

Scottish Housing Regulator

Annual report on the 2013/14 audit



Prepared for members of the Scottish Housing Regulator and the Auditor General for Scotland
September 2014

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Key Messages

2013/14

We have given an unqualified opinion that the financial statements of The Scottish Housing Regulator (SHR) for 2013/14 give a true and fair view of the state of the body's affairs and of its net expenditure for the year.

Expenditure for the year was £3.71m, which is less than the budget of £3.85m. Savings identified by SHR during the year enabled the organisation to return funding to the Scottish Government.

Work on the SHR Business Intelligence System IT project continued throughout 2013/14, with the first phase of the project completed prior to the year end and the asset (£1.14m) recognised in the accounts in March 2014. Implementation of IT projects has been shown to be difficult in other public sector organisations - SHR have managed the project effectively through the project board and other governance structures and maintaining constructive relationships with the supplier and other stakeholders.

SHR's overall arrangements for the prevention and detection of fraud were satisfactory during 2013/14. From our review of the key controls within the main financial systems, we concluded the systems of internal control are operating effectively.

In 2012 SHR agreed to carry out a series of seven best value reviews over the three-year period of the 2012-2015 Corporate Plan. Reviews of Equalities and Use of Resources were concluded and reported to the ARAC in March 2014 and September 2013 respectively. Progress against an action plan resulting from the Use of Resources review was presented at the March 14 ARAC meeting.

Outlook

The economic climate for social housing continues to be very difficult with growing demands on services due to welfare reform, alongside pressures on finances for registered social landlords.

In view of the regulatory requirements related to these pressures, SHR secured additional resource funding from the Scottish Government for 2014/15 and 2015/16. Continued careful financial management will be required to ensure SHR's ability to respond to any increase in workload resulting from these pressures.

Introduction

1. This report is the summary of our findings arising from the 2013/14 audit of the Scottish Housing Regulator (SHR). The purpose of the report is to set out concisely the scope, nature and extent of the audit. It summarises our opinions (i.e. on the financial statements) and conclusions on significant issues arising.
2. The report also reflects our overall responsibility to carry out an audit in accordance with the public sector audit model which is based on the Code of Audit Practice prepared by Audit Scotland (May 2011). This sets out the wider dimensions of the public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management; however this does not relieve management of their responsibilities in this respect. This report has been prepared for the use of SHR and no responsibility to any third party is accepted.
3. Appendix A is 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 SHR understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is also addressed to the Auditor General for Scotland and will be published on our website after consideration by SHR's Audit and Risk Assurance Committee.

Financial statements

Conduct and scope of the audit

5. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in the Annual Audit Plan presented to the Audit and Risk Assurance Committee on 21 March 2014, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
6. As part of the requirement to provide full and fair disclosure of matters relating to our independence we can confirm that we have not undertaken non-audit related services. The 2013/14 agreed notional fee for the audit was disclosed in the Annual Audit Plan and as we did not require to carry out any additional work outwith our planned audit activity this fee remains unchanged.

Audit opinion and accounting issues

7. We have given an unqualified opinion that the financial statements of SHR for 2013/14 give a true and fair view of the state of the body's affairs and of its net expenditure for the year. The audit opinion was formally issued and signed on 27 August 2014.
8. We received the unaudited core financial statements and supporting notes on 19 May 2014 in accordance with the agreed timetable. The remuneration report, management commentary, governance statement and statement of accountable officer's responsibilities were provided in draft form by 29 May.
9. The working papers were of a high standard and the staff provided good support to the audit team. We completed our on-site fieldwork on 30 May 2014, with the majority of outstanding queries resolved by 6 June 2014.
10. SHR is required to follow the 2013/14 Government Financial Reporting Manual and we can confirm that the financial statements have been properly prepared in accordance with these accounting requirements.

Audit findings (ISA260)

11. During the course of the audit we identified the following issues regarding the appropriateness of accounting policies or accounting estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties:
 - As noted in our Annual Audit plan, a key accounting judgement was identifying the costs to be capitalised for the Business Intelligence project. Discussions to agree these costs were held with the SHR finance team prior to the accounts being prepared, resulting in staff costs of £22,138 relating to the Business Intelligence manger being added to the

capitalised cost. The early discussion of this issue ensured the appropriate accounting treatment was followed and minimised impact on the progress of the final accounts audit;

- Our audit identified a variety of trivial anomalies in the accounting records of fixed assets (e.g. on depreciation). Although insignificant in 2013/14, such anomalies are likely to have a greater effect in future years due to the substantial increase in asset balances due to the BIS project.

Action plan point 1

Financial position

2013/14 Outturn

12. The main financial objective for SHR is to ensure that the financial outturn for the year is within the resource budget allocated by Scottish Ministers.
13. SHR operated within the resource budgets for 2013/14 as detailed in Table 1 below which also shows the budget changes that occurred during the financial year.

Table 1: Annual Budget

| | Opening Budget | Revised Budget | Actual Outturn | Under / (Over) spend |
|--------------|----------------|----------------|----------------|----------------------|
| Resource DEL | £3.80m | £3.85m | £3.71m | £0.14m |

Source: SHR Annual Report and Accounts 2013/14; SHR budget monitoring reports

14. During the year the SHR Board was provided with regular budget monitoring reports which highlighted forecast year-end under-spends. The underspend was spread across non staff costs budget areas and was largely due to discretionary items of work not commenced in 2013/14.

2013/14 financial position

15. The Statement of Financial Position reports closing net assets balance of £489,000 (2012/13; net liabilities of £463,000). The increase in net assets is due to the recognition of assets of £1.14m related to the Business Intelligence System in the 2013/14 accounts.

Public reporting

16. One of Audit Scotland's current priorities is to consider transparency and completeness of financial reporting to board members and the public and to consider if management commentaries in financial statements are used to clearly explain the financial position.
17. In our 2012/13 annual audit report we commented that the management commentary in the financial statements contains a short paragraph comparing current-year spend to the budgeted amount and that expanding on this was difficult due to the lack of meaningful

comparative information following the change of SHR from agency to non ministerial department.

18. The 2013/14 accounts show improvements, with an informative description of the elements of the underspend against budget noted above along with full comparative information.

Financial planning

19. An initial illustrative 2014/15 budget report was submitted to the SHR Board in February 2014 for discussion and comment. A revised illustrative budget was then submitted to and approved at the April board, with the subsequent detailed budget approved at the June 14 board meeting.
20. In order to cover costs resulting from increased risks in the housing sector due to the current financial climate and related greater demands on the SHR and to build on work completed on the Scottish Social Housing Charter, SHR applied to the Scottish Government for additional funding for 2014/15 and 2015/16. Some of the requested additional funding was agreed by the Scottish Government in August 2014.
21. The effect of the agreed additional funding is to increase the overall resource budget for 2014/15 from £3.76m to £4.03m as compared to a budget of £3.85m in 2013/14 (as noted previously actual 2013/14 expenditure was £3.71m). The additional funding will be worked into SHR's detailed budget plans for 2014/15 as part of the mid year budget review process in September 2014.
22. The Scottish Government have confirmed that funding for the final stages of the Business Intelligence System will total £300,000 in 2014/15. As was the case in 2013/14, spending against this budget will be separately monitored and reported.

Corporate governance and systems of internal control

Overall governance arrangements

23. The Code of Audit Practice gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements. Overall we found SHR had good governance arrangements in place which included (in addition to the Board) an Audit and Risk Assurance Committee (ARAC) as well as a project board for the ongoing IT project to replace the current business intelligence systems. These arrangements are appropriate for a body such as SHR and recognise the key risk of implementing the IT system.
24. From March 2014 board member Wesley Mitchell joined the ARAC, taking the total number of non executive committee members on this committee to five.

Accounting and internal control systems

25. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial

systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit. In addition, as SHR makes use of some of the financial systems provided by the Scottish Government, we have also considered the opinion of their external auditors (also Audit Scotland).

26. No material weaknesses in the accounting and internal control systems were identified during the audit of SHR which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.
27. The audit of the Scottish Government's systems identified weaknesses in controls relating to the processing of changes to employee information in the payroll system. These weaknesses are mitigated at SHR by the close control exercised by finance staff over staff costs. Our audit testing of staff costs did not identify any errors not already known to, and investigated by, SHR staff.
28. The Scottish Government external audit team confirmed that the Scottish Government's Internal Audit Division complies with Public Sector Internal Audit Standards. Our local review of the Internal Audit team concluded that we were able to rely on their work on the implementation of the Business Intelligence System.

Service Level Agreements

29. The SHR framework agreement requires service level agreements (SLAs) to be in place with the Scottish Government for services SHR receives. As reported in previous years, these agreements have not been finalised with the Scottish Government despite various requests. We note that SHR have escalated this matter with the Scottish Government and there has been some progress, notably in the development of an SLA with Internal Audit. SLAs are still not in place in other areas.

Action plan point 2

Prevention and detection of fraud and irregularity

30. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In our opinion SHR's overall arrangements for the prevention of fraud are satisfactory, although it should be noted that no system can eliminate the risk of fraud entirely. We have been informed that there have been no frauds in relation to the SHR in 2013/14.

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

31. 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. Auditors consider whether bodies have adequate arrangements in place. No issues have been identified by us for inclusion in this report.

Best value

Best value

32. Achievement of best value or value for money depends on the existence of sound management arrangements for services, including procedures for planning, appraisal, authorisation and control. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily. 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 SHR agree to undertake local work in this area.
33. In 2012 SHR agreed to carry out a series of seven best value reviews over the three-year period of the 2012-2015 Corporate Plan. Reviews of Equalities and Use of Resources were concluded and reported to the ARAC in March 14 and September 13 respectively. Neither review identified significant weaknesses in SHR arrangements in these areas. These reviews have been developed locally by SHR with reference to the best value toolkits produced by Audit Scotland. We consider that this is a proportionate and appropriate approach.
34. The self-assessment reviews report SHR's position against a number of areas (with supporting evidence referred to) and highlighted improvement actions which had been identified including improving internal communication and recording and sharing lessons learned from regulatory engagement activities. This style of reporting allows for detailed analysis of the work undertaken and supports any recommended actions which flow from the review. Progress against an action plan resulting from the Use of Resources review was presented at the March 14 ARAC meeting.
35. Findings from self assessment reviews to be completed in relation to Sustainability and Performance Management and Improvement are to be presented to the September 2014 and March 2015 ARAC meetings respectively.

National report - Managing ICT Contracts: follow up

36. In August 2012 the Auditor General for Scotland published the report Managing ICT Contracts: an audit of three public sector programmes. This report highlighted significant weaknesses in the management of the three projects examined.
37. Per our Annual Audit Plan, Audit Scotland is carrying out a targeted follow-up of this report aiming to establish the extent to which other central government bodies have applied the lessons learned highlighted by the original report to their ICT contracts and arrangements was carried out in 2014. The SHR Business Intelligence (BI) project was identified for inclusion in the follow up work.

38. Our review of the management of the BI project drew on work already undertaken by internal audit and the Scottish Government's Programme and Project Management Centre of Expertise on the management of the project.
39. Our review found that the BI project has been well managed to date and that SHR had effectively mitigated against the specific risks to project success identified by the initial Managing ICT Contracts report:
- effective governance and risk management arrangements are in place and are being complied with
 - an established project management framework is being followed
 - robust performance management arrangements have been developed and appropriate progress reporting is taking place
 - where SHR identified that staff did not have the necessary skills and experience, external expertise was sought.
40. A gateway review focussing on organisation benefits will be carried out in late 2014.
41. The overall Audit Scotland report on the follow up work is due to be published in spring 2015.

Acknowledgements

42. We would like to express our thanks to the staff of SHR for their help and assistance during the audit of this year's financial statements which has enabled us to provide an audit report within the agreed timetable.

Appendix A: Action Plan

Key Risk Areas and Planned Management Action

| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|--------------|---------------|--|---|---|---------------|
| 1 | 11 | <p>Accounting for fixed assets</p> <p>Our audit identified a variety of trivial anomalies in the accounting records of fixed assets.</p> <p><i>Risk - Although insignificant in 2013/14, such anomalies are likely to have a greater effect in future years due to the substantial increase in asset balances due to the BIS project.</i></p> | SHR officers have agreed to review fixed assets records early in 2014/15 to ensure appropriate accounting of BIS assets. | Susan Campbell, Head of Planning and Performance | December 2014 |
| 2 | 29 | <p>Service Level Agreements with the Scottish Government</p> <p>As reported in previous years, service level agreements which determine precisely what services are provided and their cost have not yet been agreed with the Scottish Government in several areas.</p> <p><i>Risk - There may be an unforeseen increase in the cost of services provided by the Scottish Government which is not budgeted for by SHR or a lack of support in the absence of a service level agreement with limited recourse to resolve issues.</i></p> | SHR officers will continue to pursue the resolution of outstanding SLAs with the Scottish Government, escalating the matter as appropriate. | Iain Muirhead, Director of Strategy and Communications Susan Campbell, Head of Planning and Performance | December 2014 |