



Scottish Housing Regulator

2020/21 Annual Audit Report to the Board and
the Auditor General for Scotland

September 2021



Table of Contents

Key messages	3
Introduction	6
Financial statements audit	9
Wider scope	23
Appendices	30

Key messages



This report concludes our audit of the Scottish Housing Regulator for 2020/21.

This section summarises the key findings and conclusions from our audit.

Financial statements audit

<p>Audit opinion</p>	<p>Our independent auditor’s report includes:</p> <ul style="list-style-type: none"> • An unqualified opinion on the financial statements; • An unqualified opinion on regularity; and • An unqualified opinion on other prescribed matters.
<p>Key findings on audit risks and other matters</p>	<p>Our key findings are included in the financial statements audit section of this report.</p> <p>COVID-19 continues to present unprecedented challenges to the operation, financial management and governance of organisations, including public sector bodies. In response to the pandemic we identified potential areas of increased risk of material misstatement to the financial statements and our audit opinion. We are pleased to report those risks identified did not materialise.</p> <p>SHR had appropriate administrative processes in place to prepare the annual report and accounts and the required supporting working papers</p>
<p>Audit adjustments</p>	<p>We are required to communicate all potential adjustments, other than those considered to be clearly trivial. We are pleased to report that there were no material adjustments to the financial statements and no unadjusted differences identified.</p> <p>We identified some disclosure and presentational adjustments during our audit. These have been reflected in the final set of financial statements.</p>
<p>Accounting systems and internal controls</p>	<p>We have applied our risk based methodology to your audit. This approach requires us to document, evaluate and assess the SHR’s processes and internal controls relating to the financial reporting process.</p> <p>Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we have included these in this report. No material weaknesses or significant deficiencies were noted.</p>

Wider scope audit

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:

 <p>Governance Statement</p>	<p>We are satisfied that the Governance Statement complies with Scottish Ministers’ guidance and that the content is consistent with the financial statements.</p> <p>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 SHR’s accounting and internal control systems throughout the period or as a result of remote working during the COVID-19 pandemic.</p>				
 <p>Financial Sustainability</p>	<table border="1"> <tr> <td data-bbox="416 1070 724 1323"> <p>Auditor judgement</p> </td> <td data-bbox="724 1070 1428 1323"> <p>There are no major weaknesses in SHR’s arrangements but there is scope for improvement.</p> <p>Pace and depth of improvement is adequate</p> <p>Risks exist over SHR’s ability to achieve its desired outcomes</p> </td> </tr> <tr> <td colspan="2" data-bbox="416 1323 1428 1776"> <p>SHR has appropriate arrangements in place for short and medium term (3 year) financial planning and has approved balanced revenue and capital budgets for 2021/22.</p> <p>A revenue funding uplift has allowed SHR to prepare their budget based on the current staffing establishment and an assumption that all vacant posts will be filled during the first six months of 2021/22. With staff costs accounting for 82% of SHR’s 2021/22 budget, robust workforce planning is key to supporting the delivery of operational objectives in a financially sustainable manner. Development of the workforce strategy has been postponed until the latter half of 2021/22 and we recommend that this is progressed as an area of high priority.</p> </td> </tr> </table>	<p>Auditor judgement</p>	<p>There are no major weaknesses in SHR’s arrangements but there is scope for improvement.</p> <p>Pace and depth of improvement is adequate</p> <p>Risks exist over SHR’s ability to achieve its desired outcomes</p>	<p>SHR has appropriate arrangements in place for short and medium term (3 year) financial planning and has approved balanced revenue and capital budgets for 2021/22.</p> <p>A revenue funding uplift has allowed SHR to prepare their budget based on the current staffing establishment and an assumption that all vacant posts will be filled during the first six months of 2021/22. With staff costs accounting for 82% of SHR’s 2021/22 budget, robust workforce planning is key to supporting the delivery of operational objectives in a financially sustainable manner. Development of the workforce strategy has been postponed until the latter half of 2021/22 and we recommend that this is progressed as an area of high priority.</p>	
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See appendix 4 for further detail on the grading used to provide this assessment of the arrangements in place as they relate to financial sustainability

Introduction



We carried out our audit in accordance with Audit Scotland's Code of Audit Practice (2016) and maintained auditor independence

Scope

1. We outlined the scope of our audit in our External Audit Plan, which we presented to the Audit and Risk Assurance Committee (ARAC) at the outset of our audit. The core elements of our work include:
 - an audit of the 2020/21 annual report and accounts and related matters;
 - consideration of the wider dimensions of public audit work, as set out in Exhibit 1; and
 - any other work requested by Audit Scotland.

Exhibit 1: Audit dimensions within the Code of Audit Practice (2016)



Responsibilities

2. SHR is responsible for preparing an annual report and accounts which show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified in this report 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 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.
3. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.
4. We would like to thank all management and staff for their co-operation and assistance during our audit.

Auditor independence

5. 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.
6. We confirm that we complied with the Financial Reporting Council's (FRC) Ethical Standard. In our professional judgement, we remained independent and our objectivity has not been compromised in any way.
7. We set out in Appendix 1 our assessment and confirmation of independence.

Openness and transparency

10. This report will be published on Audit Scotland's website www.audit-scotland.gov.uk.

Adding value through the audit

8. All of our clients 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

9. 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 any member of your audit team.

Financial statements audit

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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.

Our independent auditor's report includes:

- 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 were no matters which we are required to report by exception.

Overall conclusion

11. The annual report and accounts were considered by the Audit and Risk Assurance Committee on 7 September 2021 and approved by the Board on 5 October 2021. Our independent auditor’s report is unqualified.
12. We received the unaudited annual report and accounts and supporting papers of a high standard, in line with our agreed audit timetable. Our thanks go to staff at SHR for their assistance with our work.
13. The annual report and accounts will be submitted to the Scottish Government and Auditor General for Scotland by the 31 October 2021 deadline.

Our audit opinion

Opinion	Basis for opinion	Conclusions
Financial statements	<p>We conduct our in accordance with applicable law and International Standards on Auditing as required by the Code of Audit Practice.</p> <p>Our findings / conclusion to inform our opinion are set out in this section of our annual report.</p>	<p>We have issued an unqualified audit opinion on the 2020/21 financial statements.</p>
Going concern basis of accounting	<p>In the public sector when assessing whether the going concern basis of accounting is appropriate, the anticipated provision of the services is more relevant to the assessment than the continued existence of a particular public body.</p> <p>We assess whether there are plans to discontinue or privatise SHR’s functions.</p> <p>Our wider scope audit work considers the financial sustainability of SHR.</p>	<p>We reviewed the financial forecasts for 2021/22. 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.</p> <p>Our audit opinion is unqualified in this respect.</p>

Opinion	Basis for opinion	Conclusions
<p>Regularity</p>	<p>We plan and perform our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts.</p>	<p>We did not identify any instances of irregular activity.</p> <p>In our opinion in all material respects the expenditure in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.</p>
<p>Matters prescribed by the Auditor General for Scotland:</p> <ul style="list-style-type: none"> • Remuneration and Staff Report • Performance Report • Governance Statement 	<p>We read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.</p> <p>We plan and perform audit procedures to gain assurance that the statutory other information has been prepared in accordance with directions from Scottish Ministers.</p>	<p>The annual report contains no material misstatements or inconsistencies with the financial statements.</p> <p>We have concluded that:</p> <ul style="list-style-type: none"> • the audited part of the remuneration and staff report has been prepared in accordance with directions from Scottish Ministers. • the information given in the performance report has been prepared in accordance with directions from Scottish Ministers and is consistent with the financial statements. • the information given in the Governance Statement has been prepared in accordance with directions from Scottish Ministers and is consistent with the financial statements.
<p>Matters reported by exception</p>	<p>We are required to report on whether:</p> <ul style="list-style-type: none"> • adequate accounting records have not been kept; or • the financial statements and the audited part of the Remuneration and Staff 	<p>We have no matters to report.</p>

Opinion	Basis for opinion	Conclusions
	<p>Report are not in agreement with the accounting records; or</p> <ul style="list-style-type: none"> 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. 	

An overview of the scope of our audit

- The scope of our audit was detailed in our External Audit Plan, which was presented to ARAC in March 2021. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to SHR. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.
- At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.
- In our audit, we test and examine information using sampling and other audit techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain evidence through performing a review of the significant accounting systems,

substantive procedures and detailed analytical procedures.

Significant risk areas

- Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, we consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.
- The significant risk areas described in the table 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 the risks described below.

Significant risk areas

1. Management override

Significant risk description

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.

Risk assessment: High

How the scope of our audit responded to the significant risk

Key judgement

There is the potential for management to use their judgement to influence the financial statements as well as the potential to override SHR's controls for specific transactions.

Audit procedures

- Review of SHR's accounting records and audit testing on transactions.
- Adoption of data analytics techniques in carrying out testing.
- Review of judgements and assumptions made in determining accounting estimates as set out in the financial statements to determine whether they are indicative of potential bias. This included a retrospective review of the prior year estimates against the current year estimates.

Key observations

We have not identified any indication of management override in the year. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

2. Revenue recognition

Significant risk description 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 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.

Risk assessment: High

How the scope of our audit responded to the significant risk

Key judgements

Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of income around the year end. However, we do not deem this risk to be present for funding received from Scottish Government due to a lack of incentive and opportunity to manipulate transactions.

Audit procedures

- As SHR does not undertake any income generating activity and funding from the Scottish Government is their only source of income, no further audit procedures deemed necessary.

Key observations

We confirmed that SHR did not receive income from any sources other than funding for Scottish Government. We revisited our conclusion to rebut the risk of revenue recognition throughout the audit and our conclusion remained the same.

3. Expenditure recognition

Significant risk description As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.

Risk assessment: High

How the scope of our audit responded to the significant risk

Key judgements

Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of accruals around the year end.

Audit procedures

- Evaluate the significant non-pay expenditure streams and review the controls in place over accounting for expenditure. (Payroll is subject to separate tailored testing).
- Consideration of SHR's key areas of expenditure and obtain evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.
- Review of accruals around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimates.

Key observations

We gained reasonable assurance over the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the financial statements.

Other risk factors

Update to our initial risk assessment

19. Planning is a continuous process and our audit plans are updated during the course of the audit to take account of developments as they arise. We have

specifically updated our risk assessment to identified the valuation of intangible assets as a key accounting estimate and a key audit risk.

4. Intangible asset valuation (significant accounting estimate)

Significant risk description

SHR recognises their internally generated Business Intelligence system as an intangible asset, with a net book value of £332,000 as at 31 March 2021. In accordance with the Government Financial Reporting Manual (“FRM”), this is held at amortised replacement cost.

There is a significant degree of subjectivity in the measurement and valuation of intangible assets. This subjectivity represents an increased risk of misstatement in the financial statements.

Risk assessment: High

How the scope of our audit responded to the significant risk

Key judgements

Under the revaluation model, entities are required to revalue intangible assets with sufficient regularity to ensure that the carrying amount does not differ materially from the current value at 31 March. SHR review the valuation of the Business Intelligence System on an annual basis to ensure this remains appropriate.

Audit procedures

- Consider the basis for management’s estimate to ensure this is reasonable and in line with the accounting framework.
- Consider the key assumptions used by management against other sources of evidence for reasonableness.

Key observations

We have not identified any indication that the valuation of intangible assets is materially misstated as at 31 March 2021.

Impact of COVID-19 on the annual accounts

20. COVID-19 continues to present unprecedented challenges to the operation, financial management and governance of organisations, including public sector bodies. In response to the pandemic we identified potential

areas of increased risk of material misstatement to the financial statements and/or our audit opinion. Our conclusions are set out in the table below.

Area considered	Description	Conclusion
<p>Content of the annual report and accounts</p>	<p>In response to the continuing impact of COVID-19; HM Treasury has issued an addendum to the Government Financial Reporting Manual 2020-21 which sets out the minimum reporting requirements in respect of the performance report and accountability report.</p> <ul style="list-style-type: none"> • The addendum permits, but does not require, bodies to omit the performance analysis section from the Performance Report. Where relevant performance information has already been published elsewhere, bodies are encouraged to refer to the relevant publication. • Where unaudited information otherwise required to be included in the Accountability Report is already published elsewhere, bodies are permitted to refer to the relevant publication rather than including the information in their Accountability Report. 	<p>SHR took the decision to include the performance analysis section of the Performance Report and make the full disclosures in the Accountability Report.</p>

Area considered	Description	Conclusion
Access to audit evidence	Our audit this year has been carried out remotely. As a consequence, we identified a risk that access to and provision of sufficient, appropriate audit evidence in support of our audit opinion may be impacted by the inherent nature of carrying out our audit remotely.	<p>We have employed a greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.</p> <p>We stayed in close contact with SHR finance colleagues right up until the point of accounts signing, to ensure all relevant issues were satisfactorily addressed.</p>

Estimates and judgements

21. We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.
22. As part of the planning and fieldwork stages of the audit we identified all accounting estimates made by management and determined which of those are key to the overall financial statements. Consideration was given to asset valuations, impairment, depreciation and amortisation rates, provisions for legal obligations, and

accruals. Other than intangible asset valuation, we have not determined the accounting estimates to be significant. We revisited our assessment during the completion stages of our audit and concluded that our assessment remained appropriate.

23. Our audit work consisted of reviewing these key areas for any indication of bias and assessing whether the judgements used by management are reasonable. We have summarised our assessment of this below, categorised between Prudent, Balanced and Optimistic.

Estimates and judgements

Intangible asset valuation

Balanced

Management consider the valuation of intangible assets on an annual basis. We considered key assumptions against other sources of evidence and did not identify any indication that the valuation was materially misstated as at 31 March 2021.

Materiality

24. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile of the organisation and the needs of users. We review our assessment of materiality throughout the audit.
25. Whilst our audit procedures are designed to identify misstatements

which are material to our audit opinion, we also report to SHR and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.

26. Our initial assessment of materiality for SHR's financial statements was £82,000. On receipt of the unaudited annual accounts, we reassessed materiality and concluded that our initial assessment remained appropriate. We consider that our assessment has remained appropriate throughout our audit.

Materiality

Overall materiality

£82,000



100%

Accounts materially misstated where total errors exceed this value

Performance materiality

£62,000



75%

Work performed to capture individual errors at this level

Trivial threshold

£9,000



5%

All errors greater than this level are reported

Materiality	<p>Our assessment is made with reference to SHR's net operating expenditure. Achieving a breakeven position is a key target for SHR and one of the principal considerations for the users of the financial statements when assessing financial performance.</p> <p>Our assessment of materiality equates to approximately 1.8% of SHR's net operating expenditure as disclosed in the 2020/21 unaudited annual accounts.</p> <p>In performing our audit we do apply a lower level of materiality to the audit of the Remuneration and Staff Report. Our materiality is set at £5,000.</p>
Performance materiality	<p>Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.</p> <p>Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.</p>
Trivial misstatements	<p>Clearly trivial' are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</p>

Audit differences

27. We are pleased to report that there were no material adjustments to the financial statements or unadjusted audit differences.
28. We identified some disclosure and presentational adjustments during our audit which have been detailed in Appendix 2.

Internal controls

29. As part of our work we considered internal controls relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to SHR. These matters are limited to those which we have concluded are of sufficient importance to merit being reported.

Area	Assessment	Comment
Control and process environment	Satisfactory	We consider the control environment within the entity to be satisfactory.
Quality of supporting schedules	Satisfactory	The supporting schedules received during the course of the fieldwork were sufficient for our audit purposes.
Responses to audit queries	Satisfactory	Management's responses to our audit queries were appropriate and received on a timely basis.

Shared systems and functions

30. SHR uses Scottish Government payroll services and accounting systems (SEAS). On an annual basis, Audit Scotland, the appointed auditor to the Scottish Government, shares with us their findings on work carried out on those systems.
31. Audit Scotland have provided assurance that with the exception of payroll, the Scottish Government's main systems of internal control operated effectively during 2020/21. We have completed sufficient substantive testing to gain assurance that payroll costs are free from material misstatement. SHR received additional statements of assurance over the payroll function from the Scottish Government and we are satisfied that these have been appropriately reflected within the Governance Statement.

of the appropriateness of the accounting policies adopted by SHR.

33. The accounting policies, which are disclosed in the annual accounts, are in line with the FReM and are considered appropriate.
34. Management revised the useful life of their intangible asset in 2020/21, resulting in a material increase in the amortisation charge. This has been disclosed within the accounting policies as a change in accounting estimate.
35. There are no significant financial statements disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
36. Overall we found the disclosed accounting policies, and the overall disclosures and presentation to be appropriate.

Other communications

Accounting policies, presentation and disclosures

32. Our work included a review of the adequacy of disclosures in the financial statements and consideration

Fraud and suspected fraud

37. We have previously discussed the risk of fraud with management. We have not been made aware of any incidents in the period nor have any incidents

come to our attention as a result of our audit testing.

38. Our work as auditor is not intended to identify any instances of fraud of a non-material nature and should not be relied upon for this purpose.

Non-compliance with laws and regulations

39. As part of our standard audit testing, we have reviewed the laws and regulations impacting SHR. There are no indications from this work of any significant incidences of non-compliance or material breaches of laws and regulations that would necessitate a provision or contingent liability.

Written representations

40. The Chief Executive signed a letter of representation at the same time as approving the financial statements.

Related parties

41. We are not aware of any related party transactions which have not been disclosed.

Confirmations from third parties

42. All requested third party confirmations in respect of bank and legal confirmations have been received.

Wider scope

Following consideration of the size, nature and risks of SHR, the application of the full wider scope audit is judged by us not to be appropriate. Our annual audit work on the wider scope has therefore been restricted to:

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



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 SHR's accounting and internal control systems throughout the period or as a result of remote working during the COVID-19 pandemic.



Financial sustainability

Auditor judgement



SHR has appropriate arrangements in place for short and medium term (3 year) financial planning and has approved balanced revenue and capital budgets for 2021/22.

A revenue funding uplift has allowed SHR to prepare their budget based on the current staffing establishment and an assumption that all vacant posts will be filled during the first six months of 2021/22. With staff costs accounting for 82% of SHR's 2021/22 budget, robust workforce planning is key to supporting the delivery of operational objectives in a financially sustainable manner. Development of the workforce strategy has been postponed until the latter half of 2021/22 and we recommend that this is progressed as an area of high priority.

Our approach to the wider scope audit

43. Our approach to the wider scope audit (as set out in our 2020/21 External Audit Plan) builds on our understanding of SHR which we developed from previous years, along with discussions with management and review of minutes and key strategy documents.
- Impact of COVID-19 on financial sustainability;
 - Changes in governance arrangements in response to the pandemic; and
 - Counter-fraud arrangements, including the risk of fraud and corruption in relation to the procurement function.
44. During our audit we also considered the following risk areas as they relate to SHR:
45. Overall we concluded that SHR has appropriate arrangements in place in respect of these areas as noted below

Impact of COVID-19 on financial sustainability	<p>In response to the UK and Scottish Government escalating the national response to the COVID-19 pandemic in March 2020, SHR made immediate changes to its regulatory approach and moved their focus to monitoring the impact on social landlords.</p> <p>Additional costs incurred as a result of the pandemic have been minimal. Work has been ongoing to revise operational plans to reflect the impact of COVID-19 on service delivery.</p>
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Changes in governance arrangements in response to the pandemic	<p>Governance arrangements have continued as normal with Board, ARAC and management team meetings being held remotely. We are satisfied that the Board received sufficient and timely information throughout the period to support effective scrutiny, challenge and decision making.</p>
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Counter-fraud arrangements, included the risk of fraud and corruption in the procurement function	<p>Since the start of the pandemic, there has been potential for the risk of fraud and error to increase as the control environment and internal controls have changed.</p> <p>We found SHR's arrangements for the prevention and detection of fraud and other irregularities to be adequate. We reviewed Audit Scotland's report on COVID-19 Emerging Fraud Risks and satisfied ourselves that where there have been changes in the control environment, appropriate mitigating controls have been implemented.</p>
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We reflected on the risk of fraud and corruption in respect of the procurement function as part of our 2019/20 Annual Audit Report and deemed the level of risk to be low. We have revisited this assessment during our audit fieldwork and have not identified any changes to this.



Governance statement

Our audit opinion considers whether the Governance Statement has been prepared in accordance with directions made by Scottish Ministers and is consistent with the financial statements.

46. We have concluded that the governance statement has been prepared in accordance with directions from Scottish Ministers and is consistent with the financial statements.
47. From our audit work we have concluded that 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 SHR's accounting and internal control systems.
48. The Accountable Officer has confirmed that in his opinion, the control arrangements are appropriate and effective and no significant issues have been identified.
49. Overall, the disclosures in the governance statement are consistent with this and internal audit's conclusions for 2020/21.

Governance arrangements during COVID-19

50. With national lockdown announced on 23 March 2020, all SHR activity moved to being delivered remotely and they have continued to operate as such to date.
51. Governance arrangements have continued as normal with Board, ARAC and management team meetings being held remotely. The Board and management team have met more frequently than normal during 2020/21 to oversee SHR's response to the pandemic.
52. The Board continued to receive and consider all standing agenda items in 2020/21, including budget monitoring reports, quarterly performance reports and an update from the Chief Executive. We are satisfied that the Board received sufficient and timely information throughout the period to support effective scrutiny, challenge and decision making.

System of internal control

53. We have evaluated SHR's key financial systems and internal control to determine whether they are adequate to safeguard public assets, and prevent and detect fraud, error and irregularity. Our approach has included documenting the key internal financial controls and performing walkthroughs to confirm that they are operating as intended.

54. We did not identify any significant weaknesses in SHR's accounting and internal control systems during our audit.

Internal audit

55. An effective internal audit service is an important element of an entity's overall governance arrangement. SHR's internal audit service is provided by the Scottish Government. During our audit we considered the work of internal audit wherever possible to avoid duplication of effort and to make the most efficient use of SHR's total audit resource.

Prevention and detection of fraud and irregularity

56. We found SHR's arrangements for the prevention and detection of fraud and other irregularities to be adequate.

57. ARAC receive an annual report notifying the committee of any incidences of fraud or security breaches.



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.

Significant audit risk

58. Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities

Financial sustainability

In March 2020 the Scottish Government designated SHR as "an area of known pressure" and indicated that they may receive additional revenue funding of £200k in 2020/21 should this become available. SHR prepared a balanced budget for 2020/21, assuming that this in-year allocation would be received. The Scottish Government subsequently awarded SHR additional revenue funding of £250k and at the time of publishing our 2020/21 External Audit Plan, SHR was forecasting an underspend of £50k for 2020/21 as a result.

Staff costs continue to be a significant area of pressure, with the achievement of a balance budget in 2020/21 requiring a vacancy rate of 8%. Recognising the scale of the challenge, SHR's revenue budget allocation has increased by £600k for 2021/22. This additional funding will enable SHR to recruit for the vacant posts.

Our 2019/20 Annual Audit Report highlighted that further work was required to ensure a robust Workforce Strategy was developed in a timely manner to support financial and operational plans. Ongoing work has paused to allow resource to be refocused on managing the response to the COVID-19 pandemic and development of the Workforce Strategy has been postponed to 2021/22. Robust workforce planning is required to ensure SHR has appropriate resource to support effective service delivery whilst remaining financially sustainable in the medium to long-term.

Noted in the 2020/21 External Audit Plan



59. Our detailed findings on the Board's financial framework for achieving long term financial sustainability are set out below.

Future financial plans

60. As SHR's only source of income is funding from the Scottish Government, there is a greater degree of certainty over future funding streams than for some other public sector organisations which are involved in income generating activity. Therefore, the main focus for SHR is to achieve a balanced financial plan and to remain within the annual allocation.
61. For 2021/22, SHR has been allocated a cash revenue budget of £4.7million, and a non-cash allocation of £0.2million to cover depreciation and amortisation of non-current assets.
62. This represents an uplift of £0.615million in revenue funding compared to their initial 2020/21 revenue allocation. SHR was designated as an "area of known pressure" by the Scottish Government in March 2020 and they received an additional allocation of £250,000 in 2020/21 once the funding had come available.
63. The uplift in funding for 2021/22 has arisen following significant dialogue with Scottish Government regarding the risk to SHR's financial sustainability if there was no increase to funding. This risk has arisen following an accumulation of factors over recent years included the impact of increases in employer's pension costs and centrally negotiated pay deals.

64. With staff costs accounting for 82% of budgeted expenditure in 2021/22, SHR is continuing to impress upon the Scottish Government the need for this year's funding allocation to be the baseline for future budgets and that these should reflect the level of pay inflation.

Staffing costs and workforce planning

65. To set a balanced budget for 2020/21, SHR had to assume a vacancy rate of 8% (i.e. between 4 and 5 staff members for the full year).
66. The uplift in funding awarded for 2021/22 has allowed SHR to prepare their budget based on the current staff complement and an assumption that the seven vacant posted will be filled within the first six months of 2021/22.
67. Recruitment activity has been ongoing within 2021/22, however progress has been slow with delays in the recruitment process within Scottish Government as a result of increased volume and other factors.
68. In 2018/19 we highlighted the need for a robust Workforce Strategy to enable SHR to outline their objectives and staffing requirements in the medium to long term. The management team held a workforce planning workshop in November 2019 to commence process. However the next step of developing the strategy was postponed, with resource refocused on managing the response to the COVID-19 pandemic.

69. The 2020/21 Operating Plan outlined new timescales for developing the strategy with a target date of March 2021. This work has been further delayed and is now scheduled for the latter part of 2021/22. However, this has not been identified as a priority task and will be subject to resource being available.
70. SHR's operational plans and expectations for the future have changed significantly since the initial workforce planning workshop was held in November 2019.
71. In response to the pandemic, SHR adjusted elements of the regulatory framework and resource was redeployed to support the COVID-19 response, including collecting data on the impact on landlords and participating in the Social Housing Resilience Group.
72. SHR will continue with this COVID-19 response work in 2021/22 and revert back to normal regulatory timescales following the temporary changes in the prior year. The 2021/22 Operating Plan has been prepared on a priority basis, categorising tasks and identifying those that will only be undertaken if resourcing allows.
73. Following the move to remote working, expectations around future ways of working have changed significantly and management have committed to developing a future flexible working approach.
74. Robust, medium term workforce planning is key in enabling SHR to deliver services in a financially sustainable manner and support ongoing discussions with Scottish Government regarding future funding allocations.
75. The development of a workforce strategy should be progressed in 2021/22 as a priority area. This should consider plans for addressing the current vacancies, succession planning for key roles and skills within the organisation, and the reflect on plans regarding flexible working and returning to the office.

Capital budget

76. SHR has been allocated a capital budget of £200,000 for 2021/22. This is in addition to the 2020-21 in-year funding allocation of £200,000 to cover essential upgrades to the business intelligence system.
77. The majority of the capital budget will be spent on upgrading elements of the business intelligence system (£100,000). The remainder will be split between replacing IT assets (£30,000), office equipment upgrade (£30,000) and an unallocated proportion of £40,000.
78. This unallocated element will provide sufficient contingency and flexibility in the identified capital projects or provide opportunity to commence small scale new projects as part of the post pandemic office recovery.

Appendices

Appendix 1: Respective responsibilities of the Board and the Auditor	31
Appendix 2: Adjusted and unadjusted errors identified during the audit	35
Appendix 3: Follow up of prior year recommendations	36
Appendix 4: Wider scope judgements	37

Appendix 1: Respective responsibilities of the Board and the Auditor

The Code of Audit Practice (2016) sets out the responsibilities of both the Board and the auditor and are detailed below.

Board responsibilities

The Board has primary responsibility for ensuring the proper financial stewardship of public funds, complying with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

Area	Board responsibilities
Corporate governance	<p>The Board, through its Chief Executive (as accountable officer) is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.</p>
Financial statements.	<p>The Board has responsibility for:</p> <ul style="list-style-type: none"> • preparing financial statements which give a true and fair view of its financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation; • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support its financial statements and related reports disclosures; • ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority; • maintaining proper accounting records; and • preparing and publishing, along with the financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that is consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also address the longer term financial sustainability of SHR. <p>Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the</p>

Area	Board responsibilities
	<p>entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.</p> <p>The Board is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of its objectives and safeguard and secure value for money from the public funds at its disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.</p>
<p>Standards of conduct for prevention and detection of fraud and error</p>	<p>The Board is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct.</p>
<p>Financial position</p>	<p>The Board is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> • Such financial monitoring and reporting arrangements as may be specified; • Compliance with statutory financial requirements and achievement of financial targets; • Balances and reserves, including strategies about levels and their future use; • Plans to deal with uncertainty in the medium and long term; and • The impact of planned future policies and foreseeable developments on the financial position.
<p>Best value</p>	<p>Accountable officers have a specific responsibility to ensure that arrangements have been made to secure best value.</p>

Auditor responsibilities

Auditor responsibilities are derived from statute, the Code of Audit Practice, International Standards on Auditing (UK), professional requirements and best practice. These are to:

- undertake statutory duties, and comply with professional engagement and ethical standards;
- provide an opinion on the financial statements and the regularity of transactions;
- review and report on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports;
- notify the Auditor General when circumstances indicate that a statutory report may be required; and
- demonstrate compliance with the wider scope of public audit.

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 of Audit Practice 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.

Independence

In accordance with our profession's ethical guidance and further to our External Audit Annual Plan issued confirming audit arrangements there are no further matters to bring to your attention in relation to our integrity, objectivity and independence.

We confirm that Azets Audit Services and the engagement team complied with the FRC's Ethical Standard. We confirm that all threats to our independence have been properly addressed through appropriate safeguards and that we are independent and able to express an objective opinion on the financial statements.

Audit and non-audit services

The total fees charged to SHR for the provision of services in 2020/21 (with prior year comparators) is as follows:

	Current year £	Prior year £
Audit of Scottish Housing Regulator (Auditor remuneration)	18,050	17,520
Total audit	18,050	17,520
Non-audit services	-	-
Total fees	18,050	17,520

FRC's Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. No non-audit services were provided to the Scottish Housing Regulator.

Audit quality

The Auditor General and the Accounts Commission require assurance on the quality of public audit in Scotland through comprehensive audit quality arrangements that apply to all audit work and providers. The audit quality arrangements recognise the importance of audit quality to the Auditor General and the Accounts Commission and provide regular reporting on audit quality and performance.

Audit Scotland maintains and delivers an [Audit Quality Framework](#).

The most recent audit quality report which covers our work at SHR since appointment can be found at <https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-202021>

Appendix 2: Adjusted and unadjusted errors identified during the audit

Corrected and uncorrected misstatements

We did not identify any corrected or uncorrected misstatements during our audit of the Scottish Housing Regulator's annual report and accounts.

Disclosure amendments

No	Detail
1	Intangible assets accounting policy – disclosure that the estimated useful life has been revised to reflect latest plans for the asset.

Appendix 3: Follow up of prior year recommendations

We have followed up on progress in implementing the outstanding action raised in the prior years. This action remains in progress.

The recommendations are categorised into three risk ratings:

Key:

Significant deficiency

Other deficiency

Other observation

Workforce plan – action raised in 2018/19

Recommendation SHR should incorporate the current work undertaken on staffing (2018/19) and bring this together in a robust Workforce Strategy. This should include future succession planning and expected vacancy rates to continue to meet balanced budgets moving forward.

Rating	Other deficiency	Implementation date	Initial target date: March 2020
			Revised target date: March 2021

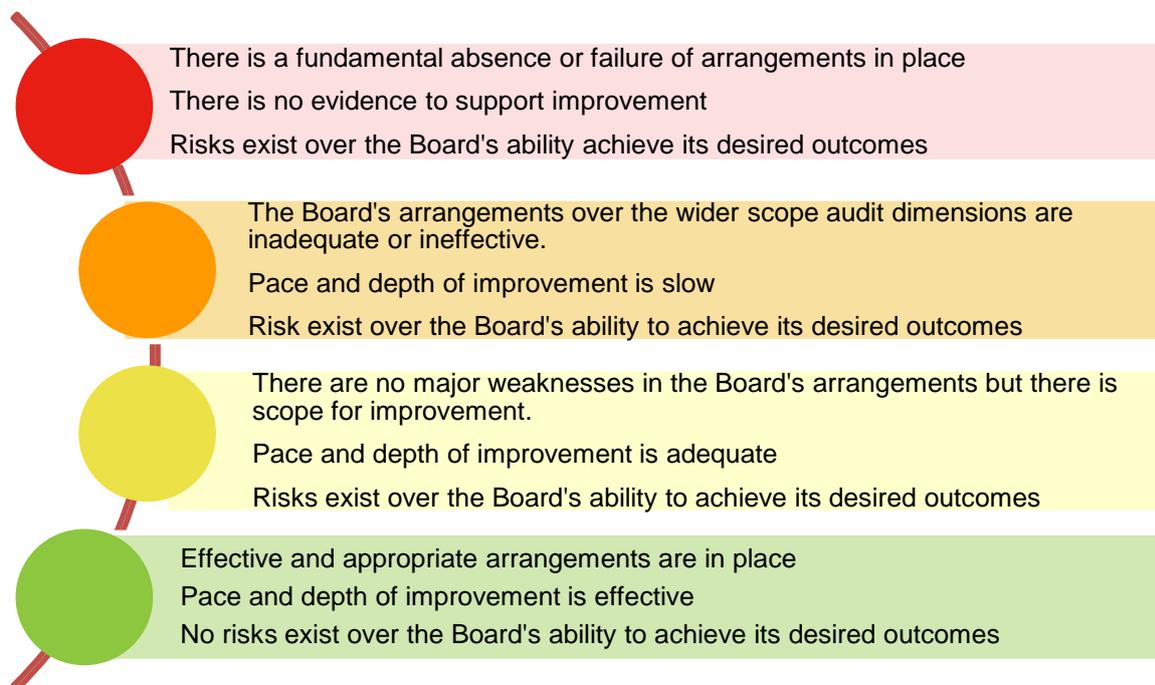
In Progress	<p>Work has been further delayed as a result of the pandemic. This has been included in the 2021/22 operating plan but will only be progressed if there is sufficient resource to support this.</p> <p>Given the risks outlined in the body of our report, we recommend that this is progressed in 2021/22 as an area of priority.</p>
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Appendix 4: Wider scope judgements

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.

We have used the following grading to provide an overall assessment of the arrangements in place as they relate to financial sustainability.





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