

Audit & Risk Committee Report

The purpose of the Audit & Risk Committee, as per its terms of reference, is to assist the Board in its general oversight of the HFA's financial reporting, internal controls, risk management and audit functions. The responsibilities of the Audit & Risk Committee are discharged through its meetings and receipt of reports from Management, the Risk Management Committee (consisting of the Chief Executive Officer, Head of Treasury and Company Secretary), external consultants, and the external and internal auditors. The Audit & Risk Committee has an agenda, as per its terms of reference, for the year that includes:

- monitoring the financial reporting process, integrity of the financial statements and any formal announcements relating to the HFA's financial performance;
- monitoring the effectiveness of the HFA's risk management and internal control arrangements;
- reviewing significant financial reporting judgements;
- reviewing any proposed changes to corporate governance practices and endorsing the same for adoption by the Board;
- monitoring the statutory Audit of the Annual Financial Statements;
- reviewing the External Auditor's performance, objectivity, qualification and independence;
- making recommendations to the Board in relation to the appointment of the External Auditor, the approval of the Auditors' remuneration and terms of engagement;
- dealing with significant control issues raised by Internal or External Audit; and,
- reviewing the cost of funds and interest rates charged.

In line with Section 289 of the Companies Act 2014, the financial statements must give a true and fair view of the assets, liabilities and financial position, as at the end of the financial year, and profit or loss, for the financial year.

The Risk Committee reports to the Audit & Risk Committee and to the Board on a regular basis. An annual review of the financial risk of the HFA was performed by the Board at its 25 March 2021 meeting.

Scheduled Audit & Risk Committee meetings for the year ended 31 December 2020

Members	Meetings held in 2020	Directors attendance
Brian Fitzpatrick (Committee Chairperson)	4	4
Emma Cunningham	4	4
Aideen Hayden	4	4
Lianne Patterson	4	2
Derek Rafferty	4	3
Jennifer Ward	4	3

The Chief Executive Officer, Head of Treasury, the Company Secretary and representatives of the External Auditors attend upon invitation.

Monitoring the integrity of the financial statements including significant judgements

Financial Reporting

The Audit & Risk Committee receives and considers regular reports on financial performance from Management during the course of the year, as well as directing the work of and receiving reports from the Internal Auditor and discussing the audit strategy and focus of the External Auditor.

Taking into account the information from these activities and views from the meetings of the Board of Directors, the Committee determined the key risks of financial reporting related to the availability of funding and going concern and provisions for doubtful debts arising on post-1986 loans in the context of current market conditions.

These issues were discussed with Management during the year and with the External Auditor at the conclusion of the external audit of the financial statements. Management represented to the Audit & Risk Committee that the HFA's audited financial statements were prepared in accordance with Companies Act 2014 and FRS 102.

This review included a discussion with Management of the quality, not merely the acceptability, of the HFA's accounting principles, the reasonableness of significant estimates and judgements and the clarity of disclosure in

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the HFA's financial statements, including the disclosures related to critical accounting estimates.

Availability of funding and going concern

These financial statements have been prepared on a going concern basis. The Guaranteed Note ("GN") Programme is guaranteed by the Minister for Finance and facilitates issuance out to a maximum maturity of thirty years from the date of issue. At end 2020 the average maturity of HFA debt was 5.16 years (2019: 4.0 years). This provides a stable funding base for the HFA's loan portfolio and significantly reduces short term liquidity risk for the HFA.

The liability maturity profile is expected to increase in 2021 as further additional long-term fixed rate funding is due to be accessed via the GN Programme with the NTMA and the bilateral agreements with the European Investment Bank and the Council of Europe Development Bank. In addition, the HFA will continue to have access to the NTMA and a Bank overdraft for short term liquidity needs as required.

The Audit & Risk Committee is satisfied with the disclosures of the appropriateness of the going concern assumption and access to funding that are made in these financial statements.

Misstatements

Management confirmed to the Audit & Risk Committee that it was not aware of any material or immaterial misstatements made intentionally to achieve a particular presentation.

Interaction with Management

The Audit & Risk Committee, as part of the approval of the financial statements, obtains and reviews a paper prepared by Management which sets out the significant risks impacting the HFA, a detailed assessment of these risks and how they are mitigated. The Committee challenges the assumptions and judgements contained in these management reports prior to submitting the financial statements to the Board for approval. See pages 37 to 43 of the financial statements for further information relating to the Audit & Risk Committee's ongoing responsibilities in respect of the HFA's internal controls.

Recommendation of approval of financial statements

As a result of these reviews and discussions with Management and Internal Audit, and the reports to the Audit & Risk Committee of the External Auditor, the Committee has reported to the Board that it considers the financial statements, taken as a whole, to be fair, balanced and understandable and provides the information necessary for stakeholders to assess the HFA's performance, business model and strategy. The Audit & Risk Committee also recommended the inclusion of the audited financial statements in the HFA's annual report for the year ended 31 December 2020.

External Audit

Audit Firm Tendering

In 2018 the HFA continued its practice of tendering for the provision of external audit services, to cover the 2018-2020 external audit period and JPA Brenson Lawlor were the tender winners. The Board recommended the appointment of JPA Brenson Lawlor as independent External Auditor for a tenure of 3 years.

Ensuring the independence of our external auditor

The Audit & Risk Committee believes the issue of auditor independence is taken very seriously and is reviewed annually. The Audit & Risk Committee has discussed with JPA Brenson Lawlor and Management regarding the firm's independence and there were no issues to note.

In 2020, apart from audit work, there was no other non-audit services carried out by our independent external auditor. The Audit & Risk Committee via its terms of reference reviews non-audit work performed by the external auditor and confirms that there is no adverse effect on actual or perceived independence or objectivity of the audit work itself.

The Board of the HFA monitors the provision of non-audit services by the external auditor and the Audit Committee through the ongoing review of administration expenses. Given that there were no non-audit services provided during 2020, therefore there was no conflict with auditor independence.

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Fees for audit and non-audit services to the HFA's independent auditors JPA Brenson Lawlor

Year ended	31 December	31 December
	2020	2019
	€'000	€'000
Audit of financial statements	34	34
Tax advisory services	-	-
Other services	-	-
Total Auditors remuneration	34	34

Liaising with external auditors

The Audit & Risk Committee provides a link between the Board and the External Auditor and is independent of the HFA's Management. JPA Brenson Lawlor, the HFA's statutory auditor, is responsible for performing an independent audit of the HFA's financial statements in accordance with international Standards on Auditing (Ireland). The Audit & Risk Committee has ultimate authority and responsibility for selecting, compensating, evaluating, and, when appropriate, replacing the HFA's independent audit firm. In accordance with Section 383(2) of the Companies Act 2014, the Auditor, JPA Brenson Lawlor, Chartered Accountants, will continue in office.

The Audit & Risk Committee pre-approves all services to be provided by the external auditors. Pre-approval includes audit services, audit-related services, taxation advice, and other services.

The Audit & Risk Committee also has the authority to engage its own outside advisors, including experts in particular areas of accounting, as it determines appropriate, apart from counsel or advisors hired by Management.

Assessment of external audit process

The performance of the External Auditor is reviewed annually by the Committee at the end of the annual audit cycle. The review encompasses taking into account feedback from Management and staff of the HFA involved in the audit process together with a review of the level of service provided by JPA Brenson Lawlor to the HFA. Based on its consideration of the feedback, together with its own ongoing assessment, for example through the quality of the external auditors' reports to, and the audit partner's interaction with the Committee, the Audit & Risk

Committee is satisfied that JPA Brenson Lawlor continues to provide an effective audit service.

Risk Management

As prescribed by the revised Code of Practice for the Governance of State Bodies, the Risk Register, overseen by the Audit & Risk Committee, was adopted by the Board, and a formal Risk Management Committee, consisting of Senior Management, has been operational since 2009. The Chief Executive Officer, Head of Treasury and Company Secretary collegially manages the risk of the HFA, in place of a Chief Risk Officer, as permitted under the Code of Practice. The Risk Register is regularly reviewed by the Committee. The monitoring of risk remains a standing item at Board meetings. The HFA is a financial business and the key risks associated with the business are therefore essentially financial (i.e. credit, market and liquidity risks) and also treasury-related risk. These risks are outlined in more detail in Note 18 of our financial statements.

The HFA has developed a risk management process which includes constant reviews of its loans and advances portfolio and an ongoing review of treasury related risk, which allows it to manage these risks. The Board of the HFA adopted a Credit Policy regarding lending to AHBs in 2013 which is regularly updated, most recently in October 2020.

Residual risk is associated principally with fixed rate borrowings. This is dealt with by a reserves and margin policy as detailed in the HFA's Policies and Procedures Manual and also within the Risk Register. In the context of the HFA's Balance Sheet, interest rate risk arises where a move in interest rates gives rise to a change in the cost of existing funding, which is not offset by a corresponding change in the income earned from existing loans, leading to a positive or negative impact on current and future profitability. To measure this risk, HFA Management developed an Interest Rate Risk (IRR) model which calculates the outstanding IRR exposure on an annual basis (the annual gap) for all fixed rate liabilities and assets, up until their re-pricing date. The IRR model has been reviewed and reported on by the HFA external auditors.

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The HFA carries out a comprehensive annual review of risks which is approved by the Board and forms part of the HFA's interest rate and reserves policy for subsequent years. The Board is informed on a quarterly basis of developments and corrective action, if required, is taken.

The Audit & Risk Committee assesses material risks namely:

- interest rate risk mismatch;
- funding, liquidity and going concern risks;
- credit risk associated with post 1986 local authority lending;
- local authority mortgage arrears;
- credit risk associated with approved housing body (AHB) lending;
- credit risk associated with HEI lending;
- credit risk associated with pre 1986 local authority lending; and,
- funding risks in relation to the defined benefit pension scheme.

Pre 27 May 1986 local authority loans

With regard to the HFA's lending to local authorities, the HFA is liable for any credit losses that may arise on pre-May 1986 mortgages which are secured by the underlying mortgage property and mortgage protection insurance. Of the €7.5 million of pre- May 1986 loans outstanding at 31 December 2020 (2019: €8.6 million), only €5.2 million (2019: €5.3 million) of these are still due to the local authorities from the underlying borrowers and there is a total impairment provision of €2.7 million.

The gap of €2.3 million (2019: €3.4 million) has arisen as the local authorities are not required to remit in full to the HFA monies received in relation to redemptions and repayments as allowed under the terms of the loan facility. The Board is of the opinion that, similar to post 1986 loans, in substance, no credit risk arises, other than sovereign risk, for this funding mismatch. The local authorities hold collateral against the remaining €5.2 million of loans advanced pre-27 May 1986, in the form of mortgage interests over property. Only in the event of that collateral not being sufficient to discharge the debt is the HFA liable for any impairment losses which may arise.

Individual borrowers are required to hold Mortgage Protection Insurance ('MPI') on their property. MPI covers the borrower in the event of death or disability on the loan amount outstanding, excluding arrears.

Post 27 May 1986 local authority loans

The legal relationship of post May 1986 loan advances is with local authorities and is not dependent on changes in house prices or other economic variations. In the context of:

- (a) local authorities being statutory bodies under the Local Government Act, 2001 and other enactments;
- (b) their revenues or funds being security for the due payment to the HFA of all amounts due by local authorities (as set out in the agreement between each local authority and the HFA);
- (c) all loans advanced to local authorities are approved by the Minister for Housing, Local Government & Heritage;
- (d) the Board's understanding that central Government supports local authorities in meeting their obligations to the HFA; and,
- (e) the HFA has not experienced any loan losses on its loans advanced to local authorities after 1986;

the Board is of the opinion that, in substance, no credit risk arises, other than sovereign risk, on loans advanced to local authorities on or after 27 May 1986 and no loan loss provisions are recorded in respect of these loans. The Audit & Risk Committee is satisfied with the use of this assumption in the preparation of these financial statements and with the disclosure of these circumstances. At 31 December 2020, following the renegotiation of the terms of certain loans, all local authorities were up to date with their scheduled repayments on this portfolio (see Note 18(a)). The HFA has not experienced any losses on its post May 1986 loans advanced to local authorities.

Loans to approved housing bodies

Up until 2011, the Government grant funded AHBs, through local authorities, for social housing. There was a rationale for the introduction of loan finance to replace grants, and for lending directly to AHBs to enable the timely completion of social housing projects. The HFA was

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given a central role in the provision of loan funding for the sector, in the absence of competitive rates and tenors, at the time, in the market.

The HFA established a process for the assessment of AHBs for 'Certified Body' status, i.e. deemed suitable for the provision of loan finance. The assessment process for AHBs is in two parts. The first is a market standard corporate review which uses a scoring matrix to assess current performance, corporate governance, and development and financial plans. The application is then brought before the HFA's Credit Committee for consideration. Following this, applicants are then awarded Certified Body status and can apply for funding on a case-by-case basis. Project applications are supported by the State funded Capital Advance Leasing Facility (CALF) and a Payment and Availability Agreement (PAA).

In December 2015 the HFA launched a lending initiative specifically targeted at Tier 2 AHBs which are not currently Certified Bodies. This product targets AHBs with lending requirements from a minimum of €0.25 million up to €1.50 million and is specifically tailored towards property acquisitions. The lending is offered on a variable interest rate basis over 30 years or with any of the fixed rates available (reverting to variable thereafter). Tier 2 AHBs who apply for the new product do not have to undergo a full HFA credit review process.

There has been significant growth in AHB activity which has continued in 2020, strongly supported by the HFA's increasing range of fixed rate offerings including acquisition, new build and mortgage-to-rent products. In particular the National Treasury Management Agency (NTMA), European Investment Bank ("EIB") and Council of Europe Development Bank ("CEB") financing has facilitated the introduction of long term fixed rate funding out to 30 years at a current rate of 2.25%, which has significantly de-risked the interest rate environment for AHBs borrowing from the HFA. The HFA remains confident that it can play a central role in ensuring that any development plans can be supported with competitive and flexible financing which will meet the needs of the AHB sector.

Loans to higher education institutions

Section 51 of the Planning and Development (Housing) and Residential Tenancies Act, 2016, allows the HFA to lend to higher education institutions (HEIs) for the development of new student accommodation. These powers allow HEIs access the HFA's low cost, long term fixed rate finance for on and off campus student housing, thereby significantly reducing the costs to Universities of such projects and improving the affordability for students. The provision of new student accommodation has the added benefit of freeing up existing rental stock to support additional social and affordable housing.

Currently three Universities have had loan applications approved totalling €157m for the provision of 1,428 new student bedrooms.

It is anticipated that further loan applications will be received in the coming months. The HFA advanced funds of €49 million (2019: €60 million) to three HEIs during 2020.

Treasury

The HFA raises funding, with the support of a Guarantee from the Minister of Finance, largely through the NTMA, local authorities and international agencies such as the European Investment Bank and the Council of Europe Development Bank. Marginal funding is raised via the NTMA using the Guaranteed Note Programme under an agreed pricing arrangement as approved by the Board.

Review of internal controls

The Directors have responsibility for maintaining a system of internal control which provides reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations. In this context the Audit & Risk Committee has regard to what, in its judgement, is appropriate to the HFA's business, to the materiality of the financial and operational risks inherent in the business and to the relative costs and benefits of implementing specific controls. The HFA has a policy outlined in its Policies and Procedures Manual whereby employees can raise concerns, in confidence, about possible irregularities in financial reporting or other matters.

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The Board has devolved the task of reviewing risks, in detail, to the Committee, and this is a standing agenda item for meetings of the Audit & Risk Committee. The Audit & Risk Committee subsequently reports and makes recommendations to the Board on its findings, with the Board tasked with overseeing risk and considering recommendations from the Committee. At most of the meetings of the Audit & Risk Committee a review is undertaken of one area of risk as detailed in the HFA's Risk Register.

The HFA's system of internal control is designed to provide reasonable, but not absolute, assurance against the risk of material errors, fraud or losses occurring. It is possible that internal controls can be circumvented or overridden. Further, due to changes in conditions, the effectiveness of an internal control system may vary over time. HFA Management endeavours to amend internal control systems in line with changes in the underlying business in a timely manner.

The Internal Auditor identifies and evaluates the HFA's internal control systems as a basis for reporting upon its adequacy and effectiveness. An approved plan is agreed with the Audit & Risk Committee and the Internal Auditor plans, performs and evaluates their work based around this schedule. If significant weaknesses are found with internal controls within any sample tested, then the Internal Auditor reverts to carrying out substantive tests on the areas where the controls were found to be ineffective/defective. The Audit & Risk Committee reviews the reports carried out by the Internal Auditor on a twice-yearly basis and the Internal Auditor also holds a yearly private meeting with the Committee, without Management present, where any issues can be raised by either the Internal Auditor or the Committee.

The Directors have established an organisational structure with defined responsibility for internal control for each element of the HFA's business and this, together with the associated responsibility for reviewing periodically the effectiveness of such internal control, is formally reported upon by the Chief Executive Officer once a year and is subject to testing by Internal Audit throughout the year with reports issued to the Audit & Risk Committee twice a year. The key elements of the system of internal control are as follows:

- (a) a clearly defined organisational structure with appropriate segregation of duties and limits of authority;
- (b) internal financial controls documented in a Policies and Procedures Manual which is reviewed semi-annually, and any subsequent changes approved by the Board;
- (c) clearly defined limits and procedures for financial expenditure including procurement and capital expenditure;
- (d) annual budgets (and means of comparing actual results with budgets during the year) and long-term plans for the HFA identifying key risks and opportunities;
- (e) monthly management accounts prepared and presented to the Board;
- (f) an Internal Auditor reviewing key financial systems and controls;
- (g) an Audit & Risk Committee dealing with any significant control issues raised by Internal or External Audit; and,
- (h) the preparation and issue of financial reports, including the Annual Report, managed by the Finance Section with oversight from the Audit & Risk Committee. The financial reporting process is controlled using documented accounting policies. Whilst the Directors have the responsibility for the preparation of the financial statements, the Directors are supported by Senior Management and professional advisors, such as an actuary, who have responsibility and accountability to provide information in keeping with agreed policies, including the completion and reconciliations of financial information to processing systems. Its quality is underpinned by arrangements for segregation of duties to facilitate independent checks on the integrity of the financial reports. The financial information for each year is subject to review by Senior Management prior to being submitted to the Audit & Risk Committee. The Annual Report is also reviewed by the Audit & Risk Committee in advance of being presented to the Board for its approval.

The Audit & Risk Committee has reviewed and discussed with Management its assessment and report on the effectiveness of the HFA's internal control over financial reporting as of 31 December 2020.

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Discussions with the Auditor

The Audit & Risk Committee has received and discussed a report from the External Auditor on the findings from the external audit engagement, including those relating to the risks noted above. The External Auditor reported to the Audit & Risk Committee the misstatements that they had found in the course of their work and no material amounts remain unadjusted.

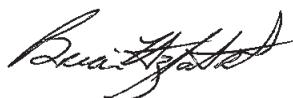
Committee Effectiveness

The effectiveness of the Committee is reviewed on an annual basis by both the Board and the Committee itself. Following such reviews, the Committee is satisfied to advise that it is considered to have discharged its duties, as per its terms of reference, in an effective and efficient manner.

Conclusion

After reviewing the presentations and reports from Management and Internal Audit and taking into account views expressed by the External Auditor, the Audit & Risk Committee is satisfied that the financial statements appropriately address the critical judgements and key estimates, both in respect to the amounts reported and the disclosures. The Audit & Risk Committee is also satisfied that it has sufficiently scrutinised and challenged the significant assumptions used for determining the value of assets and liabilities.

On behalf of the Audit and Risk Committee,



Brian Fitzpatrick
Committee Chairperson

25 March 2021