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Directorate for Internal Audit and Assurance

Internal Audit Report

Scottish Government Core 2022-23

More Homes – Affordable Housing

Directorate for Internal Audit and Assurance

Issue Date: 19-12-2022

Audit Personnel

Lead Senior Internal Audit Manager	[Redacted]
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Report Distribution

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Accountable Officer	Sean Neill, Director for Local Government and Communities
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* Final Report only

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1. Introduction

1.1. Introduction

This internal audit review of More Homes – Affordable Housing formed part of the planned audit coverage as agreed in March 2022 by the Scottish Government Audit and Assurance Committee (SGAAC). The audit sponsor for this assignment is Sean Neill, Director for Local Government and Communities.

1.2. Audit Scope

The scope of this review was to evaluate and report on the internal controls in place to manage the risks surrounding the Affordable Housing Supply Programme.

The agreed Terms of Reference for this review is attached at [Annex B](#).

1.3. Assurance and Recommendations

Assurance Category	Reasonable		
	High	Medium	Low
Recommendations Priority	0	4	1

Our review has identified four medium and one low recommendation. A reasonable assurance rating has been provided. Some improvements are required to enhance the adequacy and effectiveness of procedures. There are weaknesses in the risk, governance and/or control procedures in place but not of a significant nature.

The rationale for this is that More Homes have developed robust policies and procedures for the administration of the Affordable Housing Supply Programme (AHSP). They have established monitoring and reporting arrangements to allow them to track the progress made by authorities towards the goals of the programme. The identified improvement opportunities have been put forward to strengthen the risk management process and implementation of policies and procedures.

Findings are summarised against recommendations made in the [Management Action Plan](#).

Full details of our findings, good practice and improvement opportunities can be found [in section three below](#).

Please see [Annex A](#) for the standard explanation of our assurance levels and recommendation priorities.

2. Management Action Plan

2.1. Management Action Plan

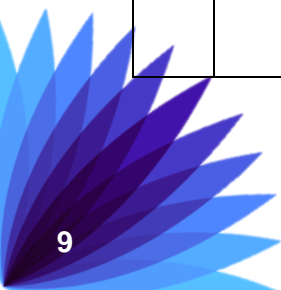
Our findings are set out in the Management Action Plan below

No.	Issue & Risk	Recommendation	Priority	Management Response & Action Owner	Action Date
1	<p>Issue:</p> <p>Guidance states More Homes should meet with authorities at least every six months. We found in practice meetings with Registered Social Landlords (RSLs) and Local Authorities (LAs) were held on a quarterly basis.</p> <p>However, for the City of Edinburgh Council meetings were held monthly, whilst Glasgow City Council meetings were on a three-monthly basis despite both of these LAs being non-TMDF authorities.</p>	<p>More Homes should review and reconsider the required frequency of meetings and update guidance accordingly.</p> <p>On occasions where engagement and monitoring arrangements require to be adjusted, the reasons for this</p>	M	<p>Response: All teams are complying with our guidance that requires a meeting with authorities at least every six months. In practice we are being more diligent with more frequent meetings being convened. We expect engagement with individual local authorities to be proportionate depending on the scale of their development programmes, knowledge of development capacity and skills and any current issues or risks that may be identified by individual area teams. This may therefore vary depending on circumstances and change over time.</p>	31/03/23

No.	Issue & Risk	Recommendation	Priority	Management Response & Action Owner	Action Date
	<p>Risk:</p> <p>There is a lack of consistency relating to the engagement between More Homes and the LAs – in particular, between the two TMDF authorities. There is a risk projects are not monitored effectively due to either over or under monitoring resulting in resources not being used effectively and / or actions to ensure budget and delivery targets are met are not timeously.</p>	<p>should be documented and reviewed on an ongoing basis to ensure they are proportionate.</p>		<p>Action: We will however flag to area team leads, through the Programme Coordination Group, the requirement to continually review the frequency of meetings</p> <p>Action Owner: [Redacted]</p>	
2	<p>Issue:</p> <p>The information provided by RSLs and LAs is monitored although there did not appear to be any mechanism for validating this data to ensure its accuracy.</p>	<p>More Homes should introduce a process that allows for verification of the information provided by RSLs and LAs.</p>	M	<p>Response: We aim to request information to back up data on expected spend and delivery targets in a proportionate way, using our knowledge and experience of individual stakeholders past/current performance track record. Tenders that are received above our benchmark grant</p>	31/03/23

No.	Issue & Risk	Recommendation	Priority	Management Response & Action Owner	Action Date
	<p>Risk:</p> <p>More Homes are unable to verify the information provided by RSLs and LAs, resulting in budget and delivery targets not being met.</p>			<p>levels are subject to a detailed value for money assessment before they are considered for approval.</p> <p>Action: Staff resource in the area teams is not sufficient to verify all data/information that is received from applicants to the AHSP. Where concerns are materialising and past performance has been poor, more detailed information will be requested. This is being taken forward for one council in the current financial year based on last year's performance.</p> <p>Action Owner: [Redacted]</p>	
3	<p>Issue:</p> <p>Risk Management:</p> <p>a. More Homes is not utilising the current SG Risk template and</p>	<p>a. More Homes should adopt the current Scottish Government risk</p>	M	<p>Response: Risks are reviewed quarterly as a minimum or more frequently if required. All staff reviewing risks have</p>	31/03/23

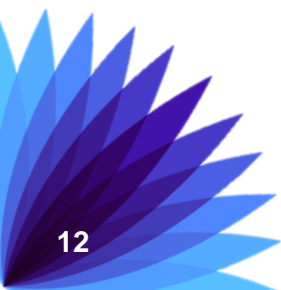
No.	Issue & Risk	Recommendation	Priority	Management Response & Action Owner	Action Date
	<p>therefore risk categories are not identified.</p> <p>b. Actions planned to achieve target score and reduce the likelihood of risk materialising were, in some instances, the same as the existing control.</p> <p>c. The terminated risks tab contains risks which are live now, there is no issues register for these to be moved to.</p> <p>d. Completion of mandatory risk management ELearning is not monitored and therefore we cannot verify all staff have completed the training.</p> <p>Risk:</p>	<p>register template ensuring all risks are categorised.</p> <p>b. Review the controls in place and planned actions to ensure they remain current, and actions planned are additional to existing controls.</p> <p>c. Review terminated risks to identify risks that should be reintroduced to risk register</p> <p>d. Ensure staff have completed</p>		<p>completed the mandatory training and this is recorded on Pathways.</p> <p>Action: We will ensure that the correct version of the form/s are used to record AHSP risks and current issues.</p> <p>We have and will continue to review risks to ensure that actions planned, and existing controls are distinct and remain current.</p> <p>Action Owner: [Redacted]</p>	



No.	Issue & Risk	Recommendation	Priority	Management Response & Action Owner	Action Date
	Risks are not identified and / or effectively managed resulting in risk materialising.	<p>mandatory SG Risk Management training.</p> <p>More Homes may also wish to engage with the Risk Management team to support their development of their Risk Management process.</p>			
4	<p>Issue:</p> <p>More Homes have detailed guidance in place for staff involved in appraising the AHSP applications and we found that the procedures have been applied consistently for Transfer of the Management of Development Funding (TMDF)</p>	More Homes should ensure that all documents relating to the appraisal of applications to AHSP, for TMDF and non-TMDF authorities, are	M	<p>Response: Agreed</p> <p>Action: We will ensure that the checklist for appraising non-TMDF applications is stored on either HARP or eRDM. We will remind teams to ensure that all evidence is stored on eRDM or HARP.</p>	31/03/23

No.	Issue & Risk	Recommendation	Priority	Management Response & Action Owner	Action Date
	<p>authorities. However, there was one instance where we could not locate all evidence. Additionally, the checklist for appraising non-TMDF applications was not stored on either HARP or eRDM.</p> <p>Risk: Failure to retain a complete audit trail may result in a failure to comply with relevant guidance/legislation around data retention and lead to an inability to respond fully to any FOI requests.</p>	stored on the HARP and / or eRDM systems.		Action Owner: [Redacted]	
5	<p>Issue: More Homes have established guidance which provides details of the delegated authority and administrative controls which will apply within More Homes Division.</p>	Delegated Authority guidance should be updated to detail the arrangements in place for any extended absences, not specific to	L	<p>Response: Agreed</p> <p>Action: We will alter Appendix 7 of the delegated authority to be less specific and refer to occasions e.g., extended leave, where these arrangements would apply.</p>	31/03/23

No.	Issue & Risk	Recommendation	Priority	Management Response & Action Owner	Action Date
	<p>However, Appendix 7 relates to the temporary arrangements due to the COVID-19 outbreak and was updated in June 2020, while the rest of the document was updated in August 2022. Appendix 7 specifies the measures in place should the approvers be absent from work, this could be less specific and refer to occasions e.g., extended leave, where these arrangements would apply.</p> <p>Risk: Staff are unclear of process to follow should approver be unavailable for an extended period resulting in delays and reputational damage</p>	<p>Covid-19, to allow business as usual activities to continue.</p>		<p>Action Owner: [Redacted]</p>	



3. Findings, Good Practice and Improvement Opportunities

3.1. Good Practice

3.1.1. More Homes has created a guidance document detailing the processes and procedures for the Affordable Housing Supply Programme (AHSP) - MHDGN 2020/02. This document is extensive and details the process for planning the delivery of grant-funded homes for social rent, mid-market rent and new supply shared equity through the Affordable Housing Supply Programme and outlines the procedures to be followed by grant applicants, grant recipients and grant providers when delivering these homes. This document is reviewed and updated annually the document was reviewed in July 2022 and is awaiting final approval before being published.

3.1.2. More Homes develop three-year Strategic Local Programme Arrangements (SLPA) for each authority. The SLPA reflects existing carry-forward commitments, new planned priority projects, and additional capacity in the form of a pipeline of projects taken from the Strategic Housing Investment Plan. The guidance requires More Homes to meet with authorities at least once every six months. In practice, quarterly meetings are held with each authority to engage with, and monitor progress against, SLPAs in place. Additionally, More Homes regularly communicate with authorities on a more informal basis in between the required meetings.

3.1.3. More Homes guidance refers to the Scottish Housing Regulator's March 2017 publication [Development of Affordable Housing in Scotland - a thematic inquiry](#) which shared positive practice for social landlords developing affordable homes to assist Local Authority's (LAs) and Registered Social Landlords (RSLs) with procurement. More Homes guidance states that applying the 10 principles set out this report will help landlords manage and mitigate risk, achieve value for money for tenants and meet Regulatory Standards.

3.1.4. There is an established AHSP risk register that is reviewed quarterly as well as discussed at Senior Management Team meetings, this includes the risk related to the delivery of the programme, it is up to date and all risks have been subject to

regular review. There is an escalation procedure which allows for risks to feed into other Corporate Reporting systems.

3.1.5. More Homes have detailed guidance in place for staff involved in appraising the AHSP grant applications, we found that the procedures have been applied consistently for the non-Transfer of the Management of Development Funding (TMDF) authorities.

3.1.6. More Homes have established guidance which provides details of the delegated authority and administrative controls which apply within More Homes Division. It details that the Director for Housing and Social Justice has given full delegation to the Deputy Director of More Homes to administer the Division's portfolio, in line with approved policy and budget limits.

3.2. Improvement Opportunities

3.2.1. There is a lack of consistency relating to the engagement between More Homes and the LAs – in particular, between the two TMDF authorities. Guidance states More Homes should meet with authorities at least every six months, in practice meetings with RSLs, LAs and Glasgow City Council were held on a quarterly basis whilst monthly meetings were held with Edinburgh Council.

Recommendation 1.

3.2.2. The information provided by RSLs and LAs is monitored although there did not appear to be any mechanism for validating this data to ensure its accuracy. More Homes has stated they have challenges in ensuring the forecasted spend and build figures provided by authorities are realistic and as accurate as possible. A risk-based assessment is performed, and assumptions are made based on historical performance of authorities on an individual basis, with adjustments to the data made by the More Homes team. **Recommendation 2.**

3.2.3. Our review of More Homes risk register noted that the Scottish Government Risk Register template was not being used and therefore risk categories had not been assigned to the risks. We also noted the following:

- The Action Planned column should contain additional controls identified to reach the Target Risk score. However, we found this was not always the case e.g., Continue to closely monitor was the planned action despite a limited “Control Confidence Level” with a current risk score of 150 and target of 20.
- The terminated risk tab contained two risks which are live now i.e., rising inflation costs and pressure on SG finances. More Homes did not have an issues register and therefore it was not clear how these risks /issues were managed.

3.2.4. We were unable to ascertain, due to lack of data and monitoring, whether all staff within More Homes have undertaken the SG mandatory Risk Management ELearning which is available on Pathways . **Recommendation 3.**

3.2.5. We reviewed 19 AHSP applications, 16 for non-TMDF authorities and three for TMDF authorities. There was one instance where we could not locate all evidence relating to the appraisal of AHSP applications. Additionally, the checklists for appraising the three TMDF applications were not stored on either HARP (Housing and Regeneration Programmes online application portal) or eRDM.
Recommendation 4

3.2.6. Appendix 7 of the Delegated Authority guidance relates to the temporary due to the COVID-19 outbreak and was updated in June 2020, while the rest of the document was updated in August 2022. Appendix 7 specifies the measures in place should the approvers be absent from work, but this should be updated to detail the procedures in place for all types of absence, not specific to COVID-19.
Recommendation 5.

Annex A Definition of Assurance and Recommendation Categories

Assurance Levels

Substantial Assurance Controls are robust and well managed	Risk, governance and control procedures are effective in supporting the delivery of any related objectives. Any exposure to potential weakness is low and the materiality of any consequent risk is negligible.
Reasonable Assurance Controls are adequate but require improvement	Some improvements are required to enhance the adequacy and effectiveness of procedures. There are weaknesses in the risk, governance and/or control procedures in place but not of a significant nature.
Limited Assurance Controls are developing but weak	There are weaknesses in the current risk, governance and/or control procedures that either do, or could, affect the delivery of any related objectives. Exposure to the weaknesses identified is moderate and being mitigated.
Insufficient Assurance Controls are not acceptable and have notable weaknesses	There are significant weaknesses in the current risk, governance and/or control procedures, to the extent that the delivery of objectives is at risk. Exposure to the weaknesses identified is sizeable and requires urgent mitigating action.

Recommendation Priority

High	Serious risk exposure or weakness requiring urgent consideration.
Medium	Moderate risk exposure or weakness with need to improve related controls.
Low	Relatively minor or housekeeping issue.

Annex B – Terms of Reference



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Internal Audit Terms of Reference

Scottish Government Core 2022-23

More Homes – Affordable Housing

Directorate for Internal Audit and Assurance

Issue Date: 16-12-2022



Key Audit Contacts

Audit Year:	2022-23
Client Accountable Officer:	Sean Neill, Director for Local Government and Communities
Client Audit Contact(s):	Colin MacBean, Deputy Director More Homes [Redacted]
Lead Senior Internal Audit Manager:	[Redacted]
Internal Audit Manager:	[Redacted]
Internal Auditor	[Redacted]

Estimated Reporting Timescale

Fieldwork Starts:	September 2022
Fieldwork Ends:	September 2022
Draft Report Issued:	October 2022
Final Report Issued:	October 2022
Estimated Resource Days:	20

1. Introduction

- 1.1. This internal audit review forms parts of our planned audit coverage agreed by the Accountable Officer and noted by the Scottish Government Audit and Assurance Committee in March 2022.
- 1.2. The Affordable Housing Supply Programme (AHSP) comprises a range of funding mechanisms to enable affordable housing providers to deliver homes for social rent, mid-market rent, and low-cost home ownership in communities across Scotland to support local authorities' Local Housing Strategies.
- 1.3. The 2021 Programme for Government made clear Scottish Government is committed to delivering 110,000 affordable homes by 2032 of which at least 70% will be available for social rent and 10% will be in remote, rural and island communities. The previous 50,000 affordable homes target was met in March 2022.
- 1.4. Council areas across Scotland are currently to share more than £3.2 billion in grant funding over five years (2021-2022 to 2025-2026) to deliver more affordable homes, with this year's budget being £831 Million, comprising More Homes grant, Transfer of Management Development Funding (TMDF) grant which sits in the local government budget line and Financial Transactions.
- 1.5. We held a planning meeting on 6th May with the Deputy Director More Homes and the Head of Affordable Housing Supply Programme to discuss this audit and the proposed scope of our review.
- 1.6. Our key risks below have been developed through these discussions and our knowledge of Scottish Government grant funding policies and procedures.

2. Scope

- 2.1. To evaluate and report on the internal controls in place to manage the risks surrounding the Affordable Housing Supply Programme.

- 2.2. **Remit Item 1 – Management Oversight and Value for Money**

- More Homes has less control over the TMDF Programme, including overall project costs, value for money and the number of homes consequently being

delivered from the available resources to contribute towards the target of 110,000.

- More Homes are reliant on third party stakeholders, mostly local authorities and Registered Social Landlords for information in terms of quality and flow which could result in More Homes being unable to spend annual budgets due to late, incomplete and / or inaccurate management information.
- More Homes team are not responsible for procuring or the method of procuring housing projects which could result in variations in approach and therefore pricing across the country and maximum value for money not being achieved.

2.3. Remit Item 2 – Risk management and Business Continuity.

- More Homes Risk Management and Business Continuity arrangements cannot allow the Division to deal with external Global threat factors (e.g., the cost-of-living crisis, war in Ukraine,) which are currently resulting in increased prices, affecting labour resource and the supply of materials, leading to constraints on delivery from the available budget resources and also impacting the pace of delivery.

2.4. Remit Item 3 – Grant Funding Procedures

Key Risks:

- Current flexible control arrangements are considered appropriate for a much-varied geography and housing markets but may result in inconsistent assessment of grants.
- decision making arrangements e.g.
 - Delegated authority by overall project grant, not grant per home delivered.

3. Approach

- 3.1. We will undertake the audit in compliance with the Internal Audit Charter and Memorandum of Understanding agreed between Internal Audit and SG.
- 3.2. At the conclusion of the audit a customer satisfaction questionnaire will be issued to the main client audit contact. Internal Audit appreciate feedback and to facilitate continuous improvement, we would be grateful if you could complete and return the questionnaire.
- 3.3. Management is reminded of our need for timely access to people and responsiveness to information requests, to enable the reporting timetable to be met.