

Scottish Housing Regulator

Annual Audit Plan 2023/24



 AUDIT SCOTLAND

Prepared for Scottish Housing Regulator

12 March 2024

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2023/24 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. I, Louisa Yule, have been appointed by the Auditor General for Scotland as external auditor of Scottish Housing Regulator for the period from 2022/23 until 2026/27. The 2023/24 financial year is therefore the second of my five-year audit appointment. A brief biography of the audit team is provided at [Appendix 1](#)

Adding value

4. 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

5. 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

6. 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.

7. 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

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

9. 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

10. 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 Audit and Risk Assurance Committee 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

11. 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.

12. 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

13. 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 2023/24 audit

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

Exhibit 1

2023/24 Materiality levels for Scottish Housing Regulator

Materiality	Amount
<p>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 2024 we have set our materiality at 2% of gross expenditure based on the audited financial statements for 2022/23.</p>	£0.098 million
<p>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</p>	£0.074 million

professional judgement, we have assessed performance materiality at 75% 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.	£5 thousand
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Source: Audit Scotland

Significant risks of material misstatement to the financial statements

15. 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.

16. 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.

17. 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

2023/24 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
1. Risk of material misstatement due to fraud caused by management override of controls	Owing to the nature of this risk, assurances from management are not applicable in this instance	<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>As stated in International Standard on 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.

Source: Audit Scotland

18. 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 2023/24 as funding received from the Scottish Government is clearly communicated and can be readily agreed to third party confirmation.

19. 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 2023/24.

20. 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

21. 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.

22. 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

23. 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.

24. 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

25. 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

2023/24 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

26. 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.

Duty of Best Value

27. [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within the Scottish Housing Regulator.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

28. 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.

29. 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.

30. 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.

31. [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 2024.

Exhibit 4 2020/21 Audit outputs

Audit Output	Target date	Audit and Risk Assurance Committee Date
Annual Audit Plan	31 March 2024	12 March 2024
Independent Auditor's Report	31 August 2024	11 June 2024
Annual Audit Report	31 August 2024	11 June 2024

Source: Audit Scotland



32. The annual report and accounts will be presented to the Board of the Scottish Housing Regulator on 20 August 2024.

Timetable

33. 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.

34. 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.	22 April 2024
Latest date for final clearance meeting with the Director of Finance (or equivalent)	24 May 2024
Issue of draft Letter of Representation and proposed Independent Auditor's Report	28 May 2024
Agreement of audited and unsigned annual report and accounts	4 June 2024
Issue of Annual Audit Report to those charged with governance.	11 June 2024
Signed Independent Auditor's Report	20 August 2024

Source: Audit Scotland

Audit fee

35. In setting the fee for 2023/24 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. The audit fee for 2023/24 is £25,530 (2022/23: £24,100).

Other matters

Internal audit

36. 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.

37. While we are not planning to place formal reliance on the work of internal audit in 2023/24, 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

38. 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.

39. 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.

40. 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

41. 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.

42. 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.

43. 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.

The Audit Team

44. Key contacts in the audit team are:

- Louisa Yule CPFA, Senior Audit Manager
- Sanya Ahmed CA, Senior Auditor

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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