



**Scott-Moncrieff**  
business advisers and accountants

# Scottish Housing Regulator

2016/17 Annual Audit Report to the Board of the  
Scottish Housing Regulator and the Auditor  
General for Scotland

**September 2017**

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# Summary

## Financial statements

The Board approved the annual report and accounts for the year ended 31 March 2017 on 8 August 2017. We reported unqualified opinions in September on the financial statements, the regularity of transactions and on other prescribed matters. We also reported that there were no matters that we were required to report by exception.

## Wider scope

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

- Audit work to allow conclusions to be made on the appropriateness of the disclosures in the 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 are set out below:

## Governance statement

- We are satisfied that the Governance Statement complies with the Scottish Ministers' guidance and that the content is consistent with the financial statements.
- SHR has adequate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any material weaknesses or governance issues in SHR's accounting and internal control systems.
- The disclosures in the Governance Statement reflect internal audit's conclusion for 2016/17: *"After carefully considering all of the evidence, we have provided "substantial" assurance for 2016/17, which means in summary that controls were "robust and well managed"*.

- A £14,000 surplus was reported in 2016/17 against a revenue budget of £3.702 million (excluding non-cash depreciation costs).
- An error by the Scottish Government resulted in an overspend on non-cash costs of £328,000. This was resolved through accommodation of these costs within the wider Scottish Administration's budget.
- A balanced budget has been set for 2017/18. SHR has a revenue budget of £3.8 million for 2017/18, an increase in funding from 2016/17 of £98,000. SHR have also received non-cash cover of £217,000 for depreciation and amortisation of non-current assets.
- SHR's four year financial projections forecasts a deficit position from 2018/19.

## Financial sustainability

- Overall, SHR has effective arrangements in place for financial planning and monitoring.
- SHR has prepared medium term financial projections, covering a four year period. In developing the financial projections, scenario planning was applied. The Board has considered the financial projections at its Strategy Day.
- Over the next two years, Scottish Housing Regulator is undertaking a review of its Regulatory Framework. The review will challenge how SHR fulfils its regulatory functions within the context of ensuring longer-term financial sustainability.

## Conclusion

This report concludes our audit for 2016/17. We performed our audit in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK and Ireland) and Ethical Standards.

**Scott-Moncrieff**  
**September 2017**

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# Introduction

# Introduction

1. This report summarises our findings from our 2016/17 audit of the Scottish Housing Regulator (“SHR”).
2. We outlined the scope of our audit in our external audit plan, which we presented to the Audit and Risk Assurance committee in April 2017. The core elements of our audit work in 2016/17 have been:
  - an interim audit;
  - an audit of SHR’s 2016/17 annual report and accounts; and
  - consideration of SHR’s arrangements for securing financial sustainability.
3. SHR is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The weaknesses and 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 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.
4. We discussed and agreed the content of this report with the Director of Strategy and Communications. We would like to thank all management and staff for their co-operation and assistance during our audit.
5. This report contains an action plan with specific recommendations, responsible officers and dates for implementation. Senior management should assess these recommendations and consider their wider implications before deciding appropriate actions. We give each recommendation a grading to help SHR assess their significance and prioritise the actions required.
6. All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to SHR through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help SHR promote improved standards of governance, better management and decision making and more effective use of resources.
7. We welcome any comments you may have on the quality of our work and this report via: [www.surveymonkey.co.uk/r/S2SPZBX](http://www.surveymonkey.co.uk/r/S2SPZBX).
8. This report is addressed to both the Board and the Auditor General for Scotland and will be published on Audit Scotland’s website. [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

## Adding value through the audit

6. All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to SHR through our external audit work by being constructive and forward looking, by identifying areas of improvement and by

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# Financial statements

# Financial statements

## Introduction

9. SHR's financial statements are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources. We outline the respective responsibilities of SHR and the auditor in relation to the financial statements in Appendix 2.
10. In this section we summarise the issues arising from our audit of the 2016/17 financial statements.

## Overall conclusion

### Unqualified audit opinions

11. The financial statements for the year ended 31 March 2017 were approved by SHR on 8 August 2017. We have reported, within our independent auditor's report:
- an unqualified opinion on the financial statements;
  - an unqualified opinion on regularity; and
  - an unqualified opinion on other prescribed matters.
12. We are also satisfied there are no matters that we are required to report by exception.

### Administrative processes were in place

13. We received draft financial statements and supporting papers of a good standard, in line with our agreed audit timetable. However, we did not receive the remuneration report figures until after we had completed audit fieldwork. This was out with SHR's control and due to a delay in receiving required pension information from MyCSP. We received all other parts of the remuneration report in advance of the audit commencing. Our thanks go to all staff for their assistance.
14. Arrangements are in place to enable the annual report and accounts to be submitted to the Auditor General for Scotland prior to the 31 October 2017 deadline.

## Our assessment of risks of material misstatement

15. The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. We designed our audit procedures relating to these matters in the context of our audit of the annual report and accounts as a whole, and not express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described in exhibit 1 below.

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

### 1. Management override

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

*Extract from the 2016/17 External Audit Plan presented to ARAC*



16. We have not identified any indications of management override in the year. We have reviewed SHR's accounting records, obtained evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly. We have also reviewed the journal entries processed in the period and around the year-end.



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

### 2. Revenue recognition

Under ISA 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.

*Extract from the 2016/17 External Audit Plan 2016/17 presented to ARAC*



17. SHR does not undertake any income generating activities. Funding from Scottish Government is SHR's only source of income. We do not believe the risk of fraud in revenue recognition is applicable to the annual accounts and therefore rebutted this risk.

### Our application of materiality

18. 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 over both the amount and the nature of the misstatement.
19. Our initial assessment of materiality for the financial statements was £77,000 and it remained at this level throughout our audit. Our assessment of materiality equates to approximately 1.8% of 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.
20. We set a level of performance materiality for each area of work which is based on a risk assessment for the area. We have performed audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we performed a greater level of testing on the areas deemed to be of significant risk of material misstatement

Area risk assessment	Weighting	Performance materiality
High	45%	£35,000
Medium	55%	£42,000
Low	70%	£54,000

21. We agreed to report any misstatements identified through our audit that fall into one of the following categories:
- All material corrected misstatements;
  - Uncorrected misstatements over £4,000; and
  - Misstatements below £4,000 that we believe warrant reporting on qualitative grounds.

### Other matters identified during our audit

22. All members are required to complete a standard pro-forma to declare interests. The forms are updated by request of the member or through declarations made at Board meetings. During 2016/17, members were requested to review their declarations to ensure these were up to date. However, there is no documented procedure requiring members to complete an annual declaration of interest form. We have reported on this fully within Appendix 1.

**Action plan point 1**

## Audit differences

23. We are pleased to report that there were no material adjustments to the draft financial statements. We identified some minor disclosure and presentational adjustments that have been reflected in the final financial statements.
24. We identified one disclosure adjustment during our work that has not been adjusted for in the financial statements. This relates to a contingent liability in respect of a legal case. This disclosure adjustment is not considered material to the financial statements. Through discussion with the Director of Strategy and Communications, the decision was taken not to adjust the financial statements. This audit difference is included in the representation letter.

## Board representations

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

## An overview of the scope of our audit

26. We detailed the scope of our audit in our External Audit Plan. We presented the plan to the Audit and Risk Assurance committee in April 2017. Our 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.
27. 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.
28. At the planning stage we identified the significant risks that had the greatest effect on our audit. We then designed audit procedures to mitigate these risks. We base our standard audit approach on performing a review of the key accounting systems in place, substantive tests and detailed analytical review.
29. The audit team completed tailored audit procedures, including those designed to address significant risks. The audit manager and audit partner reviewed the results. In performing our work, we have applied the concept of materiality.

## Systems of internal control

30. SHR has adequate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any material weaknesses or governance issues in SHR's accounting and internal control systems.

## Internal audit

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

## Governance statement

32. We are satisfied that the Governance Statement complies with the Scottish Ministers' guidance and that the content is consistent with the financial statements.
33. The disclosures in the Governance Statement reflect internal audit's conclusion for 2016/17: *"After carefully considering all of the evidence, we have provided "substantial" assurance for 2016/17, which means in summary that controls were "robust and well managed".*

## Remuneration report

34. Our independent auditor's report confirms that the part of the Remuneration Report to be audited has been properly prepared.

## Performance report

35. We are satisfied that the Performance Report is consistent with the financial statements and has been prepared in line with Scottish Ministers' guidance.

## Regularity

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

## Follow up of prior year recommendations

37. As part of our audit, we have followed up on the recommendations raised by the previous external auditors in 2015/16. The table below indicates that one recommendation was raised and that has been implemented. Further detail

on this recommendation is included in the action plan at Appendix 1.

## Qualitative aspects of accounting practices and financial reporting

Number of recommendations raised in 2015/16	Complete
1	1

38. We have considered the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. Our findings are summarised below:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	We consider the accounting policies, which are disclosed in the financial statements, to be appropriate to SHR.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing of transactions or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	We consider the accounting estimates and judgements used by management in preparing the financial statements to be appropriate. The principal areas of estimates and judgements are asset depreciation rates and a provision for early retirements.
The potential effect on the financial statements of any uncertainties, including significant risks and related disclosures that are required.	We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the financial statements.
The extent to which the financial statements have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.	From the testing performed, we identified no significant unusual transactions in the period.
Apparent misstatements in the annual report or material inconsistencies with the financial statements.	The annual report contains no material misstatements or inconsistencies with the financial statements.
Any financial statements disclosures to bring to your attention.	There are no 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.
Disagreement over any accounting treatment or financial statements disclosure.	While some disclosure and presentational adjustments were made through the audit process, there was no material disagreement during the course of the audit over any accounting treatment or disclosure.

Qualitative aspect considered	Audit conclusion
Difficulties encountered in the audit.	There were no difficulties encountered during the audit. However, we did not receive the remuneration report figures until after we had completed audit fieldwork. This was out with SHR's control and due to a delay in receiving required pension information from MyCSP. We received all other parts of the remuneration report in advance of the audit commencing.

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# Financial sustainability

# Financial sustainability

39. 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

40. As outlined in our audit plan, we considered there to be a significant risk to the wider scope of our audit in relation to financial sustainability:

## Exhibit 2 – Our assessment of risk to the wider scope of audit in relation to financial sustainability

### Financial sustainability

Scottish Government allocated SHR a revenue allocation for 2016/17 of £3.7million, 10% lower than the 2015/16 allocation of £4.1million. This represents a significant challenge for the SHR to manage the decrease in funding. In December 2016, the 31 March 2017 position was forecast £69,398 overspend against budget. SHR have discussed the forecast overspend with Scottish Government and understand an additional budget allocation will be received in April 2017 to fund overspend against budget.

In December 2016, Scottish Government announced 2017/18 draft funding for SHR of £3.8million. Without longer-term funding allocations, it is challenging for SHR to undertake meaningful medium term financial planning.

*Extract from the 2016/17 External Audit Plan presented to ARAC*

### 2016/17 outturn position

41. 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.

	Target £'000	Actual £'000	Under/(over) spend £'000
Cash	3,702	3,688	14
Non-cash	0	328	(328)
<b>Total</b>	<b>3,702</b>	<b>4,016</b>	<b>(314)</b>

42. SHR reported a £14,000 surplus (excluding non-cash costs) against its resource budget and therefore met, in part, its financial objective for the year. The additional budget allocation from Scottish Government was not required.

43. SHR also incurred non-cash costs of £328,000 for depreciation and amortisation of non-current assets. The Scottish Government did not provide for this non-cash budget within the Budget (Scotland) Act 2016 (“the Act”) due to an error. Scottish Government have subsequently rectified this overspend through

accommodating the non-cash costs within the wider Scottish Administration’s budget.

44. SHR’s revenue budget is included as a specific budget line within Scottish Administration’s budget. The Act permits a breach in a specific line of the Scottish Administration’s budget, if the overall total is not breached. Therefore, we are satisfied that there is no qualification required to the regularity opinion.

### Budgetary control

45. SHR received a reduction in revenue budget of 10%, for 2016/17, from the previous financial

year. This budget reduction was a significant challenge to SHR as over 80% of SHR's expenditure relate to staff costs.

46. In December 2016, SHR forecast an overspend against budget (£69,398). This overspend reduced to £61,206 as at the end of January 2017. SHR discussed the forecast overspend with the Scottish Government. An additional

budget allocation was expected in April 2017 to fund any overspend against budget. This however was not required. SHR has reported a £14,000 surplus against its revenue budget of £3.702 million (excluding depreciation non-cash costs). The main movements against the forecast outturn as at 31 January 2017 are noted below:

	£	Commentary
<b>Forecast as at 31 January 2017</b>	<b>(61,206)</b>	
Employee benefits	45,544	Relates to the reduction in 'flexi time accrual'.
Legal costs	5,436	Reduction in legal advice required during 2016/17.
Capitalised IT equipment	9,692	IT equipment recognised as capital in year.
Accommodation costs	10,729	Reduction in rental charges - SHR is in the process of relocating. They are currently occupying office space at a reduced cost.
Office supplies	5,438	Decision to lease rather than buy a new printer.
Net movements on other budget lines	(1,631)	Individual movements all below £5,000.
<b>Outturn position</b>	<b>14,002</b>	

## Looking ahead

### 2017/18 budget

47. As funding from the Scottish Government is SHR's only source of income there is a greater degree of certainty over future funding streams than for some other public sector organisations who are involved in income generating activities. Therefore, the main focus for SHR is achieving a balanced financial plan to remain within their annual allocation.
48. SHR has a revenue budget of £3.8 million for 2017/18, an increase of £98,000 in comparison with 2016/17. SHR have also received a non-cash allocation of £217,000 for depreciation and amortisation of non-current assets.
49. SHR has set a balanced budget for 2017/18, including a 1% contingency for costs. Staff costs continue to be the most significant component of SHR's expenditure - 80% of

forecast expenditure relates to staff costs. The budget outlines assumptions made in relation to each significant line of budgeted expenditure.

50. SHR recognises that despite an increase in funding from Scottish Government, there are areas of uncertainty within the budget. Whilst the contingency included within the budget will help to reduce these financial risks, managing the 2017/18 budget will be challenging.

### Medium to long term financial planning

51. SHR has prepared medium term financial projections, covering a four-year period, including the baseline year 2017/18. The projections incorporate a number of assumptions over each significant line of budgeted expenditure. In preparing its medium term financial projections, SHR carried out scenario planning, considering the impact different levels of future funding will have on its

overall financial position. The Board has reviewed the financial projections at one of its Strategy Days. The financial projections are re-assessed following each spending review.

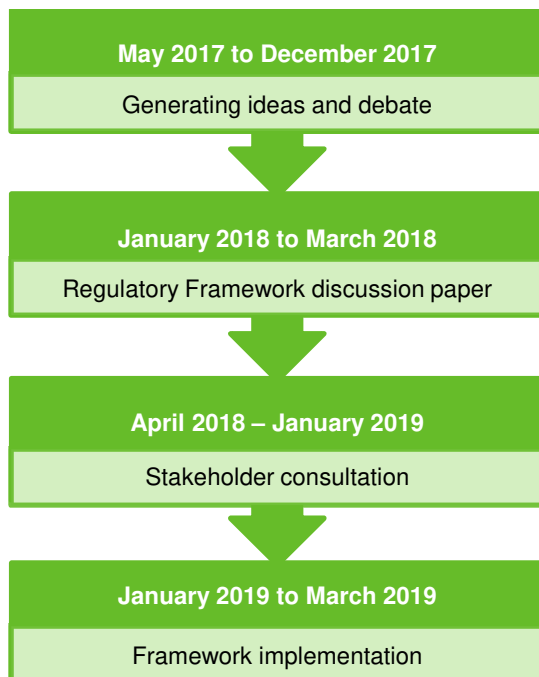
52. The financial projections are based on a flat cash budget allocation of £3.8million. The financial projections show that SHR is forecasting a deficit in each of the three years, from 2018/19.

### Regulatory framework review

53. The Regulatory Framework sets out how the SHR fulfils its statutory responsibilities. The Board met at a Strategy Day in January 2017 to discuss the future of the Regulatory Framework. The Board agreed that the review should challenge how SHR fulfils its regulatory functions within the context of ensuring longer-term financial sustainability.
54. In May 2017, the Board approved a programme to review SHR's Regulatory Framework. SHR is taking a holistic approach to the review, considering how to operate in the most effective and sustainable manner to fulfil its responsibilities. The approved programme has the following four phases:

55. SHR plans to adopt a flexible approach to the timescales within this programme to respond to potential changes in legislation and the 2018/19 budget settlement.
56. The review will look to the longer term: to ensure that funding follows key priorities and financial sustainability is achieved over the longer term. It is intended that the review will include:
- stakeholder engagement;
  - long-term financial planning (including scenario planning); and
  - workforce planning.

### Exhibit 3: Regulatory framework review programme



Source: Regulatory Framework Review Programme



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## Appendices

# Appendix 1: Action plan

Our action plan details the control weaknesses and opportunities for improvement that we have identified during our audit. The action plan details the officer responsible for implementing the recommendation and an implementation date. SHR should assess the recommendation for wider implications before approving the action plan.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work and may not be all that exist. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvement in management arrangements. Communication in this report 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.

### Action plan grading structure

To assist the Board in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated. The rating structure is summarised as follows:

<b>Grade 5</b>	Very high risk exposure – major concerns requiring Board attention
<b>Grade 4</b>	High risk exposure – material observations requiring senior management attention
<b>Grade 3</b>	Moderate risk exposure – significant observations requiring management attention
<b>Grade 2</b>	Limited risk exposure – minor observations requiring management attention
<b>Grade 1</b>	Efficiency / housekeeping point

## Recommendation from 2016/17

Action plan point	Issue & Recommendation	Management Comments
1. Annual Declaration of interests	<p><b>Observation</b></p> <p>The Code of Conduct for Members outlines responsibilities for members declaring interests. This guidance is available on the SHR's website.</p> <p>All members are required to complete a standard pro-forma to declare interests. These declarations are published on the SHR's website. The forms are updated by request of the member or through declarations made at Board meetings.</p> <p>During 2016/17, members were requested to review their declarations to ensure these were up to date. However, there is no documented procedure requiring members to complete an annual declaration of interest form.</p> <p><b>Recommendation</b></p> <p>Whilst there are appropriate arrangements in place to identify and declare member's interests, we recommend that members are required to complete an annual declaration of interests.</p>	<p>At the end of March each year we will ask for confirmation from our Board Members that their declarations are up to date. We will record this as part of our annual assurance process.</p> <p><b>Action owner:</b></p> <p>Head of Planning &amp; Performance</p> <p><b>Due Date:</b></p> <p>March 2018</p>
<b>Rating</b>		
Grade 2		
<b>Paragraph ref</b>		
22		

**Recommendation from 2015/16 (as reported by Audit Scotland)**

Issue & Recommendation	Management Comments	June 2017 update
<p>The new reporting layout under the 2015/16 FReM was not adopted for the annual report and accounts presented for audit.</p> <p><b>Recommendation</b></p> <p>For 2016/17 we recommend all staff and board members preparing different aspects of the annual report and accounts meet to understand the FReM requirements and that in particular that the key issues and risks and financial commentary are clearly shown in the performance report.</p>	<p>We will review the FReM requirements with all staff and board members involved in preparing the annual report and accounts.</p> <p>We will consider publishing a separate performance document to provide a more succinct report.</p> <p><b>Action owner:</b> Director of Strategy and Communications</p> <p><b>Due Date:</b> 31 December 2016</p>	<p><b>Management update:</b></p> <p>Our 2016/17 annual report and accounts meets FReM requirements. We have produced the overview section of the report in such a way as to enable it to be used as a standalone summary publication.</p> <p><b>Audit update:</b></p> <p>The 2016/17 annual report and financial statements meets the 2016/17 FReM requirements. We are satisfied that this recommendation is complete.</p>

# Appendix 2: Respective responsibilities of the Board and the Auditor

## Responsibility for the preparation of the annual report and accounts

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

- apply on a consistent basis the accounting policies and standards;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the 2016/17 FRm have not been followed where the effect of the departure is material;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that SHR will continue to operate; and
- ensure the regularity of expenditure and income.

Board members are also responsible for

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

## Auditor responsibilities

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

- the financial statements give a true and fair view in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers of the state of SHR's affairs as at 31 March 2017 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 FRm;
- have been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers;
- in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;
- the auditable part of the Remuneration and Staff Report has been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers;
- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

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

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

## Wider scope of audit

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

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

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

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

## Independence

We are required by International Standards on Auditing to communicate on a timely basis all facts and matters that may have a bearing on our independence. We can confirm that we have complied with the Financial Reporting Council's Ethical Standard. In our professional judgement the audit process has been independent and our objectivity has not been compromised. In particular, there have been no relationships between Scott-Moncrieff and SHR or senior management that may reasonably be thought to bear on our objectivity and independence.

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



**Scott-Moncrieff**  
business advisers and accountants