ARGYLL & BUTE COUNCIL

Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	COMMUNITY SERVICES
AUDIT DESCRIPTION	RISK BASED AUDIT
AUDIT TITLE	STRATEGIC HOUSING FUND
AUDIT DATE	JULY 2017

2017/2018

Argyll
Bute
COUNCIL

1. BACKGROUND

This report has been prepared as part of 2017/18 risk based Internal Audit Annual Plan and has been conducted in accordance with relevant auditing standards. The report is based on discussions with key personnel and information available at the time of the Audit.

In November 2006 Argyll and Bute's Council housing stock was transferred to Argyll Community Housing Association (ACHA).

The Strategic Housing Fund (SHF) was then established in 2007 and is the Councils primary source of funding to deliver the priorities set out within the Strategic Housing Investment Plan (SHIP).

The SHIP is the Councils framework for the prioritisation of housing projects The SHIP has been developed in consultation with key stakeholders and it is the Councils primary document for identifying strategic housing projects in Argyll and Bute to assist with the achievement of the Scottish Government's national target for 50,000 affordable new build homes over the period from 2017/18 to 2021/22. The SHIP:

- Sets out investment priorities for affordable housing;
- Identifies the resources required to deliver these priorities;
- Demonstrates how these will be delivered; and
- Enables the involvement of key partners.

There are 3 primary funding sources for the affordable housing programme namely:

- Scottish Government Grant;
- Council grant namely the Strategic Housing Fund (SHF); and
- Registered Social Landlord (RSL) Private Finance

Since the 2007 approximately £17m has been allocated from the SHF to priority housing projects. As at 31st March 2017 a further 3.6m had been committed to projects already underway.

The audit will focus on the controls in place in regard to awarding of grants from the SHF.

2. AUDIT SCOPE AND OBJECTIVES

The objective of the audit is to assess adequacy of controls in place by reviewing

- Governance and policy & procedures
- Carry out walkthrough testing on a sample of grant payments from the fund to determine adequacy of controls and compliance with policy.
- Reporting arrangements

The following control areas were reviewed as part of the audit process:

Control Objective	Control Objective Assessment
Authority - Roles and delegated responsibilities are documented in policies and procedures and are operating well in practice	Strong arrangements are in place with roles and responsibilities clearly defined and documented within the procedural document. There are deemed to be operating well in practice.
Occurrence - Sufficient documentation exists to evidence compliance with policies, procedures and relevant legislation	Whilst documentation was found to be available and complied with policy and procedures, minor concerns were raised in relation to accessibility of documentation.
Completeness - Policies and procedures are aligned to relevant legislation and all required documentation is accurately and fully maintained	
Measurement - Policies and procedures are in line with requirements of relevant legislation	Awards are made in line with policy and procedures. Improvement is required in respect of risk analysis.
Timeliness - Policies and procedures are regularly reviewed and updated as necessary	Adequate controls are in place.
Regularity – Documentation is stored securely and made available only to appropriate members of staff.	Documentation is stored securely however was not readily accessible. An improvement action in respect of introducing Microsoft project is underway.

3. RISKS CONSIDERED

- Policy not agreed

- Procedures not documented

- Failure to have adequate controls

- Failure to have sufficient documentation to support grant applications

- Reputational damage to Council

4. AUDIT OPINION

The level of assurance given for this report is Substantial

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with. A sound system of control is in place designed to achieve the system objectives and the controls are being consistently applied.
Substantial	Internal Control, Governance and management of risk is sound, however, there are minor areas of weakness which put some system objectives at risk and where specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Reasonable	Internal Control, Governance and management of risk are broadly reliable, however although not displaying a general trend there are a number of areas of concern which have been identified where elements of residual risk or weakness with some of the controls may put some of the system objectives at risk.

Limited	Internal Control, Governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
No Assurance	Internal Control, Governance and management of risk is poor, significant residual risk exists and/ or significant non-compliance with basic controls leaves the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as High, Medium or Low. The definitions of each classification are set out below:-

High - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;

Medium - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;

Low - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.

5. FINDINGS

The following findings were generated by the audit:

<u>Review Governance and policy & procedures</u>

- Governance arrangements sit within Community services with approval of applications to the Strategic Housing Fund being delegated to the Executive Director of Community Services as agreed by Council in 2013. Prior to this, approval for each project grant award was given at a meeting of the full Council. It was evidenced that all applications reviewed were authorised in line with the agreed approval process.

- Council policy for the SHF is outlined within the "Strategic Housing Fund report "which is presented to full Council annually. The report outlines the following:

    o Payments into the Fund (principally from Council tax on second homes)

    o Expenditure charged to the fund
      - Expenditure in relation to assets formally held in the HRA account
      - Expenditure in relation to acquisition of land for the landbank
      - Expenditure in relation to the purchase of homes under the empty homes initiative
      - Payments to enhance infrastructure where this is restricting development of affordable housing
      - Payments to registered social landlords (RSL's) to partially fund proposed projects to deliver houses in accordance with the local housing strategy

    The latest report was presented to a meeting of the full Council in June 2017 and a review found that the policy detailed within the report is consistent with Scottish Government guidelines and legislation. The minutes of the meeting showed that the report had been noted by Council.

- Community Services have in place an overarching procedural document that sets out the following:

    o Administrative arrangements
    o Grant Application Process
    o Assessment and Approval Process
    o Claim Process

A review of the procedural documents found them to be adequate with roles and responsibilities of Council personnel clearly defined, documentation required in support of each grant was clearly specified and they complied with Scottish Government guidance .However the following points were noted:

    o The procedural document refers to an assessment being carried out on the risks associated with each project. Section 4 of the SHIP clearly sets out the risk criteria that should be evaluated when assessing the risk associated with each project. It was noted from a review of project documentation that whilst risk had been considered there was no documentary evidence detailing how each of these risks was assessed e.g. risk scoring or how it would be mitigated.

    o There are no indicative timeframes set out within the procedures in regard to Council processes involved in project delivery e.g. from when the grant application is received to formal final offer being issued.

    o No evidence of a checklist control that summarises the required documentation and that they have been received and reviewed.

Filing and Record Keeping/Documentation

- Documentation supporting grant awards was not always readily available and in many instances is kept in hard copy files. Management have advised that there is a project underway to introduce Microsoft Project which should enhance document tracking and verification.

<u>Carry out walkthrough testing on a sample of grant payments from the fund to determine adequacy of controls and compliance with policy</u>

- A sample of 18 housing grant awards from the SHF. The following controls were checked:

  - Grant application has been completed
  - Grant application has been signed by applicant
  - Project has been awarded a grant by the Scottish Government prior to approval
  - Project assessment and been carried out prior to award and fully completed.
  - Offer authorised by Legal Services
  - Award letter has been properly authorised
  - Grant payment has been made as per award letter and properly authorised.
  - Grant awarded per unit is within target agreed by Council at grant award period

<u>Check carried out</u>	<u>No. of Projects checked</u>	<u>Error rate volume</u>	<u>Comments</u>
Grant Application has been completed.	18	0	-
Grant Application has been signed by applicant	18	2	Unable to obtain signed application documentation for 2 of the projects.
Project has been awarded a grant by Scottish government prior to approval	18	0	-
Project assessment has been carried out prior to award and fully completed	18	4	Project assessment documentation was available for all awards post 2013.

Offer authorised by legal services.	18	1	Signature of witnessed not evidenced.
Award Letter has been properly authorised	18	0	Approved either by Council or Community services Director as per procedures
Grant payments have been made as per award letter and properly authorised.	18	0	-
Grant awarded per unit is within target agreed by Council at grant award period	18	0	-

- Overall there are adequate controls in place to administer the award of grants from the Strategic Housing Fund as prescribed by procedures. Minor errors were found in relation to evidence of authorisation and availability of supporting documentation however these primarily related to awards pre 2013. Revised controls are in place post 2013 and are deemed strong.

Review reporting arrangements

- An annual report is prepared by Strategic Finance and submitted to Council. The report, amongst other things, should include:

  o Summary of SHF policy over life of the SHF fund
  o Movement in Fund over year i.e. opening balance, income and expenditure, closing balance
  o Detailed table by project on funds allocated
  o Detail by project of funds committed but not yet paid

A review of the June 2017 reports showed that the report adequately covered the above points and that it had been submitted to Council within the agreed time frame. Minutes of Council meetings showed that the report had been noted.

- Argyll and Bute Council publish on an annual basis "The Local Housing Strategy Report" This report summarises those housing projects which were completed for the year in question and were supported with grants from the SHF.

- A performance measure re number of housing completions which have received a grant is reported via pyramid quarterly.

6. CONCLUSION

This audit has provided a Substantial level of assurance, Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with. A sound system of control is in place designed to achieve the system objectives and the controls are being consistently applied. There were a number of findings identified as part of the audit and these, together with agreed management actions, are set out in the attached action plan. There were 2 actions which will be reported to the Audit Committee. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the Strategic Housing Fund staff and management for their co-operation and assistance during the Audit and the preparation of the report and action plan.

APPENDIX 1   ACTION PLAN

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
1. Risk Analysis		**High/ Medium**		
There was no documentary evidence of risk analysis having taken place.	Failure to fully assess project risk may lead to housing outcomes not being achieved.	Medium	**Process to be agreed as part of the SHIP Procedure Review.**	**Team Leader – East, Community Services** **30th November 2017**
2. Timeframe				
There was no indicative timeframe set out within the procedures in regard to Council processes involved in project delivery	Failure to ensure or monitor timely completion of application or process may adversely impact on efficiency and effectiveness	Medium	**Process to be agreed as part of the SHIP Procedure Review.**	**Team Leader – East, Community Services** **30th November 2017**

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