

# Internal Audit Report

## Management of the Housing Revenue Account (Capital and Revenue)

6 April 2023

CW2205

<b>Overall Assessment</b>	<b>Reasonable Assurance</b>
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This Internal Audit review is conducted for the City of Edinburgh Council under the auspices of the 2022/23 internal audit plan approved by the Governance, Risk and Best Value Committee in March 2022. The review is designed to help the City of Edinburgh Council assess and refine its internal control environment. It is not designed or intended to be suitable for any other purpose and should not be relied upon for any other purpose. The City of Edinburgh Council accepts no responsibility for any such reliance and disclaims all liability in relation thereto.

The internal audit work and reporting has been performed in line with the requirements of the Public Sector Internal Audit Standards (PSIAS) and as a result is not designed or intended to comply with any other auditing standards.

Although there are specific recommendations included in this report to strengthen internal control, it is management’s responsibility to design, implement and maintain an effective control framework, and for the prevention and detection of irregularities and fraud. This is an essential part of the efficient management of the City of Edinburgh Council. Communication of the issues and weaknesses arising from this audit does not absolve management of this responsibility. High and Critical risk findings will be raised with senior management and elected members as appropriate.

# Executive Summary

Overall Assessment	Reasonable Assurance
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## Overall opinion and summary of findings

The controls in place to support the Housing Revenue Account (HRA) budget setting and monitoring process are generally satisfactory. We noted the following areas for improvement:







- the Business Plan (BP) Board does not have its delegated authority or roles/responsibilities defined in a terms of reference or similar document
- policies and procedures for the preparation and monitoring of the budget have not been documented
- reviews of budgetary assumptions are not always documented
- actions arising from monthly finance focussed Housing Strategy and Development Managers meetings are not recorded and monitored to confirm that agreed corrective action has been completed
- the continuous improvement or lessons learned process has not been formalised to ensure that improvement actions identified are monitored and implemented.

## Areas of good practice

Our review identified:

- the HRA budget preparation cycle is a well-established process which is managed on an ongoing basis, rather than a one-off exercise, in line with legislation
- appropriate segregation of duties exists between the Housing and Finance teams
- there is routine reporting of performance against budget to Finance and Resources Committee and the Housing, Homelessness, and Fair Work Committee with analysis of key variances and risks
- the BP Board meets regularly to review progress for key workstreams and facilitate discussion and decision making
- presentation of information to the BP Board is detailed and ‘tells the story’ of the HRA budget from planning through to completion, highlighting key milestones and decision points.

## Audit Assessment

Audit Area	Control Design	Control Operation	Findings	Priority Rating
1. Budget preparation			Finding 1 – Authorities, Procedures, and Documentation	<b>Medium Priority</b>
2. In-year budget monitoring and management			Finding 2 – Budget Management Decisions	<b>Low Priority</b>
3. Year-end processes and lessons learned			Finding 3 – Lessons Learned and Continuous Improvement	<b>Medium Priority</b>

[See Appendix 1 for Control Assessment and Assurance Definitions](#)

# Background and scope

Income and expenditure relating to direct provision of housing must be ring-fenced and recorded separately within a Housing Revenue Account (HRA), as laid out in Section 203 of the [Housing \(Scotland\) Act 1987](#) (the Act). Under paragraph 9(2) of Schedule 15 to the Act, if an HRA deficit arises in any one year, the local authority must make a contribution to make good the deficit from the General Fund. Prudent practice is for the local authority to hold HRA reserves (either as a specific reserve or an earmarked part of the General Fund reserves). These surpluses (reserves) will therefore be available to apply to the HRA in any year when a deficit arises negating the need for the General Fund contribution. While not specifically required by the legislation, it is implied that an HRA in Scotland is self-financing, that is it requires sufficient income to cover budgeted expenditure.

The Scottish Government has provided further legislative instruments and guidance relating to the management of HRAs:

- the [Local Government in Scotland Act 2003](#) places a statutory duty on local authorities to determine the amount they can afford to allocate to capital expenditure, which includes HRA-related capital expenditure
- the disposal of land, buildings, or other assets from the HRA must also comply with the [Disposal of Land by Local Authorities \(Scotland\) Regulations 2010](#) on disposal of land for less than best consideration. Guidance issued in October 2012 sets out the Government's new process for applying to Scottish Ministers for consent when disposing of HRA assets. Further changes to this process were communicated in March 2016
- in March 2014 [further guidance](#) was published on the use of HRAs, the purpose of which was to consolidate information on the role of the HRA: how it must operate, who the resources contained within it are meant to benefit, and what outcomes can be expected from those resources.

## Scope

The objective of this review was to assess the adequacy of design and operating effectiveness of the key controls for the capital and revenue elements of the HRA, and management and allocation of HRA reserves.

## Risks

- Financial and Budget Management
- Governance and Decision Making
- Strategic Delivery
- Regulatory and Legislative Compliance
- Reputational Risk.

## Limitations of Scope

Our review did not cover the HRA Strategy or the consultation process for preparing and updating it annually.

## Reporting Date

Testing was undertaken on the HRA budget processes prepared for and managed in financial years 2021/22 and 2022/23.

Our audit work concluded on 21 February 2023, and our findings and opinion are based on the conclusion of our work as at that date.

# Findings and Management Action Plan

## Finding 1 – Authorities, Procedures, and Documentation

Finding Rating	Medium Priority
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The Business Plan (BP) Board has been established to provide oversight and drive the HRA budget setting process, monitor progress against budget, and conclude each budget period by analysing actual outturn against budget. While membership and reporting lines of the BP Board have been reviewed and updated, the BP Board does not have its remit agreed in a formal terms of reference or similar governance document.

Our review also identified that there is no formal documentation outlining the procedures, roles, or responsibilities for setting and managing the HRA budget.

Our testing confirmed that all budgetary assumptions had been reviewed. However, the document maintained to evidence this process is not always fully updated and signed off.

### Risks

- **Governance and Decision Making** – roles of the Business Plan board are not formally defined leading to ineffective governance and accountability
- **Strategic Delivery**- if roles and responsibilities are not clearly defined, HRA objectives may not be met
- **Financial and Budget Management** – if assumptions are not confirmed to have been reviewed each year the HRA budget may be inaccurate.

## Recommendations and Management Action Plan: Authorities, Procedures, and Documentation

Ref.	Recommendation	Agreed Management Action	Action Owner	Contributors	Timeframe
1.1	The remit and responsibilities of the Business Plan Board and its members should be formally agreed and documented.	The remit of the BP Board will be formally agreed and documented. The Business Plan Board is made up of experienced members of staff and the outcome of the review of business planning assumptions is reported to HH&FW committee in Autumn and then approved by F&R and Full Council each year. This ultimate oversight means that the overall	Paul Lawrence, Executive Director of Place	Alun Stein, Senior Accountant Lisa Mallon, Housing Operations Manager	31/07/2023

		risks are minimal, however it is acknowledged that internal processes and procedures should be formalised to reduce any risks resultant from changes in board membership.			
1.2	<p>Procedures relating to the HRA budget setting and monitoring process should be documented and circulated to all relevant officers. This should include:</p> <ul style="list-style-type: none"> <li>• procedures setting out the agreed approach to planning and monitoring</li> <li>• roles and responsibilities</li> <li>• key inter-dependencies between teams and programmes</li> <li>• the approach to continuous improvement</li> <li>• escalation routes and reporting requirements.</li> </ul>	Procedures will be documented and circulated to all relevant officers, including the bullet points listed in the recommendation.			28/02/2024
1.3	The document which lists the budgetary assumptions should be fully updated annually and signed-off by relevant officers for each budgetary assumption to confirm that it has been reviewed.	All budgetary assumptions will be dated and signed to confirm they have been considered for each iteration of the HRA budget.			28/02/2024

## Finding 2 – Budget Management Decisions

Finding Rating	Low Priority
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The Housing Strategy and Development Managers meeting is attended by representatives from Finance on a monthly basis, to monitor progress and projected outturn to date against the HRA budget, and identify rectifying actions needed to address any adverse variances. However, minutes and actions arising from these meetings are not formally recorded or monitored.

### Risks

- **Governance and Decision Making** – corrective decisions taken are not recorded and monitored to ensure that they have been actioned
- **Financial and Budget Management** – corrective action may not be taken in a timely manner leading to an increase in over/under spending
- **Reputational Risk** – decisions taken are not recorded and monitored which could lead to reputational damage if corrective action is missed.

## Recommendations and Management Action Plan: Budget Management Decisions

Ref.	Recommendation	Agreed Management Action	Action Owner	Contributors	Timeframe
2.1	Minutes and actions arising from Housing Strategy and Development Managers meetings should be recorded, circulated, and monitored to ensure actions are implemented in a timely manner.	Actions arising from Housing Strategy and Development Managers meetings will be captured, recorded, and circulated to relevant officers, to allow for monitoring and analysis.	Paul Lawrence, Executive Director of Place	Alun Stein, Senior Accountant  Lisa Mallon, Housing Operations Manager	31/07/2023

## Finding 3 – Lessons Learned and Continuous Improvement

Finding  
Rating

Medium  
Priority

A slide is presented to the Business Plan (BP) Board at the end of each budget cycle titled 'Planning for Next Year's Business Plan'. This outlines actions to be completed for the next iteration of the HRA Budget.

Although officers noted that lessons learned are captured and actioned informally throughout the process, our review highlighted that these actions are not recorded centrally or monitored to confirm they have been implemented or actioned on a timely basis.

### Risks





- **Strategic Delivery** – if continuous improvement work is not effectively performed the Council may not meet its objectives
- **Financial and Budget Management** – areas of improvement and lessons learned may not be captured and incorporated into future HRA budgets, leading to inaccurate budgeting.

## Recommendations and Management Action Plan: Lessons Learned and Continuous Improvement

Ref.	Recommendation	Agreed Management Action	Action Owner	Contributors	Timeframe
3.1	Lessons learned should be captured centrally and monitored to ensure completion in a timely manner. Action required to be taken before any future iterations of the HRA budget should be included in relevant work programmes to ensure the work is complete before budgets are agreed.	The approach to lessons learned will be reviewed to ensure that actions are captured centrally and monitored to ensure completion on a timely basis.	Paul Lawrence, Executive Director of Place	Alun Stein, Senior Accountant  Lisa Mallon, Housing Operations Manager	28/02/2024



# Appendix 1 – Control Assessment and Assurance Definitions

Control Assessment Rating		Control Design Adequacy	Control Operation Effectiveness
Well managed		Well-structured design efficiently achieves fit-for purpose control objectives	Controls consistently applied and operating at optimum level of effectiveness.
Generally Satisfactory		Sound design achieves control objectives	Controls consistently applied
Some Improvement Opportunity		Design is generally sound, with some opportunity to introduce control improvements	Conformance generally sound, with some opportunity to enhance level of conformance
Major Improvement Opportunity		Design is not optimum and may put control objectives at risk	Non-conformance may put control objectives at risk
Control Not Tested	N/A	Not applicable for control design assessments	Control not tested, either due to ineffective design or due to design only audit

Overall Assurance Ratings	
<b>Substantial Assurance</b>	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
<b>Reasonable Assurance</b>	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
<b>Limited Assurance</b>	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
<b>No Assurance</b>	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

Finding Priority Ratings	
<b>Advisory</b>	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.
<b>Low Priority</b>	An issue that results in a small impact to the achievement of objectives in the area audited.
<b>Medium Priority</b>	An issue that results in a moderate impact to the achievement of objectives in the area audited.
<b>High Priority</b>	An issue that results in a severe impact to the achievement of objectives in the area audited.
<b>Critical Priority</b>	An issue that results in a critical impact to the achievement of objectives in the area audited. The issue needs to be resolved as a matter of urgency.