

FINAL INTERNAL AUDIT REPORT

PLACE DIRECTORATE

HMO LICENSING 2022/23

Issued to: Assistant Director (Public Protection)
Head of Service for Community Safety, Licensing, Environmental and Domestic Regulation
Environmental Protection & PRS Housing Manager
Director of Environment and Public Protection

Prepared by: Senior Internal Auditor (Mazars LLP)

Reviewed by: Manager (Mazars LLP)
Partner (Mazars LLP)

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INTRODUCTION

1. This report sets out the results of our audit of houses in multiple occupation (HMO) Licensing. The audit was carried out as part of the work specified in the 2022-23 Internal Audit Plan. The controls we expect to see in place are designed to minimise the Council's exposure to a range of risks. Weaknesses in controls that have been highlighted will increase the associated risks and should therefore be addressed by management.
2. The Council currently utilises the management information System A, to monitor Housing related case files, including those relating to HMO Licencing. A review of the system confirmed that the Council had received 167 applications for HMO Licencing between 1 January 2022 and 31 December 2022.
3. We would like to thank everyone contacted during this review for their help and cooperation.

AUDIT SCOPE

4. The original scope of the audit was outlined in the Terms of Reference issued on 9 January 2023.
5. We identified the following potential key risks:
 - Outdated processes can result in the Council being in breach of current legislative requirements or in breach of current policy decisions;
 - Where statutory requirements for license applications are not being met, there is a risk that licenses might be granted to unsuitable properties resulting in health and safety or safeguarding risks;
 - There is a risk of financial loss to the Council as the license holder may not pay after obtaining a license;
 - Where enforcement action is not being taken where necessary, there is a risk that illegal HMOs continue to run without a license; and
 - Where poor performance is not identified and/or addressed promptly, there is a risk that underperformance continues leading to poor customer service.
6. A review of System A management information system noted that the Housing Team had not received any complaints concerning a breach of HMO Licence conditions over the previous two calendar years from the point of audit (January 2023).

Therefore, we could not conduct testing in this area and obtain assurance regarding the control framework outlined in the Housing Enforcement Policy.

AUDIT OPINION

7. Our overall audit opinion, number and rating of recommendations are as follows.

AUDIT OPINION	
Reasonable Assurance	There is generally a sound system of control in place, but there are weaknesses which put some of the service or system objectives at risk. Management attention is required.

Number of recommendations by risk rating		
Priority 1	Priority 2	Priority 3
0	4	0

SUMMARY OF FINDINGS

8. Our audit identified areas of good practice and sound controls as set out below:

- The Council have in place a Housing Enforcement Policy, which outlines the requirements of the Housing Team concerning Housing Complaints raised by members of the public or other organisations, including procedures regarding HMO properties. The Policy contains a Version Control table noting the last review date as April 2021, with the following review dated April 2023.
- The Council currently identifies potential HMO properties through three different methods:
 - A complaint received by the Housing Team;

- The Planning Enforcement Team notifies the Housing Team of an application for a potential HMO renovation; and
- An application has been raised by an HMO property owner.

The Housing Team also advised that the Council undertook a proactive identification exercise in 2021 to identify HMO properties within the Borough. However, the Housing Team determined that the exercise was not cost-effective upon completion as no properties had been identified. It is not planned to complete this again in the future.

- A review of the Council's website noted that information relating to HMO Adopted Standards and applications for an HMO Licence are available to the public, with separate guidance for tenants and landlords. Guidance on specific fees and the payment of the HMO Application process are outlined before the individual completes the application.
 - The Housing Team have introduced a new management system, System B, as of January 2022. Applications are received through the System B application on the Council's website. Once the application has been completed, and the first initial payment has been received, the application is processed through System A and saved as a PDF form.
 - We identified 167 applications were received by the Council between the 1 January 2022 and 31 December 2022 period. Within these, there were 4 refused applications (100% of refused applications in the period) that were included in our sample testing. Testing of a sample of 14 applications taken from System A for the 2022 calendar year identified 10 applications resulting in a licence being issued and 4 resulting in refusal. In all cases, a completed application was received and retained on System A.
 - The HMO Licence fee is split into two fees, one relating to the administration cost of processing the application and the second relating to the cost of an approved application. The Council should not issue the licence to the applicant until the second payment has been received. From the sample of ten approved HMO Licences between 01 January and 31 December 2022, we confirmed that the second HMO fee payment was received before the licence was issued in all cases.
9. Our audit review has, however, identified the following areas which we would like to bring to management's attention:
- Before an HMO Licence is issued for a successful application, a member of the Housing Management Team must review and sign the Licence to evidence approval. Currently, licences may be signed by the Housing Regulation Manager, the Head of Service for Community Safety, Licensing, Environmental and Domestic Regulation or the Assistant Director for Public Protection. Once signed, a copy of the Licence must be retained on the System A to evidence compliance. From our previously selected sample of ten licences issued by the Housing Management team between 01 January and 31 December 2022, we identified three cases where the Housing Team could not demonstrate a signed licence being retained on the System A.

- The Finance Team completes an annual reconciliation between the Council's Financial Management System and System A to highlight potential variances between systems on income received and issued to the Housing Team for review. However, the Housing Team noted that they currently do not have access to the Council's Financial Management System and thus cannot complete a regular reconciliation with System A.
- A review of System A, noted that for the four cases within our original sample of 14 applications submitted where a licence was refused, a secondary payment was initially received at the start of the process. On review of the system, it was noted that the payments were still recorded as being received. Discussions with the Housing Team confirmed that these refunds had not been processed.
- Before a decision regarding an HMO licence is issued to an applicant, a secondary independent check must be completed at two stages. One before issuing a proposal to licence and the second before issuing a decision regarding the licence. This should be completed by an Officer independent of the processing of the application and should be recorded on System A.
- A review of the System A noted that while the Officer's name is recorded with the date of the review noted, this is inputted by the validating Officer and not by the reviewing Officer. Furthermore, no evidence that the review has occurred is recorded on the system, such as email confirmation from the independent Officer.

DETAILED FINDINGS / MANAGEMENT ACTION PLAN

10. The findings of this report and an assessment of the risk associated with any control weaknesses identified are detailed in the Detailed Findings / Management Action Plan. Any management recommendations are prioritised in line with the criteria set within Appendix B

1. Approval of HMO Licences	
<p><u>Finding</u></p> <p>Before an HMO Licence is issued for a successful application, a member of the Housing Management Team must review and sign the Licence to evidence approval. Currently, licences may be signed by the Housing Regulations Manager or the Assistant Director for Public Protection. Once signed, a copy of the Licence must be retained on System A to evidence compliance.</p> <p>Testing of a sample of ten licences issued by the Housing Management team between 1 January and 31 December 2022 identified three cases where the Housing Team could not demonstrate a signed licence being retained on System A.</p> <p><u>Risk</u></p> <p>Where a signed copy of the HMO Licence issued is not retained on System A, there is a risk that the Council have not complied with internal approval limits before issuing Licences. This may result in inappropriate or inaccurate Licences being issued to properties that do not meet the adopted Standards of the Council.</p>	
<p><u>Recommendation</u></p> <p>The Council should ensure that Licences are signed by an approved staff member before being issued. A copy of the signed Licence should then be retained on System A, to evidence compliance.</p>	<p><u>Rating</u></p> <div style="border: 1px solid black; background-color: yellow; padding: 2px; text-align: center; width: fit-content; margin: 0 auto;">Priority 2</div>
<p><u>Management Response and Accountable Manager</u></p> <p>The Team are aware of the signatory requirements and a Licence Holder is unlikely to accept a Licence that has not been signed as it would not be valid. The Team will be reminded of the requirement to scan and document the signed copy of the licence.</p> <p>This process will be digitised as part of the systems upgrade project where it should streamline document processing with the possibility of automating the process of saving final documents.</p>	<p><u>Agreed timescale</u></p> <p>Short Term – 1 month (end of April 2023).</p> <p>Long Term 6-12 months (between September 2023 and March 2024)</p>

	– dependent on System C Project delivery
2. Regular Reconciliation between System A and Financial Management System	
<p><u>Finding</u></p> <p>An annual reconciliation between the Council's Financial Management System and System A is completed by the Finance Team to highlight potential variances between income received and issued to the Housing Team for review.</p> <p>However, a discussion with the Housing Team noted that they currently do not have access to the Council's Financial Management System and thus cannot complete a more frequent reconciliation with the System A.</p> <p><u>Risk</u></p> <p>Where regular reconciliations between the Council's Financial Management System and System A are not completed, there is a risk that the Housing team are unaware of missing or inaccurate payments concerning HMO Licencing fees.</p>	
<p><u>Recommendation</u></p> <p>The Housing Team should contact the Finance Team within the Council regarding access to the Financial Management System or obtaining a monthly reconciliation. The Housing Regulations Manager should review and approve this, with any variances highlighted and investigated. The Housing Regulations Manager should sign and date these reconciliations to evidence compliance.</p>	<p><u>Rating</u></p> <p style="text-align: center;">Priority 2</p>
<p><u>Management Response and Accountable Manager</u></p> <p>The Finance Team will provide monthly transaction reports for budget code R58070. This will be reconciled by the Housing Enforcement Manager.</p>	<p><u>Agreed timescale</u></p> <p>31 May 2023</p>

3. Refund of Secondary Payment for Refused Licences

Finding

While the Finance and System A are not directly linked, System B allows the systems to be indirectly linked. A discussion with the Housing Team confirmed that since January 2022, payments had been received through System B, which occurs once an application has been processed. The first payment received by Council is automatically inputted into the application file. Email confirmation of the second payment is provided to a shared Housing Inbox, with the completing Officer inputting the payment date on System A. However, the system does not retain evidence of the email received in the shared box.

A review of System A noted that for the four applications submitted where a licence was refused, a secondary payment was initially received at the start of the process. On review of the system, it was noted that the payments were still recorded as being received. The Housing Team advised that these refunds had not been processed.

Risk

Where evidence of the second licence fee payment is not retained on System A, there is a risk that HMO Licences may be issued to applicants before the Council receiving full payment.

Where refunds are not issued to a public member once an application has been refused, there is a risk that the Council may be viewed as obtaining payment for services that have not been completed. This could result in reputational damage and legal actions taken against the Council.

Recommendation

The Housing Team should ensure that evidence of the second payment being received is recorded within the System A, such as the email received by the Shared Inbox being uploaded to a case file.

Where a payment has been received in error by the Housing Team, such as when a second fee payment is received on the refusal of an application, the Housing Team should inform the applicant of the error and provide steps to recuperate the funds. The Housing Team should obtain evidence that a refund has been processed before closing an application file.

Rating

Priority 2

<p><u>Management Response and Accountable Manager</u></p> <p>Payment of the Part 2 fee is automated by System B. Officers will be reminded of recording requirements and will be referred to the Officer User Guide for inputting into System A.</p> <p>Where a payment has been incorrectly received a refund will be issued. Fulfilling Recommendation 2 will assist with identifying these cases.</p> <p>The System C project will consider the payment process and input into the System A to design out human error in this instance. The payment system should not allow a Part 2 payment unless the licence is to be granted.</p>	<p><u>Agreed timescale</u></p> <p><u>30th June 2023</u></p> <p>Process involves 3rd parties so likely to take longer to finalise</p>
<p>4. Independent Secondary Checks</p>	
<p><u>Finding</u></p> <p>Before a decision regarding an HMO licence is issued to an applicant, a secondary independent check must be completed at two stages. One before issuing a proposal to licence and the second before issuing a decision regarding the licence. This should be completed by an Officer independent of the processing of the application and should be recorded on System A.</p> <p>A review of System A noted that while the name of the Officer is recorded with the date of the review noted, this is inputted by the validating Officer and not by the reviewing Officer. Furthermore, no evidence that the review has occurred is recorded on the system, such as email confirmation from the independent Officer.</p> <p>Testing of a sample of 14 applications received by the Housing Team between 01 January and 31 December 2022 identified the following:</p> <ul style="list-style-type: none"> • For five cases, the team were unable to evidence an independent secondary check for a proposal being completed; and • For seven cases, the team could not find evidence of an independent secondary decision check being completed. <p><u>Risk</u></p> <p>Where an independent Officer does not confirm they have reviewed an application file, nor where evidence of this review is retained on System A, there is a risk that secondary independent check procedures may be bypassed, resulting in HMO Licences being issued where errors or incomplete application processes have been undertaken.</p>	

<p><u>Recommendation</u></p> <p>The Council should ensure that evidence of a second independent check of the application process is retained on System A to evidence segregation of duties between the two Officers.</p> <p>This may be in the form of retaining email confirmation from the independent Officer within System A.</p>	<p><u>Rating</u></p> <p>Priority 2</p>
<p><u>Management Response and Accountable Manager</u></p> <p>Confirmation of the independent check will be required via email and the document recorded on System C to the record.</p>	<p><u>Agreed timescale</u></p> <p>31 May 2023</p>

Assurance Level

Assurance Level	Definition
Substantial Assurance	There is a sound system of control in place to achieve the service or system objectives. Risks are being managed effectively and any issues identified are minor in nature.
Reasonable Assurance	There is generally a sound system of control in place but there are weaknesses which put some of the service or system objectives at risk. Management attention is required.
Limited Assurance	There are significant control weaknesses which put the service or system objectives at risk. If unresolved these may result in error, abuse, loss or reputational damage and therefore require urgent management attention.
No Assurance	There are major weaknesses in the control environment. The service or system is exposed to the risk of significant error, abuse, loss or reputational damage. Immediate action must be taken by management to resolve the issues identified.

Recommendation ratings

Risk rating	Definition
Priority 1	A high priority finding which indicates a fundamental weakness or failure in control which could lead to service or system objectives not being achieved. The Council is exposed to significant risk and management should address the recommendation urgently.
Priority 2	A medium priority finding which indicates a weakness in control that could lead to service or system objectives not being achieved. Timely management action is required to address the recommendation and mitigate the risk.
Priority 3	A low priority finding which has identified that the efficiency or effectiveness of the control environment could be improved. Management action is suggested to enhance existing controls.