

**AUDITOR GENERAL'S DEPARTMENT
PERFORMANCE AUDIT REPORT
NATIONAL HOUSING TRUST**

The Auditor General is appointed by the Governor General and is required by the Constitution, Financial Administration and Audit Act, other sundry acts and letters of engagement, to conduct audits at least once per year of the accounts, financial transactions, operations and financial statements of central government ministries and departments, local government agencies, statutory bodies and government companies.

The Department is headed by the Auditor General, Pamela Monroe Ellis, who submits her reports to the Speaker of the House of Representatives in accordance with Section 122 of the Constitution of Jamaica and Section 29 of the Financial and Administration and Audit Act.

This report was prepared by the Auditor General's Department of Jamaica for presentation to the House of Representatives.



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Table of Contents

TABLE OF CONTENTS	3
AUDITOR GENERAL'S OVERVIEW	5
EXECUTIVE SUMMARY	7
KEY FINDINGS	7
PART ONE	11
INTRODUCTION	11
AUDIT SCOPE AND METHODOLOGY	13
PART TWO	15
REVIEW OF INVESTMENT PRACTICES	15
NHT'S INVESTMENTS OF \$2.07 BILLION HAVE YIELDED NIL RETURN TO CONTRIBUTORS.	15
PART THREE	19
ACQUISITION OF LAND FOR HOUSING DEVELOPMENT	19
NHT HAS NO PLANS FOR DEVELOPMENT FOR 28 PARCELS OF LANDS ACQUIRED FOR \$2.27 BILLION	19
NHT'S FAILURE TO ABIDE BY TECHNICAL PERSONNEL RECOMMENDATIONS PROVED COSTLY.....	20
PART FOUR	25
PURCHASE OF LOAN RELATED TO ORANGE GROVE PROPERTY	25
CHRONICLE - ORANGE GROVE PROPERTY	27
NHT PURCHASED BANK LOAN IN EXCHANGE FOR ORANGE GROVE PROPERTY.....	28
NHT INCURRED \$28 MILLION IN OPERATIONAL COSTS AT ORANGE GROVE PROPERTY	32
APPENDICES	35
APPENDIX 1 NHT'S LAND BANK.....	35

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Auditor General's Overview

Vision 2030 Jamaica recognizes that housing is an important component of the economic and social development of the country. It is an important part of national infrastructure and pivotal to social development, national competitiveness and economic growth. The Plan embodies the concept that shelter represents a broad continuum of affordable and appropriate housing options related to the income of target groups. It is proposed that, by the year 2030, every Jamaican will be living in a well constructed dwelling unit that is safe, sanitary and affordable and in an inclusive and aesthetically pleasing community.

The performance audit focus was restricted to investment and land acquisition activities in recognition of the inextricable link that the impact of decisions relating to these activities will have on the sustainability of NHT and its ability to deliver affordable housing solutions.

The audit identified that successive Boards of NHT granted approval for the acquisition of lands for \$2.27 billion, which are either zoned for agricultural purpose only or will incur exorbitant development costs. This may negatively impact on NHT's ability to utilize these properties to provide affordable housing solutions to its contributors. NHT entered into three investment ventures amounting to \$2.07 billion. One of the three investments (with expenditure of \$407 million) was transferred to the National Water Commission (NWC) for a consideration of \$1. Further, NHT acquired the Orange Grove property, through the purchase of the loan in relation to Orange Valley Holding Limited (OVHL). Except for the CWTC investment, NHT was unable to provide any evidence that, prior to the stated investment decisions, due consideration was given to the cash flow impact, expected rate of return and the assessed benefit that would arise from these ventures. Though the land acquisition activities reflect action undertaken over a 15 year period and may be considered dated, it is my view that the audit identified a pattern of questionable and possibly contentious decisions. I therefore implore NHT to re-examine the decision making process and the due diligence protocol to ensure prudent and evidenced based decisions.

This report also highlights the weakness in the implementation of the Cabinet approved Corporate Governance and Accountability Frameworks. It came to my attention during the review of the Orange Grove transaction, that despite the Ministry of Finance and the Cabinet Office instructions to implement the frameworks, some aspects were not implemented owing to a delay in the finalisation of related governance tools by the Ministry of Finance. The delay in fully implementing the frameworks across the wider public service could have negative implication for the robustness of the Country's public financial management system and the critical elements of accountability and transparency. Both frameworks have codified generally accepted best practices, which should already be in practice by Ministries, Departments and Agencies (MDA's) in accordance with good governance. Consequently, the Permanent Secretary in the Office of the Prime Minister should have instituted measures to receive copies of the Minutes of the NHT Board in compliance with the GOJ Accountability Framework. This would allow the Permanent Secretary to have knowledge of the deliberations of the Board and be more informed on a timely basis to advise the portfolio Minister on pertinent issues relating to the operations of NHT.

I wish to express my sincere thanks to the Management and staff of NHT for the cooperation and assistance given to the audit team.



Pamela Monroe Ellis, FCCA, FCA, CISA
Auditor General

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Executive Summary

NHT's mission is: *"to be effective stewards, caring for our contributors as we deliver housing solutions, build communities, refund contributions, and influence the market to make housing more affordable."* The audit sought to determine the level of due diligence undertaken by NHT, prior to investments and land acquisitions. The key findings are summarised below:

Key Findings

1. As mandated by Parliament, NHT has committed \$51.6 billion of contributors' funds to provide budgetary support to Government. The NHT Act was amended in 2005 and 2013, to facilitate the payment of \$5 billion of contributors' funds to the Education Transformation Programme and \$45.6 billion into the Consolidated Fund over a four year period, 2013 to 2016. In addition, NHT has committed \$1 billion to the Ministry of Finance representing special distribution payment in keeping with the PBMA Act.
2. NHT invested \$2.07 billion in three ventures, namely; Jamaica Lifestyle Village, Central Wastewater Treatment Company (CWTC) and Harmonisation Limited, during 2004 to 2009. Except for the CWTC investment, we saw no evidence that NHT contemplated: the cash flow impact; the expected rate of return on the investments; the assessed benefit, and whether the investment decisions were in line with existing strategy of the Trust. In June 2010, Cabinet gave approval for the transfer of NHT's shareholding in CWTC to the National Water Commission (NWC) for the nominal sum of \$1. While the Jamaica Lifestyle Village investment has suffered full impairment, which suggests that NHT is unlikely to recover the sum invested. In relation to Harmonisation Limited, NHT has indicated that there is no other asset owned by NHT which has shown comparable significant capital gain based on market value. However, it should be noted that the land was not acquired for resale, but to facilitate the construction of a resort colony with 4,500 hotel rooms and 500 residential property, which would provide direct employment opportunities to approximately 16,500 individuals; however to date, the development has not materialised. All three investments were approved by Cabinet.
3. NHT has not initiated any plans for housing development on 28 parcels of land acquired for \$2.27 billion. NHT would have to incur exorbitant development costs to enable construction of housing solutions for 15 parcels of land acquired for \$1.38 billion. The price of housing solutions built on these lands could prove prohibitive to contributors and remain unsold for protracted periods. Further, NHT is unable to pursue housing solutions on six parcels of land acquired for \$342.6 million, as the designation of the lands use would have to be changed from agricultural to residential. Also, NHT was unable to indicate why there were no plans for housing development for the remaining seven parcels of land, acquired for \$612.2 million ([Appendix 1](#)). We also noted the Florence Hall property in Trelawny, was acquired for \$14 million in March 1997 for housing development. However, 63.03 acres (53 per cent) of the property were subsequently utilized for the construction of the Trelawny Multi-Purpose Stadium. Despite our request, NHT did not provide the terms and conditions which resulted in the facilities being built on the property.

4. We also found that NHT acquired two parcels of land from National Housing Development Corporation (NHDC) for \$1.07 billion at Point, Hanover and Ironshore, Saint James. NHT indicated that the acquisition of the properties was to boost NHDC's liquidity and ability to finance the implementation of several Operation Pride projects. However, NHT's failure to complete the requisite verification resulted in its purchase of the incorrect parcel of land at Ironshore, Saint James. The imprudent approach by NHT is evident in a letter dated October 06, 2006, informing NHDC that *"the NHT's decision to agree to the purchase of the subject and to disburse funds before completing verification was done in good faith to assist with relieving the cash flow challenges of the NHDC, relying on the integrity of a sister organisation."* However, NHDC responded that *"there was no mis-description of the land being sold in the executed Agreement for Sale dated 21st July 2005 and it was the Trust responsibility to ensure, prior to contract, that the land that it wished to purchase was properly described in the proposed agreement for sale. The Trust, is after all, an experienced developer and dealer in land with a host of professionals at its disposal."* Both parcels of land acquired from NHDC were characterized by steep slopes which would result in high infrastructure and development cost.

5. In December 2012, the NHT Board approved the purchase of the loan of \$180 million from a Merchant Bank in exchange for the assets owned by Orange Valley Holdings Limited (OVHL) valued at \$311.16 million. NHT and the Mortgagee signed the sales agreement on March 15, 2013 and finalised the transactions on May 27, 2013. During the course of the Board's deliberation in December 2012, the Chairman advised that several options could be contemplated for the use of the property. However, there was no evidence that the Board decided on the operational activities that would be undertaken at the property. We noted that the Managing Director's submission to the Board, dated November 28, 2012 states that *"an urgency was created because of a provisional order by the Court to sell the home of the guarantors for the loan and the final order was expected to be handed down on November 20, 2012 if Orange Valley Holdings Limited failed to settle the debt."* In January 2013, NHT conducted a site assessment of the property, which indicated *"that the property does not appear to facilitate the NHT's mandate for affordable housing solutions and is more suited for recreational/heritage type facility."* In February 2013, NHT commissioned a valuation appraisal, which valued the property at \$280 million; a difference of \$31.16 million (or 10 per cent) when compared with the valuation of \$311.16 million conducted in September 2011.

OPM's Oversight – Governance Responsibility

6. Decision No. 17 of the Cabinet approved GOJ Accountability Framework for Senior Officers¹, require that Permanent Secretaries, as accounting officers, receive copies of Board Minutes from all public bodies, under their portfolio. The Accountability Framework complements Section 23 and Part IV of the Second Schedule of the PBMA Act, which makes it a requirement for public bodies to prepare and submit other reports, as may be required, to the portfolio Ministry. However, we found that while the Office of the Prime Minister (OPM) receives quarterly, half-yearly and annual reports from NHT, the Permanent Secretary did not request copies of the Board Minutes, contrary to the Accountability Framework. Nonetheless, the OPM was represented on the Board of NHT. The Permanent Secretary indicated that *"it was anticipated that any matters of concern or significant matters"* would be communicated to her

¹ Approved by Cabinet in January 2010

through the Chief Technical Director to whom OPM's representative on the NHT Board reports. The Permanent Secretary also indicated that the practice has been that some matters of concern have been brought directly to her attention by the OPM's representative on the NHT Board. However, the Permanent Secretary indicated that the Orange Grove transaction only came to her attention through "public disclosure".

Executive Summary: Decision 17 - GOJ Accountability Framework for Senior Officers (January 2010)

"The following are decisions of Cabinet that have been made to close some of the gaps identified and thereby strengthening the accountability framework. In this regard, Ministers, Senior Executive Officers and relevant entities of the Public Sector are mandated/ obligated to achieve the following commitments The Permanent Secretary, as accounting officer, shall receive Board minutes, and corporate plans for Public Bodies shall be submitted for approval to the Portfolio minister through the responsible Permanent Secretary. This is to complement the powers conferred to the responsible Minister under the PBMA Act, to allow for more effective policy oversight."

Source: Executive Summary: Decision 17 - GOJ Accountability Framework for Senior Officers (January 2010)

Recommendations

7. In keeping with its responsibility under Section 6 of the Public Bodies Management and Accountability (PBMA) Act, the Board should take the necessary steps to enhance its due diligence process undertaken prior to investments and acquisition of land so as to maximise return on investment and ensure that all properties acquired are suitable for housing development. This due diligence should include an appraisal of all investment opportunities to determine, at a minimum, the cash flow impact and the expected rate of return on the investment. The Board should also ensure that there is a robust records management system to provide evidence of the due diligence undertaken. NHT's Board should instruct management to develop an action plan for all properties that deemed unsuitable for deemed unsuitable for affordable housing development.
8. We encourage the Permanent Secretary in the Office of the Prime Minister to immediately institute measures to ensure that copies of the Minutes of the NHT Board are received, in a timely manner, in compliance with the GOJ Accountability Framework.