

**MINUTES OF THE AUDIT & RISK MANAGEMENT COMMITTEE MEETING  
HELD ON WEDNESDAY 7 AUGUST 2019  
AT 118 STRATHERN ROAD, BROUGHTY FERRY, DUNDEE**

<b>Present:</b>	Alex McDougall Alan Nairn Graham Logan Ian Gray Martin Walker*	Chair Caledonia Housing Association Caledonia Housing Association Caledonia Housing Association Cordale Housing Association
<b>Apologies:</b>	Gregor Colville	Bellsmyre Housing Association
<b>Special Leave of Absence:</b>	Martin Harkness	Caledonia Housing Association
<b>In Attendance:</b>	Janet Hamblin Audrey Cowan Mary Clark Ruth Leggat Ron Hunter Barry Johnstone Angela Murphy Leigh Grubb Jenny Dalton	RSM UK Audit LLP Wylie & Bisset Tenant Scrutiny Panel Representative Tenant Scrutiny Panel Representative Finance Director Director of People Finance Manager Executive Officer (Minutes)

The Chair welcomed Leigh Grubb to the meeting and advised that he would be commencing his role as Director of Finance and Governance later in the month and was attending this meeting as an observer.

**1 Apologies**

Apologies were **NOTED** from Gregor Colville. It was further **NOTED** that Martin Walker had been available to attend the meeting by video link; however due to the technical issues encountered at the Broughty Ferry office the decision had been taken to abandon the video conference link and send Martin home.

**2 Declaration of Interest**

2.1 There were no declarations of interest.

**3 Minutes of Audit Committee Meeting held on Wednesday 22 May 2019**

3.1 The Chair asked that the minutes be amended to give the Committee its' full title of Audit & Risk Management Committee and also to amend the date of the next meeting to read Wednesday 7 August and not Wednesday 8 August. Committee members then **AGREED** that the minutes of the meeting were a true and accurate record and they were **APPROVED** subject to the aforementioned amendments being made. The minutes were duly adopted and arrangements would be made for them to be signed by the Chair.

#### 4 Matters Arising

- 4.1 *Item 6 – Review of Top Business Risks* It was **NOTED** that the Customer 1<sup>st</sup> Risk Map had been circulated to the Customer 1<sup>st</sup> Working Group members; however the format of this Risk Map was not consistent with the Group Risk Map and it was **REQUESTED** that it be amended accordingly.

#### 5 External Audit - Final Audit Findings Report

- 5.1 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 2019.
- 5.2 Management override of internal controls had, as always, been a key area of the external audit focus and, following review of the key systems in place, one control recommendation in relation to service income had been made. A sample of journals had been tested with no material issues or unusual transactions identified. Internal Audit Reports had also been reviewed with no issues arising. Direct confirmation had also been received from the Internal Auditors that they had no concerns regarding actual, suspected or alleged fraud.
- 5.3 Two audit and accounting issues had been identified during the audit. The first related to the depreciation of housing properties at Whiteford Avenue owned by Bellsmyre HA. As the intention was to demolish this development over a period of three years as part of the regeneration programme an adjustment had been made to accelerate depreciation to reflect the reduced lifespan of the properties. The second issue related to Caledonia HA's office in Broughty Ferry. As the building required a significant amount of maintenance and was deemed to have limited value in the market its value in the financial statements had been reduced by way of impairment. An impairment charge equivalent to one third of its current stated value had been processed in the financial statements and formal valuation would be obtained in 2020.
- 5.4 No significant deficiencies in internal control had been identified however a number of issues were highlighted in the report as detailed below:
- 5.4.1
- Rents in Advance from Former Tenants – there was a significant balance of rent in advance from former tenants held by the three Associations in the Group. Whilst it was recognised that it was not always possible to trace former tenants it was recommended that a formal procedure be put in place to monitor this going forward and that legal advice be taken regarding when untraced amounts could be written off. Committee members **AGREED** that legal advice should be sought and that the management response should be amended accordingly.
- 5.4.2
- Service Income – income from the home help service was only entered into the system once the money was received at the bank and it was recommended that invoices raised should be entered onto the QL system monthly. The Finance Manager explained that home help invoices were raised and maintained on a separate software system and were reconciled every 4 weeks. A further review was then carried out at the end of each quarter as part of the quarterly management account preparations when income received was reconciled against invoices raised and outstanding balances added to QL.

- 5.4.3 • Journal Review Process – whilst there was a formal procedure regarding the review of journals there was no set time frame for reviews to be undertaken and it was recommended that all journals be reviewed on a weekly basis. The Finance Manager advised that, following the recommendation made in 2018, journal reviews were carried out as part of the monthly closedown process and that it was considered that this was an adequate time frame.
  - 5.4.4 • Share Capital Records – It was recommended that the share register was reconciled to the share capital nominal account on a regular basis. This recommendation was agreed.
  - 5.4.5 • Cordale HA – Housing Association Grant – It was highlighted that there was Housing Association Grant shown as a creditor which had not been repaid to the Scottish Government nor was subject to a formal agreement to carry forward. The Finance Director advised that we were aware of this issue and discussions with the Scottish Government had taken place resulting in an agreement to consider the treatment of grant when assessing funding for the new build project in Renton.
- 5.5 The External Auditor concluded that the audit had found there to be good controls within each Association within the Group with no major areas of concern. She also referred to the Letter of Representation appended to the report and stressed the need to ensure the Management Board was satisfied that the statements made in the letter were correct before signing.
- 5.6 Committee members requested that grammatical errors in the Final Audit Findings Report be amended before being presented to the Group governing bodies and that all references to this Committee include the words “& Risk Management”.

## **6 Audited Accounts for Year Ended 31 March 2019**

- 6.1 The External Auditor explained that it was not her intention to go through each set of accounts in detail but that she would highlight a number of areas.
- 6.2 The Caledonia Group achieved an operating surplus for the year of £5.6 m with a total comprehensive income for the year of £6.4 m. This was an increase on the previous year's results due to the acquisition of Antonine HA and a re-measurement of the Scottish Housing Association Pension Scheme (SHAPS)
- 6.3 The Auditor highlighted the fact that in the statement of financial position both Caledonia HA and Cordale HA were returning net current liabilities instead of the preferred net current assets. The Finance Director acknowledged this position but commented that changes to the accounting treatment of liabilities as a result of the introduction of FRS 102 meant that current liabilities now contained significant non- cash amounts relating to Housing Association Grant liabilities. He further commented that liquidity was not an issue as both Associations had significant as yet undrawn lending facilities and cash reserves.
- 6.4 Following a discussion on the information contained in the financial statements and whether this should be expanded upon to include further information on the governing bodies, Committee concluded that this information would better sit within the Annual Reports and should include details of the work undertaken by each governing body over the past year and what was planned for the forthcoming year.
- 6.5 Committee requested a minor change to the wording of the Review and Business and Future Developments section in the Bellsmyre accounts and that the documents be re-checked for

spelling and grammatical errors before being presented to the governing bodies. It was also requested that the Audit & Risk Management Committee be given its full title.

Committee then **ENDORSED** the Consolidated Accounts and **RECOMMENDED** that they be formally approved by the Caledonia Management Board at its meeting on 20 August 2019 and also **ENDORSED** the Cordale HA and Bellismyre HA Annual Accounts and **RECOMMENDED** that they be formally approved by Cordale and Bellismyre's Management Committee's at their respective August meetings.

## **7 Internal Audit 2018/19 – Follow-up Review**

- 7.1 The Internal Auditor presented the report and explained that the follow-up review was carried out to check the Group had implemented any outstanding audit recommendations made in previous years. The overall conclusion was that the Group had endeavoured to implement recommendations as far as possible with 36 actions fully implemented and two partially implemented. The Group was still considering the two partially implemented recommendations in line with ongoing business and development.
- 7.2 Following a query on guest room income, the Finance Director confirmed that tight controls and procedures on the handling of guest room income continued to be followed with random spot checks also being carried out.

## **8 Internal Audit 2018/19 - Factoring**

- 8.1 The Internal Auditor advised that the overall conclusion of the audit of the Group's factoring services was that all Group members were complying with key legislative requirements relating to factoring activities however nine recommendations had been made, six of which were graded medium and three graded low.
- 8.2 The Internal Auditor explained that currently factoring was dealt with in different ways across the Group and a key recommendation was that consideration be given to making systems and procedures consistent.
- 8.3 Committee members queried the content and quality of some of the management responses to the recommendations. The Director of People and Finance Director accepted members' comments that a number of the responses were inadequate and apologised for this. It was **AGREED** that the responses would be reviewed to ensure they were informative and appropriate and that the amended report would be presented at the next Audit & Risk Management Committee meeting.

## **9 Internal Audit 2018/19 – Annual Report**

- 9.1 The Internal Auditor explained that it was a requirement of the internal audit process to provide the Group's governing bodies through the Audit & Risk Management Committee with an opinion on the adequacy and effectiveness of the Group's risk management, control and governance processes. The Internal Auditor advised that she was satisfied that sufficient internal audit work had been done over the past year to draw the conclusion that the Group did have adequate and effective risk management, control and governance processes to achieve its' objectives at the time the audit work was carried out. The Internal Auditor stressed however that assurance could never be absolute.

The Chair thanked Janet Hamblin and Audrey Cowan for their contributions to the meeting and both left the meeting at this point.

## 10 Internal Audit Specification

10.1 Following discussion the following actions were **AGREED**:

- Comments on the specification document to be forward to the Finance Director with the amended specification document to then be sent to Panel members for approval.
- Panel to assess tenders to comprise Graham Logan, Alex McDougall, and Leigh Grubb.
- Invitation to tender to be advertised by end of August
- Panel to carry out interviews over September/October and make recommendation for appointment to Management Board in October.
- New internal audit contract to commence in November.

## 11 Review of Top Business Risks

11.1 Committee **NOTED** the target status updates for the top business risks and requested that the order of the risks be changed so that the highest risks were listed first.

11.2 Following discussion, Committee also **AGREED** that the following risks should be added to the Group Risk Map for the next meeting:

- Customer 1<sup>st</sup> - Although this risk would continue to be monitored by the Customer 1<sup>st</sup> Working Group it would also be considered by the Audit & Risk Management Committee.
- Brexit – Although it was still not possible to calculate the exact impact of Brexit on the Group members it was agreed that it was the correct time to add the risk to the Group Risk Map.

## 12 Any Other Business

12.1 The Finance Director advised that this was his last Audit & Risk Management Committee meeting prior to his leaving Caledonia HA and thanked members for their support and advice over the years. Members thanked the Finance Director for his service to the Committee and wished him well for the future.

## 13 Date of Next Meeting

13.1 Wednesday 4 December 2019 – 6 p.m. Caledonia Housing Association Offices, Perth

Chair's signature .....

