

Final Internal Audit Report

Leasehold Service Charges

January 2019

Distribution: Executive Director Gateway Strategy and Engagement (Final only)
 Director of Housing Assessment and Solutions
 Head of Service Development
 Operational Manager

Assurance Level	Recommendations Made	
Substantial Assurance	Priority 1	0
	Priority 2	0
	Priority 3	2

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 When individuals buy a flat or a maisonette in a Council block, they purchase a leasehold interest and the Council keeps the freehold interest. As freeholder, the Council owns and is responsible for the maintenance and repair of the exterior elements and main structure of the building and the area around it. This includes:
- main structural parts of the building including the roof, foundations, and walls (but not wall plaster);
 - joists and beams;
 - loft spaces and the fittings and equipment within them which serve more than one home;
 - tanks, cisterns, drains, pipes, gutters, sewers, ducts, conduits, plumbing and wiring which serve more than one home;
 - external door and window frames;
 - communal hallways, corridors, stairways, doors, door frames, lifts and other shared internal spaces;
 - communal gardens, paths, parking areas, recreation areas and other shared external areas, and
 - the heating system if there is a communal heating system.
- 1.2 The leaseholders own and are responsible for the maintenance and repair of everything inside their homes or which relates solely to these. As a leaseholder they must pay all service charges due under the terms of their leases, namely annual services, repairs, improvements ground rent, administration fees and insurance.
- 1.3 Many of the Council's blocks and estates have both tenants and leaseholders living in them. Leaseholders are not charged for the cost of repairs to tenants' homes, but are responsible for paying their share of the council's costs for repairing the exterior and communal areas. The actual amount paid will change each year.
- 1.4 This audit was undertaken as part of the 2018/19 audit plan.

2. Key Issues

- 2.1 No Priority 1 or 2 issues were identified.
- 2.2 During the audit it was identified that a review of user access rights to the relevant computer application could not be evidenced as being undertaken. Internal Audit is; however, aware that the application used (i.e. OHMs) is in the process of being replaced and that as part of the migration to the new system a complete review of user rights will occur. For this reason no issue has been raised, although the overall assurance level still reflects that this issue exists.
- 2.3 Priority 3 issues are included under item 3 below.

3. Priority 3 Issues

Action Proposed by Management	Findings
<p>1) We are aware that some procedure notes need updating and reviewing. This is a project that the new Leasehold and Home Ownership Development Officer will carry out this year. We will prioritise those dated earlier than 2016. This project will also agree timeline going forward for annual reviews.</p>	<p>In order to help ensure that staff understand and undertake tasks as expected and comply with legislation, appropriate procedure notes and guidance documents should be in place.</p> <p>It was confirmed that a number of procedure notes relating to leasehold services are held on SharePoint, where these are available to staff. Examination of these 19 procedure notes found that a number did not evidence any review or renewal since 2014.</p> <p>Where procedure notes are not evidenced as regularly reviewed, there is a risk that these may not be fully up to date and may not reflect current expectations.</p>
<p>2) We recognise that this is good practice and currently at final stage, 2 officers will check figures to ensure that these are correct and that no errors occur. In response to the audit recommendations, we will now extend this practice to s20 preparation process and ensure 2 officers will check figures are correct and with no errors.</p>	<p>It is good practice to review any estimates for works before these are issued to leaseholders, to help ensure that these are correct and that no errors occur.</p> <p>Review of the Section 20 process and sample testing of 10 instances where major works were conducted of leaseholder properties identified that estimates provided at the initial stages of consultation were not reviewed and approved by the Operational Manager before being issued.</p> <p>It is acknowledged that the wording of the 'Notice of Intention for Qualifying Works under Qualifying Long Term Agreement' letter does include the wording 'our non-binding estimate is as follows:'</p> <p>Where estimates are not checked by a second officer prior to being issued in a notice of proposal, there is a risk that errors or omissions may occur.</p>

TERMS OF REFERENCE

Leasehold Service Charges

1. INTRODUCTION AND BACKGROUND

- 1.1 When individuals buy a flat or a maisonette in a Council block, they purchase a leasehold interest and the Council keeps the freehold interest. As freeholder, the Council owns and is responsible for the maintenance and repair of the exterior elements and main structure of the building and the area around it. This includes:
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- 1.4 This audit is being undertaken as part of the agreed Internal Audit Plan for 2018/19.

2. OBJECTIVES AND METHODOLOGY

- 2.1 The overall audit objective is to provide an independent review on the adequacy and effectiveness of the control environment relating to Leasehold Service Charges.
- 2.2 In order to achieve the overall objective, a risk based systems audit approach will be carried out, documenting and evaluating the actual controls against those expected and based on this, undertaking appropriate testing.

2.3 The key findings, conclusions, and subsequent issues arising will be presented at an exit meeting and followed by the circulation of a draft report for consideration by the Head of Service and Director for Economic Growth. This will be prior to agreement and issue of the final audit report.

3 SCOPE





3.1 The scope of this audit included the following areas:

Control Areas/Risks	Issues Identified		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Legislative, organisational and management requirements	0	0	1
Consultation and statutory notification on service provision	0	0	1
Identification and calculation of attributable costs	0	0	0
Allocation of overheads, including management costs	0	0	0
Billing of major works	0	0	0
Billing of annual service charge	0	0	0
Amendments to leaseholder accounts	0	0	0
TOTAL	0	0	2

DEFINITIONS FOR AUDIT OPINIONS AND RECOMMENDATIONS

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 consistently 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 which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and/or non-compliance that puts achieving the system objectives at risk.
	No Assurance	Controls are non-existent or weak and/or there are high levels of non-compliance, leaving the system open to the high risk of error or abuse which could result in financial loss and/or reputational damage.

Priorities assigned to recommendations are based on the following criteria:

Priority 1 (High)	Fundamental control weaknesses that require the immediate attention of management to mitigate significant exposure to risk.
Priority 2 (Medium)	Control weakness that represent an exposure to risk and require timely action.
Priority 3 (Low)	Although control weaknesses are considered to be relatively minor and low risk, action to address still provides an opportunity for improvement. May also apply to areas considered to be of best practice.

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.

This report is confidential and must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation amendment and/or modification by any third party is entirely at their own risk.

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