



**Scott-Moncrieff**  
business advisers and accountants

# Scottish Housing Regulator

2017/18 Annual Audit Report to the Board and  
the Auditor General for Scotland

**June 2018**

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# Key messages

## Annual report and accounts

The Scottish Housing Regulator's annual report and accounts for the year ended 31 March 2018 are due to be approved by the Board on 7 August 2018.

We are due to report within our independent auditor's report unqualified opinions on the annual accounts, the regularity of transactions and on other prescribed matters. There were no matters which we are required to report by exception.

The annual report and accounts and supporting schedules were of a good standard. Our thanks go to management and staff at SHR for their assistance with our work.

## Wider scope

As outlined in our External Audit Plan, our annual audit work in respect of our wider scope audit responsibilities was restricted to:

- Audit work to allow conclusions to be made on the appropriateness of the disclosures in the Annual Governance Statement; and
- Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term.

Our conclusions and key observations are set out below:

## Key facts

- SHR has reported a surplus of £69,000 against its total revenue budget of £4.040million.
- No capital expenditure has been incurred during the year.
- The cash revenue budget for 2018/19 has been confirmed at £3.885million. In addition, SHR will receive a capital budget of £600,000 and a non-cash allocation of £240,000 to cover depreciation and amortisation of assets.
- SHR has set a balanced budget for 2018/19. Staff cost continue to be a significant financial pressure to SHR
- The Regulatory Framework Review is on-going and the first consultation stage has been completed. Further work has been planned to ensure the updated Regulatory Framework can be implemented on 1 April 2019.

## Governance statement

- We are satisfied that the Governance Statement complies with Scottish Ministers' guidance and that the content is consistent with the financial statements.
- SHR has appropriate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any significant weaknesses or governance issues in the SHR's accounting and internal control systems.

## Financial sustainability

- Overall, SHR has effective arrangements in place for financial planning and monitoring.
- SHR has prepared medium term financial projections. In developing these, scenario analysis was applied. The Board considered the projections at its Strategy Day. Assuming a flat rate budget of £3.885million, SHR is projecting a shortfall of £61,000 in 2019/20 and £141,000 in 2020/21.
- The Regulatory Framework review will challenge SHR to assess how it will fulfil its future regulatory function, including ensuring longer-term financial sustainability. This is to be implemented by April 2019.

## Conclusion

This report concludes our audit for 2017/18. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK) and Ethical Standards.

**Scott-Moncrieff**

**June 2018**

# 1

## Introduction

**This report is presented to those charged with governance and the Auditor General for Scotland and concludes our audit of the Scottish Housing Regulator for 2017/18.**

**We carry out our audit in accordance with Audit Scotland’s Code of Audit Practice (May 2016). This report also fulfils the requirements of International Standards on Auditing (UK) 260: Communication with those charged with governance.**

**At the Scottish Housing Regulator, we have agreed to designate the Audit and Risk Assurance Committee as “those charged with governance”.**

# Introduction

1. This report summarises the findings from our 2017/18 audit of the Scottish Housing Regulator (“SHR”).
2. We outlined the scope of our audit in our External Audit Plan, which we presented to the Audit and Risk Assurance Committee at the outset of our audit. The core elements of our work include:
  - an audit of the 2017/18 financial statements and related matters;
  - consideration of SHR’s arrangements for securing financial sustainability.
  - any other work requested by Audit Scotland (for example, input into performance audit work).
3. SHR is responsible for preparing an annual report and accounts that show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the annual report and accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
4. The report contains an action plan with specific recommendations, responsible officers and dates for implementation. Senior management should assess these recommendations and consider their wider implications before deciding appropriate actions. We give each recommendation a grading to help SHR’s Board assess their significance and prioritise the actions required.
5. We discussed and agreed the content of this report with the Director of Strategy and Communications. We would like to thank all management and staff for their co-operation and assistance during our audit.

## Confirmation of independence

6. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a

timely basis all facts and matters that may have a bearing on our independence.

7. We confirm that we have complied with Financial Reporting Council’s (FRC) Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way.
8. We set out in Appendix 1 our assessment and confirmation of independence. Our assessment includes consideration of:
  - Provision of non-audit services to SHR; and
  - Relationships between Scott-Moncrieff and SHR, its Board members and senior management that may reasonably be thought to bear on our objectivity and independence.

## Adding value through the audit

9. All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to SHR through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help SHR promote improved standards of governance, better management and decision making and more effective use of resources.

## Feedback

10. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to the audit team or through our online survey: [www.surveymonkey.co.uk/r/S2SPZBX](http://www.surveymonkey.co.uk/r/S2SPZBX)
11. This report is addressed to both the Board and the Auditor General for Scotland and will be published on Audit Scotland’s website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

# 2

# Annual report and accounts

SHR's annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

In this section we summarise the findings from our audit of the 2017/18 annual report and accounts.

# Annual report and accounts

The annual report and accounts for the year ended 31 March 2018 are to be considered by the Audit and Risk Assurance Committee on 20 June 2018, and to be approved by SHR's Board on 7 August 2018. We intend to report within our independent auditor's report:

- An unqualified opinion on the financial statements
- An unqualified opinion on regularity; and
- An unqualified opinion on other prescribed matters.

We are also satisfied that there are no matters which we are required to report by exception.

We did not identify any significant adjustments to the unaudited annual report and accounts.

SHR has appropriate administrative processes in place to prepare the annual report and accounts and the required supporting working papers.

12. The annual report and accounts will be submitted to the Scottish Government and Auditor General for Scotland by the 31 October 2018 deadline.

### Our assessment of risks of material misstatement

13. The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of

resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the annual report and accounts as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual report and accounts is not modified with respect to any of these risks.

## Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

### 1. Management override

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the financial statements. This is treated as a presumed risk area in accordance with ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.

#### Excerpt from the 2017/18 External Audit Plan

14. We have not identified any indications of management override in the year. We have reviewed SHR's accounting records and obtained evidence to ensure that transactions outside the normal course of business were valid and accounted for correctly. We have also reviewed management estimates and the journal entries processed in the period and around the year end. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.



## Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

### 2. Revenue recognition

Under ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements* there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the SHR could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.

*Excerpt from the 2017/18 External Audit Plan*

15. At the planning stage of our audit we concluded that the risk of fraud in relation to revenue recognition was limited in the annual accounts and therefore we rebutted this risk. SHR does not undertake any income generating activities; funding from the Scottish Government is the only source of income. This position has been reviewed throughout the audit and the conclusion has remained appropriate.

### 3. Risk of fraud in the recognition of expenditure

The FRC published Practice Note 10 which applies to the audit of financial statements for periods commencing after June 2016. The Practice Note recognises that most public sector bodies are net spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure.

*Excerpt from the 2017/18 External Audit Plan*

16. While we did not suspect incidences of material fraud and error, we evaluated each type of expenditure transaction and documented our conclusions. We have gained reasonable assurance on the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the annual accounts. To inform our conclusion, we carried out testing to confirm that SHR's policy for recognising expenditure is appropriate and has been applied consistently throughout the year.

## Our application of materiality

17. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. This means that different materiality levels will be applied to different elements of the annual accounts.
18. Our initial assessment of materiality for the annual accounts was £77,000 and it remained at this level throughout our audit. This equates to approximately 1.8% of SHR's 2017/18 net operating cost. Achieving a breakeven position is a key target for SHR and one of the principal considerations for the users of the accounts when assessing financial performance.

## Performance materiality

19. Performance materiality is the amount set by the auditor at less than overall materiality for the annual accounts as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed materiality for the annual accounts as a whole.
20. We set a performance (testing) materiality for each area of work which was based on a risk assessment for the area. We perform audit procedures on all transactions and balances that exceed our performance materiality. This means that we are performing a greater level of testing on the areas deemed to be of significant

risk of material misstatement. Performance testing thresholds used are set out in the table below:

Area risk assessment	Weighting	Performance materiality
High	45%	£0.033million
Medium	55%	£0.040million
Low	70%	£0.051million

21. We agreed with the Audit and Risk Assurance Committee that we would report all material corrected misstatements, uncorrected misstatements with a value in excess of £4,000, and other misstatements below that threshold which, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Assurance Committee on disclosure matters that we identified when assessing the overall presentation of the annual accounts.

### Audit differences

22. We are pleased to report that there were no material adjustments to the draft financial statements. We identified some disclosure and presentational adjustments during our audit. These have been reflected in the final set of annual accounts.

### Board representations

23. We have requested that a signed representation letter be presented to us at the date of signing the financial statements. This letter is to be signed by the Accountable Officer on behalf of the Board.

### Other matters identified during our audit

24. During the course of our audit we noted the following:

#### Capital accounting policies and estimates

25. SHR adopts the Scottish Government's capital accounting policies and applies the same estimated useful life to tangible and intangible assets.
26. As at 31 March 2018, the fixed asset register included fully depreciated assets with an

original cost of £337,000. We confirmed with management that these assets are still in use and expected to continue to be operational beyond 2018/19. This suggests that the estimated useful life applied is inappropriate.

27. Whilst Scottish Government accounting policies and standard asset lives provide an initial guideline, SHR should review these regularly and amend where necessary to ensure they remain relevant and appropriate.

#### Action plan point 1

#### Audit Committee Handbook

28. The Scottish Government issued an update to the Audit Committee Handbook in April 2018. This included a number of minor amendments as well as one major addition which impacts on the responsibilities of the Audit Committee.
29. Management are aware of this guidance and plan to discuss it with the Audit and Risk Assurance Committee in September 2018.
30. SHR should ensure that, following review of the new Handbook, any necessary changes are addressed in a timely manner to ensure compliance.

#### Action plan point 2

#### Other information in the annual report and accounts

31. "Other information" in the annual report and accounts comprises any information other than the financial statements and our independent auditor's report thereon. We do not express any form of assurance conclusion on the "other information" except as specifically stated below.

#### The performance report

32. The performance report provides information on the entity, its main objectives and strategies and the principal risks that it faces. It comprises an overview of the organisation and a detailed summary of how the entity measures performance.
33. We have concluded that the performance report has been prepared in accordance with directions from Scottish Ministers and is consistent with the financial statements.

#### The accountability report

34. The accountability report is required in order to meet key parliamentary accountability requirements and comprises three sections: a corporate governance report (including the

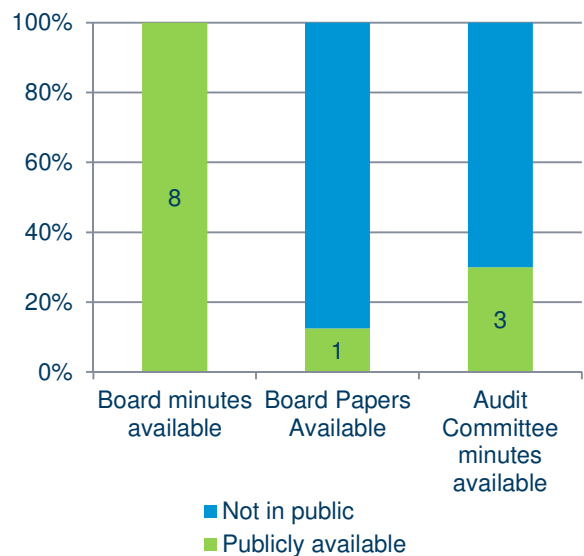
governance statement), a remuneration and staff report, and a parliamentary accountability report.

- 35. We have obtained adequate evidence that the information provided in the remuneration and staff report is in agreement with accounting records and has been prepared in line with ministerial guidance.
- 36. We have reviewed the annual governance statement and have found that it is consistent with the financial statements and has been prepared in accordance with Scottish Ministers' guidance.
- 37. Overall, the disclosures in the governance statement are consistent with this and internal audit's conclusion for 2017/18.

**Openness and transparency**

- 38. One of the sector risks identified by Audit Scotland for 2017/18 relates to public sector organisations keeping pace with public expectations on openness and transparency. Audit Scotland's Role of Boards report, published in September 2010, found that there was a wide variation in the openness and transparency of boards of public bodies.
- 39. None of the Non-Ministerial Department boards met in public in 2010, against an average of 41% across the public sector. In 2010, none of the Non-Ministerial Departments made Board papers or minutes available on their websites, although all were available on request under the Freedom of Information (Scotland) Act 2002.
- 40. As Exhibit 2, (below) highlights, our research in 2018 found that there is still variation in the availability of Board papers across bodies. We also note that only one of the eight Non-Ministerial Departments currently meets in public.

**Exhibit 2: There is still variation in levels of openness across Non-Ministerial Departments**



Source: Review of websites undertaken in June 2018

- 41. SHR makes Board minutes available on the website. Board papers and Audit Committee minutes are not currently available publicly. SHR uses a range of other methods to communicate with its stakeholders, including e-newsletters, publications and social media. The Board formally considered its governance arrangements against the 'On Board' guidance in May 2017. The Board concluded that SHR's had adequate arrangements in place to ensure appropriate stakeholder engagement and that the Board should continue with its current Board meeting arrangements.

**Internal audit**

- 42. SHR's internal audit function is provided by the Scottish Government. We have taken cognisance of the work of internal audit in forming our opinion on the appropriateness of the disclosures in the annual governance statement.

**Accounting and internal control systems**

- 43. SHR has appropriate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any material weaknesses in this respect.

44. As part of our audit, we have followed up on the recommendations we raised in 2016/17. We are satisfied that the recommendations have been addressed. Further detail is included in the action plan in Appendix 2

#### Regularity

45. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts. We did not identify any instances of irregular activity.

#### Cyber Security

46. In May 2017, a number of health boards across NHS Scotland were impacted by the Wannacry global ransomware attack. In response to this the Scottish Government launched 'A Cyber Resilience Strategy for Scotland: Public Sector Action Plan, 2017/18'.
47. The action plan outlines a number of requirements that public bodies should be taking forward. This includes an action for public bodies to achieve Cyber Essentials Plus certification by the end of October 2018.
48. In May 2018, SHR's management team discussed the threat level faced and what action was required in mitigation. An action plan has been developed based on the recommendations contained in the full Scottish Government 'implementation toolkit'. An update will be presented to the Audit and Risk

Assurance Committee in June on the work completed and the proposed actions.

#### General Data Protection Regulations

49. The General Data Protection Regulations (the Regulations) came into force in the UK on 25 May 2018. The Regulations replaces the Data Protection Act 1998 and as well as strengthening existing regulations, the Act has brought in new legislative duties for SHR. The Regulations bring significant potential penalties for non-compliance.
50. SHR used guidance issued by the Information Commissioner's Office to develop an action plan to ensure compliance with the new regulations. SHR's revised privacy statement was published on the website in May 2018.
51. Compliance with the Regulations is an ongoing process, which we will monitor as part of our annual audit procedures. We have not identified any significant issues at this stage.

#### Qualitative aspects of accounting practices and financial reporting

52. During the course of our audit, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the annual accounts. The following observations have been made:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	We consider the accounting policies, which are disclosed in the financial statements, to be appropriate and in line with the Government Financial Reporting Manual.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing of transactions or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	We identified one issue with the appropriateness of asset depreciation rates (refer to action plan point 1). However, we concluded that any revision to the useful life of these assets would be immaterial to the annual accounts. We are satisfied with the appropriateness of other accounting estimates and judgements used in the preparation of the annual accounts.
The appropriateness of the going concern assumption	We have reviewed the detailed financial forecasts for 2018/19. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that SHR will continue to operate for at least 12 months from the signing date.
The potential effect on the annual accounts of any uncertainties, including significant risks and related disclosures that are required.	We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the annual accounts.
The extent to which the annual accounts have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.	From the testing performed, we identified no significant unusual transactions in the period.
Apparent misstatements in the annual report or material inconsistencies with the financial statements.	The annual report contains no material misstatements or inconsistencies with the financial statements.
Any significant annual accounts disclosures to bring to your attention.	All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately. This includes Governance Statement disclosure as referred to previously.
Disagreement over any accounting treatment or annual accounts disclosure.	While disclosure and presentational adjustments were made during the audit process there was no material disagreement during the course of the audit over any accounting treatment or disclosure.

Difficulties encountered in the audit.

There were no significant difficulties encountered during the audit. However, we did not receive the remuneration report figures until after our audit fieldwork. This was outwith SHR's control and due to a delay in receiving required pension information from MyCSP. We received all other parts of the remuneration report in advance of the audit commencing

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# Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether SHR is planning effectively to continue to deliver its services or the way in which they should be delivered.

# Financial sustainability



SHR has effective arrangements in place for short and medium term (3 year) financial planning. The Board has approved both revenue and capital budgets for 2018/19.

Staff costs continue to be a significant pressure for SHR. The budgeted pay increase for 2018/19 was higher than initially expected. This has been offset by potential savings on IT costs to deliver a balanced budget.

SHR continues to review its Regulatory Framework, and to consider the impact this will have on its financial sustainability. We are satisfied that appropriate ongoing action is being taken.

53. Financial sustainability looks forward to the medium and longer term to consider whether SHR is planning effectively to continue to deliver its services or the way in which they should be delivered.

## Key audit risk

54. As outlined in our audit plan, we did not identify any significant risks in relation to the wider scope of our audit. We continued to review this

throughout the audit process and can confirm that we did not identify any significant risks that we deem necessary to report.

## SHR's financial performance in 2017/18

55. SHR reported a £69,000 surplus against its resource budget and therefore met this financial objective for the year.

	Target £'000	Actual £'000	Under/(over) spend £'000
Cash	3,800	3,731	69
Non-cash	240	240	0
<b>Total</b>	<b>4,040</b>	<b>3,971</b>	<b>69</b>

56. SHR's revenue budget for 2017/18 was 2.6% higher than 2016/17, but this follows a significant decrease in budget of 10% from 2015/16 to 2016/17. The budget reduction in 2016/17 was a significant challenge to SHR, as over 80% of SHR's expenditure relates to staff costs and significant savings were required. SHR has been able to maintain a similar level of savings in 2017/18 and continue to deliver services within the revenue budget.

57. At the end of January 2018, SHR's year end forecast outturn showed an underspend of £16,000. The subsequent increase in underspend was due to changes in timing of

work relating to the Business Intelligence System.

## Indicative 2018/19 budgets

58. As funding from the Scottish Government is SHR's only source of income, there is a greater degree of certainty over future funding streams than for some other public sector organisations who are involved in income generating activities. Therefore, the main focus for SHR is achieving a balanced financial plan to remain within the annual allocation.



- 59. SHR has been allocated a cash revenue budget of £3.885million for 2018/19, an increase of £85,000 compared to 2017/18. SHR has also received a capital budget of £600,000 and a non-cash allocation of £240,000 for depreciation and amortisation of non-current assets.
- 60. SHR has set a balanced budget for 2018/19, including a £30,000 contingency for costs. Staff costs continue to be the most significant component of SHR's expenditure (80%). The budget outlines assumptions made in relation to each significant line of budgeted expenditure.
- 61. The lift of the public sector pay cap has resulted in additional pressure. In line with the 2018/19 public sector pay policy, SHR has applied a 3% pay increase for all staff, plus a 1% non-consolidated payment for all staff at the top of their band (previously applied a 1.5% pay increase for all staff). In addition, SHR has applied a 4% vacancy rate (equating to £123,738) to reflect the impact of potential staff turnover. This is a challenging vacancy rate and will require staff cost to be closely monitored on a monthly basis.
- 62. The Board approved SHR's capital programme in March 2018, based on the capital allocation of £600,000. 75% of the budget (£450,000) will be used to future-proof and enhance the resilience of the Business Intelligence System. Additional capital projects include the pilot of CivTech, an upgrade to the website, and the purchase IT equipment.
- 63. SHR recognises that despite an increase in funding from Scottish Government, there are areas of uncertainty within the budget. Whilst the contingency included within the budget will help to reduce these financial risks, managing the 2018/19 budget will be challenging.

## Regulatory Framework Review

- 64. The Regulatory Framework sets out how SHR fulfils its statutory responsibilities. The main aim of the Framework Review is for SHR to challenge how it fulfils its regulatory role and how it can ensure service delivery is financially sustainable. Assuming a flat rate budget of £3.885million, SHR is projecting a shortfall of £61,000 in 2019/20 and £141,000 in 2020/21. This was discussed with the Board at its February 2018 Strategy Day, alongside scenario plans, sensitivities and assumptions.
- 65. The initial consultation period for the Framework Review commenced in January 2018. Feedback was mostly positive but highlighted some areas that require further consideration. SHR will continue to develop its Regulatory Framework and supporting documentation, which will go through a second consultation process in Autumn 2018.
- 66. Thereafter, SHR will be able to undertake detailed workforce planning to ensure it has sufficient resource to operate under the new Regulatory Framework. Management have committed to presenting a Workforce Strategy to the Board in December 2018.
- 67. The updated Regulatory Framework is scheduled to be implemented from 1 April 2019. A significant level of work is required prior to this date to ensure financial and operational planning is completed appropriately and in a timely manner. We have reviewed the overall plans in place and discussed planned action with management. We have not identified any significant issues or risks surrounding progress in this area, and we will continue to monitor financial sustainability as part of our ongoing audit work.

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## Appendices

# Appendix 1: Respective responsibilities of the Board and the Auditor

## Responsibility for the preparation of the annual accounts

It is the responsibility of the Board and the Chief Executive, as Accountable Officer, to prepare financial statements in accordance with the Government Financial Reporting Manual (FReM) issued by HM Treasury and the accounts directions issued by Scottish Minister under section 19(4) of the Public Finance and Accountability (Scotland) Act 2000.

### In preparing the annual report and accounts, the Board and the Chief Executive, as Accountable Officer are required to:

- apply on a consistent basis the accounting policies and standards;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Financial Reporting Manual have not been followed where the effect of the departure is material;
- prepare the accounts on a going concern basis unless it is inappropriate to presume that SHR will continue to operate; and
- ensure the regularity of expenditure and income.

### Board members are also responsible for;

- keeping proper accounting records which are up to date; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Auditor responsibilities

### We audit the annual report and accounts and give an opinion on whether:

- they give a true and fair view in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers of the state of the SHR's affairs as at 31 March 2018 and of its net expenditure for the year then ended;
- they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2017/18 FReM ;
- they have been prepared in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers;
- in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;
- the auditable part of the Remuneration and Staff Report has been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish

## We audit the annual report and accounts and give an opinion on whether:

Ministers; and

- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

## We are also required to report by exception if, in our opinion:

- adequate accounting records have not been kept; or
- the annual accounts and the part of the Remuneration and Staff Report to be audited are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective.

## Wider scope of audit

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

The Code frames a significant part of our wider scope responsibilities in terms of four audit dimensions: financial sustainability; financial management; governance and transparency; and value for money. The Code recognises that full application of its requirements may be impractical or inappropriate due to the nature or size of the audited body.

We have concluded that the full application is not appropriate due to the size of the organisation. As part of our annual audit we consider and report against:

- appropriateness of the disclosures in the governance statement; and
- financial sustainability of the body and the services that it delivers over the medium to longer term.

## Independence

International Standard on Auditing (UK) 260, "Communication with those charged with governance" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

We confirm that we comply with FRC's Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Scott-Moncrieff and SHR, its Board members and senior management that may reasonably be thought to bear on our objectivity and independence.

Scott-Moncrieff provides internal and external audit and accountancy services to over 30 Scottish housing associations, co-operatives and factoring subsidiaries. We can confirm that no members of the audit team for SHR were involved with the audit and accountancy services provided to Registered Social Landlords.

# Appendix 2: Action plan

Our action plan details the weaknesses and opportunities for improvement that we have identified during our audit.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist. The weaknesses or risks identified are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication of the matters arising from the audit of the annual accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

## Action plan grading structure

To assist SHR in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated.

The rating structure is summarised as follows:

Grade	Explanation
Grade 5	Very high risk exposure - Major concerns requiring immediate attention.
Grade 4	High risk exposure - Material observations requiring management attention.
Grade 3	Moderate risk exposure - Significant observations requiring management attention.
Grade 2	Limited risk exposure - Minor observations requiring management attention
Grade 1	Efficiency / housekeeping point.

Action plan point	Issue & Recommendation	Management Comments
<b>1. Capital accounting policies and estimates</b>	SHR adopts Scottish Government capital accounting policies and applies the same estimated useful life to SHR assets.	<p>We will review our capital accounting policies and bring a paper to ARAC in March 2019 for approval, ahead of preparation of our 2018/19 accounts.</p> <p><b>Responsible officer:</b> Head of Planning and Performance</p> <p><b>Implementation date:</b> March 2019</p>
<b>Rating</b>	As at 31 March 2018, the asset register included fully depreciated assets with an original cost of £337,000. We confirmed with management that SHR expect these assets to continue to be in use beyond 2018/19. This suggests that the estimated useful life applied is inappropriate and that SHR is overestimating the annual depreciation charge.	
<b>Grade 2</b>		
<b>Paragraph ref</b>		
<b>27</b>	While we concluded that any revision to the useful life of these assets would be immaterial to the annual accounts, we encourage SHR to review its capital accounting policies and ensure these are relevant and appropriate for the assets held.	

Action plan point	Issue & Recommendation	Management Comments
<b>2. Audit Committee Handbook</b>	The Scottish Government issued an update to the Audit Committee Handbook in April 2018. This included a number of minor amendments as well as one major addition that impacts on the responsibilities of the Audit Committee.	<p>ARAC is due to consider the revised SG Audit Committee Handbook when it meets in September. We will then take account of any changes ARAC proposes to make to its own Terms of Reference when ARAC reviews the Terms at its December meeting.</p> <p><b>Responsible officer:</b> Head of Planning and Performance</p> <p><b>Implementation date:</b> December 2018</p>
<b>Rating</b>	We confirmed that management are already aware of this guidance and plan to discuss it with the Audit and Risk Assurance Committee in September 2018.	
<b>Grade 2</b>		
<b>Paragraph ref</b>		
<b>30</b>	SHR should ensure that, following review of the new Handbook, any necessary changes are addressed in a timely manner to ensure compliance.	

## Outstanding recommendations from previous audit reports

Action plan point	Issue & Recommendation	Management Comments	External audit update 2017/18
<b>1. Finance guidance</b>	<p>Finance guidance is in place and made available to officers. However our audit work identified the following financial processes, which are carried out in practice by officers that not included within the guidance:</p> <ul style="list-style-type: none"> <li>• Amendments to payroll, new starts and leavers;</li> <li>• Non-current asset additions, disposals and verification;</li> <li>• Nominal ledger processes and controls in relation to opening balances, control accounts and reconciliations.</li> </ul> <p>Clear policies and procedures are key to supporting business continuity and ensuring controls are implemented and processes are completed efficiently.</p> <p><b>Recommendation</b></p> <p>Finance guidance should be updated to cover all SHR activity, highlighting key processes and controls to be implemented. Procedures should cover all requirements of the Scottish Public Finance Manual and be subject to formal approval and regular review.</p>	<p><b>Response:</b></p> <p>We will update our finance guidance to include the processes that have been identified. This will go to the Management Team for approval and we will agree a timetable for future review.</p> <p><b>Completion date:</b></p> <p>August 2017</p>	<p>We confirmed that the finance guidance has been updated accordingly and we are satisfied that this recommendation is complete.</p>
<b>Rating</b>			
<b>Grade 2</b>			



Action plan point	Issue & Recommendation	Management Comments	External audit update 2017/18
<b>2. Scheme of delegated authority</b>	<p>A Scheme of Delegation is in place and made available to officers. Our audit work confirmed officers were operating in accordance with the Scheme.</p>	<p><b>Response:</b></p> <p>We will review our Scheme of Financial Delegation, submit it to the Management Team for approval and agree a timetable for future review. Our Head of Planning &amp; Performance will carry out an annual formal review of EASEBuy user access rights.</p>	<p>We confirmed that the Scheme of Financial Delegation has been updated within 2017/18.</p> <p>In addition, we confirmed that a review of EASEBuy user access has been completed and built into the annual accounts preparation process.</p>
<b>Rating</b>	<p>The Scheme was reviewed by Executive Management Team in 2015; however the email trail confirming approval of the reviewed scheme has not been retained.</p>	<p><b>Completion date:</b></p> <p>August 2017</p>	<p>We are satisfied that this recommendation is complete.</p>
<b>Grade 2</b>	<p>The Scheme was reviewed by Executive Management Team in 2015; however the email trail confirming approval of the reviewed scheme has not been retained.</p> <p>Expenditure is authorised in line with the Scheme of Delegation prior to it being raised within EASEBuy; therefore, user access does not need to comply with the scheme. Instead, a small number of users have been set up to either requisition or approve expenditure on receipt of appropriate documentation. There is regular oversight and review over activity within EASEBuy. We deem this to be appropriate.</p> <p>We noted that there is no periodic review of current user access rights to EASEBuy to confirm their access and role is still appropriate as per best practice.</p> <p><b>Recommendation</b></p> <p>Management should regularly review and approve the Scheme of Delegation. User access rights to EASEBuy should also be reviewed at least annually, in line with best practice, to ensure access rights remain appropriate for their current role. Evidence of these reviews should be retained.</p>		

Action plan point	Issue & Recommendation	Management Comments	External audit update 2017/18
<b>3. Annual declaration of interests</b>	<p>The Code of Conduct for Members outlines responsibilities for members declaring interests. This guidance is available on the SHR's website.</p>	<p><b>Response:</b></p> <p>At the end of March each year we will ask for confirmation from our Board Members that their declarations are up to date. We will record this as part of our annual assurance process.</p>	<p>We confirmed that Board members were asked to update their declarations of interest in March 2018 and management confirmed that all Board members responded.</p>
<b>Rating</b>	<p>All members are required to complete a standard pro-forma to declare interests. These declarations are published on the SHR's website. The forms are updated by request of the member or through declarations made at Board meetings. During 2016/17, members were requested to review their declarations to ensure these were up to date. However, there is no documented procedure requiring members to complete an annual declaration of interest form.</p>	<p><b>Completion date:</b></p> <p>March 2018</p>	<p>Our testing did not identify any undisclosed interests.</p>
<b>Grade 1</b>	<p><b>Recommendation</b></p> <p>Whilst there are appropriate arrangements in place to identify and declare member's interests, we recommend that members are required to complete an annual declaration of interests.</p>		<p>We are satisfied this has been built into the annual assurance process and deem this recommendation to be complete.</p>



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