



Follow up Inspection of Grove Housing Association

Final Report

October 2015

Acknowledgement

The Team wishes to express its thanks and appreciation for the assistance and co-operation shown by the management and staff of Grove Housing Association in completing this inspection.

EXECUTIVE SUMMARY

The objective of this inspection was to ascertain how well the Association had implemented the recommendations from the previous inspection carried out in 2013. The 2013 inspection had resulted in a second successive 'Limited Assurance' rating for Grove Housing Association.

This inspection reviewed the Association's Action Plan for implementing the recommendations under four key areas: Financial Management; Property Development; Property Management; and Corporate Governance.

In Financial Management the Team found that all of the three previously accepted finance recommendations had been implemented and were operating effectively. As a result the Team considers that the Financial Management of Grove Housing Association should receive **Satisfactory Assurance** for this follow-up review.

In relation to Property Development, the Association has made good progress in addressing the issues and the Team found that all of the three recommendations have been effectively implemented. Consequently, it is the Team's opinion that the Association's rating for Property Development should be raised to **Satisfactory Assurance**.

The Team also found evidence of improvement since the last inspection in the area of Property Management. The Team noted that with little or no plans for development, the General Manager has been able to devote more time to maintenance activities. It also found that, all previous recommendations had been addressed by the Board and all recently completed planned and cyclical maintenance works have been delivered as programmed. As a result of its findings, the Team is content that the previous rating of 'Limited Assurance' in this area can now be raised to **Satisfactory Assurance**.

In **Corporate Governance** the Team looked at the progress made by the Association in implementing the four accepted recommendations. The Team found that the Association had moved forward with the recommendations and they had all been effectively implemented.

The Team would commend the Board and General Manager for the work they have carried out to implement the recommendations especially on the Strategic and Business plans and on the identification and reporting of key performance indicators. Therefore, it is the Team's opinion that a rating of **Satisfactory Assurance** is again appropriate in this area.

In summary, whilst a number of additional issues have been identified by the finance team, it is content that the majority of the accepted recommendations from the previous inspection have been effectively implemented. Therefore, after considering the findings in all areas of the inspection the Team is of the opinion that an overall grading of **Satisfactory Assurance** is appropriate.

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1. INTRODUCTION

BACKGROUND

- 1.1 The Governance and Inspection Team is a dedicated Inspection body situated in Housing Division within the Department for Social Development. As the regulator, Housing Division is required to exercise supervision and control over Registered Housing Associations (Article 4 (1) (c) of the Housing (N.I.) Order, 1992).

The Team is responsible for providing the Department and the Northern Ireland Audit Office (NIAO) with an assurance on the probity, regularity and integrity of expenditure in the operation and administration of Registered Housing Associations, hereinafter referred to as Associations. The Team reports on how well Associations are meeting the regulatory requirements of the Housing Association Guide, legislative and professional requirements and the needs of service users.

A follow-up inspection of Grove Housing Association that examined the implementation of 19 previously accepted recommendations was carried out between January and March 2015.

PREVIOUS INSPECTION & GRADINGS

- 1.2 Grove Housing Association was previously inspected by the Department during February and March 2013 and a final report was issued in July 2013. The aim of the inspection was to follow-up on the Association's implementation of recommendations made during the previous inspection in 2010.

In July 2013 the Association was rated as Satisfactory Assurance in Financial Management and Corporate Governance and Limited Assurance in Property Development and Property Management. The Association therefore received an overall Limited Assurance rating, resulting in a further follow-up inspection being required.

An explanation of these gradings is provided at Appendix 1.

SCOPE

- 1.3 This was a follow up inspection to enable the Team to:
- Determine whether the Board has fully implemented its Action Plan;

- Assess how effectively this implementation has addressed previous weaknesses raised;
- Determine whether any new procedures implemented have produced results; and
- Test a number of existing key controls where significant progress has been made in implementing the recommendations.

INSPECTION OBJECTIVE

1.4 The objective of the inspection was to evaluate the implementation of previously accepted recommendations and provide an opinion on the internal workings and control procedures within the Association.

- Previous Recommendations
To determine if appropriate action in implementing the previous recommendations has been taken by the Association.

FINDINGS

1.5 Sections 2, 3, 4 and 5 of this report contain details of the Team's findings against the Action Plan and opinions about systems in place, and provide recommendations where the Team believes opportunities exist for further improvement.

Each recommendation has been allocated a paragraph reference and title. A space has been provided below each recommendation for management comments which will be considered and printed in the Final Report.

2 FINANCIAL MANAGEMENT

Inspection Findings

- 2.1 The Finance Team found that all three recommendations made in the last finance inspection had been implemented and are operating effectively. The Team noted that the Association's current financial performance and financial systems have created a framework to provide adequate financial management and promote financial viability. However, the Team has identified 10 additional improvements recorded in paragraph 2.2 to 2.4 below that once implemented, should enhance the Association's finance function.

Additional Issues Identified

(a) Finance Procedures

- 2.2 The Team noted that some of the Association's finance procedures contain limited detail and could be expanded upon, in particular the treasury management, payroll, payments and accounts procedures. Procedures also did not detail the full purchase order and invoice matching process or the cashflow limit for which excess funds are swept daily. By including further detail on specific processes from start to finish, the procedures could be used for training new staff or for staff cover to ensure sufficient contingencies are in place.

The Team also noted that personal information (employee national insurance numbers) is included in the salary procedures which all members of staff have access to. As this information is not held securely, there may be an increased risk of a breach of data protection guidelines. The Association has however advised that this has been removed from procedures following the inspection.

The Team also found that the property fixed asset register is maintained by the external accountants. This has led to the 'SDM' accounting system not being updated for depreciation and additions on a quarterly basis. Journals for estimated depreciation are however posted quarterly. Also, the office asset register is held in an incomplete format, with no values and limited detail. It is also only updated annually.

Finally, there is no capitalisation threshold in place or detail in fixed asset procedures on the useful life of each component.

The Team **recommends** that the Association:

- a) includes further detail in the treasury management, payroll, payment and accounts procedures and once updated, these are approved by the Finance Committee or Board;
- b) removes staff national insurance numbers from the salaries procedures and keeps this information securely;
- c) updates the fixed asset registers on a quarterly basis in line with procedures and ensures the office fixed asset register includes complete and up to date information; and
- d) updates the fixed asset policy to include a capitalisation threshold and useful lives for each component.

Management Response

- a) The Association will re-examine policies in these areas;
- b) Actioned as noted above;
- c) Accepted; and
- d) Accepted.

(b) Arrears

- 2.3 The Association reports action taken on outstanding rent arrears regularly to the Board. It does not however show how long the arrears have been outstanding for or if the arrears are technical or non technical which would be useful information for the Board.

The Team **recommends** that the Association expands the information in the arrears report being presented to the Board.

Management Response

The Association will consider how best to include in arrears reporting the additional information recommended.

(c) Budgets and Accounts

- 2.4 The Finance Team found that:

- The Association's external auditors prepare the quarterly and year end accounts and maintain the fixed asset register. This presents a potential self review threat and could compromise the objectivity of the external audit;
- There is currently no breakdown of the tenant services account provided in the management accounts, showing tenant service charges against spend. There is also no DSD targets included, for comparison, to arrears or voids ratios; and
- There was a substantial difference in net assets in the December management accounts when compared to the year-end accounts. This adjustment was not discussed by the Finance Committee or Board.

The Team **recommends** that the Association:

- a) Ensures future accounting services are either not provided by the external auditors or further safeguards are implemented which satisfy the Board of the Association; and
- b) Provides a breakdown of the tenant services account and a comparison of ratios against DSD targets in the quarterly management accounts. Significant changes from the management accounts to the year-end accounts should be discussed at Finance Committee or Board meetings.

Management Response

- a) The Association has accepted this point and included it in its audit and accountancy services tender. Whilst the same firm was appointed for both services, it is a condition of the appointment that partners and any other personnel will be different for each area.
- b) The Association's response is as follows:
 - The tenant services account will be shown in the management accounts even though the amounts are small;
 - DSD targets will be included for arrears and voids ratios in the management accounts; and
 - significant changes from 4th quarter management accounts to end of year accounts will be discussed at sub-committee or Board level. The Association would point out however that the amount was only £1,887.00 and the majority of this was a late

journal entry to include some administration costs against its most recent development scheme.

Summary and Conclusion

- 2.5 As a result of our findings we consider that the assurance rating for the financial management of Grove Housing Association should again be **Satisfactory Assurance**. The Team would like to commend management and staff on their performance in relation to the previously accepted finance recommendations.

3 PROPERTY DEVELOPMENT

Inspection Findings

- 3.1 The Team found that all three of the recommendations from the previous inspection had been effectively implemented and details are provided below. The Team noted that the only development work undertaken by Grove Housing since the last inspection has been the purchase of a single existing satisfactory dwelling i.e. an Existing Satisfactory Purchase (ESP). An inspection of the Association's files in relation to the purchase of this dwelling at Ritchie Street in September 2013 revealed that the scheme was properly presented to the Northern Ireland Housing Executive and procured fully in line with the Department's design and procurement requirements with all previous concerns having been addressed.

Economic Appraisals

- 3.2 The policy and procedures for carrying out economic appraisals was reviewed and approved by the Board in December 2014. This should address all previous concerns on this issue as verified by the scheme at Ritchie Street.

Policies and Procedures

- 3.3 The Board has no plans at present for additional property development. However, should the opportunity arise it is proposed that any future development will be undertaken by an experienced Development Agent. The only exception to this would be the purchase of an existing satisfactory dwelling (i.e. an ESP) such as Ritchie Street or an Off-the-Shelf (OTS) dwelling.

New policies and procedures in relation to Development Agreements and ESP and OTS purchases, approved by the Board in June 2013, should address all previous concerns.

Contract Management

- 3.4 As any future development will be undertaken by an experienced Development Agent whose role will include contract management, this approach should address all previous concerns in this area.

Summary and Conclusion

- 3.5 This follow-up inspection found that all three previous recommendations have been fully addressed. Consequently we are content that the previous rating of 'Limited Assurance' can be raised to

Satisfactory Assurance. This rating is based on the understanding that any development work undertaken by Grove is restricted to ESP or OTS forms of procurement. Any other activity, without an experienced Development Agent, would require prior Departmental approval.

4. PROPERTY MANAGEMENT

Inspection Findings

- 4.1 In the area of Property Management we found that all eight previously accepted recommendations had been implemented. Details are provided below.

Asset Management Strategy

- 4.2 The Asset Management Strategy (AMS) approved by the Board in December 2013 and reviewed in November 2014 includes reference to the legislation and regulations governing maintenance activities and should therefore provide a strategic, long term approach to maintaining decent and sustainable homes.

Staffing Structure

- 4.3 The staff resources allocated to maintenance, comprising the General Manager, the Receptionist / Housing Assistant and an in-house Clerk of Works was reportedly considered by the Board in December 2013. The present staff involved in this activity was viewed as adequate due to the fact that development opportunities have diminished allowing the General Manager more time to devote to maintenance and property management. Apart from Existing Satisfactory Purchase's any future development will also be undertaken by an experienced Development Agent.

Policies and Procedures

- 4.4 The current suite of policies and procedures covering all aspects of maintenance and adaptations were reviewed and approved by the Board in November 2014. While these should accurately reflect the latest version of the DSD Housing Management and Procurement Guide it was noted that the Board have approved some methods of procurement and forms of contract not approved by the DSD.

Stock Condition Surveys

- 4.5 A sample stock condition survey undertaken during 2012 has been used to inform, develop and budget for long term planned maintenance. By the end of this year (2015) the Association will have completed a rolling survey of all existing stock in line with DSD requirements.

Budgets and programmes for Maintenance

- 4.6 A projected 10 year planned and cyclical maintenance budget and programme, (last draft updated in January 2015), anticipates expenditure in excess of £1.6M over the next 10 years. Projected cash-flows and resources are considered sufficient to cover this planned expenditure. Maintenance programmes also indicate proposed start dates for specific works and estimated costs include professional fees as previously advised.

The draft 2015-2024 budget and programme of works is currently under review by the Board who have already decided to move some planned works to the repairs and response maintenance budget.

Maintenance Reports and Updates

- 4.7 Monthly reports and updates to the Board now provide greater detail on the progress made against programmed works and adaptations along with professional fees and contract costs still outstanding.

While the results of 'general' tenant satisfaction surveys are reported to the Board it was noted that the results of tenant satisfaction surveys on recently completed planned maintenance works and adaptations are not reported. The General Manager agreed that this omission will now be addressed.

Adaptations

- 4.8 Since the last inspection the Association has claimed for two adaptations. An inspection of the Association's files revealed the following works:

- 1) **Grove Court** (installation of a stair-lift and heat/smoke detectors) for £2,000; and
- 2) **St. Vincent Street** (level access shower, a stair-lift and graduated external steps) for £5,000.

- In both adaptations the contractor's invoices were paid before post inspections of the work revealed outstanding and/or incomplete works that had to be addressed. The General Manager accepted that this should not have occurred and reported that post inspections have now improved.
- Despite the approved procedures requiring an Occupational Therapist and tenant satisfaction survey on completion of the works,

these were not requested although it is clear that they are now being sought on more recent adaptations.

- Even though the procedures approved by the Board, competitive quotations were not sought for the provision of graduated external steps. Instead a works order was issued to a known maintenance contractor who later submitted an invoice for £464.00. The General Manager accepted that this breach of approved procedures should not have occurred and reported that this was a one off mistake.
- Despite the approved target of 3 months, (recently increased to 4 months) it took more than 5 months for the level access shower to be installed. During the inspection, the General Manager reported that the delay was due to a procurement problem and a change in the procurement route. It is accepted that every effort is now being made to improve delivery times on all adaptation requests.

Procurement and Contract Management

- 4.9 The latest policies and procedures on planned, cyclical and response maintenance approved by the Board in November 2014 clearly indicates that non-grant aided works may be procured and with forms of contract different to that prescribed in the DSD Procurement Guide.

An examination of the planned and cyclical maintenance works completed in the past two years would indicate that these were competitively tendered, procured and with forms of contract compliant with DSD requirements.

Summary and Conclusion

- 4.10 This follow-up inspection found evidence of improvement since the last inspection in April 2013 in the following key areas:
- With no plans at present for development, the General Manager has been able to devote more time to maintenance activities;
 - All previous recommendations having been 'largely' addressed by the Board;
 - All recently completed planned and cyclical maintenance works have been reportedly delivered as programmed; and
 - All recent response maintenance and repairs were completed within the targets set by the DSD.

These findings, and the fact that the Board authorised the deviations from the normal procurement routes would result in the previous rating of 'Limited Assurance' now being raised to **Satisfactory Assurance**. It must be stressed that this rating is based on the procurement of all response maintenance being competitively tendered at the 'earliest opportunity', utilising recognised forms of contract, and rigid adherence to the policies and procedures approved by the Board in November 2014.

5. CORPORATE GOVERNANCE

Inspection Findings

- 5.1 The previous inspection in resulted in five recommendations in relation to corporate governance of which four were accepted by the Association. The Team found that the Association had implemented all of the four of the accepted governance recommendations from the previous inspection.

During the course of our review the Team also confirmed that the key controls in relation to corporate governance were still in place and operating effectively. The Team reviewed the minutes of the Association's Board to confirm that it continues to provide an effective challenge function and that sufficient detail on the organisation's performance is being reported to the Board. Finally, the Team noted that the Association had in place an effective risk management process, an appropriate organisational structure and that all relevant/required policies and procedures were in place and were up to date.

Although one of the recommendations contained in the previous report had been rejected, the Team reviewed the risk register to ascertain how the Association was dealing with the risk of a reduction in the number of Board Members (an issue from the previous inspection). The Team found that a risk is currently included in the register to address the potential risk of a reduction in the number of Board Members.

In relation to the issues raised in the previous inspection the Team reviewed the Association's Business Plan for 2014-2015 and ascertained that it had been approved by the Board, the goals were realistic and achievable, and the Board was provided with a quarterly update on performance against Key Performance Indicator's. Also, following concerns that in the event of staff absence duties would not be carried out, the Team reviewed the arrangements in place to ensure continuity within the current organisational structure and was content that they were sufficiently robust.

Finally, the Association has put in place appropriate arrangements for staff training and has worked with the internal audit provider to ensure that the findings of our previous and current inspection have been factored into the agreed audit plan.

Opinion

- 5.2 In summary, the Team is satisfied that the Association has maintained their focus on Corporate Governance issues since the last inspection. It is therefore our opinion that a rating of **Satisfactory Assurance** still appropriate in this area.

6. WAY FORWARD

- 6.1 The inspection has identified recommendations within Section 2 of this report and the Association has provided a response to these under the Schedule of Recommendations at Appendix 2.
- 6.2 The Schedule of Recommendations (Appendix 2) shows implementation dates for the recommendations contained in this report.
- 6.3 As the Association has received an overall rating of **Satisfactory Assurance** in this report, no further action will be required by the Department. The Department would ask the Association to progress implementation of the recommendations which will be subject to verification at the next inspection.
- 6.4 This report will be published in full on the Department for Social Development's website. A copy of the report will also be issued to the NI Audit Office and the NI Housing Executive.

APPENDIX 1

INSPECTION GRADING SYSTEM

The scoring mechanism is on the basis of an **overall** rating from **1 to 4** being awarded, along with **individual** ratings for the four main areas of focus. The four tier grading system is as follows:

Rating 1 – Substantial Assurance

To be given to housing associations where there is a robust system of risk management, control and governance which ensure that objectives are fully achieved. Housing associations in this category serve as an example of best practice. These housing associations will have a well run system of internal control and a risk management programme resulting in all identified risks being addressed and mitigated.

Rating 2 – Satisfactory Assurance

To be given to housing associations who have shown they have an effective system of control which will ensure the achievement of objectives. There may be some weaknesses but these would not be regarded as impacting significantly on the overall performance of the association.

Rating 3 – Limited Assurance

To be given to housing associations where there is a considerable risk that the Association will fail to meet its objectives or where an Association has previously received an “Unacceptable” or “No Assurance” rating and they have shown progress in addressing previous shortcomings. Prompt action is required to improve the adequacy and effectiveness of risk management, control and governance.

Rating 4 – No Assurance

To be given to housing associations where internal systems have failed or there is a real and substantial risk of the Association failing to meet its objectives and where they are also failing to provide any of the following: sound corporate and financial governance, quality housing; value for money. Such housing associations are considered a high risk to themselves and the public funds which they might receive.

APPENDIX 2

AGREED SCHEDULE OF RECOMMENDATIONS

Report Ref	Recommendation	Priority	Accepted/ Rejected	Implementation Date
FINANCIAL MANAGEMENT				
2.2	<p>Finance Procedures The Team recommends that the Association:</p> <p>a) includes further detail in the treasury management, payroll, payment and accounts procedures and once updated, these are approved by the Finance Committee or Board;</p> <p>b) removes staff national insurance numbers from the salaries procedures and keeps this information securely;</p> <p>c) updates the fixed asset registers on a quarterly basis in line with procedures and ensures the office fixed asset register includes complete and up to date information; and</p> <p>d) updates the fixed asset policy to include a capitalisation threshold and useful lives for each component.</p>	M	Accepted	November 2015
		M	Accepted	Implemented June 2015
		M	Accepted	November 2015 (SDM still to update module. Cannot make adjustments till this done.
		M	Accepted	October 2015
2.3	<p>Arrears The Team recommends that the Association expands the information in the arrears report being presented to the Board.</p>	M	Accepted	August 2015

