

Final Internal Audit Report

CAH – Contract Management

February 2024

Distribution: Corporate Director of Resources and S151 Officer
Director of Commercial Investment
Regeneration Lead
Strategic Projects Manager
Finance Director (Deputy S151)

Assurance Level	Issues Identified	
No Assurance	Priority 1	5
	Priority 2	3
	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 In order to make renting in Croydon more affordable, the London Borough of Croydon (the 'Council') set up a charitable partnership to provide affordable properties to rent in the borough.
- 1.2 Croydon Affordable Homes LLP (CAH) was set up with the goal of renting out at least 340 local homes costing a maximum 65% of the usual private rent in the borough.
- 1.3 Part one of this plan was completed in 2017 with 96 one, two and three-bedroom properties now formally transferred from being council-owned temporary housing to becoming part of CAH. This gave the tenants longer tenancies, turning temporary accommodation into assured shorthold tenancies lasting between one and three years. Part two of the plan was completed in 2019 with the transfer of 250 properties through agreements with private developers.
- 1.4 The Council has a 99% holding in LBC Holdings LLP, which in tandem with Croydon Affordable Housing (an independent charity), set up four LLPs; including Croydon Affordable Homes LLP and Croydon Affordable Tenures (CAT) LLP, with the remaining 2 LLPs dormant.
- 1.5 The Council sold the properties to CAH and CAT under an 80-year lease agreement and established a property management agreement with the LLPs. To enter the lease agreement, the Council provided CAH and CAT funding via loans and right to buy receipts, which the LLPs used to pay the head lease liability fully. The transfer of properties was made under head leases for an 80-year term, with the Council having the option to terminate the lease after 40 years.
- 1.6 CAH buys into the Council services for managing the properties (facility management service and rent collection service). CAH has a service level agreement (SLA) with the Housing Allocation team, Rent Account team and Croydon Council Responsive Repairs Planned Maintenance Services Asset Management (facility and rent collections). Payments are made by internal recharges.
- 1.7 This review and testing were performed remotely. There was a lack of engagement from the auditees and we were unable to obtain all the relevant documents required to complete the review. Areas where evidence was not received are documented within our recommendations in section 3 in the report, 'Actions and Key Findings/Rationale'.
- 1.8 The audit was undertaken as part of the agreed Internal Audit Plan for 2022/23. The objectives, approach and scope are contained in the Audit Terms of Reference at Appendix 1.

2. Key Issues

Priority 1 Issues

Performance management meetings were not taking place between CAH and the Council’s Responsive Repairs Planned Maintenance Services Asset Management team and it was not possible to confirm that key performance indicators were being monitored and recorded. Furthermore, no evidence was provided that the CAH Team was effectively managing voids, compliance (fire safety, gas safety, electrical testing and asbestos) and customer satisfaction as set out in its SLA with the Council. **(Issue 1)**

It was not possible to evidence that performance monitoring meetings were undertaken between CAH and the Council’s Housing Allocation team nor the content of these meetings and therefore Internal Audit was unable to confirm that allocations were managed appropriately in line with the SLA. **(Issue 2)**

Internal Audit was not provided with the general ledger report and loan repayment statement; therefore, assurance cannot be given that the Council made prompt payments to financiers which were monitored against budget. **(Issue 3)**

The rent and arrear reports for 2022/2023 and access to the Council’s application for managing housing rent (OHMS) were not provided; therefore, it was not possible to confirm that the Council’s rent collection and arrears management was adequate and effective. **(Issue 4)**

It was not possible to confirm that CAH’s control over contract expenditure and management fees was adequate and effective. **(Issue 5)**

Priority 2 Issues

The Council did not have a CAH strategy that set out both medium-term and long-term objectives. **(Issue 6)**

There was no overarching procedural guidance document to guide the CAH's operations and the CAH rent policy was in draft. Rental charges had not been reviewed since 2019. **(Issue 7)**

The Service Level Agreement (SLA) between the CAH and the Housing Allocation team, Rent Account Team and the Responsive Repairs Planned Maintenance Services Assets Management Team had not been reviewed and updated since its introduction in 2021 to reflect current practice. **(Issue 8)**

There are no Priority 3 issues.

3. Actions and Key Findings/Rationale

Control Area 2: Contract monitoring (focusing on quality, quantity, and core conditions of the contract)

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 1
1	<p>Following the appointment of two new R&M contactors by the housing team in Q3 2023, the SLA between the housing team and CAH have been refreshed to ensure that moving forward backlog / disrepair works are prioritised, and that future demand is captured and reported to the CAH Board</p> <p>The Council have now appointed its own rep on the CAH Board to ensure better visibility, governance and performance of the CAH Board.</p>	<p>Expected Control</p> <p>The SLA with the Council’s Responsive Repairs Planned Maintenance Services Asset Management team (the Service Manager) sets out the performance management activities and key performance indicators for CAH and the Service Manager. These include:</p> <ol style="list-style-type: none"> 1. <i>CAH will set up monthly meetings with the Service Manager to monitor performance in line with the SLA.</i> 2. <i>The Service Manager will provide performance information based on the turnaround times detailed in the SLA.</i> 3. <i>The Service Manager will provide evidence of meeting turnaround times and highlight areas of improvement.</i> 4. <i>The Service Manager will report annually on performance against the following KPIs:</i> <ul style="list-style-type: none"> • <i>Voids</i> • <i>Compliance (FRA’s, Gas Safety, Electrical Testing, Asbestos)</i> • <i>Repairs (Responsive and Planned)</i> • <i>Customer Satisfaction</i> <p>Issue/Finding</p>

Responsible Officer	Deadline	
Director of Commercial Investment	May 2024	<p>The Head of Strategic Projects advised that the Council's Repairs and Maintenance team did not have adequate resources and that there had been performance related issues with the contractors in relation to providing the agreed services. However, testing found that performance management meetings had not been taking place and key performance indicators for CAH and the Service Manager had not been recorded.</p> <p>The Head of Strategic Projects stated that voids and regulatory compliance were managed directly by the CAH Team. While requested, no evidence that the CAH Team was monitoring and reporting on voids and compliance was provided.</p> <p>Assurance is unable to be provided that the relevant regulatory obligations are being complied with and this may require escalating to the Housing Regulator where other forms of assurance are unable to be obtained.</p> <p>Risk</p> <p>Where performance management meetings do not take place, there is a risk that poor contractor performance is not identified and addressed, leading to inadequate tenant experience, potential legal action, financial loss and / or reputation damage.</p> <p>Where the voids and other compliance checks are not carried out or the CAH Team cannot demonstrate that they have been conducted timely, there is a risk that the Council may be in breach of legislation leading to penalty fines and reputational issues.</p>

Control Area 2: Contract monitoring (focusing on quality, quantity, and core conditions of the contract)

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 2
1	SLA agreement refreshed and now being worked to by the housing team.	<p>Expected Control</p> <p>The CAH Team has a Service Level Agreement (SLA) with the Council’s Housing Allocation team to provide nominations for void properties, advertise void properties using Croydon Choice, make direct offers, confirm the suitability of nominees, process management transfer applications including domestic abuse cases and decants, and carrying out transfers.</p> <p>Issue/Finding</p> <p>Internal Audit requested the Allocation team's monthly reports and minutes of meetings to verify that the performance monitoring is undertaken and allocation activity is undertaken in line with the SLA; however, these were not provided and therefore Internal Audit is unable to provide assurance as to whether allocations were managed appropriately in line with the SLA.</p> <p>Risk</p>
	Responsible Officer	Where allocations are not carried out appropriately, there is a risk that the allocations are not transparent and fair, leading to reputational issues. This would impact the customer experience and may lead to an increase in complaints.
Director of Commercial Investment	Deadline March 2024	

Control Area 3: Contractual payments

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 3				
1	The financial payments were tracked by the Council finance team since CAH is still in the process of setting up its own bank account.	<p>Expected Control</p> <p>In line with the Cash Management Agreement between the Council and its two financiers (Canada Life and Legal and General), the Council agreed to pay both financiers an index-linked annual payment for 40 years - £425,000 pa to Canada Life and £1,115,000 pa to L&G based on the head lease for the various properties.</p> <p>Issue/Finding</p> <p>Internal Audit requested the general ledger report and loan repayment statement to confirm that the Council had made payments for the agreed amounts and that the payments were tracked against the 2022/23 Fund Investment Returns budget. As the CAH Team did not provide the requested evidence, it was not possible to evidence that the Council made payments to the financiers promptly nor that they monitored the payments against the budget.</p> <p>Risk</p> <p>Where the Council does not pay funders promptly and cannot evidence payments, there is a risk that the Council may breach the Cash Management Agreement, which may lead to financial loss due to late payment interest or penalty for the non-payment. Where payments are not tracked against the budget, there is a risk that the Council may exceed the approved budgets.</p>				
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Responsible Officer	Deadline					
Director of Commercial Investment	March 2024					

Control Area 3: Contractual payments

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 4				
1	<p>The matter of costs recovery against non-payment of rent was being managed in-house by the Council legal team.</p> <p>Capacity issues were identified in the legal team on moving at pace to rent collection and arrears. Additional capacity has now since been provided in the legal team to address this and rent collection and arrears have now improved, further recovery work still required.</p>	<p>Expected Control</p> <p>The draft CAH Rent Policy sets out the process for managing and handling rent collection and rent arrears. CAH focuses on preventative measures for managing arrears and adopts the view that tenants are responsible for paying their rent in advance; therefore, rent should be considered a priority debt. Rent arrears actions are based on a staged escalation process, leading up to eviction.</p> <p>Issue/Finding</p> <p>As the rent and arrear reports for 2022/2023 and access to OHMS (the Council’s platform for managing housing rent), although requested, was not provided, it was not possible to confirm that the Council’s and CAH’s rent collection and arrears management was adequate and effective.</p> <p>Risk</p> <p>Where the Council does not manage rent collection and arrears, there is a risk that made arrear payments may not be recovered, leading to financial loss to the Council.</p>				
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Responsible Officer	Deadline					
Director of Commercial Investment	March 2024					

Control Area 3: Contractual payments

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 5				
1	The process on reviewing invoices and ensuring that PO have been raised has been reviewed and improved as part of the procurement improvement plan being brought forward by the Council.	<p>Expected Control</p> <p>Invoices related to the contract expenditure and management fees should be reviewed, approved and paid promptly in line with the Council's payment terms.</p> <p>Issue/Finding</p> <p>Internal Audit requested the overview expenditure and management fees report for 2022/23 to confirm whether contract expenditure and management fees were reviewed and appropriately approved by the CAH Team. As the requested documents/information and access were not provided, Internal Audit is unable to give assurance on the adequacy and effectiveness of CAH's control over contract expenditure and management fees.</p> <p>Risk</p> <p>Where contract expenditure and management fees are not reviewed, approved and paid in line with the payment terms, there is an increased risk that CAH may default on the payment terms leading to late payment fees and reputation issues.</p>				
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Responsible Officer	Deadline					
Director of Commercial Investment	March 2024					

Control Area 1: Regulatory, organisational and Management requirements

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 6				
2	<p>This is the responsibility of the CAH Board not the Council. The Council are in the process of supporting the CAH Board to take on their strategic responsibilities in this respect.</p> <p>Council's responsibility will be to provide comments and input on CAH proposals</p>	<p>Expected Control</p> <p>The Council maintains an approved CAH strategy, which covers both the mid-term and long-term objectives for the organisation. This helps ensure the Service meets the Council's objectives for constituting the CAH and legislative requirements.</p> <p>Issue/Finding</p> <p>The Head of Strategic Projects advised that the Council does not have a CAH Strategy to support and guide the Council's objectives for constituting the CAH.</p> <p>Risk</p> <p>Where the Council does not have an approved CAH strategy, there is a risk that CAH may not achieve its targets and service delivery may not align with the Council's objectives.</p>				
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Responsible Officer	Deadline					
Director of Commercial Investment	September 2024					

Control Area 1: Regulatory, organisational and Management requirements

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 7
2	<p>The CAH Board are reviewing various policies which includes rent policy.</p> <p>We note MAZARS suggestion on where rents should sit vs the private sector.</p>	<p>Expected Control</p> <p>There should be an approved CAH rent policy that is subject to regular review, along with documented standard operating procedures, to ensure that the Council's objectives are achieved. The rent policy and operating procedures should outline timeframes for required activities, the frequency of reporting and the roles and responsibilities of officers involved in the process. Additionally, the CAH should review the rent charges annually to ensure that the rent remains a maximum of 65% of average private-sector rents in the borough.</p> <p>Issue/Finding</p> <p>Review of CAH's Rent Policy noted that the document was still in draft. The Head of Strategic Projects advised that CAH uses the Council's Housing Rent policy and that, when finalised, the CAH rent policy will be presented to the CAH Board for approval. In addition, the Head of Strategic Projects advised that CAH did not have an overarching procedural guidance document to guide its operations and that as a result, rental charges had not been reviewed since 2019.</p> <p>Risk</p> <p>Where there is no CAH rent policy and standard operating procedure document, there is an increased risk of inconsistent practice in rental management, which may result in CAH not achieving its objectives. Where rent is not reviewed annually, there is a risk that the rental charges may not be within target of 65% of the usual private rental value.</p>
	<p>Responsible Officer</p> <p>Director of Commercial Investment</p>	<p>Deadline</p> <p>June 2024</p>

Control Area 1: Regulatory, organisational and Management requirements

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 8				
2	<p>A review is currently underway of the relationship and legal agreements between the Council and CAH to fully implement CAH's independence from the Council. Agreed that reviews to be undertaken annually between CAH and the Council</p> <p>Future arrangements for certain services to CAH are currently being considered for potential externalisation e.g. repairs, rent collection and financial support.</p>	<p>Expected Control</p> <p>The Service Level Agreements (SLAs) between the CAH and the Council's teams (Housing Allocation team, Rent Account team and the Responsive Repairs Planned Maintenance Services Assets Management team) require that representatives of both parties review the agreements annually.</p> <p>Issue/Finding</p> <p>Examination of the SLAs, effective from 5 September 2021 found that the agreements had not been evidenced as reviewed since introduction. As a result, some activities and responsibilities included in the documents were no longer relevant or correct. These included stating that:</p> <ul style="list-style-type: none"> • CAH's team undertook rental income performance monitoring rather than the Council's Rent Account team; • Void and compliance were managed by the CAH team rather than the Council's Responsive Repairs Planned Maintenance Services Asset Management team. <p>Risk</p> <p>Where the SLA is not reviewed and kept up to date, there is a risk that the services provided are no longer relevant.</p>				
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Director of Commercial Investment	December 2024					

AUDIT TERMS OF REFERENCE

CAH Contract Management

1. INTRODUCTION

- 1.1 In order to make renting in Croydon more affordable, London Borough of Croydon (the 'Council') have set up a charitable partnership to deliver affordable properties to rent in the borough.
- 1.2 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 in the borough
- 1.3 Part one of this plan was completed in 2017 with 96 one, two and three-bedroom properties now formally transferred from being council-owned temporary housing to becoming part of CAH. This gives the tenants longer tenancies, turning temporary accommodation into assured shorthold tenancies lasting between one and three years. Part two of the plan was completed in 2019 with the transfer of 250 properties through agreements with private developers.
- 1.4 The Council manages 16 additional housing units outside the NLP and the only other contract is the accountancy control.
- 1.5 The Council has service level agreements (SLAs) in place for delivery of contract and payments are made by internal recharges.
- 1.6 Borrowing restrictions mean the Council cannot fund these developments through its Housing Revenue Account, so the creation of CAH allows the same outcome of delivering affordable rented properties across the borough.
- 1.7 CAH does not manage any new builds – these are managed under the HRA.
- 1.8 Performance against the contract is reported to the board each quarter.
- 1.9 This audit is being undertaken as part of the agreed Internal Audit Plan for 2022/23.

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
 - 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)
Regulatory, Organisational and Management Requirements	0	3	0
Contract Monitoring (including quality, quantity, and core conditions of contract)	2	0	0
Contractual Payments	3	0	0
Contract Performance Monitoring	0	0	0
Total	5	3	0

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:

Priority 1 (High)	Fundamental control weaknesses that require immediate attention by management to action and mitigate significant exposure to risk.
Priority 2 (Medium)	Control weakness that still represent an exposure to risk and need to be addressed within a reasonable period.
Priority 3 (Low)	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.

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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