

# Regulatory Committee

9.30am, Monday, 21 October 2019

## Internal Audit – HMO Licensing – referral from the Governance, Risk and Best Value Committee

Executive/routine  
Wards  
Council Commitments

### 1. For Decision/Action

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- 1.1 The Governance, Risk and Best Value Committee has referred the attached HMO Licensing Audit to the Regulatory Committee for review and scrutiny.

**Laurence Rockey**

Head of Strategy and Communications

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# Referral Report

## Internal Audit – HMO Licensing – referral from the Governance, Risk and Best Value Committee

### 2. Terms of Referral

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- 2.1 The Governance, Risk and Best Value Committee on 13 August 2019 considered a report by the Chief Internal Auditor, [Internal Audit Annual Opinion for the year ended 31 March](#), which detailed the outcome of the audits carried out as part of the Council's 2018/19 Internal Audit annual plan and the status of open Internal Audit findings as at 31 March 2019.
- 2.2 The Governance, Risk and Best Value Committee agreed:
- 2.2.1 To note the Internal Audit opinion for the year ended 31 March 2019.
- 2.2.2 To request that the Chief Executive, Executive Directors and Chief Officer of the Edinburgh Health and Social Care Partnership, supported by the Chief Internal Auditor, report to the relevant Executive Committee at the earliest opportunity and the subsequent Governance, Risk and Best Value Committee setting out clear plans to ensure the closure of all historic and overdue internal audit management actions to enable an improvement to the overall Internal Audit Opinion for 2019/20.
- 2.2.3 To refer all audits with a red finding to the next meeting of the appropriate Executive Committee for their consideration and to agree that action plans would be reported back to the Governance, Risk and Best Value Committee.
- 2.3 This report therefore refers the HMO Licensing audit to the Regulatory Committee for consideration.

### 3. Background Reading/ External References

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- 3.1 [Internal Audit Annual Opinion 2018/19](#) – report by the Chief Internal Auditor
- 3.2 [Governance, Risk and Best Value Committee – 13 August 2019 – Webcast](#)

**4. Appendices**

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Appendix 1 – Internal Audit – HMO Licensing

# ***The City of Edinburgh Council***

## **Internal Audit**

### **HMO Licensing**

Final Report

8 August 2019

PL1803

**Significant  
improvement  
required**

Significant and / or numerous control weaknesses were identified, in the design and / or effectiveness of the control environment and / or governance and risk management frameworks. Consequently, only limited assurance can be provided that risks are being managed and that the Council's objectives should be achieved.

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This internal audit review is conducted for the City of Edinburgh Council under the auspices of the 2018/19 internal audit plan approved by the Governance, Risk and Best Value Committee in March 2018. 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 is a number of 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.

# 1. Background and Scope

## Background

The City of Edinburgh Council's Licensing division operates as licensing authority for civic, taxi and private hire cars; and Houses in Multiple Occupation (HMOs) licences. The Council Regulatory Committee and Licensing Sub-Committee deal with policy issues and license applications arising from these functions.

The Licensing Service processes approximately 22,000 licence applications each year covering approximately 130 licence types. The Service generates around £5 million in licensing fees which pays for its operating costs. Internal Audit conducted a full Licensing audit in 2016 and reviewed controls relating to civic and liquor licensing. The last HMO Licensing audit was performed in May 2015 when the Licence processing and inspections team were in separate divisions of the Council; both the functions were merged in 2016 transformation exercise.

The owners of a House in Multiple Occupation (HMO) are required under the [Housing \(Scotland\) Act 2006](#) to have an HMO licence issued by the local authority. A dwelling is classified as an HMO if it is:

- occupied by 3 or more unrelated persons, as their only or main residence; and
- is either a house, premises or a group of premises owned by the same person with shared basic amenities.

Additionally, the Scottish Ministers may also specify (by order) that an HMO licence is required for any other type of property.

This legislation therefore not only covers houses, flats and bedsits shared by 3 or more unrelated individuals but also dwellings such as hostels; student halls of residence; and separate dwellings that have communal facilities such as toilets, bathrooms, and kitchens.

The applicant needs to ensure that the accommodation is compliant with 18 HMO conditions designed to ensure minimum safety, quality, and management standards. It is a criminal offence to operate without a licence and under the Housing act, local authorities have enforcement powers<sup>1</sup>. Complaints about non-compliance in an HMO licensed accommodation are dealt by the Council's Enforcement division.

Following a consultation exercise, a new three years HMO licence and licence fee structure was approved by Council's Regulatory Committee on 21 April 2017. The new fee structure introduced broader fee bands based on occupancy.

HMO licence applications are received and recorded by the Customer team, along with supporting documents and fees accepted at the High Street Office. Applications received are recorded in the ACR system and then (if valid and complete) transferred to the licensing system (APP Civica), with daily reconciliations performed between the systems. ICT management has confirmed that both systems are hosted by CGI on behalf of the Council.

Applications and supporting documents are then reviewed by Licensing; followed by an internal and external consultation process; and inspection of the accommodation. The outcome of this process determines whether the licence application will be recommended for either approval or rejection (in line with delegated powers) or referred to the Council's Licensing Sub-Committee if cases are either contrary to policy or an objection has been received.

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<sup>1</sup> Police Scotland also have enforcement powers should they wish to take action  
The City of Edinburgh Council  
Internal Audit Report – HMO Licensing (PL1803)

Policy directs that all new licences (first grants) or cases sent to committee will be restricted to one year, otherwise a three years licence is awarded.

As required by the act, the Licensing division follows a statutory consultation process which involves the attendance of a fire officer at property inspections for first time applications and the submission of a consultation request to Police Scotland for all applications. A formal response is not always received from Police Scotland for these consultations, and if no response is received within the statutory notice period of 28 days then it is deemed a satisfactory response and the application is processed.

A further requirement placed on the Local Authority by the 2006 act is to publish and maintain a register of applications and the decisions made on them. This must exclude any information that may jeopardise the safety or welfare of any person or the security of the premises. The register must be readily accessible by the public at all reasonable times. The information required for publication of this register at the Council, is contained within the APP system. This system is used to process all licensing applications.

The most significant key Performance Indicators for the licensing division, as agreed with the Regulatory Committee, is to reach a decision within 72 days for 90% of HMO applications and (to support achievement of this timeframe) start processing at least 95% of applications within 7 days of their receipt.

The Council's Licensing service has used the APP system since April 2014 to process licences and provide management information to monitor service performance against agreed KPI's. There has been an ongoing issue with the stability and efficiency of this system which has had a detrimental impact on team productivity and performance. An upgrade is planned for APP system (to version 8.7), however Digital Services have confirmed that it is not going to improve Licencing module performance. An enhanced version of the system (Cx) is available and CGI, Digital Services and Licensing are currently working together to plan an upgrade to this version.

## **Scope**

This review assessed the design adequacy and operating effectiveness of the key HMO licensing controls established to manage the following key risks:

- Compliance with Council policies, procedures, and HMO licensing legislative requirements;
- Ensuring that processes remain robust in terms of potential risk of bribery or conflicts of interest;
- Ensuring inspection routines and operational processes are delivered consistently; and
- Poor ICT system performance and outage impacting team performance and productivity

Our areas of audit focus as detailed in our terms of reference are included at Appendix 2.

Testing was performed for the period of April 2018 to March 2019.

## **Limitations of Scope**

The subject of this review is limited to HMO licences' application processing and determination. Processing of other types of licences, as well as licensing enforcement processes and key controls are excluded from the scope of this review but will be considered in future reviews.

Further details on the scope of our review are included at Appendix 2 – Areas of Audit Focus.

## **Reporting Date**

Our audit work concluded on 3<sup>rd</sup> May 2019, and our findings and opinion are based on the conclusion of our work as at that date.

## 2. Executive summary

Total number of findings: 4

Summary of findings raised	
High	1. Licensing System – Data Integrity and Performance Issues
High	2. Collection and processing of HMO licence fees
Medium	3. Operational Performance and Reporting
Low	4. Training and guidance documentation

Further detail on the basis of the classifications applied to our findings is included at Appendix 1

### Opinion

#### Significant improvement required

Whilst our review did not identify any significant breaches of applicable legislation; statutory obligations; or Council standing orders, we did identify gaps in both the design and operating effectiveness of the key operational controls established to mitigate the risks associated with processing HMO Licence applications and payments that are significantly impacting upon operational performance.

#### APP Civica system limitations

Most notably, there are a number of limitations with ongoing use of the APP Civica system that are impacting both user experience and the ability to completely; accurately and efficiently process HMO licencing applications and payments in line with applicable key performance targets, and effectively maintain the licencing register in line with applicable statutory requirements.

Management has advised that implementation of the latest version of the system (Cx) is planned, however there are currently no established plans to support this.

#### Completeness of income

We confirmed that there are currently no established procedures to support timely identification; matching; and allocation of BACS licencing fee receipts against applications received, with all unmatched BACS receipts retained in a general (non-Licencing) suspense account.

As the HMO licencing service is solely funded by income generated through application fees, it is essential to ensure that the full population of BACS licence fee payments are identified and processed in a timely manner.

#### Moderate control weaknesses

We also identified some control weaknesses that are having a moderate impact on Licencing's operational performance. These included lack of established procedures and guidance in relation to the number of inspection revisits to be performed for each application prior to granting an HMO licence; the need to improve the process for allocation of workload to inspections officers to address the risks associated with lone working, and ensure that inspection outcomes are consistently recorded on standard electronic proformas using iPads; lack of published guidance detailing the process for applicants to request refunds; the need to document and retain evidence of reconciliations performed to confirm that all applications received have been completely recorded on the APP Civica system; and the need to review existing and develop new HMO licencing performance measures to support ongoing performance reporting to the Regulatory Committee.

Consequently, two High; two Medium and one Low rated findings have been raised.

### **Areas of good practice**

The Licencing Team has recognised the need to understand the skills of the inspections team, and are currently developing an inspections team skills matrix with the objective of identifying skills gaps.

Management has advised that training will be developed and delivered to address the skills gaps identified, ensuring that inspection team members are fully equipped to perform their roles to the required standard, and each member of the team feels confident in their ability to perform their role to the required standard, and ensure consistency of inspections.

Another area of good practice is the weekly protection of Tuesday mornings each week to share information that the team should be aware of (for example regulatory or legislative updates) and address any team queries.

## 3. Detailed findings

### 1. Licensing System – Data Integrity and Performance Issues

High

The current version of the APP system does not include protected system fields or in-built system milestones to support HMO licence applications' data integrity.

Management has also advised that there have been numerous instances of poor system performance including initial log on issues; slow processing; and system inaccessibility resulting in application backlogs.

Limitations of the current system impair the Council's ability to meet its performance targets and also to comply with the statutory requirement to maintain a licencing register. Although management has advised that the Council is currently compliant with this requirement, the limitations of the system makes it much more manually resource intensive to maintain and the format of the register published is not as accessible as it could be on mobile or portable electronic devices.

An updated version of APP system, Cx, is available and is tailor made for license processing. Digital Services has advised that plans are in place to consider the business case for the upgrade to Cx in August/ September 2019 however Internal Audit has not been provided with any timebound project plan to achieve this.

Licensing management has advised that the longer term plan is to move to APP version 8.7, although the Change request submitted to CGI is for an upgrade to APP Civica CX, and has also confirmed that the system issues have been reported to the Regulatory Committee.

#### Risks

The potential risks associated with our findings are:

- Key data altered in the system resulting in inaccurate or incomplete licence processing,
- Potential non-compliance with Article 5(1)(f) and Article 32 of the EU General Data Protection Regulations
- Critical steps of licence processing not completed and unmonitored,
- Delayed processing of applications
- Potential failure to continue to meet the requirements of part 5 of the Housing (Scotland) Act 2006 to maintain an up to date register of applications and decisions,
- Inefficient use of staff resources due to system performance issues,
- Key system issues leading to impact on the performance not appropriately reported to senior management and governance forums for visibility, scrutiny and remedial actions.

#### 1.1 Project plan

Digital Services and Licensing division should jointly have a consultation with CGI to create a mutually agreeable timebound project plan for the implementation of APP Cx version.

#### 1.1 Agreed Management Action – Project plan

##### Response from Digital Services

Digital Services resources have now been allocated to work with both the Licencing team and CGI to progress the change request for the upgrade to APP Civica CX, and this will involve developing a plan to support implementation of the system upgrade that includes details of all relevant activities to be completed and implementation timeframes.

## Response from Licencing

The Place Directorate and Digital Services have made change requests for CGI to provide analysis on the business benefits, costs and risks of moving to the APP. These change requests are outstanding from CGI from 2018. Upon receipt of this analysis the Directorate will agree with the Resource Directorate a project plan for approval by senior managers,

**Owner:** Stephen Moir, Executive Director of Resources

**Contributors:** Nicola Harvey, Head of Customer and Digital Services; Heather Robb, Chief Digital Officer; Alison Roarty, Commercial Team Lead; Layla Smith, Business Manager; Julie Rosano, Executive Assistant

**Implementation Date:**

20 December 2019

## 1.2 Recommendation - Escalation of system issues

A paper, highlighting system issues with current version of the APP system along with a proposed plan to fix those, should be submitted to the relevant Licensing and ICT Executive Committees.

## 1.2 Agreed Management Action - Escalation of system issues

The Place Directorate has previously reported on operational performance issues to the Regulatory Committee in 2018. The Place Directorate will include a full assessment of system issues with APP within a wider performance report due to be submitted to Regulatory Committee in the last quarter of 2019/20. This report will include an update on proposed project plan for APP Cx

**Owner:** Paul Lawrence, Executive Director of Place

**Contributors:** Michael Thain, Head of Place Development; Andrew Mitchell Regulatory Services Manager; Alison Coburn, Operations Manager; Sandra Harrison, Executive Assistant.

**Implementation Date:**

31 March 2020

## 2. Collection and processing of HMO licence fees

High

There is currently no established procedural documentation or guidance to support identification and matching of funds to applications received; and processing of HMO application fees received via BACS payments directly into the Council's main bank account.

A considerable volume of licence fee payments are received via BACS (typically from agents and institutional applicants), with no licence application or property number reference numbers provided. It was not possible to quantify either the volume and value of BACS payments received, or those that remained unmatched to HMO applications received due to the lack of standardised referencing.

Lack of standard references result in difficulties matching and allocating funds received against a specific HMO licence application. The complexity of the process further increases when accumulated payments are received for more than one HMO application.

BACS payments received that cannot be matched or allocated against a licence are retained in a general Council bank account. Details of unallocated receipts are included in a general Council-wide exceptions list which is circulated to all departments by the Banking team for review and comparison with expected payments for pending applications.

Given the volume of Licensing applications (including HMO) and absence of clearly defined payment references, it is not always possible to identify and reconcile the exceptions list against the applications pending for payment.

## Risk

The potential risks associated with our findings are:

- Licencing application fees may not be matched against the correct licencing application;
- The HMO application may not be processed due to outstanding payment;
- Application processing KPIs may not be achieved;
- Licencing fee income may not be allocated against the correct general ledger cost centre and reflected in Licencing reserves; and
- Financial performance targets may not be achieved due to understated income.

## 2.1 Recommendation - BACS Payment Reference

The Licencing team, in consultation with Banking team, should develop a procedure to support identification; matching of funds to applications received; and processing of HMO application fees received via BACS payments

This procedure should include (but not be restricted to)

- development and implementation of standard references to be provided with all BACS payments;
- details of the process to be applied to identify and match the fees against applications and / or properties;
- clarification regarding whether applications can be submitted electronically or should be submitted in hard copy only.

A customer guidance note should also be developed and published on the Council website for licence applicants, detailing the alternative ways to apply and make payment for licences.

## 2.1 Agreed Management Action - BACS Payment Reference

It should be noted that measure are in place to ensure that no application is progressed without the required fee being reconciled. This reflects the statutory process and the need to ensure that the Council treats applications for a renewal lawfully unless the reconciliation process can evidence a payment has not been made.

There is no evidence from directorate monitoring the level of income from HMOs licence applications which would demonstrate that fees are not being collected. Any unmatched fee not identified will in effect contribute to the Council's general revenue account and therefore there is no financial loss to the Council.

The Internal Audit recommendation outlined above is not accepted as it not believed to be achievable. Therefore Licencing; Customer; and Finance will investigate potential solutions re the BACS issue, (including any potential scope for a technology solution) to address this risk. These options will be reviewed with Internal Audit and a longer term solution identified and implemented.

It has been agreed with Internal Audit that (once the solution has been identified) another audit finding will be raised that will monitor implementation of the solution to confirm that it is operating effectively.

In the meantime, a statement will be added to the Licencing pages on the Council's external website and application forms advising customers of what reference must be used to successfully make a BACs payment.

**Owner:** Paul Lawrence, Executive Director of Place

**Contributors:** Michael Thain, Head of Place Development; Andrew Mitchell Regulatory Services Manager; Alison Coburn, Operations Manager; Sandra Harrison, Executive Assistant.

**Implementation Date:**  
30 March 2020

**Inspection Revisit policy**

When inspection officers identify issues or anomalies during HMO property inspections, they may schedule a revisit for a later date to ensure that they have been addressed prior to granting the HMO licence. However, there is currently no documented policy stating the maximum acceptable number of revisits to be performed for each HMO application prior to refusal.

Internal Audit requested details of the volume of revisits performed for each application during the 2018/19 financial year, but this data could not be provided.

Management has advised that there are often multiple revisits for each application and that they are not consistently recorded on the system. Management has also confirmed that team briefings have been held and email guidance provided on revisits.

**Allocation of Inspections**

HMO inspections scheduled for the forthcoming week are reviewed one week in advance by a member of the inspection team to assign available time slots against the geographical location of each property. Team Leaders then allocate these time slots to each Inspection Officer.

Management has also advised that some inspection officers also reallocate the inspections amongst themselves without informing Team Leaders (TL) or management.

**Inspection documentation**

Site inspections for renewal applications should be performed using a standardised template on a Council iPad, enabling the Inspection Officer to prepare the inspection report on site and send it immediately to the applicant.

Review of a sample of 25 inspections established that 10 had been recorded on paper form. Licensing team were also unable to locate the supporting documentation for one inspection included in our sample.

We also noted that inspection officers record inspection outcomes for new applications on paper instead of using the iPad template. Team Leaders informed that it is due to the requirement of fire inspection report in new applications which is manually prepared by the Fire Officer. The manual inspection report is subsequently combined with the manual Fire Officer's report.

**Licence Fee Refunds**

The Council's Licence [Refund Request policy](#), available on the Council's external website, states the circumstances under which a refund of a licence fee can be made. It does not however provide the applicant with guidance on how to request a refund. Currently, customers request refunds directly from the Licensing officer who is processing their application, which is subsequently approved by either the Licensing Manager or next level manager.

**Reconciliation - Paper Applications to APP records**

Our review noted that Customer team's daily reconciliation between electronic application records created on the APP and paper applications is not documented. As there is no audit trail supporting this reconciliation, Internal Audit can therefore not confirm whether this control is effective in ensuring that all paper applications received have been processed via APP.

**Reporting**

The Licensing team provides performance reports against its two KPIs to the Regulatory Committee every six months. However, we noted that numbers related to HMO licensing are excluded for one of the two KPIs. The rationale supporting exclusion of the HMO performance data is not clearly stated in the performance report and is only referenced in the appendix.

Management has advised that the KPI for 90% applications to be processed within 72 days is an unrealistic expectation for HMO applications.

## Risk

The potential risks associated with our findings are:

- Inefficient use of inspection resources; inefficient processes; increased application backlogs; and failure to achieve KPI performance targets,
- Revisit inspection costs result in unit cost (processing cost) per licence that are disproportionate to licencing fee income;
- Lone working health and safety risk when inspection officers reallocate inspections without informing TLs or management
- Poor customer experience in relation to refunds, and inconsistency in the nature of refund requests received;
- Potential conflict of interest or bribery risk with refund requests made directly to Licensing officers who are processing the application;
- Subjective inspection outcomes and decisions where the standard iPad pro forma is not used;
- HMO applications are not completely recorded in APP system and are not processed; and
- Performance against KPIs for HMO applications is not provided to the Regulatory Committee for scrutiny by the Committee, and underlying performance issues may not be identified and resolved.

### 3.1 Recommendation – Inspection Revisit Policy

The Licensing team should develop and implement an inspection revisit policy that should include (but not be limited to):

- a) instance when a revisit is required prior to granting the licence;
- b) the maximum number of revisits to be performed prior to the application being refused;
- c) the minimum and maximum timeframes between revisits;
- d) the approval procedure to applied for more than one revisit for an application;
- e) processes supporting scheduling; and recording the results of revisits;
- f) when an application should be refused based on successive unsatisfactory revisits and
- g) the fee to be charged (if permitted under legislation) for any additional revisits requested by the applicants.

The procedure should be communicated to and appropriate checks established to ensure that it is consistently applied by all Team Leaders and Inspection Officers.

### 3.1 Agreed Management Action - Inspection Revisit Policy

It is not legally possible to refuse a licence application based on number of visits as legislation requires that each case is considered on its merits and any policy that removes discretion would be at high risk of legal challenge.

A new procedure is currently being drafted that will ensure a consistent approach and any decision on number of revisits is controlled by managers of the service to reduce the number of unnecessary revisits.

We will amend current codes used in the APP Civica licencing system to ensure a 3-stage process for inspection and revisit is applied going forward. This will include creation of:

- a new unique single action code for an Initial inspection
- a new unique single action code for a Revisit inspection to offer a 7,14 21 or max 28-day time frame to complete any outstanding works – only available after an initial inspection has taken place
- a new unique action for a single Team Leader/Manager Review Inspection – only available in exceptional cases where additional guidance is sought by the inspector and must be authorised by a team leader/manager

**Owner:** Paul Lawrence, Executive Director of Place

**Contributors:** Michael Thain, Head of Place Development; Andrew Mitchell Regulatory Services Manager; Alison Coburn, Operations Manager; Sandra Harrison, Executive Assistant.

**Implementation Date:**  
31 Dec 2019

### 3.2 Recommendation – Allocation of Inspections

- Inspection officers should be encouraged to assign themselves to the available weekly inspections by Wednesday of the previous week. Team Leaders should then review the schedule to confirm that inspectors have been effectively allocated across the geographies; update (as required); and finalise the inspection schedule.
- Inspection Officers should be reminded that reallocation of inspection is not permitted, detailing the risks involved, and where required, the inspection officers should request the reallocation to Team Leaders.

### 3.2 Agreed Management Action – Allocation of inspections

This process has been revisited with all team members and they are reminded all changes to be approved by Team Leaders as per the existing procedure

Reports are being designed in APP which will further strengthen this. These will ensure that inspections are based on resources available for the coming week. The allocation of inspections will be electronically passed to the TLs for efficiently checking and sign off.

The new reports and process for running/allocating the inspections are scheduled to be implemented at the end of October 2019

**Owner:** Paul Lawrence, Executive Director of Place

**Contributors:** Michael Thain, Head of Place Development; Andrew Mitchell Regulatory Services Manager; Alison Coburn, Operations Manager; Sandra Harrison, Executive Assistant.

**Implementation Date:**  
30 November 2019

### 3.3 Recommendation - Inspection documentation

Inspection Officers should consistently document their inspections outcomes (for both new and renewal applications) using the predesigned iPad template.

Team Leaders should review a sample of completed inspection reports to ensure that outcomes are being consistently recorded using the iPad template. Where exceptions are found, these should be discussed with the relevant inspection officers and included in their monthly performance discussions.

### 3.3 Agreed Management Action – Inspection documentation

A revised version of the electronic Inspection sheet for inspecting new properties is being prepared together with an electronic inspection sheet for the Fire Service and Public Safety teams. This will enable all officers involved in a new inspection to use iPADS to create and produce an inspection sheet using an electronic template. The revised procedure will put in place proportionate checks by the team leaders to ensure that the electronic template is being used.

**Owner:** Paul Lawrence, Executive Director of Place

**Contributors:** Michael Thain, Head of Place Development; Andrew Mitchell Regulatory Services Manager; Alison Coburn, Operations Manager; Sandra Harrison, Executive Assistant.

**Implementation Date:**  
31 Oct 2019

### 3.4 Recommendation - Refund Request Policy

The refund policy should be updated to include: the process for an applicant to request a refund of their HMO licence fees. This should include:

- a) how to request a refund (for example, by email/letter);
- b) link to a refund request form; and
- c) how the refund payment will be made (for example, cheque/electronic credit).

The updated refund policy should be published on the HMO License section of the Council website.

### 3.4 Agreed Management Action - Refund Request Policy

The established policy approved by Regulatory Committee is that refunds will only be authorised in very exceptional circumstances, for example, serious illness. Guidance on how to request a refund form is therefore not appropriate.

Licensing will ensure that the terms of the Policy are more clearly referenced on application forms and the Council website so that customers are aware of the terms of the policy, and will advise that in exceptional circumstances, refund requests should be made by letter to the Licensing Manager.

**Owner:** Paul Lawrence, Executive Director of Place

**Contributors:** Michael Thain, Head of Place Development; Andrew Mitchell Regulatory Services Manager; Alison Coburn, Operations Manager; Sandra Harrison, Executive Assistant.

**Implementation Date:**  
20 September 2019

### 3.5 Recommendation – Reconciliation between physical applications and APP

The reconciliation between manual applications received and those recorded on the APP system should be documented on the APP report used to complete the reconciliation. This should include:

- a) the details of individual(s) performing the reconciliation;
- b) the date the reconciliation was performed;
- c) the volumes reconciled; and
- d) details of any discrepancies and their resolution.

These documented reconciliations should be retained either electronically or physically for a minimum of one year.

### 3.5 Agreed Management Action - Reconciliation between physical applications and APP

The reconciliation between manual applications received and those recorded on the APP system will be documented on the APP report used to complete the reconciliation and will include the details noted in the above reconciliation.

The reconciliations will be retained for a minimum period of one year.

**Owner:** Stephen Moir, Executive Director of Resources

**Contributors:** Nicola Harvey, Head of Customer and Digital Services; Neil Jamieson, Customer Senior Manager; Lisa Hastie, Customer Contact Manager; Gary Jardine, Customer Service Manager; Karen Donaldson, Customer Hub Team Leader; Layla Smith, Business Manager; Julie Rosano, Executive Assistant.

**Implementation Date:**

31 October 2019

### 3.6 Recommendation - HMO Key Performance Indicators and Performance Reporting

- Performance reports currently provided to the Regulatory Committee should clearly highlight the exclusion of HMO licence application performance statistics and the supporting rationale in the overall Licensing division performance statistics;
- Management should develop a suite of SMARTER (Specific, Measurable, Attainable, Relevant, and Time-Bound; Easily understood and Relative) HMO licencing key performance indicators (KPIs);
- The KPIs and their reporting frequency should be agreed with the Regulatory Committee; and
- Performance against the revised KPIs should be reported to the Regulatory Committee on an ongoing basis at the agreed frequency.

### 3.6 Agreed Management Action - HMO Key Performance Indicators and Performance Reporting

The Regulatory Committee were previously advised that HMO performance data would be excluded whilst the Licencing introduced the significant change of moving towards a three-year licensing system. Performance reports therefore only included Civic and Taxi data in the period 2015-2018

Licencing will be reporting to Regulatory Committee on the first cycle of three-year licencing for HMO's prior to the setting of Licensing Fees for 2020/21 in early 2020. The Directorate will include within that report relevant performance data and make recommendations for approval for performance targets ongoing performance targets.

**Owner:** Paul Lawrence, Executive Director of Place

**Contributors:** Michael Thain, Head of Place Development; Andrew Mitchell Regulatory Services Manager; Alison Coburn, Operations Manager; Sandra Harrison, Executive Assistant.

**Implementation Date:**

31 Jan 2020

## 4. Training and guidance documentation

Low

Discussion with Team Leaders confirmed that there is currently no established HMO licencing team induction process for new team members, and no evidence was provided to confirm that new

employees had received induction training. Currently, new team members shadow more experienced team members.

HMO application processing guidance documentation was last updated in 2017. Some temporary changes have been made to the process since then to deal with application backlogs, however the guidance has not been updated to reflect these changes. Management has advised that this is due to the expected implementation of APP Cx system in August / September 2019 (refer Finding 1).

## Risk

The potential risks associated with our findings are:

- New team members are not provided with sufficient training and guidance.
- Procedures are not adequate and applications may not be processed in accordance with current processes.

### 4.1 Recommendation - Induction process

The induction process should be established for new HMO licensing team members. This should include coverage of all relevant HMO application and payment processes associated with the role and completion of induction checklist.

#### 4.1 Agreed Management Action - Induction process

Regulatory Services introduced a service specific induction program for all teams in 2018 in order to ensure that all new starts are appropriately supported.

Written Induction packs for the licensing service were created and will be used for all new staff. The pack includes a 6-week training programme which will be tailored for each new start depending on where they sit within the service

The member of staff identified by the audit had been assigned alternate duties was not therefore familiar with the process. This has been addressed with the individual concerned. Appropriate refresher briefings will be given for all managers within the service.

**Owner:** Paul Lawrence, Executive Director of Place

**Contributors:** Michael Thain, Head of Place Development; Andrew Mitchell Regulatory Services Manager; Alison Coburn, Operations Manager; Sandra Harrison, Executive Assistant.

**Implementation Date:**

30 Sept 2019

### 4.2 Recommendation - HMO application processing procedures

HMO application processing guidance should be reviewed and updated on a regular basis to ensure that it remains aligned with applicable legislative requirements and the Council's processes.

#### 4.2 Agreed Management Action - HMO application processing procedures

The legislation in this area has not changed for some time nor are any changes anticipated.

For changes in operational processes revised guides have been created. For example, the HMO processing guide is currently being updated to reflect minor changes in HMO processing. These revised user guides will be rolled out across the whole service in November after the opportunity is taken for the licensing team self-assessment and Training Needs Analysis programme, due to start in October/November 19. This will reinforce the training

**Owner:** Paul Lawrence, Executive Director of Place

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**Implementation Date:**

31 Dec 2019

# Appendix 1: Basis of our classifications

Finding rating	Assessment rationale
<b>Critical</b>	A finding that could have a: <ul style="list-style-type: none"> <li>• <b>Critical</b> impact on the operational performance; or</li> <li>• <b>Critical</b> monetary or financial statement impact; or</li> <li>• <b>Critical</b> breach in laws and regulations that could result in material fines or consequences; or</li> <li>• <b>Critical</b> impact on the reputation of the Council which could threaten its future viability.</li> </ul>
<b>High</b>	A finding that could have a: <ul style="list-style-type: none"> <li>• <b>Significant</b> impact on operational performance; or</li> <li>• <b>Significant</b> monetary or financial statement impact; or</li> <li>• <b>Significant</b> breach in laws and regulations resulting in significant fines and consequences; or</li> <li>• <b>Significant</b> impact on the reputation of the Council.</li> </ul>
<b>Medium</b>	A finding that could have a: <ul style="list-style-type: none"> <li>• <b>Moderate</b> impact on operational performance; or</li> <li>• <b>Moderate</b> monetary or financial statement impact; or</li> <li>• <b>Moderate</b> breach in laws and regulations resulting in fines and consequences; or</li> <li>• <b>Moderate</b> impact on the reputation of the Council.</li> </ul>
<b>Low</b>	A finding that could have a: <ul style="list-style-type: none"> <li>• <b>Minor</b> impact on operational performance; or</li> <li>• <b>Minor</b> monetary or financial statement impact; or</li> <li>• <b>Minor</b> breach in laws and regulations with limited consequences; or</li> <li>• <b>Minor</b> impact on the reputation of the Council.</li> </ul>
<b>Advisory</b>	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

Please see the [Internal Audit Charter](#) for full details of opinion ratings and classifications.

## Appendix 2: Areas of audit focus

The areas of audit focus and related control objectives included in the review are:

Sub-process	Control Objectives
<p>Application receipt and recording (Customer Team)</p>	<ul style="list-style-type: none"> <li>▪ Customer team has robust procedures and processing and review controls in place to ensure that correct fee is applied and charged for HMO licence applications.</li> <li>▪ Daily cash and bank reconciliations are performed to ensure that all fee income is completely and accurately recorded (in the relevant general ledger code) and refunded (where applicable);</li> <li>▪ BACS payments received are completely and accurately matched to licensing applications received via e mail;</li> <li>▪ A daily reconciliation is performed between the ACR and APP systems ensure completeness of all applications registered and transferred to Licensing, with all exceptions investigated and resolved;</li> <li>▪ Refund payment procedures are sufficiently robust to prevent applications being transferred to Licensing division prior to receipt of payment.</li> </ul>
<p>Application review and assessment (Licensing Team)</p>	<ul style="list-style-type: none"> <li>▪ Workflow is consistently monitored to ensure that the impact of increased volumes on available resources can be assessed and addressed;</li> <li>▪ Workload is allocated to team members based on skills and experience;</li> <li>▪ Team members are aware that any potential conflicts of interest and / or bribery in relation to licence applications should be communicated to management. Where conflicts of interest / bribery, have been highlighted, work is reallocated;</li> <li>▪ Guidance; detailed procedures; and ongoing training have been developed and implemented to ensure that all team members understand the relevant legal requirements associated with assessment of HMO licence applications;</li> <li>▪ Standard inspection templates have been developed and are consistently applied to support completion of property inspections and the decision to recommend grant of licence;</li> <li>▪ The process for engaging with both statutory and non statutory consultees is consistently applied, with outcomes (including objections) consistently document and resolved, to ensure that the applicant and premises do not contravene applicable laws, regulations, or Council standing orders, and all opinions have been considered;</li> <li>▪ There is appropriate segregation of duties between team members processing applications and recommending the grant of licence;</li> <li>▪ A one year term is applied to all new licences, and cases submitted to committee, with three years for all other licences, in line with policy;</li> <li>▪ The Council's Scheme of delegation is consistently applied in relation to the decision to grant or refuse HMO licences or to refer to licensing sub-committee for determination; and</li> <li>▪ There are strong authorisation controls, compliant with delegation of authorities to authorise refund of fees where overpayments have been made, or discounts not applied.</li> </ul>

<p>Performance Framework and Reporting</p>	<ul style="list-style-type: none"> <li>▪ A performance framework has been established and consistently applied, and includes service standards; key performance indicators; and performance monitoring and reporting to relevant management governance forums and executive committees;</li> <li>▪ Service standards have been agreed between Customer and Licensing teams. Performance is regularly monitored and reported against those service levels to identify any challenges that could impact upon performance and areas for further improvement.</li> </ul>
<p>ACR and APP System Controls</p>	<ul style="list-style-type: none"> <li>▪ Appropriate system security controls (for example unique passwords and regular password changes) have been established and are consistently applied to ensure protection of customer data;</li> <li>▪ System access rights are appropriately allocated based on roles and responsibilities within the team, notably for new team members and any team members who have changed roles;</li> <li>▪ Regular user access reviews are performed to confirm that user access rights remain appropriate;</li> <li>▪ Appropriate disaster recovery and business continuity arrangements (including recovery time and recovery point objectives) have been established and tested for the ACR and APP systems. These objectives are aligned with CGI recovery time and point objectives and are sufficient to prevent loss of application data;</li> <li>▪ Ongoing system issues and their impact on performance are recorded and escalated to ICT and relevant governance forums;</li> </ul>