

Scottish Housing Regulator

Annual report on the 2011/12 audit



Prepared for the Scottish Housing Regulator and the Auditor General for Scotland
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Key messages

2011/12

The financial challenges facing the Scottish public sector are well documented, with public bodies facing deep and prolonged cuts in funding. In 2011/12 we assessed the key strategic and financial risks being faced by the Scottish Housing Regulator (SHR). We audited the financial statements and we also reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings.

Financial statements

We have given an unqualified audit report on the financial statements for 2011/12. We also confirmed that the remuneration report and governance statement complied with relevant guidance.

Financial position and use of resources

Although the Statement of Financial Position reports a net deficit position, this is due to the funding arrangement which exists. As the level of expenditure for 2011/12 was within the funding allocation, this represents a good financial position.

Governance and accountability

In 2011/12 SHR had sound corporate governance structures in place. We examined the organisation's key financial systems underpinning the organisation's control environment and concluded that they operated sufficiently well for us to place reliance on them. We were also able to place reliance on the work of internal audit after we completed a review of their work.

Performance and best value

The level of performance reporting in the Annual Report indicates that the SHR responds quickly to all correspondence. It is also evident that the SHR undertakes a considerable amount of work with tenant groups and Registered Social Landlords however what is less clear is the impact of this on the SHR and its stakeholders. We also noted a lack of contextual information such as targets and prior year figures reported.

The performance management arrangements for the new SHR appear to address many of these points. The process of developing the new reporting regime is still being refined and has involved considerable input from the Board.

A new cycle of six best value reviews has been agreed and will take place over a three year period (commencing late 2012).

Awareness of national Audit Scotland reports appears good, and SHR has agreed to add the national performance reports as a standing agenda item for future Audit and Risk Assurance Committee meetings.

Outlook

A new organisational structure has recently been agreed and working towards implementing this is one of the key steps to ensuring that the SHR has the optimum mixture of skills within budgetary constraints in future years.

The SHR is looking to develop and agree service level agreements for the services provided by the Scottish Government. These will help to ensure that costs and services can be properly estimated and controlled in future years, particularly regarding accommodation and IT support.

Additional funding may be required in order to acquire a replacement business intelligence system. This may result in alternative arrangements being considered.

Introduction

1. This report summarises our findings arising from the 2011/12 audit of the Scottish Housing Regulator (SHR). The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements) and conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.
2. A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of the SHR.
3. From 1 April 2012 the new SHR body, now a non-ministerial department, assumed full regulation responsibilities and powers. The body initially commenced a year previously and ran for a year without the full range of powers and responsibilities, working alongside the existing agency body. The effect of this was that officers within SHR in 2011/12 had dual responsibilities, namely to maintain the existing services of the old agency and to set up the various plans, policies and structures of the new body. This report comments on the performance of the old agency body in 2011/12 and also the efforts undertaken to set up the new SHR as well as identifying emerging issues both during 2011/12 and the early part of 2012/13. This represents an unusual situation as generally we refer to just one organisation in our annual reports. We have used the terms 'old' and 'agency' to refer to the previous SHR and 'new' and 'non-ministerial department' to refer to the new SHR.
4. We raised a risk in our Annual Audit Plan for 2011/12 of the impact this change could make to the general business of the old SHR agency, including potential delays to the submission of the financial accounts. We are pleased to report that there were no delays to the 2011/12 audit process.
5. The performance management section of this report reflects on how successfully the old body achieved its aims in a significant year of change and the governance and accountability section comments on the new structures in place.
6. During the course of this report we refer to both the old SHR (sometimes referred to as the agency) which ceased on 31 March 2012 and the new SHR (a Non-Ministerial Department) which took up full responsibilities from 1 April 2012.
7. Appendix B contains an action plan setting out the high-level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the SHR understands its risks and has arrangements in place to manage these risks. The Accountable Officer and Members of the Board should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.

8. This report is addressed to the SHR and the Auditor General and should form a key part of discussions within the Audit and Risk Assurance Committee, as soon as possible after the formal completion of the audit of the financial statements. Reports should be made available to stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.
9. This report will be published on our website after consideration by the Audit and Risk Assurance Committee.
10. The management of the audited body is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements 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.

Financial statements

11. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
12. We are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
 - the regularity of the expenditure and income.
13. We review and report on, as appropriate, other information published with the financial statements, including the management commentary, the governance statement and the remuneration report. We also review and report on the Scottish Government (SG) consolidation pack. This section summarises the results of our audit on the financial statements.

Audit opinions

14. We have given an unqualified opinion that the financial statements of SHR for 2011/12 give a true and fair view of the state of the body's affairs and its net operating cost for the year.
15. SHR is required to follow the 2011/12 Government Financial Reporting Manual (the FReM) and we confirmed that the financial statements have been properly prepared in accordance with the FReM. We also confirmed that relevant parts of the remuneration report had been properly prepared and that information given in the management commentary was consistent with the financial statements.
16. We also reviewed the governance statement and concluded that it complied with SG guidance.

Regularity

17. We confirmed that the expenditure and income in the financial statements was in accordance with applicable legislation and Ministerial guidance.

Going concern

18. The accounts have been prepared on a going concern basis. Paragraph 36 explains why this is the case in the context of the net liability shown on the face of the Statement of Financial Position. Additional narrative has been added to the note in the accounts to confirm that, although the agency body ceased from 31 March 2012, as all assets and liabilities transferred to the new body the going concern principle was applied. This appears satisfactory.

Accounting issues

Accounts submission

19. Our audit of the financial statements commenced on 14 May and all documentation and information was provided as planned. The standard of working papers provided and the assistance offered by staff were of a high standard.
20. The financial statements were delivered on time, we found that the accounts process worked well and the audit was delivered to schedule. Discussions have taken place between auditors and officers in order to identify any potential areas for improvement.
21. Overall the level of error found was small however one sizeable audit adjustment was posted to the accounts. The £150k adjustment related to a prior year adjustment which had not been posted to the SEAS system in 2010/11 as the SG deemed it immaterial. This caused a consequential error in the 2011/12 accounts which required amendment. This situation could only have been avoided had the SG agreed to post the original (2010/11) adjustment and therefore there was little the SHR could do in this instance.
22. Our review found one error which was not adjusted for. This related to the incorrect treatment of VAT on purchase invoices. The total extrapolated value of this error was considered to be immaterial to the accounts overall, therefore it was agreed that it would not be adjusted. We are pleased to note that once this error was raised with the client, the SHR took immediate action and sent all relevant staff on a VAT training course to ensure they were all up-to-date with VAT rules and regulations.
23. Otherwise, amendments to the accounts were mainly presentational in nature or related to narrative in areas such as the governance statement and management commentary. All of these were duly agreed and implemented.

SG consolidation pack

24. Due to the status of the SHR changing from an agency to a non-ministerial department, 2011/12 is the last year where the SHR are required to submit a consolidation pack to the SG. We checked the consolidation pack for 2011/12 and found no errors and provided a clean audit certificate to the SG by 30 July deadline. From 2012/13, the SHR's accounts (as a non-ministerial body) are no longer included in the SG consolidated accounts.

Whole of government accounts (WGA)

25. The SHR is under the £100m threshold for whole of government accounts certification and therefore was not required to be audited in 2011/12.

Outlook

26. There are no significant changes to the 2012/13 FReM that are expected to have an impact on the SHR's annual financial statements. We have also noted that the SHR appears to fall below the de-minimis threshold for producing a sustainability report for 2012/13.

27. The 2011/12 financial statements relate to the old SHR agency. The new SHR (a Non-Ministerial Department) fully assumed its responsibilities on 1 April 2012 and will deliver its first set of financial statements next year.

Financial position

28. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
29. We consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
30. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the SHR.

Financial results

Annual outturn

31. The SHR operated within its budget of £4.21 million in 2011/12, reporting total expenditure of £3.93 million. This represents a £0.35 million reduction from the prior year (8.2%). The main underlying cause of this was a reduction of £0.57 million in staff costs as a result of a reduced number of permanent staff as well as there being no severance costs in 2011/12 compared to £0.12 million the previous year (although there were retirement costs in 2011/12). This reduction however was off-set slightly by the costs of administering the new SHR which commenced in April 2011. These costs amounted to £0.21 million.

Budgetary control

32. Budget monitoring reports submitted to the Executive Management Team (EMT) provided for a detailed understanding of expenditure compared to estimates. The report to the end of period six (prepared in October 2011) provided a revised budget outturn figure of £3.96 million. There were no further revisions reported during the year and this figure is only £0.03 million higher than the actual year-end level of expenditure.
33. This indicates that the budget has been well managed over the period, especially given that 2011/12 involved costs for the new SHR body as well as the old agency. To that end, costs for the new body were posted separately in the financial ledger which allowed for separate reporting during the budget monitoring process.
34. Reports were found to have been provided on a monthly basis to meetings of the EMT, with the exception of period eight (due to timing difficulties regarding obtaining payroll information). The reports followed a standard format which opened with the financial information presented in tabular form covering all types of expenditure. These tables present annual budget figures

(plus any revisions), actual spend to period end (in monetary and percentage of budget terms), profiled budget to end of period and variance between actual and profiled budget (again both monetary and percentage terms).

35. The reports also provide narrative for each expenditure type which were found to be informative and allowed for a detailed understanding of the underlying financial performance. It was also noted that comments in the reports from later in the year contained more information and (on some occasions) offered forecast figures. It is felt that the budgetary control processes in place appear robust and allowed members of the EMT to adequately control the SHR's expenditure.

Financial position

36. The Statement of Financial Position reflects a net deficit in the general fund of £0.50 million, compared to a net deficit of £0.40 million from the previous year. As stated in the going concern note to the accounts (note 1.2) this arises because of the requirement to account for the activities of the SHR on an accruals basis, whilst recording funding from the SG on a cash basis. The note also confirms that the SG will fund any current liabilities as they arise therefore it is appropriate to account for the body on a going concern basis. As SHR is consistently meeting its budgetary targets in a period of funding reductions, this indicates a good financial position.

Public reporting

37. The management commentary in the financial statements contains a short paragraph comparing current-year spend to the budgeted amount. This could be expanded in future years to also offer comparison to the prior-year and to provide some further analysis at subjective cost level in order to better explain the performance.

Refer Action Plan no. 1

Financial planning to support priority setting and cost reductions

38. All public bodies in Scotland face a challenging financial climate over the coming years. The new SHR body is no different and will see a 12% reduction across the period from 2011/12 to 2014/15 (representing £0.50 million). The SHR's results from 2011/12 indicate that they are currently in a good position, recording total expenditure of £3.93 million which is less than the budgeted position for both 2011/12 and the following year, 2012/13. This level of expenditure represents a reduction of £0.35 million from the previous year and, assuming the savings are recurring, this will ensure that the 2012/13 target can also be met.
39. However, further reductions will be required to ensure plans and budgets beyond 2012/13 are met. The Corporate Plan sets out a number of steps (outlined below) which are intended to ensure that expenditure levels are reduced appropriately. These are:
- focussing on objectives
 - matching resources to priorities

- managing change effectively and embracing new opportunities to do things differently
 - ensuring that there is the right mix of skills and a focus on learning and development
 - identifying ways to maximise impact and to streamline the working practices
 - working flexibly
 - managing resources efficiently and effectively.
40. The 2012/13 budget paper presented to the Board outlined forecast spending for the three year period to 2014/15. This predicted that Board costs will remain stable at £0.11 million per annum, whilst administration costs will reduce after 2012/13.
41. As staff costs represent the largest area of expenditure it will be necessary to closely monitor this area in particular. As discussed later in paragraphs 44 and 45, we are aware of the new SHR staff structure (announced September 2012). The SHR now has the task of filling up to 12 vacancies as part of working towards putting this structure in place. This is an on-going process and we will review progress as part of our 2012/13 audit.
42. During 2011/12 budget monitoring reports were regularly provided to the Executive Management Team (EMT). For 2012/13, the Board of the new SHR now receives regular budget monitoring reports. The report provided for the August meeting forecast a year-end under-spend of £0.09 million, which is around 2% of the overall budget. The areas which are anticipated to under-spend significantly are Board costs (due to smaller number of Members than anticipated), accommodation (based on SG estimates), stakeholder engagement (lower Charter consultation costs than forecast) and research and consultancy (which allows for some contingencies).
43. The report recognises a risk in relation to any under-spend and refers to work being carried out to identify potential new projects which represent value for money and are aligned to the Corporate Plan objectives, an example being additional training and development opportunities. The budget shall require to continue to be closely managed over the coming months to ensure that costs continue to be within forecast levels and any additional projects undertaken in light of under-spends contribute towards the corporate objectives.

Workforce reduction

44. During 2011/12 five members of staff left the organisation through early retirement. The total cost of the packages provided to the leavers was £0.25 million. This compares to £0.43 million from the previous year, also in relation to five leavers.
45. Workforce planning is recognised as a key priority in the SHR 2012-15 Corporate Plan which aims to deliver this in 2012/13. From discussions with officers we understand that the new organisational structure has now been agreed and was communicated to staff in October 2012. Actions are now underway to implement this new structure and involve the recruitment of around 12 posts, including the Director for the new Charter & Governance Division. We will monitor progress in this area during 2012/13.

Refer Action Plan no. 2

Partnership working

46. The new SHR body has maintained the use of financial systems previously provided to the old body, i.e. those of the SG. This includes use of the financial ledger (SEAS), payroll (ePayFact) and the accounts payable (Ease buy) systems as well as the use of SG Internal Audit and IT services. In addition to this, SHR rents floor space from the SG in Highlander House. From a review, we found that the level of information provided to SHR from SG in relation to this rental arrangement was not as detailed as in previous years.

47. Included in the March 2012 Framework Agreement between the SHR and Scottish Ministers is a section regarding shared services as follows:

"The Regulator and the Government are committed to the use of shared services, and to ensuring that services meet an agreed standard. The expectation is that the Regulator will continue to use Scottish Government corporate services and negotiated contracts. Where the Regulator is giving consideration to withdrawing from shared service contracts, it will enter into discussions with the Portfolio Accountable Officer prior to making any financial or contractual commitments."

48. Whilst using SG services is a pragmatic and (most likely) cost efficient arrangement it is important for the SHR to establish service level agreements (SLAs) with the SG in order to control future costs and to support financial budgeting and planning (and to adhere to the Framework Agreement). These agreements should specify what services will be provided by the SG and the costs associated with these. As per the Framework Agreement (March 2012):

The Government and the Regulator will agree individual Service Level Agreements (SLAs) detailing service options and standards in each of these areas. Each SLA will include timescales for review.

49. From discussions with officers we understand that there is no central coordination role provided by the Sponsor branch or wider SG in developing these SLAs. The SHR are working on this and we will review the approach in 2012/13. We recommend that the SHR continues to raise the issue of SLAs with the SG. There is currently no indication that the SG has in place a co-ordinated or centralised approach to preparing SLAs.

Refer Action Plan no. 3

50. SHR draws on the Scottish Government's IT service (ISIS) for all its corporate and regulatory IT provision. Due to restructuring and a focus on core Scottish Government systems, ISIS advised SHR that it would no longer be able to support SHR's existing bespoke regulatory business information system. This system is used to record and manage the SHR's regulatory work and is therefore essential in the delivery of SHR's core objectives. SHR and ISIS recently negotiated the transfer of a staff member from ISIS to SHR to provide continuity and mitigate the risk created by this situation. SHR senior management had considered several contingency scenarios with the staff transfer situation being the most cost effective and favoured option. ISIS has a call-off contract available should the transferred member of staff leave the SHR, whilst another SHR staff member is going to shadow the officer for transfer of

skills and knowledge on the system. SHR staff, working with ISIS colleagues, have also reviewed and developed system specifications, should external delivery support be required.

51. The SHR is also considering a complete replacement to the current business intelligence system with a projected timescale of two years. The latest estimate for this replacement system suggests additional funding will be required from the SG.

Refer Action Plan no. 4

Outlook

2012/13 budget

52. The 2012/13 budget represents a 5% reduction from the previous year. Given the financial performance by the SHR in 2011/12 it is felt that expenditure will be within budget for the coming year.

2012/13 budget reporting

53. The August 2012 budget monitoring report forecast an under-spend of £0.09 million, which represents 2% of the available allocation. Consideration is currently being taken as to how to best reallocate any under-spend to other areas of the organisation to help best ensure that Corporate Plan objectives are met.

Financial forecasts beyond 2012/13

54. Medium term financial plans anticipate a reduction in administration costs which includes the development costs of the new business intelligence system. These will likely have to be revisited as a result of a more recent estimate of these development costs.

Partnership working

55. The new SHR will continue to use SG services and co-occupy Highlander House in Glasgow. Progress is required to ensure service level agreements with the SG are put in place and it is essential that this process is completed in a timely manner. We are aware of on-going discussions the SHR is having with the SG regarding these matters and we will continue to monitor the situation.

Governance and accountability

56. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
57. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
58. Consistent with the wider scope of public audit, we have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption.
59. In this part of the report we comment on key areas of governance.

Corporate governance

Overall effectiveness

60. We found that overall, corporate governance arrangements operated effectively during 2011/12.

Processes and committees

61. The old SHR agency was led by a Regulation Board which consisted of three Non-Executive Members and the EMT. In 2011/12, the Regulation Board met four times and the Audit Committee met three times. We are also pleased to report that an additional meeting of the Audit Committee and the Regulation Board took place after the wind-down of the agency in order to ensure that the 2011/12 accounts could be appropriately signed off. We regard this as good practice.
62. The new SHR is led by a Board of four Non-Executive Members appointed by Scottish Ministers following an open, public appointments process. Although the new SHR body assumed full responsibilities on 1 April 2012, the Board met for the first time a year earlier and have been meeting on a monthly basis thereafter to develop and consult on the new regulatory framework and ensure a smooth transition. All agreed minutes from meetings held to date are available on the SHR website.

63. SHR has an Audit and Risk Assurance Committee which met for the first time in June 2012. This committee consists of three of the Board's Non-Executive Members. A recruitment process is currently underway for three new Board members, one of whom is intended to have some audit or financial experience.
64. The Executive Management Team, led by Chief Executive Michael Cameron, has been in post throughout the period of change in 2011/12 and into 2012/13 and, as such, provides continuity to the whole process and senior management function of the SHR.

Internal control

65. While we concentrate on significant systems and key controls in support of the opinion on the financial statements, our wider responsibilities require us to consider the financial systems and controls of audited bodies as a whole. The extent of this work is informed by our assessment of risk and the activities of internal audit.
66. Overall the SHR's systems of internal control were operating effectively during 2011/12. This enabled us to take the planned assurance on these systems for the audit of the financial statements. Details of how we arrived at this conclusion are contained in the following paragraphs.
67. Our process to establish the effectiveness of the internal control system commenced in December 2011 and involved the completion of a preliminary evaluation for the main financial systems (main accounting system, trade payables, payroll, capital accounting and cash and banking).
68. This exercise involved establishing the main processes involved and obtaining documentary evidence that these were being duly followed. The second stage of the process involved more detailed testing of a number of these controls or, where possible, reliance on the work of internal audit in order to gain the necessary assurance.
69. As the SHR use SG systems we also sought the views of the auditor of the Scottish Government. The results from this process were positive and overall the systems in place were felt to be robust. There are however issues regarding the agreement of SLAs which have already been referred to in the Partnership Working section (refer paragraphs 46 to 49).
70. Annually, we review the internal audit function in a body in order to assess the effectiveness of the section and to determine areas of potential reliance. Where possible we seek to rely on the work of internal audit in order to ensure there is no duplication and to obtain the maximum coverage from available audit resources. Our findings were that the SG internal audit section operates in accordance with Government Internal Audit Standards and has sound documentation standards and reporting procedures in place. As such we planned to place formal reliance on designated areas of work.
71. Our subsequent formal review of specific internal audit work involved visiting the offices of the internal audit team in Victoria Quay in Edinburgh and obtaining access to their working files. After completion of this exercise (which also involved an element of re-performance work) we were able to place formal reliance on the work of internal audit.

Governance statement

72. In 2011/12 SHR included a governance statement in its annual accounts for the first time. In accordance with SG guidance, this included a description and assessment of the essential components of corporate governance and details of any significant risk-related matters arising during the period.
73. The arrangements in place to produce this statement were satisfactory and involved the provision of certificates of assurance supported by internal control questionnaires from business area managers. Furthermore, the annual report from internal audit provided further assurances around this process.

Prevention and detection of fraud and irregularities

74. The SHR is responsible for establishing arrangements to prevent and detect fraud and other irregularity. As part of our risk assessment of the old SHR agency we carried out a review of the arrangements the SHR had in place. The conclusion from this exercise was that these arrangements were adequate and involved adhering to the SG fraud policy statement and response plan. Furthermore, it was confirmed at a meeting of the outgoing agency Audit Committee that there had not been any instances of fraud in 2011/12.
75. As part of our risk assessment exercise for 2012/13 we will review the arrangements put in place for the new SHR.

Standards of conduct and arrangements for the prevention/detection of bribery and corruption

76. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. We consider whether bodies have adequate arrangements in place.
77. Generally, arrangements in place are felt to be satisfactory. As part of our risk assessment process we confirmed that the Regulation Board Remit, Delegated Authorities and Standing Orders documents set out expected requirements of Non-Executive Members and senior officers. This involves respective compliance with the Code of Practice for Non-Executive Directors and the Civil Service Code of Conduct. A register of business and professional interests was also maintained of all Non-Executive Board Members, which we reviewed as part of our review of the financial statements and found to be satisfactory.
78. In reference to the new SHR body, a Code of Conduct for Board Members was approved in April 2011 and is available on the SHR website. We shall review this as part of our 2012/13 audit. We have also been informed that a briefing on the Bribery Act 2010 was provided to Board Members and officers in early 2012.

Outlook

79. The current environment of significant organisational change, reducing resources and increasing expectations is one in which the SHR's governance and accountability arrangements will be tested.
80. 2012/13 will be the first year in which the new body takes on its full range of responsibilities and as such the new governance arrangements put in place such as the Board and new committee structure will be key to successful implementation.

Best Value, use of resources and performance

81. Audited bodies have responsibility to ensure that arrangements have been made to secure best value. The Auditor General may require that we consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of best value. Where such requirements are not specified we may, in conjunction with audited bodies, agree to undertake local work in this area.
82. As part of their statutory responsibilities, the Auditor General may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. We may be requested from time to time to participate in:
 - a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at local level
 - a review of a body's response to national recommendations.
83. During the course of our audit appointment we also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years. We may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments.
84. This section includes a commentary on the best value and performance management arrangements within the SHR. We also summarise headline performance measures used by the SHR, highlight any relevant national reports and comment on the body's response to these.

Management arrangements

Best Value

85. SG guidance for accountable officers on best value in public services requires a systematic approach to self-evaluation and continuous improvement. The guidance identifies the themes an organisation needs to focus on in order to deliver the duty of best value, but notes that implementation should be appropriate and proportionate to the priorities, operating environment, scale and nature of the body's business.
86. In September 2012 the Audit and Risk Assurance Committee of the SHR agreed to a rolling programme of best value reviews over a three year period. This process will cover the seven themes identified, with two of these (vision & leadership and governance & accountability) being rolled up into one review. A timetable for the completion of these exercises has been agreed and will see the first review commence in October 2012 and reported in March 2013.

These self-assessment reviews will look to identify strengths and areas for improvement and we will review future reports as part of our wider role.

Performance management

87. In the 2010/11 annual audit report, reference was made to seven operational performance indicators for the SHR agency. Performance against these was reported in varying degrees in the 2011/12 SHR Annual Report in addition to other outcomes against each of the seven strategic objectives. Whilst the report provides good descriptive information, it is felt that it could have been delivered with more contextual data, such as prior year figures or targets. Also, more emphasis could have been placed on the impact that these actions have had.
88. For the new SHR, a performance reporting template has been developed. This proposes a quarterly reporting cycle to the Board. This was devised upon the Board's request in order to enable Members to assess and monitor performance strategically.
89. The reports include both quantitative and qualitative analysis and incorporate targets as well as reporting across the four quarters. The first of these was presented to the August Board meeting, which reported performance under the following four activity areas:
 - regulatory engagement
 - delivery of operating plan
 - visibility and responsiveness
 - management of resources.
90. From review of the minutes from the August Board meeting we can see that Members were satisfied with the level of information reported but also identified some areas for improvement. It is therefore apparent that this area is being suitably developed and refined through discussion between Members and officers. We will continue to monitor progress in 2012/13.

Community/user engagement

91. One of the agency body's seven strategic objectives was to engage tenants and other service users in their work. The 2011/12 Annual Report highlighted actions such as engaging with Registered Tenants' Organisations (RTOs) through site scrutiny and contact, organising tenant assessor and information events and holding meetings of the Tenants' Regulatory Advisory Group.
92. The new SHR has created a Consultation and Involvement Strategy 2012-2015 in order to identify how to best engage with its various stakeholders. Underpinning this strategy is an acknowledgement that a number of methods are required in order to best reach all parties. Some of the methods identified include the creation of a national panel of tenants to help develop the way in which SHR regulates; to liaise regularly with bodies such as Shelter and the Scottish Council for Single Homeless; hold regular meetings with regional networks of tenant organisations; and organise focus groups with tenants and service users.
93. The strategy outlines three objectives with methods attached to each. These are:

- To understand the priorities and opinions of tenants and other service users and use this knowledge to shape our regulatory approach.
 - To create meaningful opportunities for tenants, other service users and their representatives to work with us in developing our regulatory approach.
 - To involve tenants and other service users in our scrutiny of social landlords.
94. The strategy also outlines performance criteria to determine whether the strategy has achieved its aims, what the impact of this has been and confirms that progress will be reported annually. As such, we will monitor progress in the coming years.

Overview of reported performance in 2011/12

95. As discussed previously, the 2011/12 Annual Report reflected on some aspects of the business performance indicators. Among the information provided was that all correspondence, complaints and freedom of information requests were responded to within the appropriate timescales.
96. In addition to this the following outcomes were also noted:
- completion of risk assessments for all Registered Social Landlords (RSLs)
 - engagement with 50 RSLs (in line with the annual plan)
 - participation in Shared Risk Assessment Local Area Networks for all 32 Scottish councils
 - completed a risk assessment of the financial health of 162 RSLs
 - held two planned tenant assessor training and information events
 - provided access to an independent advice and secretariat service to the Tenants' Regulation Advisory Group (TRAG) as well as hosting meetings
 - supported Scottish Ministers by drafting answers to parliamentary questions
 - ensured all purchase invoices were paid on time.

National performance reports

97. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Recent reports in the last year which will be of direct interest are detailed below. All reports can be found at www.audit-scotland.gov.uk.
- Managing ICT Contracts: an audit of three public sector programmes (published August 2012)
 - Scotland's Public Finances - addressing the challenges (published August 2011)
 - Reducing greenhouse gas emissions (published December 2011).

Managing ICT contracts

98. An audit of three public sector information and communication technology (ICT) programmes found significant weaknesses in the management of these costing a combined £133 million to date. The report highlighted that many of the problems stemmed from a lack of specialised information technology skills and experience. However there were also weaknesses in basic project management and control, and the 'Gateway Review' system that the SG uses to provide assurance on the management of projects was not always effective.
99. This report has relevance to the SHR in relation to the proposed new business intelligence system which is currently under consideration. The report contains a number of recommendations and includes a checklist which central government bodies are advised to use in order to scrutinise and challenge the management of ICT programmes. This report was discussed at the September 2012 Audit and Risk Assurance Committee.

Scotland's public finances - addressing the challenges

100. This report was written in context of the funding reductions which the public sector in Scotland is currently experiencing. The SG estimate from October 2010 was that its budget for running costs will fall by £3.3 billion in the period from 2010/11 to 2014/15. The report highlighted some key issues which require to be addressed such as strong leadership, better cost information, alternative working patterns, community engagement and accurate workforce planning.
101. This is relevant to the SHR as it is to all public bodies in Scotland. The issues raised here have been covered in various sections across this report particularly financial planning within the financial position section. This report was considered by the SHR's former agency Audit Committee in 2011/12.

Reducing Scottish greenhouse gas emissions

102. The SG plans to reduce carbon emissions by 42% from 1990 levels by 2020. In order to achieve this, the SG has targeted actions to reduce emissions from vehicles, improve the energy efficiency of homes and buildings and increase the rate of tree planting.
103. The report is primarily aimed at the SG however as a non-ministerial department, it also has relevance to the SHR, particularly regarding efforts to reduce carbon emissions.

Arrangements to consider national performance reports

104. A point was raised in the 2010/11 annual audit report regarding the consideration of national Audit Scotland performance reports. The management response was that this would be added as a standing agenda item in future meetings of the Audit and Risk Assurance Committee. It was noted that there appears to be a general awareness of these reports, particularly the report concerning Managing ICT Contracts referred to previously. We have also agreed to inform the Committee of all future reports published and are pleased to note

that the SHR has agreed to add the national performance reports as a standing agenda item for future Audit and Risk Assurance Committee meetings.

Outlook

105. Performance reporting will continue to evolve over the coming year.
106. Best value reviews commence in late 2012 with the first report due in spring 2013.
107. The new Consultation and Involvement Strategy will help shape future engagement with the SHR's stakeholders.
108. In April 2011, the Equality Act 2010 introduced a new public sector 'General Duty' which encourages equality to be mainstreamed into public bodies' core work so that it is not a marginal activity but part and parcel of how public bodies operate. Following on from this the SG consulted on a set of 'Specific Duties' which came into force in May 2012.
109. There are nine specific duties listed which aim to support public bodies to better perform against the 'General Duty,' including the duty to assess the impact of equalities in all policies and decisions as well as the requirement to publish a set of equality outcomes (and reporting requirements) no later than 30 April 2013.

Appendix A: audit reports

External audit reports and audit opinions issued for 2011/12

Title of report or opinion	Date of issue	Date presented to agency Audit Committee
Annual Audit Plan	20February 2012	28February 2012
Review of the adequacy of internal audit	20 February 2012	28 February 2012
Key financial controls assurance report	30 April 2012	20 June 2012
Report on financial statements to those charged with governance (ISA 260)	13 June 2012	20June 2012
Audit opinion on the 2011/12 financial statements	14August 2012	14 August 2012*
Annual Audit Report on the 2011/12 Audit	26 November 2012	13 December 2012**

* The Audit Opinion was presented to the Regulation Board in 2011/12 and not the Audit Committee

**The Annual Audit Report was presented to the new SHR Audit and Risk Assurance Committee

Appendix B: action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer and Target Date
1	37	<p>Public reporting</p> <p>The management commentary in the financial statements contains a short paragraph comparing current-year spend to the budgeted amount. This could be enhanced going forward for the new SHR by including the prior-year figures and additional analysis in order to demonstrate performance over a number of years.</p> <p>Risk - The management commentary does not allow a year on year comparison of actual spend and does not provide the reader with a full picture of performance over a number of years.</p>	<p>Where possible, we will provide prior year figures for comparison in future management commentaries, beginning from the new Regulator's annual report and accounts for 2012/13.</p> <p>(Note: this will not necessarily be a straight comparison as prior year figures are for the previous agency)</p>	<p>Susan Campbell, Corporate Services Manager</p> <p>May / June 2013 (for submission with draft accounts)</p>
2	45	<p>Workforce Planning</p> <p>Although a new organisational structure has recently been agreed and communicated to all staff in October 2012, it is still in the early stages of implementation.</p> <p>Risk - The body may not have the appropriate set of skills to carry out its role or staff costs exceed budgetary constraints. There is also a risk that tacit knowledge and experience will be lost as more staff leave on early retirement. A workforce plan will help reduce this risk.</p>	<p>A project plan for recruitment to our new organisational structure has been agreed with our Executive Management Team. Recruitment activity is now underway.</p>	<p>Michael Cameron, Chief Executive</p> <p>May 2013</p>

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer and Target Date
3	49	<p>Service Level Agreements with the Scottish Government</p> <p>Service level agreements which determine precisely what services are provided and the cost of these have not yet been agreed with the Scottish Government although discussions are underway. A service level agreement will also ensure that the quality of service provided is maintained/ adhered to. There is currently no indication that the SG has in place a co-ordinated or centralised approach to preparing SLAs.</p> <p>Risk - There may be an unforeseen increase in the cost of services provided by the Scottish Government which is not budgeted for by the SHR. There may also be a lack of support in the absence of an SLA.</p>	<p>We will continue to pursue SLAs through dialogue with our SG sponsor team and SG shared services, and we are seeking advice and support from other public bodies who receive SG services.</p>	<p>Iain Muirhead, Head of Policy & Corporate Services</p> <p>March 2013</p>
4	51	<p>Procurement of new Business Intelligence System</p> <p>The latest cost projections for a replacement business intelligence system are out-with current budget resources.</p> <p>Risk - The current business intelligence system is maintained which impacts on future efficiency and delivery plans for the body.</p>	<p>We are submitting a business case to the Scottish Government for additional funding for the IT project in 2013/14 and 2014/15.</p>	<p>Michael Cameron, Chief Executive</p> <p>December 2012</p>