

Internal Audit Review - Summary Leaseholder Service Charges - (Planned & Major Repairs)

Background:

- 1.1 Under the Right to Buy scheme, all residents who purchase the lease to their previously Royal Borough owned property become liable, under the conditions of the lease, for a fair contribution to costs associated with the development and improvement of the property and the surrounding estate.
- 1.2 On an annual basis, regular day to day maintenance costs associated with the running of the block and estate are invoiced to leaseholders, i.e. revenue expenses. In addition to this, individual charges can be raised for planned capital works for improvements and major repairs not covered under day to day running expenses.
- 1.3 The volume of leaseholder invoices raised each year for these major capital works is dependent upon the number of contracts organised to commence and so can vary from year to year. In 2019/20, invoices to the value of £1,493,343 were raised (net of credits), whereas in 2020/21, invoices to the value of £4,372,918 were raised (net of credits).
- 1.4 A review of the operational controls in place to manage the calculation and raising of invoices to leaseholders for capital works had not been completed previously and consequently, the review was included within the Audit Plan for 2020/21.

Internal Audit Opinion:

- 2.1 The process for planning and completing capital works falls within the responsibility of Repairs & Investment. Leaseholder contributions towards the cost of schemes is administered by the Home Ownership Service (both the Right to Buy and Service Charge Production teams), which relies heavily on the receipt of information from the various project managers within Repairs & Investment. Evidence presented during the course of this review indicates that this communication was not working effectively, despite both sections being in the same directorate.

- 2.2 Operational management within the Service Charge Production team relies on a network of spreadsheets in the absence of a service dedicated system. This is despite Management's desire to have an effective fully integrated ICT solution and a recommendation to this effect in a previous Internal Audit report in 2016 following the review of Home Ownership Systems.
- 2.3 Testing completed highlighted several errors in invoice calculation, a failure to actualise estimated costs on the completion of projects and has also raised concerns over the process for estimating leasehold liability for up and coming projects during the right to buy process. It is the opinion of Internal Audit that issues raised in paragraphs 2.1 and 2.2 have contributed significantly to these errors and there is an urgent need to review communication arrangements and the ICT management system in place as a means of maximising the collection of income.
- 2.4 Officers within the Home Ownership Service and Repairs & Investment responded promptly and efficiently to the Auditor's queries and requests for information during the course of the audit.

Main Issues Arising:

- 3.1 The following key issues were identified:
 - A joint procedure documenting the important working relationship between the Home Ownership Service and Repairs & Investment exists; however, it has not been reviewed or updated since 2014. There is no clear documentation of the systems and processes operated by the Home Ownership Service, including the complex network of interrelating spreadsheets.
 - Despite the production of a joint working procedural manual, there was inconsistency reported by management in the communication of important data which impacts on the efficiency and effectiveness of the Home Ownership Service.
 - There was an absence of clear evidence of separation in duties and management supervision. Although examples of checking did exist, there was no assurance that the checks were targeted at risk areas.

Appendix A

- The accuracy and integrity of data was not controlled through a dedicated service driven software system and instead reliance was placed on a network of independent excel spreadsheets. The spreadsheets did not include security protection for fields containing key formulae.
- Fees chargeable to new leaseholders (i.e. those who have purchased their lease within the previous 5 years) are capped/limited at a rate estimated during the lease acquisition process and documented in the s.125 notice. A flat fee is charged if the scheme was not included in the relevant s.125 notice at all. Evidence indicated poor control over the estimation of these fees during the acquisition period leading to inconsistency and potentially lost income and claims from leaseholders of unfairness. In addition, the flat rate was found to have not been reviewed for over 20 years and is likely, therefore, to not represent current costs. There was an absence of any monitoring of capped / limited fees raised as a means of measuring the financial impact of these reduced charges.
- The estimation of liability ahead of a scheme commencement date includes properties which are in the process of lease acquisition. Occasionally, these acquisitions do not complete on time leading to adjustments to final invoicing. Evidence within the network of management spreadsheets did not clearly indicate where this had happened leading to imbalances and errors between estimated charges and actual billing.
- Significant delays have been reported with the provision of final accounts from Repairs & Investment leading to a number of contracts not being actualised.

Eleven high priority recommendations were made to improve controls to ensure charges are raised accurately, completely and in a timely manner.