

Final Internal Audit Report

Croylease (Landlord Letting Schemes)

November 2018

Distribution: Director of Housing Assessment & Solutions
Head of Housing Solutions
Housing Initiatives Officer
Project Officer
Head of Housing Renewal
Business Analyst (Gateway)
Operations Manager

| Assurance Level | Recommendations Made | |
|-------------------|----------------------|---|
| Limited Assurance | Priority 1 | 2 |
| | Priority 2 | 5 |
| | Priority 3 | 1 |

Confidentiality and Disclosure Clause

This report ("Report") was prepared by Mazars LLP at the request of London Borough of Croydon and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

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Please refer to the Statement of Responsibility in Appendix 3 of this report for further information about responsibilities, limitations and confidentiality.

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Appendices

1. Terms Of Reference
2. Definitions For Audit Opinions And Recommendations
3. Statement Of Responsibility

1. Introduction

- 1.1 The Croylease scheme is a Croydon Council run leasing scheme which gives landlords the opportunity to lease their properties to the Council for a 5-year period. The scheme is open to landlords wishing to lease 2, 3 or 4 bedroom houses within the borough of Croydon. Flats, maisonettes or smaller properties are not eligible for this scheme. There are currently 148 properties on the Croylease scheme with rental income of £165,152.09 at the time of the audit.
- 1.2 As well as providing a guaranteed income to landlords for the duration of the lease, the Council provides a full management service.
- 1.3 In addition to the Croylease scheme, the Council operates four other landlord letting schemes, as follows:
- Croybond Scheme;
 - Guaranteed Rent Scheme;
 - Private Sector Leasing Scheme; and
 - Housing Association Leasing Scheme.
- 1.4 This audit was undertaken as part of the 2018/19 audit plan.

2. Key Issues

Priority 1 Issues

Current lease agreements were not in place for 5 of the 10 Croylease properties sampled, **(Issue 4)**.

Sample testing of 10 Croylease properties was unable in some cases to evidence the required gas safety or electrical inspections or fire safety certificates, **(Issue 5)**.

Priority 2 Issues

Policies and procedures for the Croylease scheme were not in place, **(Issue 1)**.

There was a lack of evidence that privacy information in line with the Data Protection Act 2018 was being provided to landlords applying to the Croylease scheme, **(Issue 2)**.

Sample testing of 10 Croylease landlords found that in two instances, landlords had not been verified as the legal owners of the properties, **(Issue 3)**.

The costing analysis of the various landlord letting schemes may not have been based on accurate information and may not have included all relevant costs, **(Issue 6)**.

Key performance indicators were not in place for landlord letting schemes, **(Issue 7)**.

The priority 3 issue is included under item 4 below.

3. Actions and Key Findings/Rationale

| Control Area 1: Regulatory, Management and Organisational Requirements | |
|---|--|
| Priority | Action Proposed by Management |
| 2 | <p>There is a flowchart available which outlines the process. A review will be undertaken of current policy and procedure documents and ensure that a comprehensive set of policy and procedures are in place and all staff are made aware of these as well as briefed.</p> <p>We will enhance this by writing supporting text.</p> <p>Staff will be asked to sign confirmation that they have seen and adopted the updated procedures.</p> |
| | <p>Detailed Finding/Rationale – Issue 1</p> <p>In order to help ensure that staff understand and undertake tasks as expected and comply with legislation, appropriate procedure notes and guidance documents should be in place.</p> <p>Discussion with the Housing Initiatives Manager established that a workflow document for managing the Croylease contract was in place. Procedure notes for income collection were also confirmed to be in place. However, procedure notes relating to the Croylease Scheme, Guaranteed Rent Scheme (GRS) and the Private Sector Leasing Scheme (PSL) were not available.</p> <p>Where procedure notes are not available or up-to-date, there is a risk that staff will not comply with the requirements expected of them by the Council or legislation.</p> |
| Responsible officer | Deadline |
| Operations Manager | 31.1.19 |

Control Area 2: Receipt and Verification of Applications

| Control Area 2: Receipt and Verification of Applications | | Detailed Finding/Rationale – Issue 2 | | | | |
|---|--|--|-----------------|-----------------|----------|--|
| Priority | Action Proposed by Management | | | | | |
| 2 | <ul style="list-style-type: none"> Review current documentation for Croylease and ensure that appropriate privacy statements are incorporated into all relevant documentation. Ensure all staff have completed the online GDPR E learning and understand this. Put in place a quality checking mechanism whereby a quality check of 10% of all new acquisitions is undertaken on a quarterly basis to check compliance. Ensure all staff are familiar with the new requirements and confirm awareness of the need to comply with GDPR. | <p>With regard to the Data Protection Act (DPA) 2018 and the General Data Protection Regulations (GDPR), The Information Commissioner's Office (ICO) website explains that:</p> <ul style="list-style-type: none"> Individuals have the right to be informed about the collection and use of their personal data. This is a key transparency requirement under the GDPR. You must provide individuals with information including: your purposes for processing their personal data, your retention periods for that personal data, and who it will be shared with. We call this 'privacy information'. You must provide privacy information to individuals at the time you collect their personal data from them. <p>Application forms for Croylease are available on the Council website and include a brief introduction of what the scheme entails, the typical length of the letting, landlord details, property details, ownership of the property, and details of the maintenance liability. However, examination of the application form found that this was not compliant with the Data Protection Act 2018. For example, there is no privacy notice on the application form consenting to the processing of personal information.</p> <p>Discussion with the Housing Initiatives Manager established that the application form was no longer used with landlords, instead the team would liaise with the landlord via email or phone. However, for these instances, as personal data was still being collected, it was not clear how the Council was providing privacy information to these individuals.</p> <p>Examination of the documentation for a sample of properties on the Croylease Scheme found that in four cases evidence of landlord applications could not be located (either via application forms or via email/telephone evidence).</p> <p>Where the Council is unable to demonstrate that privacy information has been provided to individuals supplying their personal details to the Council, there is a risk that the Council is unable to demonstrate compliance with the Data Protection Act 2018.</p> | | | | |
| | <table border="1"> <thead> <tr> <th>Responsible officer</th> <th>Deadline</th> </tr> </thead> <tbody> <tr> <td>Project Officer</td> <td>31.12.18</td> </tr> </tbody> </table> | Responsible officer | Deadline | Project Officer | 31.12.18 | |
| Responsible officer | Deadline | | | | | |
| Project Officer | 31.12.18 | | | | | |

Control Area 2: Receipt and Verification of Applications

| Control Area 2: Receipt and Verification of Applications | | Detailed Finding/Rationale – Issue 3 |
|---|--|---|
| Priority | Action Proposed by Management | |
| 2 | <p>Ensure all applications have a land registry check undertaken by asking prospective landlords/owners to provide proof of ownership before a lease is signed. This will involve the current conditions /requirements being varied.</p> <p>We are also holding further discussions with legal services to explore other mechanisms of compliance.</p> | <p>Prior to approving Croylease applications, checks are required to be undertaken to confirm that the landlord is the legal owner of the property. These are undertaken through land registry checks, which provides evidence that the landlords are eligible to let their property under the scheme.</p> <p>Examination of the documentation held for a sample of 10 Croylease properties identified that in one case a land registry check could not be evidenced as having been completed.</p> <p>It could not therefore be verified that the Council had gained adequate assurance that this landlord was eligible for the Croylease letting scheme. It is acknowledged that a registry check has been subsequently conducted on 17 September 2018.</p> <p>Where land registry checks are not undertaken on landlords prior to entering into contracts with the Council, there is a risk that properties are being unlawfully sublet by tenants. This may result in reputational damage to the Council where they are not acting in compliance with the Landlord and Tenant Act.</p> |
| Responsible officer | Deadline | |
| Project Officer | 30.11.18 | |

| Control Area 3: Lease Agreements | | Detailed Finding/Rationale – Issue 4 |
|---|---|--|
| Priority | Action Proposed by Management | |
| 1 | <p>Carry out a review of all Croylease properties to ensure all have signed lease agreements are in place and any missing documents are updated over 2 month period .</p> <p>Write to all current providers to advise of the need to ensure signed leases are in place.</p> | <p>Once an application for Croylease has been processed and the appropriate checks have been undertaken on the landlord, a lease agreement is required to be agreed with the landlord, which set out the responsibilities of both parties involved, including insurance, repairs and maintenance costs. The Croylease scheme offers long term lettings (up to five year periods).</p> <p>Examination of the documents relating to a sample of 10 properties under the Croylease scheme (which were still part of the scheme in May 2018) found that in five cases, the lease agreements were not current and no evidence of these being renewed was available.</p> <p>Furthermore, one lease agreement was not signed by the landlord.</p> <p>Discussion established that these had been chased with the legal contractor.</p> <p>Where current and appropriately signed lease agreements are not in place, there is a risk that the terms of the lease are not enforceable.</p> |
| Responsible officer | Deadline | |
| Project Officer | 30.11.18 | |

| Control Area 4: Rental Condition Survey | |
|--|--|
| Priority | Action Proposed by Management |
| 1 | <p>Commence an urgent review of all Croylease files to ensure any missing HRSRS inspection sheets are on file.</p> <p>Gas safety certificates are the Council's responsibilities and undertaken by the Council's repairs and maintenance service. Action will be taken to ensure gas safety checks are undertaken in a timely fashion.</p> <p>Gas and electric certificates now provided for the case identified.</p> <p>A systems check taking place to update all units.</p> |
| | <p>Detailed Finding/Rationale – Issue 5</p> <p>Inspections are required to be undertaken for the Croylease Scheme properties to ensure that the properties are up to the required standards (i.e. the Decent Homes requirement) and comply with relevant health and safety legislation.</p> <p>A sample of 10 properties under the Croylease scheme, as of May 2018, was examined and the following identified:</p> <ul style="list-style-type: none"> In one case where a Decent Homes inspection had been undertaken, it could not be verified that a hazard inspection had been undertaken in line with the Housing Health and Safety Rating System (HRSRS). The Decent Homes Inspection assessment indicated that there was one hazard and action required to be taken by the landlord prior to the Croylease contract being entered into. Audit requested evidence that the corrective action had been undertaken prior to the leasing agreement date; however, this was not provided; In one case, there was no evidence provided that a gas safety check had been undertaken annually; In three cases, although an electrical certificate of inspection could be evidenced, these were dated either 2008 or 2009 and were thus out of date; and In all 10 cases, a fire safety certificate could not be evidenced. <p>Where inspections are not undertaken on properties, there is a risk that the properties are unsafe and that tenants' wellbeing may be compromised.</p> |
| Responsible officer | Deadline |
| Project Officer | 31.1.19 |

| Control Area 7 : Management Reporting | |
|--|---|
| Priority | Action Proposed by Management |
| 2 | <p>The range of landlord schemes and associated costs are part of an ongoing review with a view to minimising the financial loss to the Council.</p> <p>Over the next 6 months a comprehensive review of the costs of each scheme will be undertaken to ensure value for money as well as reduction in costs /liabilities to the council are minimised.</p> <p>Supplier meetings are commencing in late September 2018 to help facilitate this process which will be a holistic approach.</p> |
| | <p>Detailed Finding/Rationale – Issue 6</p> <p>A costing analysis has been undertaken of all the landlord letting schemes used by the Council to establish which schemes offer the best value for money for the Council. The analysis compares the following schemes:</p> <ul style="list-style-type: none"> • Croylease; • Croybond Scheme; • Guaranteed Rent Scheme; • Private Sector Leasing Scheme; • Housing Association Leasing Scheme; and • Emergency Accommodation. <p>From examination of the costing analysis, it would appear that Croylease is the most beneficial in terms of being the most economical, however:</p> <ul style="list-style-type: none"> • An e-mail by the Housing Initiative Manager, dated 1 March 2018, highlighted a number of miscodings and thus the information used in the cost analysis may not have been accurate. • Croylease expenditure includes other costs, such as repairs and handback costs, which the other schemes would not incur. It does not appear that these additional costs have been properly considered as the costing analysis only appears to consider payments to landlords, (and not repair costs, or future payments due). <p>Where the data used in the costing analysis is not accurate and does not consider all applicable costs, there is a risk that it is incorrect and that inappropriate decisions are made in response to the information provided.</p> |
| Responsible officer | Deadline |
| Operations Manager | 31.03.19 |

| Control Area 7 : Management Reporting | | Detailed Finding/Rationale – Issue 7 |
|--|--|---|
| Priority | Action Proposed by Management | |
| 2 | Work is already underway to put in place KPI'S for Croylease and other landlord schemes. This will involve benchmarking with other local authorities, meetings with suppliers with a view to putting in place KPI's for all landlord schemes by the end of the calendar year 2018. | In order to help monitor performance, appropriate key performance indicators (KPI's) should be in place. The consultation document 'A new deal for social housing' issued by the Ministry of Housing, Communities & Local Government in August 2018 emphasises this. Discussion with the Housing Initiatives Manager indicated that there were no KPIs in place for the Croylease scheme or any of the other landlord letting schemes. Where KPIs are not in place and periodically monitored, there is a risk that poor performance will not be identified in a timely manner. |
| Responsible officer | | Deadline |
| Operations Manager | | 31.12.18 |

4. Priority 3 Issue

| Action Proposed by Management | Finding |
|---|---|
| <p>1) Clients in rent arrears are regularly reminded to clear arrears. Where arrears are brought to the attention of Croylease team an officer contacts the client. The rent collection and arrears management is based in the income team where there are robust procedures in place to recover arrears.</p> <p>This report has highlighted the need for closer working between the Croylease Team and the income collection team.</p> <p>The operations manager will organise monthly meetings between the two teams to discuss and resolve arrears issues and ensure procedures in place are being enforced.</p> <p>The cases referred to in the report are already subject to recovery action and being followed up by income and Croylease teams</p> <p>The income team will forward procedures and respond further.</p> | <p>The leasing agreement indicates the rental costs for the tenant are in line with the Local Housing Allowance (LHA). Rent is collected on a weekly basis from the tenant. Where there are any arrears in excess of £1,000, procedures are taken to recover the debt and or a plan is put in place for the tenant to meet the weekly payments.</p> <p>Testing of a sample of 10 properties, which are part of the Croylease Scheme, identified two cases where rental arrears were in excess of £1,000 (£2,322.73 and £2,823.63 respectively).</p> <p>The Croylease team was unable to evidence that the arrears in question had been appropriately followed up on and discussion with the Housing Initiative Manager established that there is currently no arrears policy in place for recovering debts from tenants.</p> <p>The income collection team have subsequently provided assurance that the above debts were being followed up and provided a copy of the 'Rent Arrears process for Temporary Accommodation'.</p> <p>Where the Croylease and income collection teams are not liaising on debt recovery actions for the Croylease scheme properties, there is a risk that rental income may not be recovered.</p> |

TERMS OF REFERENCE

Croylease (Landlord Letting Schemes)

1. INTRODUCTION AND BACKGROUND

- 1.1 The Croylease scheme is a council-run leasing scheme which gives landlords the opportunity to lease their properties to the council for a 5-year period. The scheme is open to landlords wishing to lease 2, 3 or 4 bedroom houses within the borough of Croydon. Flats, maisonettes or smaller proprieties are not eligible for this scheme.
- 1.2 As well as providing a guaranteed income to landlords for the duration of the lease, the council provides a full management service.
- 1.3 In addition to the Croylease scheme, the Council operates four other landlord letting schemes, as follows:
 - Croybond Scheme;
 - Guaranteed Rent Scheme;
 - Private Sector Leasing Scheme; and
 - Housing Association Leasing Scheme.
- 1.4 This audit is being undertaken as part of the agreed Internal Audit Plan for 2018/19.

2. OBJECTIVES AND METHODOLOGY

- 2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of the control environment relating to Croylease and the other landlord letting schemes.
- 2.2 In order to achieve the overall objectives, a risk based systems audit approach will be carried out, documenting and evaluating the actual controls against those expected and based on this, undertaking appropriate testing conducted.
- 2.3 The key findings, conclusions, and subsequent issues arising will be presented at an exit meeting and followed by the circulation of a draft report for consideration by management. This prior to agreement and issue of the final audit report.

3. SCOPE

- 3.1 The audit will include the following specific areas:
 - Legislative, Organisational and Management Requirements;
 - Receipt and Verification of Applications;
 - Lease Agreements;
 - Property Condition Surveys;
 - Rent Collection and Payment;
 - Repairs and Maintenance; and

- Management reporting.





3.2 The Audit included the following areas:

| Control Areas/Risks | Issues Identified | | |
|--|----------------------|------------------------|---------------------|
| | Priority 1 (High) | Priority 2 (Medium) | Priority 3 (Low) |
| Regulatory, Organisational and Management requirements | 0 | 1 | 0 |
| Receipt and Verifications of Applications | 0 | 2 | 0 |
| Lease Agreements | 1 | 0 | 0 |
| Rental Condition Survey | 1 | 0 | 0 |
| Rent Collection and Payment | 0 | 0 | 1 |
| Contract Monitoring and Inspections | 0 | 0 | 0 |
| Repairs and Maintenance | 0 | 0 | 0 |
| Management Reporting | 0 | 2 | 0 |
| Total | 2 | 5 | 1 |

DEFINITIONS FOR AUDIT OPINIONS AND RECOMMENDATIONS

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

| | | |
|---|-----------------------|---|
|  | Full Assurance | There is a sound system of control designed to achieve the system objectives and the controls are consistently applied. |
|  | Substantial Assurance | While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance which may put this achievement at risk. |
|  | Limited Assurance | There are significant weaknesses in key areas of system controls and/or non-compliance that puts achieving the system objectives at risk. |
|  | No Assurance | Controls are non-existent or weak and/or there are high levels of non-compliance, leaving the system open to the high risk of error or abuse which could result in financial loss and/or reputational damage. |

Priorities assigned to recommendations are based on the following criteria:

| | |
|--------------------------------|---|
| Priority 1 (High) | Fundamental control weaknesses that require the immediate attention of management to mitigate significant exposure to risk. |
| Priority 2 (Medium) | Control weakness that represent an exposure to risk and require timely action. |
| Priority 3 (Low) | Although control weaknesses are considered to be relatively minor and low risk, action to address still provides an opportunity for improvement. May also apply to areas considered to be of best practice. |

STATEMENT OF RESPONSIBILITY

We take responsibility to the London Borough of Croydon for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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