

# Service Charge Audits – Common Problems

Having undertaken many service charge audits in the past we considered it useful to share some of our findings regarding common errors that have been identified whilst performing our audit checks.

## 1. Spreadsheets Formula Errors

Many Landlords opt to use excel, given its flexibility, rather than their main Housing Software as a means of recording and allocating expenses to different blocks and to properties within those blocks.

Given that these spreadsheets often run to many sheets and are very complicated, care should be taken to ensure that the formulas are correct.

Incorrect formulas can lead to incorrect apportionment of costs and errors in the service charge calculations. It is possible from within excel to view all the formulas by holding down the Ctrl key and hitting the tilde key. This is a very useful way of reviewing all your formulas.

## 2. Sinking Fund

General failure to maintain sufficient detailed records on the sinking fund for each property.

Failure to account properly for the interest received on sinking fund bank accounts and correctly allocating to each property.

The Incorrect amount being deducted from the leaseholder.

## 3. Ground Rent

The ground rent per the lease agreement does not agree with the amount being recharged to the leaseholder.

## 4. Incorrect apportionment of expenses

The percentage used to allocate expenses to a particular property does not agree with the percentage listed in the lease agreement.

## 5. Incorrect apportionment of expenses between properties in blocks

Although expenses may have been correctly allocated to certain blocks, often errors are then made when splitting out costs to the individual properties in that block.

## 6. Supporting Documentation

The recharged expenses not being calculated correctly from supporting documentation.

## 7. Regular Statement of Account

The incorrect layout being used. Examples of layouts for the statement can be found at

<http://www.communities.gov.uk/documents/corporate/pdf/regular-statements.pdf>

Figures from the spreadsheets and prime records not filtering through correctly to the Service Charge Statements. All of these errors could result in a leaseholder being over or under charged.

As part of our audit procedures we review the systems that are in place and recommend ways in which they can be improved or amended in order to reduce any potential errors or problems.

There are a number of useful sites that provide additional information on this subject:

<http://www.servicechargecode.co.uk/> - The service charge code of practice

<http://www.housing.org.uk/> - National Housing Federation

<http://www.housingcorp.gov.uk/> - Housing Corporation

[http://www.opsi.gov.uk/acts/acts2002/ukpga\\_20020015\\_en\\_1.htm](http://www.opsi.gov.uk/acts/acts2002/ukpga_20020015_en_1.htm) - Commonhold and Leasehold Reform Act 2002

**How Loucas can help**

As a firm, we are able to provide a wide range of services tailored to your particular industry. We believe by staying up to date with not only current but changing legislation and industry news we are better placed to help our clients and their businesses succeed.

If you would like to discuss any of the topics in this update or how Loucas can assist you please do not hesitate to contact us.