised to reflect our assessment of risk associated with the control weaknesses. |
| Medium | |
| Low | |
| Suggestion | These are not formal recommendations that impact our overall opinion, but used to highlight a suggestion or idea that management may want to consider. |

| Ref | Recommendation | Categorisation | Accepted (Y/N) | Management Comment | Implementation Date | Manager Responsible |
|-----|---|----------------|----------------|--|-------------------------------|--|
| 1 | <p>The HMO procedures should be reviewed. The HMO Licensing pathways and timings Flowchart require a regular review.</p> <p>All procedures should be enhanced to include details of their approval and a next review date.</p> <p>The Housing Team may benefit from consolidating their documented processes within one document. For instance, by appending the flowchart to a formal procedure.</p> | Medium | Yes | Agreed, we will be bring this into line with the other procedures for housing which we have been updating recently. | End of September 2012 | Ray Haslam, Interim Housing Standards Manager. |
| 2 | The Council should, as a minimum bi-annually, review the prices being charged to members of the public for HMO licences, to confirm that the price is consistent with the market rate. | Low | Yes | <p>As per all fees across the council we can add the retail price index plus three percent.</p> <p>Proposal could be sent to Landlords of the price increase, to encourage them to licence</p> | Fully implemented April 2013. | Neil Aves, Assistant Director Housing and Environment. |

| Ref | Recommendation | Categorisation | Accepted (Y/N) | Management Comment | Implementation Date | Manager Responsible |
|-----|---|----------------|----------------|--|------------------------|--|
| | | | | their properties early. | | |
| 3a | At a minimum, the Housing Team should be reminded that they need to capture inspection due dates on the FLARE system in order for inspections due for completion to be identified in a timely manner. | Medium | Yes | Fairly straight forward, we can perform this in one of two ways: <ul style="list-style-type: none"> - Monthly report which identifies any due dates - Try and automate the system | End of September 2012. | Ray Haslam, Interim Housing Standards Manager |
| 3b | The Housing Team could also conduct sample testing of licence files to ensure all appropriate documentation has been retained and is accurate with the information captured on the FLARE system. | Suggestion | Yes | Implementation once procedure is complete. | End of December 2012 | Housing Standards Manager |
| 3c | Inspection paperwork should be held on HMO files that are signed by the inspector to verify that the six monthly review/HSSRS has been appropriately completed. | Medium | Yes | We would expect the team to keep a copy of all of their six monthly review notes Internal Audit Comment - Given this is a compliance issue, it should be possible to implement this immediately and not by the end of December 2012. | End of December 2012 | Housing Standards Manager |

3 FINDINGS AND RECOMMENDATIONS

This report has been prepared by exception. Therefore, we have included in this section, only those areas of weakness in control or examples of lapses in control identified from our testing and not the outcome of all audit testing undertaken.

| | Controls (actual and/or missing) | Adequate Design (yes/no) | Test Result / Implications | Recommendation | Categorisation |
|---|---|--------------------------|---|--|----------------|
| <p>Risk: The Councils reputation could be brought in to disrepute or the Council could be held liable if risks relating to HMO are not managed. For instance, health and safety matters or vulnerable people being inappropriately placed in HMOs.</p> | | | | | |
| 1 | <p>The Council has created Private Sector Housing Procedures.</p> <p>The Procedure includes guidance on:</p> <ul style="list-style-type: none"> ▪ Finding Licensable HMO's; ▪ Proving the Property is a Licensable HMO. ▪ Gathering evidence during inspections; ▪ Considering enforcement action; and ▪ Considering additional actions, e.g. Rent Repayment Orders. | No | <p>We obtained the Private Sector Housing Procedures dated July 2010 and noted that the procedures had not been authorised and the procedure did not include a future review date.</p> <p>The risk of neither of these being completed is that the procedures may become obsolete, alternatively the policy may not be followed if a member of staff due to it not being stated as approved, does not understand that the guidance is mandatory. These could lead to the Council not identifying a House of Multiple Occupancy and therefore forgo potential revenue.</p> <p>We observed the Housing Team's shared drive and confirmed that their procedure was accessible to employees.</p> <p>On review of the procedures we confirmed that they provided sufficient guidance on the documented procedures to be performed.</p> | <p>The HMO procedures should be reviewed.</p> <p>The HMO Licensing pathways and timings Flowchart require a regular review.</p> <p>All procedures should be enhanced to include details of their approval and a next review date.</p> <p>The Housing Team may benefit from consolidating their documented processes within one document. For instance, by appending the flowchart to a formal procedure.</p> | Medium |
| 2 | <p>The Council has established a pricelist for HMO licence applications that has been subject to cabinet approval.</p> | Yes | <p>We obtained a copy of the price list dated 2011, which was included within the Council's information pack which is provided to users.</p> <p>We confirmed that the pricelist had been approved</p> | <p>The Council should at a minimum biannually review the prices being charged to members of</p> | Low |

| | Controls (actual and/or missing) | Adequate Design (yes/no) | Test Result / Implications | Recommendation | Categorisation |
|---|---|--------------------------|---|--|----------------|
| | <p>The Housing department receive a cheque from the licensee with the application form. The cheque is sent via internal post to Landmark place. If the amount is to be paid in cash, the user is sent to Landmark place to pay the licence fee.</p> <p>Once the money has been received by the Cashier at Landmark place, the misc. cash machine receipting form is sent back in confirmation that the money has been received.</p> <p>Once the fee has been receipted a member of the Resources, Housing and Regeneration team adds the fact the fee has been received to either the Mandatory or Additional fees log in the HMO list.</p> | | <p>by the Cabinet on the 12th July 2010. We verified that the price list provided to the public in the information pack corresponds to the information agreed in the Cabinet minutes. However, given this pricing is approaching two years since its last review and the Housing Team provided no assurance that this was to be reviewed in the near future there is a potential risk that the prices may not reflect a comparable rate against other Councils and therefore the organisation could be forgoing additional revenue. We obtained some comparative data on licence cost from 9 other Councils and the licence fee varied from £209 to £820 with rates charged by Slough (£550) around the mid-point of that charged.</p> <p>From our previous sample of ten HMO applications we obtained copies of each of the cash machine receipting forms.</p> <p>We compared these against the information held within the Mandatory licencing log and confirmed that each of the sampled licence fees had been recorded and priced accurately against the price lists.</p> | <p>the public for HMO licences, to confirm that the price is consistent with the going rate.</p> | |
| 3 | <p>The Council has an inspection programme for HMOs; Inspections are carried out in two forms.</p> <p>In the first six months of a new HMO licence a HMO visit is completed, if an issue had been identified in the initial application inspection of the property.</p> | Yes | <p>We observed that the FLARE system did record the timeframe in which inspections were due to be carried out and enabled employees to create reminders to inform them of an impending inspection that was due to be completed.</p> <p>For a sample of ten HMOs selected from the licence register, we reviewed whether the six monthly reviews had been completed and found that six properties did not require an inspection. This was</p> | <p>At a minimum, the Housing Team should be reminded that they need to capture inspection due dates on the FLARE system in order for inspections due for completion to be identified in a timely</p> | Medium |

| | Controls (actual and/or missing) | Adequate Design (yes/no) | Test Result / Implications | Recommendation | Categorisation |
|--|----------------------------------|--------------------------|--|----------------|----------------|
| | | | <p>confirmed within Flare to have had a six monthly review (007717, 007682).</p> <p>We noted that there was no other documented evidence to verify the completion of the inspection within the licensee’s files. The risk of only recording this information on Flare is that properties could be incorrectly recorded as having an inspection.</p> <p>This could potentially result in the Council’s reputation being adversely affected if an issue was to arise at a property which should have been subject to an inspection.</p> <p>We selected a sample of five HMOs sampled that were near to the expiry date of their licence to determine whether a HHSRS inspection had been completed. We found that all sampled HMOs had been subject to a HHSRS.</p> <p>However, it was noted that the inspection form did not allow room for an employee to sign once the inspection had been completed, The risk of an inspector not signing the HHSRS inspection document, is that it could be difficult to identify who completed the inspection if a problem was later identified and potentially an inspection document could be illegitimately issued.</p> | | |

| | Controls (actual and/or missing) | Adequate Design (yes/no) | Test Result / Implications | Recommendation | Categorisation |
|---|--|--------------------------|--|------------------------|----------------|
| | <p>The following controls relate to areas in which risks have been identified. However, recommendations have been incorporated in the paragraphs above.</p> | | | | |
| 4 | <p>The Council has created a HMO Licensing pathways and timings Flowchart; this identifies the process in place from the Enquiry received to the Serving of the licence documents.</p> <p>The Council also has additional guidance in the form of the Licensing Process document.</p> <p>The Licensing Process explains how employees are to:</p> <ul style="list-style-type: none"> ▪ Receipt applications; ▪ Conduct licence checks; ▪ Draft a licence; and ▪ Produce the final licence. | Yes | <p>We obtained the HMO Licencing pathways and timings Flowchart dated July 2006 and the documented Licensing Process dated February 2009.</p> <p>If these processes are not subject to a regular review, employees could potentially be providing licences inappropriately if the guidance had become obsolete. We noted that neither the Flowchart nor Licensing Process stated whether it had been approved or provided with a future review date. The risk of guidance material not being authorised is that it could be considered by an employee as a guide rather than a document that should be followed. Non-compliance with the correct process could result in the Council forgoing potential licence income.</p> <p>An observation of the Housing Team’s shared drive confirmed that the flowchart and the licensing process were accessible to the relevant employees.</p> <p>On review of the guidance documentation and through sample testing conducted in this review we confirmed that there were no significant gaps in the guidance provided to employees.</p> <p>We have made a recommendation in paragraph one for the Council to review its procedures and processes and have suggested that the documents are consolidated within one source.</p> | See one recommendation | |

4 ADDITIONAL DETAILS

4.1 ACKNOWLEDGEMENTS

We would like to thank the following members of staff for their time and assistance during the review.

Josephine Abranches, Senior Housing Standards Officer

Geraldine Levy-Hayes, Senior Standards Officer

Keith Ford, Housing Standards Manager

4.2 SCOPE OF THE REVIEW

To evaluate the adequacy of risk management and control within the system and the extent to which controls have been applied, with a view to providing an opinion. Control activities are put in place to ensure that risks to the achievement of the organisation's objectives are managed effectively. When planning the audit, the following controls for review and limitations were agreed:

Control activities relied upon:

- HMO Register;
- Private Sector Housing Procedures;
- HMO Licencing pathways and timings Flowchart;
- Licencing process document;
- Price list; and
- Cabinets pricing approval.

Limitations to the scope of the audit:

- We have not provided an opinion as to whether HMO licenses have been issued appropriately.
- The scope of the work has been limited to those areas examined and reported upon in the areas for consideration in the context of the objectives set out in for this review.
- It should not, therefore, be considered as a comprehensive review of all aspects of non-compliance that may exist now or in the future.
- Any testing undertaken as part of this audit has been compliance based and sample tested. In addition, our work has not provided any guarantee against material errors, loss or fraud or provide an absolute assurance that material error, loss or fraud does not exist.

The approach taken for this audit was a Risk-Based Audit.

4.3 RECOMMENDATIONS SUMMARY

The following tables highlight the number and categories of recommendations made. The Action Plan at Section 2 details the specific recommendations made as well as agreed management actions to implement them.

Recommendations made during this audit:

Our recommendations address the design and application of the control framework as follows:

| | Priority | | |
|----------------------------------|----------|----------|----------|
| | High | Medium | Low |
| Design of control framework | 0 | 1 | 1 |
| Application of control framework | 0 | 2 | 0 |
| Total | 0 | 3 | 1 |

4.4 ADDITIONAL FEEDBACK

We have made two suggestions where we have identified good practice that Slough Borough Council may wish to consider:

| Suggestions Made During the Audit |
|--|
| The Housing Team may benefit from consolidating their documented processes within one document. For instance, by appending the flowchart to a formal procedure. |
| The Housing Team could also conduct sample testing of licence files to ensure all appropriate documentation has been retained and is accurate with the information captured on the FLARE system. |