



KARBON HOMES

Service Charges

Final Internal Audit Report: 2.26/27

9 July 2026

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AUDIT OUTCOME OVERVIEW

In line with our scope, included at Appendix B, the overview of our findings is detailed below.

Conclusion: Our review confirmed that the Group has a service charge framework in place which is supported by approved policies, documented procedures, and defined methodologies for calculating and applying service charges. Service charge calculations are based on documented cost inputs and assumptions, with charges consistently reflected within service charge schedules, customer account systems and customer communications.

Sample testing across 20 service charge schemes demonstrated that properties were appropriately linked to chargeable schemes, service charges were calculated using defined apportionment methodologies, and amounts recorded within customer account systems were consistent with supporting calculations and customer notifications. We also confirmed that for our sample of properties, customers had been communicated to with respect to service charges and service charge increases (including in advance of any increases).

Our review further confirmed that the Group undertakes ongoing monitoring of service charge performance through financial reporting processes. Management accounts, variance analysis and supporting commentary provide oversight of service charge income and expenditure throughout the year, while reconciliation processes are undertaken for variable service charge schemes and communicated to customers where applicable.

No control weaknesses were identified during the course of our testing and no management actions have been agreed.

Internal audit opinion:



Minimal Assurance



Partial Assurance



Reasonable Assurance



Substantial Assurance

Taking account of the issues identified, the board can take substantial assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.

Audit themes: Policies and Procedures

- Review of governance documentation confirmed that the Group maintains a Service Charge Policy and supporting Service Charge Procedures which set out the methodology for identifying, calculating and applying service charges. Governance records confirmed formal approval of the policy and a defined review cycle, and sample testing across 20 service charge schemes identified consistent application of these arrangements in practice.

Identification of Chargeable Properties

- Sample testing across 20 service charge schemes confirmed that properties are linked to scheme-level information including tenure mix, unit composition, service arrangements and chargeable services. Service charge schedules and supporting documentation evidenced that charges were applied based on services provided within each scheme.

Calculation and Apportionment

- Sample testing across 20 service charge schemes confirmed that service charges were supported by documented calculation models, cost schedules and scheme-specific assumptions. Re-performance for the 20 samples confirmed that apportionment methodologies, including equal share, percentage-based and property-type allocations, were applied consistently and reflected accurately within customer charges.

Charge Recording and System Implementation

- Sample testing across 20 service charge schemes confirmed that service charge values recorded within customer account systems agreed to supporting service charge schedules, calculation records and customer notifications. Charges were applied using the correct values and effective dates, with no discrepancies identified between source documentation and system records.

Governance and Approval

- Review of governance documentation confirmed that proposed service charge changes were subject to review through the annual service charge review and budget-setting processes prior to implementation. Service charge proposals were presented to the Group Executive Team and incorporated within the annual budget approval process presented to Group Board, evidencing organisational oversight of annual charge changes.

Income Monitoring and Oversight

- Management accounts reviewed included service charge income and expenditure, budget-to-actual comparisons, variance analysis and supporting commentary. The Service Charge Comparison Audit and Service Charges Comparison 2024–2027 reports included scheme-level service charge comparisons, variance calculations and commentary supporting the review of service charge movements.

Reconciliations and Sinking Funds

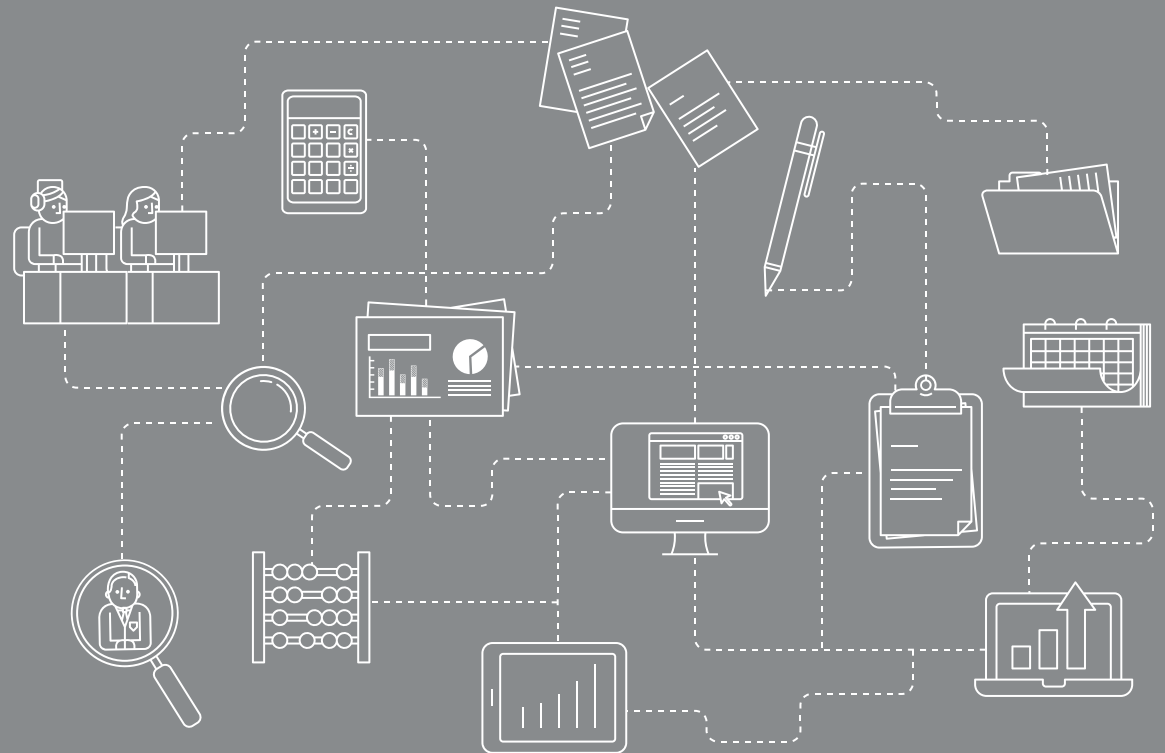
- Sample testing across 20 service charge schemes confirmed that the reconciliation processes for applicable variable service charge schemes is in place, with differences between estimated and actual costs identified, communicated to customers and reflected within customer accounts. Testing also identified sinking fund and replacement fund arrangements within the sample, including replacement fund contributions and future major repair fund provisions evidenced within supporting service charge documentation.

Communication of Increases

- Sample testing across 20 service charge schemes confirmed that service charge changes were communicated through formal customer notifications supported by service charge schedules and system records. Notifications were issued in advance of implementation and charge values communicated to customers agreed to supporting calculation records, service charge schedules and customer account data.

Summary of Actions for Management

01



SUMMARY OF MANAGEMENT ACTIONS

The action priorities are defined as*:

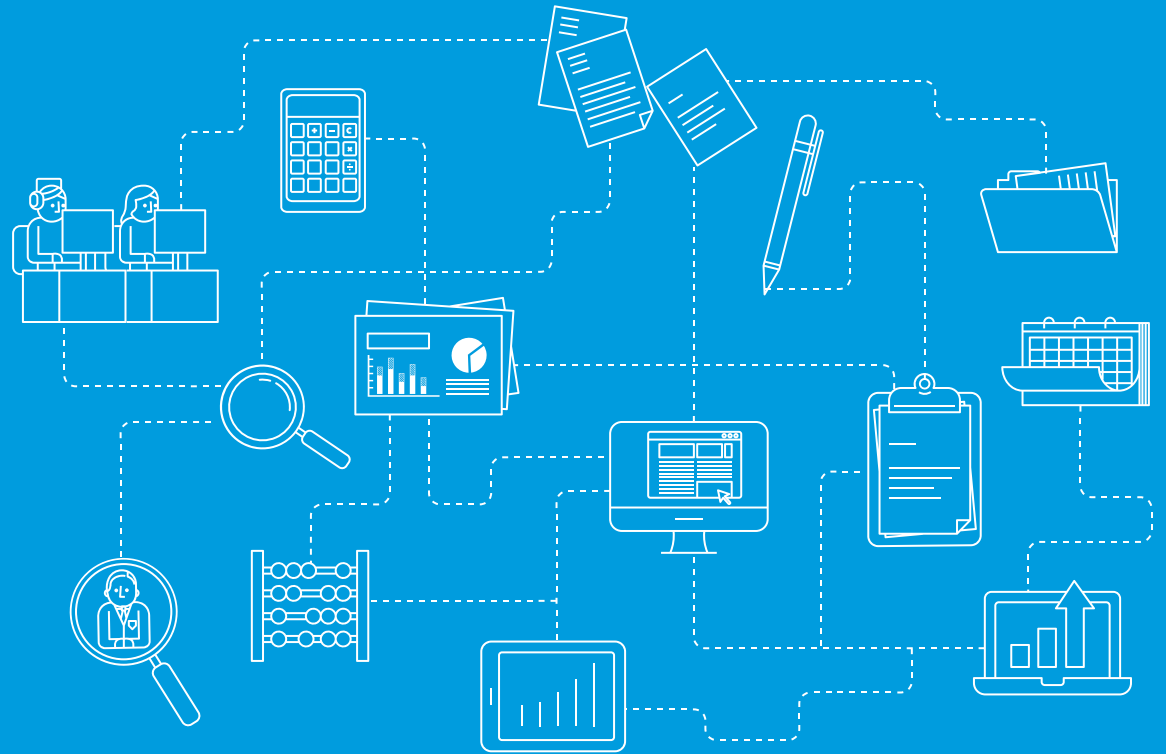
High Immediate management attention is necessary.	Medium Timely management attention is necessary.	Low There is scope for enhancing control or improving efficiency.
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We identified no management actions as a result of our review.

* Refer to Appendix A for more detail

Appendices

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APPENDIX A: CATEGORISATION OF FINDINGS

Categorisation of internal audit findings

Low
There is scope for enhancing control or improving efficiency.

Medium
Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible reputational damage, negative publicity in local or regional media.

High
Immediate management attention is necessary. This is a serious internal control or risk management issue that may lead to: Substantial losses, violation of corporate strategies, policies or values, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

The following table highlights the number and categories of management actions made as a result of this audit.

Risk	Control design not effective*	Non-compliance with controls*	Agreed actions		
			Low	Medium	High
4: Customer Service and Satisfaction	0 (11)	0 (11)	0	0	0
Total			0	0	0

* Shows the number of controls not adequately designed or not complied with. The number in brackets represents the total number of controls reviewed in this area.

APPENDIX B: SCOPE

The scope below is a copy of the original document issued.

Scope of the review

The scope was planned to provide assurance on the controls and mitigations in place relating to the following objective

Objective of the risk under review	Risks relevant to the scope of the review	Risk source
This review will assess the Group's controls for the management of service charges from calculation to collection. We will consider the processes in place to validate service charges changes, and whether clear documentation is in place to support these changes.	4: Customer Service and Satisfaction	Strategic risk register

Areas for consideration:

- Whether there are policies and procedures in place covering identification and management of service charges. This will include whether there is guidance in place for leaseholder sinking fund contributions. These are up to date and available to staff.
- How the Group identifies which properties require service charges.
- Whether there is a process in place for the assessment, calculation and apportionment of service charges. We will review how the service charge is calculated and aligns to supporting documentation for a sample of scheme charges.
- How service charge calculations / increases have been applied consistently and transparently for all customers.
- Whether processes are in place to ensure the assumptions made within the service charge calculation / increase process are transparent.
- We will undertake testing to confirm:
 - Whether service charges have been formally approved.
 - Service charges are accurately recorded on customer accounts.
 - Notification of charges to customers are in line with defined requirements.
- Whether there is a process to ensure all income due is collected; and for our sample of service charges, we will also review whether there are sinking funds and how these are collected in line with internal guidance.
- How reconciliations are undertaken for schemes that have a variable service charge.
- Whether the Group has notified its customers regarding any charge increases in line with the financial period, and any mid-year service charge adjustments which may occur.
- Our audit will cover Karbon Homes, 54North Homes, and Leazes Homes.

Limitations to the scope of the audit assignment:

- Any testing undertaken as part of this audit will be compliance based and sample testing only.
- We will not comment on the appropriateness or otherwise on the level of service charges being applied or the appropriateness of charges.
- We will not confirm if all tenancies attracting service charges have been identified.
- The audit will focus on the controls regarding the service charge calculation / increase and billing / recovery processes only. As such, no other processes or services undertaken by Karbon Homes will be considered during the audit.
- The scope of the work will be limited to those areas examined and reported upon in the areas for consideration in the context of the objectives set out for this review.
- We will not provide an opinion on the value or nature of the service charges applied to customers.
- We will not provide an opinion regarding the design and operation of the IT systems used in the service charge calculation process.
- We will not comment on the appropriateness or legality of the letters and statements sent to customers.
- We will not cover the handling of complaints or disputes over service charges.
- We will not review the nature or calculation of any additional charges levied over and above the service charge (e.g. repairs).
- We have agreed with management that our audit will not consider non-core landlord services, such as furniture packs.
- Whilst we will confirm there is a process to ensure all income is collected, our audit will not consider the arrears process and whether there is a control framework in place that is operating as intended.
- We will not seek to replicate advice provided to you by any third parties and external advisors.
- We will not look at the procurement arrangements for goods and services included within service charge calculations or consider supplier or service provider invoicing arrangements as part of this review.
- Our work does not provide absolute assurance that material errors, loss or fraud do not exist.