

Scottish Housing Regulator

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for Scottish Housing Regulator

14 March 2023

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of Scottish Housing Regulator. The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual report and accounts, and provision of an Independent Auditor's Report
- an audit opinion on regularity and other statutory information published within the annual report and accounts including the Performance Report, the Governance Statement and the Remuneration and Staff Report
- consideration of arrangements in relation to the financial sustainability wider scope in line with the Code of Audit Practice less complex bodies approach to wider dimensions.
- consideration of Best Value arrangements.

2. The [Code of Audit Practice](#) reflects a more limited audit of wider-scope areas for any public bodies that are less complex owing to their size and limited financial activity (referred to as Less Complex Bodies). [Code of Audit Practice: Supplementary Guidance](#) supports auditors in planning the audits of less complex bodies. Based on the size of the body, the limited financial activity of Scottish Housing Regulator, and the results of our risk assessment procedures to date, we have assessed Scottish Housing Regulator as a less complex body for the purposes of the Code and for planning our audit.

Audit Appointment

3. We are pleased to be appointed as the external auditor of Scottish Housing Regulator for the period 2022/23 to 2026/27 inclusive. You can find a brief biography of your audit team at Appendix 1.

4. In the first year of the audit appointment, we invest significant time gaining an understanding of your business and identifying and assessing the risks of material misstatement to the financial statements. While we use our initial assessment of risk to inform our planned audit approach, we keep our assessment of risks under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

5. The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

Adding value

6. We aim to add value to Scottish Housing Regulator through our external audit work by being constructive and forward looking by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we will help the Scottish Housing Regulator promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the Audit and Risk Assurance Committee and participate in discussions.

Respective responsibilities of the auditor and Scottish Housing Regulator

7. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and Scottish Housing Regulator. Key responsibilities are summarised below.

Auditor responsibilities

8. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

9. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the wider scope arrangements in place at the Scottish Housing Regulator. In doing this, we aim to support improvement and accountability.

Scottish Housing Regulator responsibilities

10. Scottish Housing Regulator is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

11. Scottish Housing Regulator has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to deliver their objectives.

Communication of fraud or suspected fraud

12. In line with the ISA (UK) 240 (The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements), in presenting this plan to the Audit and Risk Assurance Committee we seek confirmation from those charged with governance of any instances of actual, suspected or alleged fraud that should be brought to our attention. During our audit, should members of the Joint Board have any such knowledge or concerns relating to the risk of fraud within it, we invite them to communicate this to us for our consideration.

Financial statements audit planning

Introduction

13. The annual report and accounts are an essential part of demonstrating the Scottish Housing Regulator's stewardship of resources and its performance in the use of those resources.

14. We focus our work on the areas of highest risk. As part of our planning process, we prepare a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

15. Materiality is an expression of the relative significance of a matter in the context of the annual accounts. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to determine with reasonable confidence whether the annual accounts are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2022/23 audit

16. The materiality values for Scottish Housing Regulator are set out in [Exhibit 1](#).

Exhibit 1

2022/23 Materiality levels for Scottish Housing Regulator

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of the Scottish Housing Regulator operations. For the year ended 31 March 2023 we have set our materiality at 2% of gross expenditure based on the audited financial statements for 2021/22.	£0.088 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures should be considered. Using our	£0.062 million

professional judgement, we have assessed performance materiality at 70% of planning materiality.

Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£3 thousand
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Source: Audit Scotland

Significant risks of material misstatement to the financial statements

17. Our risk assessment draws on our cumulative knowledge of Scottish Housing Regulator, its major transaction streams, key systems of internal control and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

18. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

19. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2022/23 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> Assess the design and implementation of controls over journal entry processing including making inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. Test journals at the year-end and post-closing entries and focus on significant risk areas.

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>		<ul style="list-style-type: none"> • Consider the need to test journal entries and other adjustments during the period. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements. • We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments.
<p>2. Estimation in the valuation of intangible assets.</p> <p>There is a significant degree of subjectivity in the valuation of intangible assets. Valuations are based on specialist and management assumptions and changes in these can result in material changes to valuations.</p> <p>Scottish Housing Regulator hold their internally generated Business Information System as an intangible asset, with a net book value of £0.332m. This is measured at amortised replacement cost.</p>	<ul style="list-style-type: none"> • Detailed working papers retained to support asset reviews and impairments. • Annual impairment review undertaken. 	<ul style="list-style-type: none"> • Evaluate the basis for management's estimate to ensure it is reasonable and in line with the accounting framework • Review the appropriateness of the method and underlying assumptions used to carry out the valuation • Test the reconciliation between financial ledger and the asset register.

Source: Audit Scotland

20. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. As a Non-Ministerial Department body, Scottish Housing Regulator receive all of their funding from Scottish Government and do not undertake any income generating activities. We have rebutted this presumed risk in 2022/23 as funding received from the Scottish Government is clearly communicated and can be readily agreed to third party confirmation.

21. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have considered Scottish Housing Regulator's expenditure streams, and based on our knowledge of the body, prior year considerations and our risk assessment to date, we do not consider these to be susceptible to material misstatement due to fraud. We also consider there to be limited incentive and opportunity for the manipulation of expenditure recognition in the financial statements. We have therefore rebutted the risk of material misstatement due to fraud in expenditure recognition for 2022/23.

22. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Audit of the performance report, governance statement and remuneration and staff report

23. In addition to the appointed auditor's opinion of the financial statements, the appointed auditor is required to provide opinions as to whether the including the performance report, the governance statement and the remuneration and staff report have been compiled in accordance with the appropriate regulations and frameworks and are consistent with the accounts.

24. To inform these opinions we will consider whether the disclosures within each statement comply with the applicable guidance and confirm that relevant information reflects the contents of the accounts and other supporting documentation.

Wider Scope and Best Value

Introduction

25. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the wider scope areas in audited bodies. For Scottish Housing Regulator, we will limit our work to conclude on the appropriateness of the disclosures in the governance statement, the financial sustainability of the body and services it delivers and report on the arrangements for securing Best Value.

26. In summary, the four wider scope areas cover the following:

- **Financial management** means having sound budgetary processes. We will consider the arrangements to secure sound financial management including the strength of the financial management culture, accountability and arrangements to prevent and detect fraud, error and other irregularities.
- **Financial sustainability** – as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years).
- **Vision, leadership and governance** – we conclude on the arrangements in place to deliver the vision, strategy and priorities adopted by the Scottish Housing Regulator. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how the Scottish Housing Regulator demonstrates economy, efficiency and effectiveness through the use of financial and other resources.

Wider scope risks

27. We have identified a wider scope audit risk in the areas set out in [Exhibit 3](#). This exhibit sets out the risk, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risk.

Exhibit 3

2022/23 wider scope risks

Description of risk	Sources of assurance	Planned audit response
<p>1. Financial Sustainability</p> <p>Scottish Housing Regulator continue to face challenges to their financial sustainability due to uncertainty over future funding allocations as Scottish Government provide funding on an annual basis.</p> <p>In the short to medium term there will be continued financial uncertainties and pressures. There is a risk that detailed financial projections and analysis will not be available to support robust medium to long term financial planning decisions.</p>	<ul style="list-style-type: none"> • Regular monitoring and reporting to the Board on the financial position 	<ul style="list-style-type: none"> • Review of budget monitoring reports presented to the Audit and Risk Assurance Committee. • Discussions with management on financial plans and budgets.

Source: Audit Scotland

28. Our planned work on our wider scope responsibilities is risk based and proportionate and in addition to local risks we consider challenges which are impacting the public sector as a whole. In 2022/23 we will consider Scottish Housing Regulator's approach to tackling climate change and responding to cyber security threats.

Climate Change

29. Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change. The Auditor General and Accounts Commission are developing a programme of work on climate change.

30. In 2022/23, we will gather information on Scottish Housing Regulator's arrangements for responding to climate change covering areas such as the development of climate change strategies and the monitoring and reporting of progress against targets for reducing emissions.

Cyber Security

31. There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation. In 2022/23, we will consider Scottish Housing Regulator's arrangements for managing and mitigating cyber security risks.

National Fraud Initiative (NFI)

32. Scottish Housing Regulator participates in the NFI in Scotland. We will monitor its progress with investigating the matches identified by this exercise.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

33. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 4](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

34. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

35. We will provide an independent auditor's report to Scottish Housing Regulator, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will provide the Scottish Housing Regulator and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

36. [Exhibit 4](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 31 August 2023.

Exhibit 4 2020/21 Audit outputs

Audit Output	Target date	Audit and Risk Assurance Committee Date
Annual Audit Plan	31 March 2023	14 March 2023
Independent Auditor's Report	31 August 2023	13 June 2023
Annual Audit Report	31 August 2023	13 June 2023

Source: Audit Scotland

37. The annual report and accounts will be presented to the Board of the Scottish Housing Regulator on 29 August 2023.



Timetable

38. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 5](#) that has been discussed with management.

39. Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. We are identifying ways to work more efficiently to expedite the 2022/23 audits whilst at the same time maintaining high standards of quality.

40. We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 5 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	3 May 2023
Latest date for final clearance meeting with the Director of Finance (or equivalent)	30 May 2023
Issue of draft Letter of Representation and proposed Independent Auditor's Report	6 June 2023
Agreement of audited and unsigned annual report and accounts	13 June 2023
Issue of Annual Audit Report to those charged with governance.	22 August 2023
Signed Independent Auditor's Report	29 August 2023

Source: Audit Scotland

Audit fee

41. In determining the audit fee, we have taken account of the risk exposure of the Scottish Housing Regulator and the planned management assurances in place. The proposed audit fee for 2022/23 is £24,100 (2021/22: £24,010).

42. Our fees have increased in 2022/23 and this reflects current audit market and the rising costs in delivering high quality audit work. There are increased

regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover.

43. In setting the fee for 2022/23 we have assumed that the Scottish Housing Regulator has effective governance arrangements and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

44. It is the responsibility of the Scottish Housing Regulator to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

45. While we are not planning to place formal reliance on the work of internal audit in 2022/23, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Independence and objectivity

46. Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors.

47. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual '*fit and proper*' declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

48. The appointed auditor for Scottish Housing Regulator is Louisa Yule Senior Audit Manager. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Scottish Housing Regulator.

Audit Quality

49. Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value and can support public bodies to achieve their objectives.

50. Audit Scotland is committed to delivering high quality audits. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the [Code of Audit Practice](#) (and supplementary guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

51. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the engagement lead.

Appendix 1. Your audit team

52. The audit team involved in the audit of Scottish Housing Regulator have significant experience in public sector audit.

Louisa Yule CPFA
Senior Audit Manager
lyule@audit-scotland.gov.uk

Louisa is the engagement lead for the audit of Scottish Housing Regulator and will sign the independent auditor's report on the annual report and accounts. Louisa has 18 years of auditing experience and has delivered external audit services to a range of organisations across all areas of the Scottish public sector.

Sanya Ahmed
Senior Auditor
sahmed@audit-scotland.gov.uk

Sanya has considerable experience in planning and delivering audits. Sanya will lead and be responsible for day-to-day management of the audit and will be your primary contact.

53. The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

Scottish Housing Regulator

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Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

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