

# Final Internal Audit Report

## Tenant Service Charge 2022/23

### October 2022

Distribution: Corporate Director of Housing  
Interim Head of Tenancy & Resident Engagement  
Operational Manager  
Senior Digital Systems Officer  
Finance Manager  
Corporate Director of Resources & S151 Officer

Assurance Level	Issues Identified	
Substantial Assurance	Priority 1	0
	Priority 2	0
	Priority 3	1

#### [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.

The Report was prepared solely for the use and benefit of London Borough of Croydon and 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, re-interpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, re-interpretation, amendment and/or modification by any third party is entirely at their own risk.

**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 Service charges are payments by the tenant or leaseholder to the landlord for all the services they provide. The Landlord and Tenant Act 1985 (the Act) sets out the basic rules for service charges, defining what is considered a service charge, setting out requirements for reasonableness and for prior consultation of leaseholders.
- 1.2 Croydon Council's (the Council) housing stock includes various types of dwellings, including flats and houses, and has both tenants and leaseholders living in them. The incurred costs of carrying out repairs and other related services are divided between tenants and leaseholders. However, tenants are only responsible for their share of the Council's costs for repairing the exterior and communal areas. This audit focused on tenant service charges only.
- 1.3 The Council have opted for a fixed charge based on property type. For the 2022/23 financial year flats pay a service charge of £10.97 per month and houses pay a service charge of £2.25 per month. This audit has provided assurance over the operation of the service and application of increase calculations only, we have not assessed the reasonableness of the service charge being levied.
- 1.4 Croydon's Tenancy and Resident Engagement team is responsible for managing tenants service charges, and the team is headed by the Interim Head of Tenancy and Resident Engagement. At the time of the audit, the Council had 13,509 properties with a service charge payment. The full cost of caretaking, grounds maintenance and bulk refuse collection services are recovered via the service charges applied to tenants that receive the services.
- 1.5 While the audit and testing were performed remotely, we have been able to obtain all relevant documents required to complete the review.
- 1.6 This audit was undertaken as part of the 2022/23 Internal Audit Plan agreed by the Council Audit Committee. The objectives, approach and scope are contained in the Audit Terms of Reference at Appendix 1.

**2. Key Issues**

No key issues were identified.

Details on the Priority 3 issue are included in Section 3.

**3. Priority 3 Issue**

Agreed action	Findings
<p><u>1) Service Charge Setting Guidance</u></p> <p>The Housing Department has a Policy Team included as part of its future structure. The review of this policy to update it and include it a part of a suit of documents for staff is a key objective.</p> <p>Target date for review and sign off March 2023.</p>	<p><b>Expected Practice</b></p> <p>Providing guidance that directs officers how to calculate and record service charges is important to ensure consistency within the service charge calculation process.</p> <p><b>Finding/ Issue</b></p> <p>The OHMS Rents Year End Guide that contains information relating to setting the annual service charges had not been reviewed or updated since November 2019.</p> <p><b>Risk</b></p> <p>Where guidance has not been reviewed or updated there is a risk that recent changes in process or legislation have not been implemented and documented by the Council. This may result in failure to comply with legislation.</p>

## AUDIT TERMS OF REFERENCE

### Housing Rents: Tenant Service Charge Calculations 2022/23

#### **1. INTRODUCTION & BACKGROUND**

- 1.1 Service charges are payments by the tenant or leaseholder to the landlord for all the services they provide. This audit will focus on tenant service charges only, there is a separate audit included in the 2022/23 Annual Internal Audit Plan reviewing the leaseholder service charges.
- 1.2 The Council's housing stock includes various types of dwellings, including flats and houses, and has both tenants and leaseholders living in them. The incurred costs of carrying out repairs and other related services are divided between tenants and leaseholders. However, leaseholders are only responsible for their share of the Council's costs for repairing the exterior and communal areas.
- 1.3 The Council has discretion around how they would apportion the costs between different tenants or dwellings. They could charge all tenants a fixed amount, charge only tenants living in flats, maisonettes, or estates, or only charge those that were receiving the service.
- 1.4 The Housing Ombudsman is responsible for investigating complaints on the collection of service charges and their calculation such as accounting errors, communication, and application of refunds.
- 1.5 All the service charges are covered by Housing Benefits for eligible tenants.
- 1.6 Calculation of tenant service charge is based on the annual percentage increases '(Customer Price Index (CPI) based) + 1%' basic formula.
- 1.7 This audit will focus on the service charges to tenants, with leasehold charges being subject to a separate audit.
- 1.8 This audit is part of the agreed Internal Audit Plan for 2022/23.

#### **2. AUDIT OBJECTIVES AND METHODOLOGY**

- 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 focus on 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 The audit included the following areas (and number of identified issues):





Audit Area	Identified Issues		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Legislative, Organisational and Management Requirements	0	0	1
Service Charge Calculations Processes	0	0	0
Authorisation of Service Charges	0	0	0
Management Oversight and Reporting	0	0	0
<b>Totals</b>	<b>0</b>	<b>0</b>	<b>1</b>

3.2 The scope of this audit has not assessed the reasonable and appropriateness of tenants service charges or reviewed that the service charges align to the terms of tenancy agreements. The focus of the audit was the operation of the calculating and applying annual increases to tenant service charges.

## 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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