



AUDIT  
OFFICE



REPUBLIC  
OF CYPRUS

## **AUDIT OF HOUSING FINANCE CORPORATION Executive Summary**



**AUDIT OFFICE OF THE REPUBLIC  
SPECIAL REPORT no. OXΣ/02/2021**

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OFFICE



REPUBLIC  
OF CYPRUS

# **AUDIT OF HOUSING FINANCE CORPORATION**

## **Executive Summary**

### **AUDITED ENTITIES**

#### **Housing Finance Corporation**

## Executive Summary

The Housing Finance Corporation (Corporation) was established as a banking institution, under the Law on the Housing Finance Corporation (Law 43/1980). Its main activities are the provision of loans for housing, studies and health purposes, for the financing of which it receives deposits from the general public, within the framework of the legislation that governs its operation.

The audit of the Financial Statements of the Corporation for the year ended on 31 December 2019 was assigned by our Office to independent auditors, based on article 8 of the Law on the Submission Data and Information to the Auditor General of the Republic (Law 113(I)/2002).

The auditor's report, issued by the independent auditors, was notified to our Office, together with the letter of recommendations to the Management of the Corporation.

Additionally, our Office conducted a compliance audit which aimed to verify the Corporation's level of compliance with the applicable legal framework.

The most important findings that emerged from the above audit, for most of which the supervisory authorities are also responsible, are summarized below:

- ◆ We have identified that a disproportionately large number of staff was hired through the process of purchase of services which may be considered as covering for permanent staff needs, in a way that is not appropriate. We also identified deficiencies, corrections, errors and omissions in the invoices issued by the pre-mentioned staff, relating to the offered services.

**We suggested that the Corporation should examine whether the hiring through the process of purchase of services could be considered as the most economic and efficient solution. Also, to establish a procedure for the verification of the correctness and completeness of the invoices by a competent officer prior to their recognition and settlement.**

- ◆ In relation to a tender which was executed during 2017, we identified that a number of contractors who had been hired through the process of purchase of services, they did not meet the selection criteria of the tender.

**Our Office expressed its disagreement on the hiring of contractors who had not met the criteria.**

In the course of a new tender procedure with regards to the purchase of services from contractors in 2018, there was a downward review of the minimum required

qualifications. This has adversely increased the pool of candidates, reducing at the same time the chances of selecting more qualified individuals. Satisfactory explanations, as to why this was deemed necessary were not provided, raising suspicions of possibly photographing a candidate/s.

**We suggested that the minimum required qualifications be revised at least to the extent of those that were valid until 2018, in order to select the most suitable individuals.**

- ◆ We have identified cases where the contracts of the contractors have exceeded 30 months, a fact that creates risks in terms of claiming their conversion into employees of an indefinite period of time.

**We recommend that contracts should not be renewed for more than 30 months for any contractor and that the Corporation should ensure that both the terms of the contract and the actual work performed by the contractors refer to the purchase of services and not to employment.**

- ◆ We noticed gaps and weaknesses, which concern the composition and operation of the Administrative Body (AB), as well as the keeping appropriate minutes of meetings.

**It must be ensured that there is a quorum during the meetings of the AB, that detailed minutes are kept, which are properly numbered, duly signed and validated in a timely manner.**

- ◆ The AB decided to make the Director, who does not hold a recognized degree, permanent.

**We suggested that the Corporation should adopt a formal procedure, so that, when filling vacancies, it should check, among other things, the recognition of the candidates' degrees, before offering them a position. Guidance should be sought from the Corporation 's legal adviser as to how to handle this case.**

- ◆ We noticed gaps and weaknesses in documents and agreements included in the loan files, in the way they are stored and/or archived, as well as discrepancies in the information registered in the computer system, in relation to the contents of the files.

**We suggested that the way of storing and archiving the documents be reviewed and revised. Also, to check and confirm the entries in the computer system with the documents that are in the loan files, in order to identify any deficiencies and errors.**

- ◆ The lending policy document has shortcomings, and we have noticed weaknesses in the management and monitoring of arrears and non-performing loans.

**We suggested that an adequate and up-to-date loan policy should be prepared, that appropriate procedures and control measures should be put in place to reduce arrears, and that non-performing loans should be better managed.**

- ◆ We noticed gaps and weaknesses in the loan granting and management agreements entered into by the Corporation with the Central Body of Equal Distribution of Burdens (CBEDB), as well as disagreements between the parties regarding the amendment to these agreements and consequently inefficient loan management.

**We suggested that the Corporation should implement a more effective system of monitoring of loan arrears and restructuring of loans, since the inadequacy in management is to the detriment of the Organization itself and the State.**

- ◆ The Corporation requested tenders, through the method of summary procedure, for the purchase of consulting services from external consultants. We noticed that the whole procedure followed lacks the necessary documentation.

**Our Office has expressed the view that the Corporation, as a public body, must implement the Regulations governing public procurement procedures, which aim to ensure the principles of transparency and equal treatment.**