



**Scott-Moncrieff**  
business advisers and accountants

Michael Cameron  
Scottish Housing Regulator  
Buchanan House  
58 Port Dundas Road  
Glasgow  
G4 0HF

26 February 2018

Our Ref: NBB/DXE/NXM

Dear Michael,

Auditors are required to carry out the audit of financial statements in accordance with International Standards on Auditing (UK) (ISAs (UK)). To comply with the requirements of the ISAs (UK), during our audit we consider the Regulator's key accounting systems and internal financial controls and determine whether these are adequate to prevent material misstatements in the financial statements.

Our approach includes documenting the processes and key internal financial controls within the key financial systems and performing walkthrough testing to confirm our understanding of those systems.

We are pleased to report that our audit work did not identify any significant deficiencies in the adequacy or design of internal financial controls over the Regulator's key financial systems. We consider these systems to be well designed. In addition, we followed up on outstanding recommendations from the prior year. Further work is required to fully address these and our findings are included as an appendix to the letter.

The Regulator is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. Any weaknesses or risks identified are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this letter of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve the Regulator of its responsibility to address the issues raised and to maintain an adequate system of control.

We would like to thank all members of the Regulator's management and staff who have been involved in our work for their co-operation and assistance.

Yours sincerely

**Nick Bennett**  
**Partner**

[nick.bennett@scott-moncrieff.com](mailto:nick.bennett@scott-moncrieff.com)

Exchange Place 3  
Semple Street  
Edinburgh EH3 8BL

T +44 (0)131 473 3500  
F +44 (0)131 473 3535  
DX ED 217

25 Bothwell Street  
Glasgow  
G2 6NL

T +44 (0)141 567 4500  
F +44 (0) 141 567 4535  
DX GW 209

10 Ardross Street  
Inverness  
IV3 5NS

T +44 (0)1463 701940  
F +44 (0)1463 232205

Managing Partner: Stewart MacDonald  
Partners: Nick Bennett, David Boyd,  
Chris Brown, Mhairi Callander, Scott Craig,  
Gary Devlin, Gillian Donald, Allison Gibson,  
Mike Harkness, Bernadette Higgins,  
Gareth Magee,  
Fraser Nicol, Paul Renz,  
Marc Shenken, Wemyss Stewart,  
Morag Watson.



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## Appendix 1 – Management Action Plan

This action plan details the key weaknesses and opportunities for improvement that we have identified during our audit. To assist management in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated.

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

Grade	Definition
5	Very high risk exposure - Major concerns requiring immediate attention
4	High risk exposure - Absence / failure of significant key controls
3	Moderate risk exposure - Not all key control procedures are working effectively
2	Limited risk exposure - Minor control procedures are not in place / not working effectively
1	Efficiency / housekeeping point

**Outstanding recommendations from previous audit reports**

Title	Issue identified & Recommendation	Management Comments	External audit update 2017/18
1. Finance guidance	<p><b>Issue identified</b></p> <p>Finance guidance is in place and made available to officers. However our audit work identified the following financial processes, which are carried out in practice by officers that not included within the guidance:</p> <ul style="list-style-type: none"> <li>• Amendments to payroll, new starts and leavers;</li> <li>• Non-current asset additions, disposals and verification;</li> <li>• Nominal ledger processes and controls in relation to opening balances, control accounts and reconciliations.</li> </ul> <p>Clear policies and procedures are key to supporting business continuity and ensuring controls are implemented and processes are completed efficiently.</p> <p><b>Recommendation</b></p> <p>Finance guidance should be updated to cover all SHR activity, highlighting key processes and controls to be implemented. Procedures should cover all requirements of the Scottish Public Finance Manual and be subject to formal approval and regular review.</p>	<p><b>Response:</b></p> <p>We will update our finance guidance to include the processes that have been identified. This will go to the Management Team for approval and we will agree a timetable for future review.</p> <p><b>Completion date:</b></p> <p>August 2017</p>	<p>We confirmed that the finance guidance has been updated in 2017/18 to provide further detail on payroll process and capital accounting.</p> <p>However, there is still scope to provide further guidance on nominal ledger processes and controls in relation to reconciliations, control accounts and the controls performed by Scottish Government Shared Services.</p>
Grade: 2			

Title	Issue identified & Recommendation	Management Comments	External audit update 2017/18
<p><b>2. Scheme of delegated authority</b></p>	<p><b>Issue identified</b></p> <p>A Scheme of Delegation is in place and made available to officers. Our audit work confirmed officers were operating in accordance with the Scheme.</p>	<p><b>Response:</b></p> <p>We will review our Scheme of Financial Delegation, submit it to the Management Team for approval and agree a timetable for future review. Our Head of Planning &amp; Performance will carry out an annual formal review of EASEBuy user access rights.</p>	<p>We confirmed that the Scheme of Financial Delegation has been updated within 2017/18.</p>
<p><b>Grade: 2</b></p>	<p>The Scheme was reviewed by Executive Management Team in 2015; however the email trail confirming approval of the reviewed scheme has not been retained.</p> <p>Expenditure is authorised in line with the Scheme of Delegation prior to it being raised within EASEBuy; therefore, user access does not need to comply with the scheme. Instead, a small number of users have been set up to either requisition or approve expenditure on receipt of appropriate documentation. There is regular oversight and review over activity within EASEBuy. We deem this to be appropriate.</p> <p>We noted that there is no periodic review of current user access rights to EASEBuy to confirm their access and role is still appropriate as per best practice.</p> <p><b>Recommendation</b></p> <p>Management should regularly review and approve the Scheme of Delegation. User access rights to EASEBuy should also be reviewed at least annually, in line with best practice, to ensure access rights remain appropriate for their current role. Evidence of these reviews should be retained.</p>	<p><b>Completion date:</b></p> <p>August 2017</p>	<p>The annual review of EASEBuy user access rights has been built into the annual accounts preparation and so had not been completed at the time of our interim audit. We will follow up on this during our final audit visit in May and report on our findings in the Annual Report on the Audit.</p>

Title	Issue identified & Recommendation	Management Comments	External audit update 2017/18
<p><b>3. Annual declaration of interests</b></p>	<p><b>Issue identified</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. 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><b>Response:</b></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>Completion date:</b></p> <p>March 2018</p>	<p>Not yet due for completion. This will be tested during our final audit visit in May and reported on within our Annual Report on the Audit.</p>
<p><b>Grade: 1</b></p>			