

# Final Internal Audit Report

## Affordable Homes – Taberner House

### Contract Management

### May 2022

Distribution: Corporate Director of Housing  
Service Development and Strategic Projects Manager  
Corporate Director of Resources  
Interim Assistant Chief Executive

Assurance Level	Issues Identified	
Limited Assurance	Priority 1	4
	Priority 2	2
	Priority 3	0

#### Confidentiality and Disclosure Clause

This report ("Report") was prepared by Mazars LLP at the request of London Borough of Croydon and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

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**Please refer to the Statement of Responsibility in Appendix 3 of this report for further information about responsibilities, limitations and confidentiality.**

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### 1. Introduction

#### 1.1. The Council's website details that:

*'Croydon Affordable Homes (CAH) was set up with the goal of renting out at least 340 local homes costing a maximum 65% of the usual private rent to borough residents by 2020.'*

*'Part one of this plan is complete, with 96 one-, two- and three-bedroom properties now formally transferred from being council-owned temporary housing to becoming part of CAH.' 'The rest of the CAH homes – 244 out of 340 - will be delivered through agreements with private developers between 2018 and 2020 that will be part-funded by £30 million worth of Right To Buy house sales. These homes will be built by **Brick by Brick**, the development company set up by Croydon Council, and Hub, the company leading the regeneration of the former Taberner House site in Croydon town centre.'*

#### 1.2. Page 1 of the Cabinet report dated 15<sup>th</sup> December 2014 details that, 'The redevelopment of Taberner House is a specific target set out in Croydon's Corporate Plan 2013-2015, A1.6 To regenerate the Taberner House site. Regeneration is through the delivery of circa 420 new homes. The site is also highlighted as a key central Croydon project in The Croydon Promise: Growth for All.'

#### 1.3. Page 1 of the Public Notice of Key Decisions Made by the Deputy Leader (Statutory) And Cabinet Member For Homes, Regeneration And Planning On 1<sup>st</sup> August 2016 states, 'RESOLVED:

*1.1 To agree to dispose of the Taberner House site under the terms as laid out in the attached Part A report and to note and approve the retention by the Council of land on which affordable housing will be developed.*

*1.2 To agree to provide debt to the developer on the terms as set out in the associated Part B report.'*

#### 1.4. A Conditional Agreement for Sale in respect of the Taberner House site was entered into by the London Borough of Croydon (the Council) and Taberner House LLP (the buyer) on 9 August 2016. The agreement is varied by the First Supplemental Agreement dated 4 April 2017, Second Supplemental Agreement dated 15 May 2018, and Third Supplemental Agreement dated 7 January 2019.

#### 1.5. The fieldwork for this review was completed remotely and was undertaken as part of the agreed Internal Audit Plan for 2020/21. The objectives, approach and scope are contained in the Audit Terms of Reference at Appendix 1.

## 2. Key Issues

### Priority 1 Issues

We asked for but were not provided with any evidence of how Hub Residential Limited was chosen as the developer for the Taberner House site. **(Issue 1)**

We asked for but were not provided with payment requests submitted by Taberner House LLP to the Council in respect of the development/construction costs of the Taberner House site. **(Issue 4)**

We could not be provided with a budgetary control statement monitoring development/construction costs of the Taberner House site. **(Issue 5)**

The December 2020 cost centre summary spreadsheet (budget monitoring CAH Management) for Croydon Affordable Homes did not include a current budget and subjective code breakdown and therefore variance analysis against budgeted figures. We acknowledge we were informed that a full budget will be set for the financial year 2021-22. **(Issue 6)**

### Priority 2 Issues

A copy of the First Supplemental to the Conditional Sale of Agreement could not be located in the Council's SharePoint website. **(Issue 2)**

Valuation recommendations and payment notices numbered 26 to 28 could not be located in the Council's SharePoint site. **(Issue 3)**

There are no Priority 3 issues.

### 3. Actions and Key Findings/Rationale

#### Contract Award and Formalities

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 1
1	The original marketing of this site and the selection of the HUB was undertaken by the Council's Development Team. This team was disbanded in 2016. Despite extensive efforts, Council officers have been unable to locate this information. No further action is proposed.	<p>Part B of the Taberner House Redevelopment report presented to the Deputy Leader (Statutory) and Cabinet Member for Homes, Regeneration and Planning And Cabinet Member for Finance &amp; Treasury on 1 August 2016 detailed that, <i>'2.9 Having received considerable private sector interest in the Taberner scheme officers have agreed Heads of Terms with 'Hub Residential Limited' (HRL) and these Heads have been translated into an Agreement for Sale (AFS) with HRL subsidiary, Taberner House LLP (THL), which is attached as Appendix 1.'</i></p> <p>We asked for but were not provided with any evidence of how Hub Residential Limited became involved as the developer for the Taberner House site and how it was distinguished and selected from other developers. We cannot therefore confirm that the chosen developer presented the Council with the best value for money option.</p> <p>There is a risk that the Council cannot demonstrate that the best value offer was obtained.</p>
Responsible Officer	Deadline	
N/A	N/A	

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 2
2	The first Supplemental Agreement (dated 4 April 2017) has been located and provided to Internal Audit.	<p>Page 2 of the Second Supplemental Agreement relating to a Conditional Agreement for Sale dated 9 August 2016 details that, <i>'This Supplemental Agreement is supplemental to the Conditional Sale Contract as varied by a First Supplemental Agreement.'</i></p> <p>Whilst we were provided with access to the Council's SharePoint site containing leases and agreements relating to the Taberner House site, we were unable to locate the First Supplemental Agreement.</p> <p>There is a risk that Management are not aware of the impact of the First Supplemental Agreement on the Conditional Agreement for Sale.</p>
Responsible Officer		Deadline
N/A		N/A

## Contract Payment

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 3
2	These payment notices have been located and provided to Internal Audit.	Obtaining valuation recommendations and payment notices helps ensure that only valid payments are made for works completed.  Whilst we were provided with access to the Council's SharePoint site that contains valuation recommendations and payment notices prepared by Gardiner and Theobald LLP for the work undertaken by Henry Construction Project Ltd (HCPL) under a JCT 2016 Design and Build Contract, we could not locate valuation recommendations and payment notices numbered 26 to 28.
Responsible Officer	Deadline	
N/A	N/A	There is a risk of incorrect payments being made to Taberner House LLP.

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 4
1	A full reconciliation of payment requests and payments to Taberner House LLP has now been undertaken and passed to Internal Audit.	<p>Schedule 4 of the Conditional Agreement for Sale details that,</p> <p><i>'1 If and to the extent that the Buyer carries out the Affordable Rental Works the Council shall pay to the Buyer the Affordable Rental Units Price in instalments in accordance with this Schedule.</i></p> <p><i>2 If the Buyer serves a Payment Request on the Council then the Council shall within 5 Working Days of receipt of the Payment Request confirm to the Buyer either that it authorises payment of the amount requested, or that it authorises payment of part only of the amount requested, or that it rejects the Payment Request and any dispute shall be determined in accordance with clause 14.'</i></p> <p>Page 15 of the Conditional Agreement for Sale defines Payment Request as <i>'Affordable Rental Units Price which shall:</i></p> <p><i>(a) specify the amount requested;</i></p> <p><i>(b) be accompanied by evidence satisfactory to the Council (acting reasonably) that the Buyer has incurred Affordable Rental Units Cost of an equivalent amount since the previous Payment Request was submitted under this Agreement;</i></p> <p><i>(c) specify the total of all instalments of the Affordable Rental Units Price previously made by the Council to the Buyer; and</i></p> <p><i>(d) specify the Cost to Complete as at the date of the Payment Request;'</i></p> <p>We asked for but were not provided with copies of payment requests submitted by Taberner House LLP to the Council. We were informed that the payment requests had been requested from the Finance Team at the time of the audit. We cannot therefore confirm that the values in the payment requests matched to the valuation recommendations and payment notices provided to us.</p>
	Responsible Officer	Deadline
	N/A	N/A
		There is a risk of incorrect payments being made to Taberner House LLP.



## Budgetary Control

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 5
1	<p>As far as the Council is aware, no such budgetary control statement exists. It is acknowledged that best practice was not followed in relation to monitoring this spend. The Council has now established a Capital Board to exercise oversight of capital spend and a dedicated accountancy resource has been allocated to this area of work. We can therefore have confidence that these failings will not be repeated in future.</p>	<p>Monitoring the cost of payments made to finance the development/construction of the Taberner House site will help ensure that spend is managed within financial constraints.</p> <p>We could not be provided with a budgetary control statement monitoring development/construction costs of the Taberner House site.</p> <p>There is a risk that spend is not managed within financial constraints.</p>
Responsible Officer		Deadline
N/A		N/A

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 6
1	It is acknowledged that best practice was not followed in relation to monitoring this spend. The Council has now established a Capital Board to exercise oversight of capital spend and a dedicated accountancy resource has been allocated to this area of work. We can therefore have confidence that these failings will not be repeated in future.	<p>Ensuring the completeness of financial information within budgetary control reports and ensuring that variances are investigated and explained helps ensure that budgets are managed within financial constraints.</p> <p>The December 2020 cost centre summary spreadsheet (budget monitoring CAH Management) for Croydon Affordable Homes did not include a current budget and subjective code breakdown and therefore variance analysis against the budgeted figures. Whilst we acknowledge the spreadsheet included a column named 'Variance (Over/Under - Variance)', and some variances (13 out of 33 items) were stated, these were not formula driven against current budget figures and there were no comments in the spreadsheet to explain the variances noted for these 13 items. We acknowledge we were informed that a full budget will be set for the financial year 2021-22.</p>
Responsible Officer		There is a risk that budgets may not be managed within financial constraints.
Deadline		
N/A		
N/A		

## AUDIT TERMS OF REFERENCE

### Croydon Affordable Homes Contract Management

#### 1. INTRODUCTION

1.1 In July 2017 the Council set up Croydon Affordable Homes (CAH) to provide homes for Croydon residents that cost no more than 65% of the average market rent.

1.2 Croydon Council's website notes that:

*The Council has planned to deliver 244 out of 340 CAH homes through agreements with private developers between 2018 and 2020 that will be part-funded by £30 million of Right To Buy house sales receipts.*

*The construction contractors for these homes will be Brick by Brick, the development company set up by Croydon Council, and Hub, the company leading the regeneration of the former Taberner House site in Croydon town centre.*

1.3 This audit is being conducted as part of the agreed Internal Audit Plan for 2020-21

#### 2. OBJECTIVES AND METHOD

2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of controls / processes.

2.2 The audit will for each controls / process being considered:

- Walkthrough the processes to consider the key controls;
- Conduct sample testing of the identified key controls, and
- Report on these accordingly.

#### 3. SCOPE

3.1 This audit included the following areas (and issues raised):





Control Areas/Risks	Issues Raised		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Legislative, Organisational and Management Requirements	0	0	0
Contract Award and Formalities	1	1	0
Contractor Monitoring	0	0	0
Contract Payment	1	1	0
Performance Management	0	0	0

Control Areas/Risks	Issues Raised		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Budgetary Control	2	0	0
<b>Total</b>	<b>4</b>	<b>2</b>	<b>0</b>

## Definitions for Audit Opinions and Identified Issues

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

	Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are constantly applied.
	Substantial Assurance	While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance of the controls which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and non-compliance that puts achieving the system objectives at risk,
	No Assurance	Controls are non-existent or extremely weak, leaving the system open to the high risk of error, abuse and reputational damage.

Priorities assigned to identified issues are based on the following criteria:

<b>Priority 1 (High)</b>	Fundamental control weaknesses that require immediate attention by management to action and mitigate significant exposure to risk.
<b>Priority 2 (Medium)</b>	Control weakness that still represent an exposure to risk and need to be addressed within a reasonable period.
<b>Priority 3 (Low)</b>	Although control weaknesses are considered to be relatively minor and low risk, still provides an opportunity for improvement. May also apply to areas considered to be of best practice that can improve for example the value for money of the review area.

## **Statement of Responsibility**

We take responsibility to the London Borough of Croydon for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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