

Kilkenny County Council

Internal Audit Report Housing Loan Applications Compliance Check

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Report Distribution

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Management Team

Audit Committee Members

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Objectives

The objective of the Audit is to review a sample number of Housing Loan Applications approved in 2019 to ensure that Applications met the eligibility criteria and correct procedures were applied. Mortgage Applications are referred to the Housing Agency who act as a Financial Screening Authority. They seek a report from the Irish Credit Bureau as to the strength of the Applicant's credit worthiness. The Application is analysed from an affordability (ability to repay) point of view. The Housing Agency return the Application to the Council with a recommendation as to proceed with the Loan or not. The recommendation of the Housing Agency is then considered by Kilkenny County Council's Internal Credit Committee.

This Committee is comprised of the Director of Housing, Financial/Management Accountant, Senior Executive Officer Housing, Administrative Officer Housing and Administrative Officer Finance. The final decision to approve a Loan rests with the Credit Committee. It is necessary to have a majority decision from the Committee in the event that a recommendation of the Housing Agency is over-ruled.

Housing Loans - 2019

- 46 Loans applications received
- 26 Loans approved - value €3,458,880
- 24 Loans paid out in 2019 amounting to €3,007,655
- Average home loan paid out in 2019 was €141,880

Approach

A random sample of 15 applications were reviewed by Internal Audit Staff to ensure they met the eligibility criteria. 13 of the Applications were under the Rebuilding Ireland Home Loan Scheme, one Application was for a Reconstruction Loan and one Application was for a Caravan Loan.

Scope

Scope of check was limited to a sample of 15 Applications, randomly selected from Loan Approvals in 2019. The check relates to the process from application to approval only. The process of setting Loans up on FMS system and collection of Loans was outside the scope of this check.

Audit Risk.

- Correct eligibility criteria not applied
- Borrower defaults on Loan Repayments due to unaffordability
- Insufficient backup documentation.
- Not applying process controls
- No proper authorisation.

Co-operation of Management and staff

Internal Audit received full co-operation from Council Management and Staff throughout the course of this review and would like to thank them for their assistance.

Internal Audit Opinion

Internal Audit's findings and recommendations are detailed below. Based on this review the audit opinion for Housing Loan Application Compliance Checks is reasonable assurance. There is a sufficient framework of key controls for objectives to be met. Risks are managed but could be stronger. Controls are generally applied but some lapses in the application of controls have been observed.

This report was distributed to the Housing Directorate and includes their Management Action Plan.

The Audit Committee reviewed the Audit Report at their meeting of 6th December 2021.

The Management Team approved the Audit Report at their meeting of 7th December 2021.

Brigid Webster, Internal Auditor

<i>Findings</i>	<i>Implications</i>	<i>Recommendations</i>	<i>Management Action Plan</i>
<p>1. One of the Loan Application's (RBL [REDACTED]) was approved without the file being sent to the Housing Agency for approval. This does not comply with the Loan Approval Policy. The application was approved by the Internal Credit Committee.</p>	<p>Inconsistent approach to approving Loan Applications.</p>	<p>The Council must be consistent and fair in its process for approving all Loan Applications. All Loan Applications should be sent to Housing Agency for approval.</p>	<p>This was a Tenant Purchase Loan Application. This application should have been referred to Housing Agency. It was approved by Internal Credit Committee as they were satisfied that the applicant could support the Loan repayments based on rent history. Previously the Credit Committee only reviewed applications declined by the Housing Agency. All applications are now referred to Housing Agency for a decision and all decisions are reviewed by the Credit Committee.</p>
<p>2. 12 RBL Applications were referred to the Housing Agency. 8 of these Applications were declined by the Housing Agency. The reasons included unsatisfactory savings record and repayment capacity not being demonstrated. These decisions were all overturned by the Credit Committee.</p>	<p>Not applying controls built into the system to ensure only applicants that meet the qualifying criteria are approved.</p>	<p>The Housing Agency is an independent and external body. This is a key control in the Loan approval procedure to ensure only valid applications are approved. Decisions of the Housing Agency should only be overturned by the Internal Credit Committee in exceptional cases.</p>	<p>The Housing Agency does not consider certain types of income when assessing applications. The Credit Committee review decisions based on the applicant's ability to support the Loan Repayments. This is especially the case when deciding on Tenant Purchase Applications where the Credit Committee consider previous rent payment history. In 4 of the cases that were overturned, the Loan repayment amount was less than the Differential Rent payment</p>

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<p>3. 14 files were referred to the Credit Committee. There are 5 members of the Credit Committee. Credit Policy states that at least 3 members of the Credit Committee must be in attendance to approve a Loan. In only one case were all 5 signatures on the approval letter. In another case, only 2 signatures were on the approval letter (RBL [REDACTED]). The remaining 11 cases had 3/4 signatures.</p>	<p>Potential for invalid Loan Applications to be approved which could result in future non-payment of Loan.</p>	<p>Credit Committee should meet in person or remotely to discuss and decide on Loan Applications. A key control in this process is that a quorum of 3 members must be present at Credit Committee meetings to ensure that undue influence cannot be exerted. If a quorum of 3 members is not present, no decision on an Application should be made.</p>	<p>The previous Policy was for the members of the Credit Committee to view files individually. The Credit Committee now meet and discuss each application together. The Committee will not meet if a quorum of 3 members are not present.</p>
<p>4. Council mortgages are limited to first time buyers only. One of the approved applicants had owned a house previously and the application was deemed invalid on these grounds (HPL [REDACTED]). The decision was overturned and the application was sent to the Housing Agency who recommended refusal based on:</p> <ul style="list-style-type: none"> ➤ Unsatisfactory Savings Record ➤ Net income ration outside policy ➤ The Loan is available to first time purchasers only. <p>Based on this recommendation, the Loan was refused. The applicants appealed the decision and the Loan was approved by the Internal Credit Committee.</p>	<p>Not adhering to Loan Application criteria.</p>	<p>There is specific documentation required for all Loan Applications. This is to ensure that sufficient information is available to assess if an application meets the criteria. If all documentation is not received, the application should be ruled invalid</p> <p>Caravan Loans which tend to be smaller Loans (max loan €6,350) do not go to the Housing Agency or the Credit Committee for approval. These Loans should at least go to the Credit Committee for approval to ensure transparency and consistency.</p>	<p>This Application was approved as an exceptional hardship case. The applicants could not sustain a Bank Loan so original house was sold and they moved into private rented accommodation. The applicant subsequently changed jobs resulting in a higher income. They provided proof of rent payments which were higher than Loan repayments so Credit Committee was satisfied to approve Loan.</p> <p>All caravan loan applications are now reviewed by the Credit Committee.</p>

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<p>5. Loan Applicants must have been refused a mortgage with two other lending institutions and are required to submit evidence of same. Two applications had no evidence of Loan Refusals.</p>	<p>Incomplete application.</p>	<p>Back up documentation should be evident on all files.</p>	<p>Both of these were Tenant Purchase Applications so Loan Refusals from Banks is not required.</p>
<p>6. Loan Applicants must submit a form from Revenue (HPL1 form) which certifies if applicants have previously claimed income relief on interest paid in relation to any previous borrowings to purchase a property. Two applications had not provided this form.</p>	<p>Incomplete application</p>	<p>Back up documentation should be evident on all files.</p>	<p>One of the Applications, the HPL1 form was submitted but not stamped by Revenue. No form was received for the second Application. The checklist for backup documentation has been modified and improved. It is now checked by two staff members before being sent to Housing Agency for decision.</p>