



Forensic Service Charge Audit Protocol

Introduction

The reason that forensic audits are undertaken is that concerns have been raised about the validity of entries in accounts.

Audits generally only test check a number of entries and then usually only that they have been posted to the accounts correctly.

The problem with this approach is that it only looks at the data in front of the auditor at the time. For example:

- Invoice received
- Supplier account identified
- Invoice posted to correct nominal code i.e. Repairs, Halton Court
- Invoice paid to correct supplier
- Entry in the bank account.

A forensic audit by contrast should look at the following:

- Job No./ Purchase order
- Who authorised the Job
- Terms agreed with the supplier/contractor
- Suppliers job sheet showing work has been done.
- Who passed the job sheet as completed.
- Invoice from supplier matched with suppliers job sheet.
- Invoice costs are in line with the agreed terms
- Invoice posted to the correct cost centre/nominal code.
- Invoice paid to the correct supplier.

This therefore forms a complete audit trail from works needing to be done to invoice being paid.

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Benefits of a Forensic Audit

This approach would pick up a great many more errors than a standard audit. Alongside the errors that would be flagged by the standard approach, the forensic approach should identify errors in:

- Posting
- Charging of overheads to service charge accounts.
- Duplicated invoicing by suppliers.
- Errors or fraudulent entries.
- Overcharging by suppliers
- Incorrect cost centres, ie wrong estates/blocks etc.

Annual maintenance contracts

All maintenance contracts should be looked at in detail to ensure that services contracted are being delivered without additional charges.

Contracts should have service delivery standards included. For example, lift contracts should have preventative maintenance, breakdown call out charges, and guaranteed repair times.

Auditors should check contracts and invoices to ensure contracted services have been delivered on time and at the charges specified in the contract.

Maintenance companies should be expected to hold supplies of parts in stock to ensure contract services are delivered in line with the contract.

All contracts for services such as maintenance, cleaning, gardening and grounds maintenances can be treated in the same way.

Procurement

The audit should look at the whole procurement process to ensure that tenders for services are open and contracts offer best value (not always the cheapest option) for the residents.

It is very obvious from listening to other SHAC members the whole system of procuring everything from energy to cleaning and maintenance is flawed.

Regional contracts do not work either in giving better or more cost-effective delivery of the services or transparency of charges.

The audit should look at the invoices from regional suppliers and ensure the correct site is charged the correct amount in line with the contract.

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After the Audit

- **Short Term:** Immediate redress should be given to any errors within the sample estates, including refunds and compensation. This should apply to all affected tenants and residents. Amendments should be made to the accounts to ensure that the same inaccuracies do not arise in the next set of accounts.
- **Medium Term:** A report should be produced identifying where it is reasonable to assume that the same inaccuracies are likely to be found across other estates, or to the whole housing association service-charged stock. A plan should be produced to put the relevant reviews in place, with rapid refunds awarded to those affected.
- **Long Term:** The forensic could identify weaknesses in governance and staffing. For example this might highlight inadequate controls of procurement systems, shortcomings in staff training, under-resourcing of the accounts team, and so-on. A longer term plan should be developed to address these weaknesses.

Appointment of Auditors

It is essential that the auditors must be totally independent and given full access to the accounts.

Sampling

We advise that the sample accounts to be forensically audited are from three different estates of varied sizes and locations, and not sharing the same accounts officers. The more variation there is, the better. For example, if estates have different maintenance contracts, this will help separate systemic problems from those affecting a particular sub-contractor.

Certifying Accounts

If a full audit is not required, a certificate of approval of the service charge accounts must be issued by an independent accountant to the leaseholder of each property to accompany the annual service charge demands. The landlord's accounts department or chief executive must also confirm that the accountant was instructed to issue a certificate as opposed to a 'Report of Factual Findings'.

SHAC Support

SHAC is keen to help housing associations select the estates to be sampled, contributing insight into the locus of the worst problems.