
Date: 19 June 2018
To: Mark Rizk Head of Service
Cc: Rachel Liddle Environmental Health Team Leader

From: Tim Ridout Chief Auditor
Re: **Internal Audit Review 2017/18 – Environmental Health – Selective Licensing - FINAL**

Dear Mark

In accordance with the Internal Audit work agreed by the former Head of Service for 2017/18, CW Audit has undertaken a review of the Council's arrangements regarding the administration of the new Selective Licensing scheme. This letter sets out the outcome of our review.

Background

To help to regulate and strengthen the private rented housing sector in the Anglesey ward of the Borough, the Council has introduced a selective licensing scheme, a tool available under the Housing Act 2004. The scheme aims to improve private rented accommodation by ensuring that all such property within the designated area is managed to a satisfactory standard prior to a licence being granted. The scheme came into force on 12 September 2017 and will last for at least five years.

All private landlords with residential property within the designated area will need to apply for a licence for each tenancy. In order to become a licence holder they must be a fit and proper person and must declare certain convictions or breaches of certain laws. This means a landlord has to meet a certain standard before they can legally rent out a property, including demonstrating basic safety checks have been carried out and that they have appropriate management arrangements in place.

This review took an overview approach, to evaluate the project implementation, review the process devised and assess governance arrangements. Procedures in place to assess prospective licensed landlords were evaluated to ensure they complied with guidance and performance information was considered.

Risk Assessment

The review aims to provide assurance in relation to the following risks:

- Lack of clear policy/procedural guidance, or lack of compliance with such, could result in unfair/unclear treatment of cases and unsuitable outcomes overall/for individual properties.
- Lack of effective implementation/oversight of the scheme and its operational delivery could permit unfairness, lack of transparency and failure to achieve intended outcomes.

Scope and coverage

Our engagement letter issued in March 2018, set out that “Through a process of control evaluation and testing, we will assess the extent to which the key control objectives recorded below have been met in relation to the scheme as implemented to date:”

- Suitable policies and procedures are in place to ensure both staff and landlords/prospective tenants are aware of the requirements of the scheme.
- Processes have been put in place and are complied with, to fairly and effectively implement policies and procedures.
- Management assures itself on the implementation of the scheme and its fairness, transparency and performance against intended outcomes.

The results of this review have been discussed accordingly with Mark Rizk and Rachel Liddle.

General Background

It is a criminal offence to let a privately rented property in a designated area without a license and failure to apply for one could lead to an unlimited fine or a financial penalty of up to £30,000. Failure to comply with any of the conditions of the license could also lead to an unlimited fine or a financial penalty of up to £30,000. It is also a criminal offence to make a false statement in an application for a license or fail to comply with any condition of a license.

Formal enforcement action for failure to comply with the selective licensing requirements can be undertaken by the Council in accordance with the selective licensing policy and the enforcement provisions detailed within the policy

Housing Enforcement Policy

The Housing Act 2004, together with regulations made under it, prescribes the Housing Health and Safety Rating System (HHSRS) as the means by which Local Authorities assess housing conditions and decide on action to deal with poor housing. It is a risk assessment system of the effect of housing conditions on the health of occupiers where 29 potential hazards are assessed and scored for their severity. The scores for each hazard are ranked in Bands. Hazards falling into Bands A to C are more serious, and are classed as Category 1. Less serious hazards fall into Bands D to J, and are classed a Category 2. The council must take appropriate action in respect of a Category 1 hazard, and may do so in relation to Category 2 hazards.

Actions available:

- Serve an improvement notice
- Make a prohibition order
- Take emergency remedial action
- Make an emergency prohibition order, and
- Make a demolition order

Our key findings

The following are the main themes highlighted by our review set out in summary form.

Suitable policies and procedures are in place to ensure both staff and landlords/prospective tenants are aware of the requirements of the scheme.

The scheme applies only in the East Anglesey area where there are approximately 1,000 properties. Statistical information from the Office for National Statistics and local data indicated there were 288 properties that were privately rented. The guidance for selective licensing schemes is that to be eligible an area needs to be over the national average of 19 per-cent of private rented accommodation. Officers identified 16 areas over the 19 per-cent threshold. These areas were rated for:

- Low housing demand
- Anti-social behaviour
- Poor property conditions
- The number of complaints about housing
- Depravation
- Crime.

The factors were then all ranked to identify which of the areas would most benefit from a selective licensing scheme and a section of the Anglesey ward selected. A consultation was started in October 2016 which ran for 10 weeks.

Following the consultation, a report was produced with a recommended outcome. There were lots of objections by landlords which enabled the Authority to change some of the detail of the scheme in response to the challenges. Changes were made to the fee and some of the conditions.

In September 2017, the selective licensing policy came into force, supported by a Housing Enforcement Policy.

Implementation of the scheme was broken down into phases covering different parts of the area to make the process of registration and inspection manageable. Letters were sent out to every property in the area and existing stock condition survey information was used to target information to specific properties believed to be rented. Officers also contacted letting agents for them to pass information to landlords and advertised in the Burton Mail and Derby Telegraph six times in each. In addition, information was added to Landlord Association publications and notification was on the front page of their website. To further catch any landlords who had missed the other publicity, Officers wrote to doctors and schools. There was also significant press coverage due to the controversial nature of the scheme. During the process, a landlord event was held at the Brewhouse. A Google search for "East Staffordshire Selective Licensing" returned three pages of results demonstrating the significant publicity obtained during the process. Full details of the scheme; guidance; application form and notes for its completion are all available on the Council web site.

The process of education is now over and Officers, having completed the initial sign-up process, are now trying to identify properties and Landlords that have slipped through the net. So far 179 licenses have been granted, considerably short of the 288 properties originally thought to be in the area. Officers believe there are more than 288 lease agreements in the area as multiple licenses have to be issued where properties have been split into flats. Alternative sources of information Officers intend to use to find unregistered properties are the rental deposit scheme, walking the area looking for "To Let" boards and consider the use of Council Tax searches and Land Registry details. We suggested Officers consider accessing the Housing Benefit information if possible (e.g. subject to Data Protection constraints), as if tenants in the area are getting housing benefit, this will confirm that the property is privately let and also may also give the landlords' details.

Processes have been put in place and are complied with, to fairly and effectively implement policies and procedures

There are few detailed processes written down. Officers have an enforcement policy, standard forms and a flow chart to guide them in taking action. There is also a procedure for invoicing.

There are regular selective licensing meetings to address issues as they come up. Inspections are based on the HHSRS Assessment after the inspection (29 categories) but this is not clearly documented. Discussions are held at meetings about approaches to undertake assessment and HHSRS guidance is available for Officers to refer to. If officers identify hazards they should take enforcement action in accordance with the policy, however even for hazards, how they are dealt with is a matter for Officer discretion. We recognise that a set of detailed all-encompassing procedures would be difficult to produce because of the complexity, however some standardisation of approach would be important in our view, such as guidance on when to carry out a full HHSRS assessment and improved documentation to demonstrate coverage of HHSRS categories. Improving the guidance and detailed processes for Officers will require a set of procedures to ensure consistency of approach to inspections, documentation of findings and appropriate recording on the Selective Licensing system.

Differences in approaches taken by Officers were also noted in the reports produced, some put findings into categories and some don't, resulting in a lack of consistency. Officers need to iron these inconsistencies out as the scheme develops and ensure that there is a sufficient standardisation of approach, documentation and reports. We noted in our review that no Enforcement notices had been issued to date but issues found had been dealt with by informal schedule of works letter. This is not unreasonable given the early stage of this scheme and focus on education rather than more formal enforcement for Landlords who have come forwards for registration voluntarily.

The review also identified that the software system used to document selective licensing work and findings from inspections, needs improving to enable a clear trail of findings and action required by landlords to be kept with clear justifications for work required. It is currently not clear from the system record if there was a need for works to be undertaken by a landlord or not.

See Appendix A for further detailed findings.

Management assures itself on the implementation of the scheme and its fairness, transparency and performance against intended outcomes.

There is no formal assurance system to review officers' files or actions, although meetings are held where there is informal discussion. Our testing of the files indicates that managers need to review officers' files and assessments made on a regular basis to assure themselves that assessments are being undertaken correctly and that judgements are made in a fair and consistent manner. Performance of staff should be reviewed against specific set criterion. Given the early stage of the scheme, performance information has not yet been produced.

Overall conclusion

Given the early stage of this new service and evolution of the computer system to better match issues identified by officers as they use it, we have not sought to provide a specific assurance opinion at this point. We have provided detailed findings as Appendix 1, and would recommend that the issues we raise within this letter are dealt with accordingly.

If you would like to discuss further please do not hesitate to contact me.

Thanks to those involved with this review for their co-operation.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Tim Ridout', written in a cursive style.

Tim Ridout
Chief Auditor

Appendix 1 Detailed findings and how management has responded

System Control Objective 1: Suitable policies and procedures are in place to ensure both staff and landlords/prospective tenants are aware of the requirements of the scheme.

We did not highlight any exceptions to be reported in relation to this control objective.

System Control Objective 2: Processes have been put in place and are complied with, to fairly and effectively implement policies and procedures

Area	Audit Finding	Risk	Risk Ranking	Recommendation	Response	Who and when
2.1 Detailed processes	Testing found that there was a lack of consistency by officers in their documentation of their approach to undertaking an inspection and enforcement review, how the review was documented and clarity and approach to writing letters to license applicants.	Correspondence may not be consistent, and thus may not apply or enforce policies consistently.	3	<p>Detailed processes need to be developed from the Selective Licensing policy to specify the inspection procedure to ensure that the Selective Licensing process is completed in a consistent manner. Guidance could include:</p> <ul style="list-style-type: none"> •detail on how an inspection should be documented •clarification of the categorisation of findings •clarification of documenting justification for any categorisation •clear differentiation of legal requirements and 	A Selective Licensing Procedure is currently in draft format detailing how the selective licensing process is implemented including how an inspection should be documented and the approved correspondence that should be used at each stage of the process.	Elena Campos 1 st July 2018

Area	Audit Finding	Risk	Risk Ranking	Recommendation	Response	Who and when
				<p>recommendations</p> <ul style="list-style-type: none"> • clarification of how letters should be formatted • documentation of any re-inspection timescale if rectifications are required 		
2.2 System correctly filled in	In the 8 cases tested where an inspection had been carried out, the computer system had not been fully and correctly filled in. In 4/8 cases this was minor with the introductory discount, multiple properties or accreditation discount missing however in 1/8 cases the tenant details had not been entered; in 2/8 cases the inspection details were missing from the file; in 1/8 cases interventions required were not documented on the file and in 1/8 cases there was a lack of clarity of categorisation of findings.	Computer system information may not be sufficient or reliable to enable management of Selective Licensing.	2	Ensure that the computer information is correctly and fully completed for all inspections.	<p>A review of all selective licensing properties has been undertaken to ensure that all records are correctly and fully completed.</p> <p>This information will be reviewed bi-monthly</p>	<p>Rachel Liddle</p> <p>Completed 15 June 2018</p>
2.3 Inspection notes	In 1/7 cases an Intervention (confirming an inspection had taken place) was shown on the system, however although the inspection in this case was noted as 23/2/18, the inspection field on the system was blank. Inspection notes were also missing from the general filing	Inspections may not be recorded, evidence may be lost with no clear trail on the licensing	2	Ensure that inspection notes are filed correctly and inspections are correctly completed on the computer system.	<p>A review of all selective licensing properties has been undertaken to ensure that all records are correctly and fully completed.</p> <p>We have also</p>	<p>Elena Campos</p> <p>1st July 2018</p>

Area	Audit Finding	Risk	Risk Ranking	Recommendation	Response	Who and when
	<p>system and could not be located. There was a draft letter filed where rectifications were required to be undertaken by the landlord.</p> <p>In 1/8 cases the system noted an inspection was assigned on 4/4/18 and draft license was sent out on 10/4/18. However there were no details on the licensing system of the results of the inspection and notes were missing from the general filing system.</p>	system.			implemented a filing system for the computer records to enable records to be easily viewed	
2.4 Schedule of works letter	In 1/7 cases an inspection was assigned on 4/4/18 and draft license was sent out on 10/4/18. However there were no details on the system and no notes of an inspection were recorded on the file. Review could not determine if a schedule of works letter was required or other action.	A clear trail may not be maintained of evidence found and actions required.	2	Ensure a schedule of works letter is completed in all cases where required by ensuring the system is fully updated and supported by consistent documentation.	All inspection notes have been reviewed and all officers have ensured that all records are fully completed.	Rachel Liddle & Investigating officers. Completed 15 June 2018
2.5 Full licenses sent promptly	<p>In 2/5 cases where a full license should have been issued, one had not been sent out in a reasonable time, allowing at least 14 days after the draft license.</p> <p>In one case a draft License was issued on 8/2/18, no evidence was found the full license had been issued.</p>	Licenses may not be issued as required.	2	Ensure full licenses have been sent out where appropriate and are sent out at a reasonable time after 14 days of the issue of the draft license.	This information has been reviewed and in these cases the issuing of the full licence has been delayed due to the need for staff recruitment. This has now been completed and information is now	Rachel Liddle Completed 15 June 2018

Area	Audit Finding	Risk	Risk Ranking	Recommendation	Response	Who and when
					being reviewed during officer 1-1s	
2.6 Consistency of system	<p>In one case, the system recorded that an inspection was undertaken (Intervention) on 19/1/18. The Inspection notes appeared to have found the building free from Cat 1 issues but the list of actions was detailed as Cat 1 on the system.</p> <p>In one case, Intervention is shown on the computer system, however although the inspection was noted as having been carried out on 23/2/18, the inspection field on the system was blank. Inspection notes were also missing from the general file and could not be located although there was a draft letter where rectifications were required to be undertaken by the landlord. No final license was found.</p>	A mis-match of evidence and recording may lead to inconsistency of reporting.	2	Re-visit all computer records and ensure that the inspection details held on the system are consistent with the paper inspection records	All computer records are in the process of being re-visited and checked to ensure all records are held within the electronic records	Elena Campos 1 st August 2018
2.7 Justifications for action on the record supported action taken	<p>In 6/7 cases the justifications on the system and and system notes were not clear and supportive of the letters that were issued.</p> <p>In these cases the computer system documentation was not clear / consistent in categorising the findings and noting rectification action</p>	The system is an unreliable tool to track findings from reviews and action to be taken by landlords.	2	Re-visit all computer records and ensure that the inspection details and justifications are correctly completed and compliant with guidance.	All computer records have been revisited and any missing information has been input by the relevant inspecting officer.	Elena Campos 15 June 2018.

Area	Audit Finding	Risk	Risk Ranking	Recommendation	Response	Who and when
	required. As a result it would not be possible to determine the issue found, categorisation of finding (under HHSRS or not) and rectification required recourse to the detailed notes taken at the inspection.					

System Control Objective 3: Management assures itself on the implementation of the scheme and its fairness, transparency and performance against intended outcomes.

Area	Audit Finding	Risk	Risk Ranking	Recommendation	Response	Who and when
3.1 Management Assurance	There is no formal management assurance process to review officers' consistency and compliance with requirements.	Assessments are not made consistently and managers are unaware of issues.	2	Managers need to review officers' files and assessments on a regular basis to assure themselves that assessments are being undertaken correctly and that judgements made are fair and consistent. Performance of staff needs to be reviewed against specific set criterion.	A review element is being incorporated into the procedure which will ensure that files are reviewed during officer 1-1s and an audit is undertaken of a sample number of properties once a quarter.	Rachel Liddle 1 st July 2018 and ongoing

Appendix 2: Definition of our risk rankings

Risk ranking	Assessment rationale
1	The system has been subject to high levels of risk that have, prevented the system from meeting its objectives and also impacted on the delivery of the organisation's strategic objectives.
2	The system has been subject to high levels of risk that has, or could, prevent the system from meeting its objectives, and which may also impact on the delivery of some or all of the organisation's strategic objectives.
3	The system has been subject to medium levels of risk that have, or could, impair the system from meeting its objectives.
4	The system has been subject to low levels of risk that has, or could, reduce its operational effectiveness.

Appendix 3: Responsibility statements

Disclosure statement

We have prepared this document solely for your use and, therefore, we believe that it would not be appropriate for it to be made available to third parties. If such a third party were to obtain a copy, without our prior written consent, we would not accept any responsibility for any reliance that they might place upon it. In the event that, pursuant to a request which you have received under the Freedom of Information Act 2000 you are required to disclose any information contained in this report, then you will notify CW Audit Services promptly and consult with us prior to disclosing such report. You agree to pay due regard to any representations which we may make in connection with such disclosure and apply any relevant exemptions which may exist under the Act. If, following consultation with us, you disclose this report or any part thereof, it shall ensure that any disclaimer which we have included, or may subsequently wish to include in the information, is reproduced in full in any copies disclosed.

Compliance with applicable standards

Our review of compliance against the applicable audit standards has confirmed that this engagement has been conducted in accordance with the International Standards for the Professional Practice of Internal Auditing. In conducting this assignment we can confirm that there have been no impairments to our independence or objectivity, either as an organisation or as individual auditors involved in delivering this service.

General statement

This report highlights findings on an exception basis and does not therefore include detail of controls that the audit found to be operating satisfactorily. Our opinion provides an overall assessment regarding the level of assurance we can provide regarding the controls operating in the system. The review will feed into the Head of Internal Audit Opinion which in turn forms part of the assurance for the Annual Governance Statement. Implementation of recommendations will be monitored by the Audit Committee.