

**MINUTES OF THE AUDIT & RISK MANAGEMENT COMMITTEE MEETING
HELD ON MONDAY 24 AUGUST 2020 by VIDEO CONFERENCE**

Present:	Alex McDougall Alan Nairn Graham Logan Helen Archibald Martin Walker	Chair Caledonia Housing Association Caledonia Housing Association Caledonia Housing Association (to Item 13) Cordale Housing Association (to Item 5.7)
Apologies:	Gregor Colville	Bellsmyre Housing Association
Special Leave of Absence:	Ian Gray	Caledonia Housing Association
In Attendance:	Kelly Adams David Archibald Steven McNaught Leigh Grubb Barry Johnstone Garry Savage Andrew Kilpatrick Lesley Janes Jenny Dalton	RSM UK Audit LLP (to Item 7) Henderson Loggie Henderson Loggie Director of Finance & Governance Director of People Director of Strategy & Innovation Director of Assets Finance Manager Governance Officer (Minutes)

The Chair welcomed Kelly Adams from External Auditors RSM UK and David Archibald and Steven McNaught from Internal Auditors Henderson Loggie to the meeting.

1 Apologies

- 1.1 Apologies were **NOTED** from Gregor Colville. It was **NOTED** that Martin Walker had another appointment at 5 p.m. and would leave the meeting at that time.

2 Declaration of Interest

- 2.1 There were no declarations of interest.

3 Minutes of Audit & Risk Management Committee Meeting held on Wednesday 20 May 2020

- 3.1 The minutes were **AGREED** as a true and accurate record of the meeting and were **APPROVED** by the Committee.

4 Matters Arising

- 4.1 There were no matters arising.

5 External Audit – Draft Final Audit Findings Report

- 5.1 The External Auditor advised that although the audit work was substantially completed, due to the risks posed by the ongoing pandemic, RSM's policy was for a second reviewer to review the work on the non-going concern assumption prior to sign off of each audit report and that this second review had not yet taken place. In relation to Bellsmyre, the going concern work and conclusion required sign off by RSM's technical team and, again, this had not yet taken place. Both outstanding items would be completed before the audit report was presented to the Group governing bodies for approval.

- 5.2 The External Auditor summarised the key findings identified during the audit of the financial statement of Caledonia Housing Association Group and subsidiaries in respect of the year ended 31 March 2020. There were no misstatements in any of the entities that had been left unadjusted that would materially impact the net assets of the entities. A full list of all the adjusted and unadjusted misstatements was included in the Appendix to the report. The key disclosure items identified during the review of the financial statements were also detailed in the Appendix to the report.
- 5.3 The External Auditor explained that Bellsmyre HA's accounts had been prepared on a non-going concern basis on the assumption that the Transfer of Engagements (ToE) to Caledonia HA would proceed. This was a technical point and no adjustments had been made to the numbers within the financial statements.
- 5.4 The Chair queried what would happen if the ToE did not proceed and whether the lenders were satisfied with this approach. The External Auditor advised that should the ToE not proceed then next year's accounts for Bellsmyre HA would be prepared on a going concern basis. The Director of Finance & Governance (DoFG) advised that he had spoken to the Royal Bank of Scotland (RBS) who were comfortable with the approach that had been taken and understood that it did not have any broader implications. The DoFG also advised that the wording of the report might be changed in a scenario where the result of the vote at the first Bellsmyre Special General Meeting (SGM) was against the ToE taking place and the Management Committee determined to abandon plans for the ToE to proceed.
- 5.5 The External Auditor explained that, assuming the ToE went ahead and Bellsmyre's housing stock was transferred into Caledonia's ownership then the stock, with the exception of the vacant properties earmarked for demolition in Phase 1 of the project, would be recognised at its fair value as at the date of transfer. The External Auditor advised that this would require consideration prior to concluding the ToE as if the fair value was deemed to be lower than the Net Book Value (NBV) then this would affect Caledonia's Income and Expenditure account and balance sheet in 2020/21.
- 5.6 Following discussion, the ARMC members **AGREED** that this should be brought to the attention of the Management Board when the audited accounts were presented to them on 9 September 2020. The Members also instructed the DoFG to provide an indication of the likely impacts of the ToE of the Bellsmyre stock on Caledonia's accounts to the Management Board in September.
- 5.7 Four recommendations on internal controls had been made and they, and the management response, were set out in the Final Audit Findings Report. The recommendation regarding the multiple reconciling errors between the fixed asset register in Real Asset Management (RAM) and the accounting records had been classed as "significant" in the Report. However, on reflection and in light of the low risk of material misstatement in the current year financial statements, the External Auditor advised that she would reduce this recommendation to "other", in the final report.

Martin Walker left the meeting at this point.

- 5.8 The External Auditor advised that the standard Letter of Representation was not included with this report but would be downloaded from RSM's website and made available for signing by the Chair at the September Management Board meeting.
- 5.9 Finally, the External Auditor explained that the significant difficulties encountered due to the audit having to be carried out remotely as a result of the COVID-19 pandemic had resulted in the audit work overrunning by 16 days at a cost of approximately £18,000. As communicated in the Audit Plan, RSM was now looking to share these additional costs with the Group and would be grateful for a contribution of 50% (with an estimated split of 3:2:1 Caledonia, Bellsmyre, Cordale respectively). Following discussion, ARMC Members **AGREED** to this request in principle with the final balance to be agreed between the Director of Finance & Governance and the External Auditor.

- 6.1 The DoFG began by thanking the Finance Team, in particular the Finance Manager, for their efforts in pulling together the three sets of accounts under challenging circumstances.
- 6.2 ARMC Members noted that Helen Archibald appeared twice in the list of Management Board Members and asked that this be rectified. The DoFG requested that any other typographical errors be emailed to him. Marked up changes would then be uploaded to Decision Time for information.
- 6.3 The DoFG confirmed the audited accounts were in line with the management accounts reported to the governing bodies on a quarterly basis. There had been a significant positive adjustment on the SHAPS pension liability from the previous year as a result of changes in the assumptions underlying the present value of the defined benefit obligation.
- 6.4 Alan Nairn queried the variance in the Chief Executive's emoluments and the senior officers' payment bands in 2019 and 2020 and the DoFG advised that he would check these and revert back to him. The External Auditor confirmed that a final review of the audited accounts would be undertaken before presenting them to the governing bodies and that this review would pick up any minor anomalies.
- 6.5 The DoFG highlighted that the depreciation of affordable housing expenditure in Bellsmyre's accounts was £500,000 less than in the previous year, which was as a result of re-phasing in the regeneration programme. The DoFG also advised that the £2m increase in Cordale's cash balance from 2019 to 2020 was due to receipt of the grant funding for the Dalquhurn development.
- 6.5 Committee then **ENDORSED** the Consolidated Accounts and **RECOMMENDED** that they be formally approved by the Caledonia Management Board at its meeting on 9 September 2020 and also **ENDORSED** the Cordale HA and Bellsmyre HA Annual Accounts and **RECOMMENDED** that they be formally approved by Cordale and Bellsmyre's Management Committee's at their respective September meetings.

The Chair thanked the External Auditor and DoFG for their presentation of the accounts and the External Auditor left the meeting.

7 Internal Audit Annual Report 2019/20

- 7.1 David Archibald of Henderson Loggie presented the report, which summarised the internal audit work undertaken during 2019/20. All internal audit work set out in the Internal Annual Plan 2019/20 had been completed and the Internal Auditors' overall opinion was that, with the exception of the issues highlighted around IT network arrangements/security, the Group had adequate and effective arrangements for risk management, control and governance. Proper arrangements were also in place to promote and secure value for money.
- 7.2 Alan Nairn complimented the Internal Auditors on providing a well written and easy to understand report and this was endorsed by the Chair.

8 Internal Audit 2020/21 – Sickness Absence

- 8.1 David Archibald presented this report and advised that the overall findings of the audit were that the Group's sickness absence systems were satisfactory however some minor weaknesses had been identified. Three recommendations had been made and were set out in the report. All recommendations had been accepted by the Director of People with two of the actions already in progress.

9 Internal Audit 2020/21 – Development Projects

- 9.1 Steven McNaught presented this report and advised that the overall findings of the audit were that the Group's systems in place for the planning, control and monitoring of development projects were satisfactory however some minor weaknesses had been found. Two recommendations had been made and were set out in the report. Whilst the recommendations had largely been accepted by the Development Team, one exception was the recommendation that the project risk register for each development project should be shared with the Management Board as the Director of Assets (DoA) was of the view that these should only be shared with the Board if the project risks increased to a point where they could have a significant impact on the Association. This view was shared by the ARMC Members.

10 Internal Audit 2020/21 – Adaptations

- 10.1 Steven McNaught presented this report and advised that the overall findings of the audit were that the Group's systems in place for the planning, control and monitoring of Stage 3 Adaptations were satisfactory however some minor weaknesses had been found. Four recommendations had been made and were set out in the report.
- 10.2 ARMC members discussed the implications of introducing a self-referral process for adaptations and agreed that this would be difficult to implement given the budget and resource implications. It was noted that the Adaptations Policy would have to be amended to incorporate a self-referral process and would require Management Board approval. The implications would be discussed in further detail at that time.

11 Update on Identified Actions from the Internal Audit Programme

- 11.1 The DoFG presented the Internal Audit Actions Tracker and advised that substantial progress had been made in completing the actions. The DoFG also advised that he would look at refining the report to make it easier to identify where there was slippage in completion within the stated dates.
- 11.2 The DoFG advised that the Risk Management Policy could not be updated until the Governing Body Risk workshop had been held. The workshop was to have been held in Spring 2020 but was cancelled as a result of the COVID-19 lockdown measures. The DoFG asked Members to consider whether the workshop should be held virtually or whether to wait until current restrictions were lifted.
- 11.3 The creation of a suite of Executive Team KPI's had been postponed as a result of the COVID-19 pandemic. Activity would focus instead on more frequent and detailed review over the coming months of the revised set of corporate KPIs agreed by the Group's governing bodies in August.
- 11.4 The DoSI provided an update on the actions from the IT Network Arrangements and Security Internal Audit. He advised that currently the Group had its own allocated servers within Brightsolid where its' data was stored and to add the recommended security measures to these servers could be costly. Brightsolid had suggested moving the Group's data to virtual servers, shared by other companies, where these security measures were already in place. The DoSI explained that the one year extension to the contract with Brightsolid was nearing expiry and a decision on whether to extend the contract again on its current basis or the basis of virtual servers would have to be made over the coming weeks. In order that the completion dates outlined in the report could be met an interim measure of adding a bolt-on to the existing service could be implemented.
- 11.5 Brightsolid was due to provide detailed information on the options outlined above by the end of August and information on this would be shared with the ARMC members. The DoSI would then prepare a report for the Management Board's consideration. Alan Nairn advised that careful consideration would need to be given to the best solution within timescale, cost etc. in order to provide the Management Board with the information it required to support any recommendation that was made to them.

12 Review of Top Business Risks

- 12.1 The DoFG presented the report and reminded the ARMC members that they did not request that any changes be made to the risk map at their meeting in May although it had been noted that the risk target levels required to be reviewed in certain areas. It was proposed that any review of risk target levels should follow the Governing Bodies’ workshop on risk appetite. A separate cyber-attack risk assessment had been prepared by the DoSI and was attached to the report at Appendix 2. It was **AGREED** that this risk should be added to the risk map.
- 12.2 Each Director had carried out a review of their respective Directorate risk maps and these reviews would take place on a quarterly basis. A number of internal audit action points had been addressed through this review exercise. Each Director was satisfied that there were no additional risks on these registers that should be considered for ‘promotion’ to the Group risk map. Risks which appeared on the Group Risk map had been removed from the Director risk maps to avoid duplication and the risk of inconsistency.
- 12.3 The largest net risk not currently reflected on the Group risk map was the risk of contractor failure as a result of heightened economic uncertainty and financial pressures imposed through restrictions on activity during lockdown. This risk was most acute in respect of the reactive repairs contractors, where risk had been mitigated through the procurement strategy. There were some early signs of contractor difficulties, however the situation was being monitored and carefully managed.

13 Cyber Security

- 13.1 ARMC members discussed the information on cyber security that should be reported to them. It was agreed that the reporting format needed to be simplified as currently information was provided in both the Internal Audit Tracker and the Group Risk Map and members concluded that the DoSI should provide a summary report that captured all the information in one place.

ARMC members also **AGREED** that a review of mobile working policies and procedures should be carried out as a matter of urgency with staff training provided in order to mitigate human error and ensure office equipment such as mobile phones, tablets and laptops were used appropriately.

Helen Archibald left the meeting at this point.

14 Any Other Business

- 14.1 ARMC members **AGREED** that the Risk Workshop should be held virtually. The DoFG advised that he would make arrangements for this to be held as soon as possible.
- 14.2 The Chair advised that this was the last Audit & Risk Management Committee meeting prior to the AGM and thanked members and staff for their support and advice over the year.

15 Date of Next Meeting

- 15.1 Wednesday 2 December 2020 – Exact details to be confirmed.

Chair’s signature