



# Scottish Housing Regulator

2021/22 Annual Audit Report to the Board and the Auditor General for Scotland

August 2022



# Table of Contents

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Key messages	3
Introduction	7
Financial statements audit	10
Wider scope	22
Appendices	31

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# Key messages

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This report concludes our audit of the Scottish Housing Regulator for 2021/22.

This section summarises the key findings and conclusions from our audit.

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## Financial statements audit

<b>Audit opinion</b>	<p>Our independent auditor’s report includes:</p> <ul style="list-style-type: none"><li>• An unqualified opinion on the financial statements;</li><li>• An unqualified opinion on regularity; and</li><li>• An unqualified opinion on other prescribed matters.</li></ul> <p>We are also satisfied that there were no matters which we are required to report by exception.</p>
<b>Key findings on audit risks and other matters</b>	<p>Our key findings are included in the financial statements audit section of this report.</p> <p>The COVID-19 pandemic has had a significant and profound impact on every aspect of Scottish society, with public sector bodies adapting to find different ways of delivering services. There is now a focus on assessing these new ways of working and determining the most sustainable, resilient and effective method of service delivery in a post COVID-19 environment. In response to the pandemic we identified potential areas of increased risk of material misstatement to the financial statements and our audit opinion. We are pleased to report those risks identified did not materialise.</p> <p>SHR had appropriate administrative processes in place to prepare the annual report and accounts and the required supporting working papers</p>
<b>Audit adjustments</b>	<p>We are required to communicate all potential adjustments, other than those considered to be clearly trivial. We are pleased to report that there were no material adjustments to the financial statements and one unadjusted differences identified.</p> <p>We identified some disclosure and presentational adjustments during our audit. These have been reflected in the final set of financial statements.</p>
<b>Accounting systems and internal controls</b>	<p>We have applied our risk based methodology to your audit. This approach requires us to document, evaluate and assess the SHR’s processes and internal controls relating to the financial reporting process.</p> <p>Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we have included these in this report. No material weaknesses or significant deficiencies were noted.</p>

## Wider scope audit

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 and key observations are set out below:



### **Governance Statement**

We are satisfied that the governance statement complies with Scottish Ministers' guidance and that the content is consistent with the financial statements.

SHR has appropriate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any significant weaknesses or governance issues in SHR's accounting and internal control systems throughout the period or as a result of remote working during the COVID-19 pandemic.

However, at the time of writing we note that Scottish Government Assurances for Corporate Services and Audit Scotland's conclusions on shared services and functions are outstanding. We will continue to liaise with management to ensure the governance statement is appropriately updated to reflect the conclusions arising from these sources of assurance.

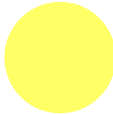
SHR has appropriate arrangements in place for short and medium term financial planning and has approved balanced revenue and capital budgets for 2022/23. Staff costs continue to be an area of pressure, with SHR applying a vacancy rate of 5% to achieve a balanced budget for 2022/23. High level projections of future funding requirements have been prepared up to 2024/25 which recognise an average annual funding increase of £135,000 to reflect potential staff pay uplifts. High level scenario planning has been considered but as the Scottish Government only provides funding on an annual basis, SHR are unable to undertake any further analysis to potential future funding gaps. On 31 May 2022, the Scottish Government announced its Resource Spending Review which provides high level spending plans to 2026/27. Management intend to use this going forward to inform medium and long term financial and operational planning.




**Financial Sustainability**

With staff costs accounting for 83% of budgeted expenditure in 2022/23 robust workforce planning is key to supporting the delivery of operational objectives in a financially sustainable manner. Management continue to monitor staffing requirements in the short term but recognise that a more strategic approach to workforce planning is needed.

We continue to recommend that a workforce strategy is developed as an area of priority, to support the management and mitigation of risks arising within the workforce. This includes delays in recruitment, the age profile of the workforce, succession risks and the potential of increased operational expectations that cannot be met from the existing workforce.

<b>Auditor judgement</b>	No major weaknesses in arrangements but scope for improvement exists
	Pace and depth of improvement are adequate
	Risks exist to achievement of operational objectives

# Introduction

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We carried out our audit in accordance with Audit Scotland's Code of Audit Practice (2016) and maintained auditor independence

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## Scope

1. We outlined the scope of our audit in our External Audit Plan, which we presented to the Audit and Risk Assurance Committee (ARAC) at the outset of our audit. The core elements of our work include:
  - an audit of the 2021/22 annual report and accounts and related matters;
  - consideration of the wider dimensions of public audit work, as set out in Exhibit 1; and
  - any other work requested by Audit Scotland.

### Exhibit 1: Audit dimensions within the Code of Audit Practice (2016)



## Responsibilities

2. SHR is responsible for preparing an annual report and accounts which show a true and fair view and for implementing appropriate internal control systems. The weaknesses or 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 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.
3. We do not accept any responsibility for any loss occasioned to any third party acting on, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.
4. We would like to thank all management and staff for their co-operation and assistance during our audit.



## Auditor independence

5. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
6. We confirm that we complied with the Financial Reporting Council's (FRC) Ethical Standard. In our professional judgement, we remained independent and our objectivity has not been compromised in any way.
7. We set out in Appendix 1 our assessment and confirmation of independence.

## Openness and transparency

10. This report will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

## Adding value through the audit

8. All of our clients 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.

## Feedback

9. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to any member of your audit team.

# Financial statements audit

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SHR's annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

Our independent auditor's report includes:

- An unqualified opinion on the financial statements;
- An unqualified opinion on regularity; and
- An unqualified opinion on other prescribed matters.

We are also satisfied that there were no matters which we are required to report by exception.

## Overall conclusion

11. The annual report and accounts were considered by the Audit and Risk Assurance Committee on 21 June 2022 and approved by the Board on 23 August 2022. We issue unqualified opinions in our independent auditor’s report.
12. We received the unaudited annual report and accounts and supporting papers of a high standard, in line with our agreed audit timetable. Our thanks go to staff at SHR for their assistance with our work.
13. The annual report and accounts were submitted to the Scottish Government and Auditor General for Scotland by the 31 August 2022 deadline.

## Our audit opinion

Opinion	Basis for opinion	Conclusions
Financial statements	<p>We conduct our audit in accordance with applicable law and International Standards on Auditing as required by the Code of Audit Practice.</p> <p>Our findings / conclusion to inform our opinion are set out in this section of our annual report.</p>	<p>We issue an unqualified audit opinion on the 2021/22 financial statements.</p>
Going concern basis of accounting	<p>In the public sector when assessing whether the going concern basis of accounting is appropriate, the anticipated provision of the services is more relevant to the assessment than the continued existence of a particular public body.</p> <p>We assess whether there are plans to discontinue or privatise SHR’s functions.</p> <p>Our wider scope audit work considers the financial sustainability of SHR.</p>	<p>We reviewed the financial forecasts for 2022/23. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that SHR will continue to operate for at least 12 months from the signing date.</p> <p>Our audit opinion is unqualified in this respect.</p>

Opinion	Basis for opinion	Conclusions
<p>Regularity</p>	<p>We plan and perform our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts.</p>	<p>We did not identify any instances of irregular activity.</p> <p>In our opinion in all material respects the expenditure in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.</p>
<p>Matters prescribed by the Auditor General for Scotland:</p> <ul style="list-style-type: none"> <li>• Remuneration and Staff Report</li> <li>• Performance Report</li> <li>• Governance Statement</li> </ul>	<p>We read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.</p> <p>We plan and perform audit procedures to gain assurance that the statutory other information has been prepared in accordance with directions from Scottish Ministers.</p>	<p>The annual report contains no material misstatements or inconsistencies with the financial statements.</p> <p>We have concluded that:</p> <ul style="list-style-type: none"> <li>• the audited part of the remuneration and staff report has been prepared in accordance with directions from Scottish Ministers.</li> <li>• the information given in the performance report has been prepared in accordance with directions from Scottish Ministers and is consistent with the financial statements.</li> <li>• the information given in the Governance Statement has been prepared in accordance with directions from Scottish Ministers and is consistent with the financial statements.</li> </ul>

Matters reported by exception	<p>We are required to report on whether:</p> <ul style="list-style-type: none"> <li>adequate accounting records have not been kept; or</li> <li>the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or</li> <li>we have not received all the information and explanations we require for our audit.</li> </ul>	We have no matters to report.
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## An overview of the scope of our audit

- The scope of our audit was detailed in our External Audit Plan, which was presented to ARAC in March 2022. The 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. 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.
- At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.
- In our audit, we test and examine information using sampling and other audit techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain evidence through performing a review of the

significant accounting systems, substantive procedures and detailed analytical procedures.

## Significant risk areas

- Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, we consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.
- The significant risk areas described in the table 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. Our audit procedures relating to these matters were designed in the context of our audit of the annual report and accounts as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual report and accounts is not modified with respect to any of the risks described below.

## Significant risk areas

### 1. Management override

#### Significant risk description

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 financial statements. This is treated as a presumed risk area in accordance with ISA (UK) 240 - The auditor's responsibilities relating to fraud in an audit of financial statements.

#### How the scope of our audit responded to the significant risk

##### Key judgement

There is the potential for management to use their judgement to influence the financial statements as well as the potential to override SHR's controls for specific transactions.

##### Audit procedures

- Review of SHR's accounting records and audit testing on transactions.
- Adoption of data analytics techniques in carrying out testing.
- Review of judgements and assumptions made in determining accounting estimates as set out in the financial statements to determine whether they are indicative of potential bias. This included a retrospective review of the prior year estimates against the current year estimates.

#### Key observations

We have not identified any indication of management override in the year. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

## 2. Revenue recognition

### Significant risk description

Under ISA (UK) 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.

### How the scope of our audit responded to the significant risk

#### Key judgements

Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of income around the year end. However, we do not deem this risk to be present for funding received from Scottish Government due to a lack of incentive and opportunity to manipulate transactions.

#### Audit procedures

- As SHR does not undertake any income generating activity and funding from the Scottish Government is their only source of income, no further audit procedures deemed necessary.

### Key observations

We confirmed that SHR did not receive income from any sources other than funding for Scottish Government. We revisited our conclusion to rebut the risk of revenue recognition throughout the audit and our conclusion remained the same.

### 3. Expenditure recognition

#### Significant risk description

As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.

#### How the scope of our audit responded to the significant risk

##### Key judgements

Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of accruals around the year end.

##### Audit procedures

- Evaluate the significant non-pay expenditure streams and review the controls in place over accounting for expenditure. (Payroll is subject to separate tailored testing).
- Consideration of SHR's key areas of expenditure and obtain evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.
- Review of accruals around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimates.

#### Key observations

We gained reasonable assurance over the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the financial statements.



#### 4. Intangible asset valuation (significant accounting estimate)

##### Significant risk description

SHR recognises their internally generated Business Intelligence System as an intangible asset, with a net book value of £332,000 as at 31 March 2021. In accordance with the Government Financial Reporting Manual (“FRM”), this is held at amortised replacement cost.

There is a significant degree of subjectivity in the measurement and valuation of intangible assets. This subjectivity represents an increased risk of misstatement in the financial statements.

##### How the scope of our audit responded to the significant risk

##### Key judgements

Under the revaluation model, entities are required to revalue intangible assets with sufficient regularity to ensure that the carrying amount does not differ materially from the current value at 31 March. SHR review the valuation of the Business Intelligence System on an annual basis to ensure this remains appropriate.

##### Audit procedures

- Consider the basis for management’s estimate to ensure this is reasonable and in line with the accounting framework.
- Consider the key assumptions used by management against other sources of evidence for reasonableness.

##### Key observations

We have not identified any indication that the valuation of intangible assets is materially misstated as at 31 March 2022.

Whilst we are satisfied that the useful life applied to the Business Intelligence System does not result in a material misstatement of the asset value, we recommend that management review the accounting policy in 2022/23 to ensure this continues to reflect operational plans for the asset.

*Action Plan Point 1*

## Estimates and judgements

19. We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.
20. As part of the planning and fieldwork stages of the audit we identified all accounting estimates made by management and determined which of those are key to the overall financial statements. Consideration was given to asset valuations, impairment, depreciation and amortisation rates, provisions for legal obligations, and accruals. Other than intangible asset valuation, we have not determined the accounting estimates to be significant. We revisited our assessment during the completion stages of our audit and concluded that our assessment remained appropriate.
21. Our audit work consisted of reviewing these key areas for any indication of bias and assessing whether the judgements used by management are reasonable. We have summarised our assessment of this below, categorised between Prudent, Balanced and Optimistic.

### Estimates and judgements

#### Intangible asset valuation

Balanced

Management consider the valuation of intangible assets on an annual basis. We considered key assumptions against other sources of evidence and did not identify any indication that the valuation was materially misstated as at 31 March 2022.

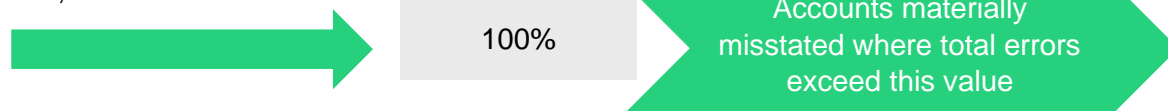
## Materiality

22. 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 and is affected by our assessment of the risk profile of the organisation and the needs of users. We review our assessment of materiality throughout the audit.
23. Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report to SHR and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.
24. Our initial assessment of materiality for SHR's financial statements was £80,000. On receipt of the unaudited annual accounts, we reassessed materiality and concluded that our initial assessment remained appropriate. We consider that our assessment has remained appropriate throughout our audit.

## Materiality

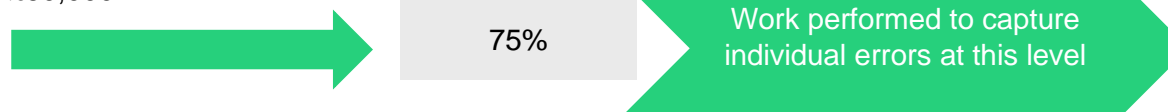
### Overall materiality

£80,000



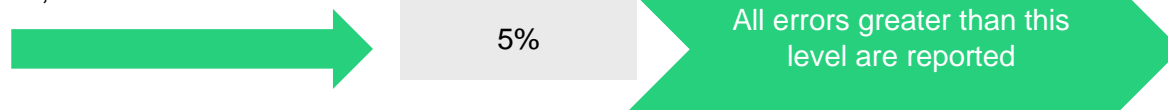
### Performance materiality

£60,000



### Trivial threshold

£4,000



### Materiality

Our assessment is made with reference to 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.

Our assessment of materiality equates to approximately 1.8% of SHR's net operating expenditure as disclosed in the 2021/22 unaudited annual accounts.

In performing our audit we do apply a lower level of materiality to the audit of the Remuneration and Staff Report. Our materiality is set at £5,000.

### Performance materiality

Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.

Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.

### Trivial misstatements

'Clearly trivial' are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

## Audit differences

- 25. We are pleased to report that there were no material adjustments to the financial statements.
- 26. We identified one unadjusted difference in relation to the classification of accruals and trade payables. This is detailed in Appendix 2 along with the disclosure and presentational adjustments we identified during our audit

## Internal controls

- 27. As part of our work we considered internal controls relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to SHR. These matters are limited to those which we have concluded are of sufficient importance to merit being reported.

Area	Assessment	Comment
Control and process environment	Satisfactory	We consider the control environment within the entity to be satisfactory.
Quality of supporting schedules	Satisfactory	The supporting schedules received during the course of the fieldwork were sufficient for our audit purposes.
Responses to audit queries	Satisfactory	Management's responses to our audit queries were appropriate and received on a timely basis.

## Follow up of prior year recommendations

- 28. As part of our audit we have followed up on the outstanding audit recommendation from prior years and concluded that this remains work in progress. Detail on this recommendation is included in the action plan at Appendix 4.

Audit Scotland, the appointed auditor to the Scottish Government, shares with us their findings on work carried out on those systems.

- 30. At the time of writing, this work is still ongoing and Audit Scotland are yet to conclude on the shared systems and functions.

## Shared systems and functions

- 29. SHR uses Scottish Government payroll services and accounting systems (SEAS). On an annual basis,

## Other communications

### Accounting policies, presentation and disclosures

- 31. Our work included a review of the adequacy of disclosures in the financial statements and consideration

of the appropriateness of the accounting policies adopted by SHR.

32. The accounting policies, which are disclosed in the annual accounts, are in line with the FReM and are considered appropriate. We have raised an action plan point at Appendix 3 to ensure the estimated useful life of assets are reviewed in 2022/23, however we are satisfied that the accounting policies applied in 2021/22 do not result in material misstatement of the annual accounts.
33. There are no significant 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.
34. Overall we found the disclosed accounting policies, and the overall disclosures and presentation to be appropriate.

### Fraud and suspected fraud

35. We have previously discussed the risk of fraud with management. We have not been made aware of any incidents in the period nor have any incidents come to our attention as a result of our audit testing.
36. Our work as auditor is not intended to identify any instances of fraud of a non-material nature and should not be relied upon for this purpose.

### Non-compliance with laws and regulations

37. As part of our standard audit testing, we have reviewed the laws and regulations impacting SHR. There are no indications from this work of any significant incidences of non-compliance or material breaches of

laws and regulations that would necessitate a provision or contingent liability.

### Written representations

38. We will present the final letter of representation to the Chief Executive to sign at the same time as the financial statements are approved.

### Related parties

39. We are not aware of any related party transactions which have not been disclosed.

### Confirmations from third parties

40. All requested third party confirmations in respect of bank and legal confirmations have been received.

## Wider scope

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Following consideration of the size, nature and risks of SHR, the application of the full wider scope audit is judged by us not to be appropriate. Our annual audit work on the wider scope has therefore been 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.
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## Wider scope conclusions

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### **Governance Statement**

We are satisfied that the governance statement complies with Scottish Ministers' guidance and that the content is consistent with the financial statements.

SHR has appropriate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any significant weaknesses or governance issues in SHR's accounting and internal control systems throughout the period or as a result of remote working during the COVID-19 pandemic.

However, at the time of writing we note that Scottish Government Assurances for Corporate Services and Audit Scotland's conclusions on shared services and functions are outstanding. We will continue to liaise with management to ensure the governance statement is appropriately updated to reflect the conclusions arising from these sources of assurance.

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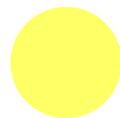
**Financial Sustainability**

SHR has appropriate arrangements in place for short and medium term financial planning and has approved balanced revenue and capital budgets for 2022/23. Staff costs continue to be an area of pressure, with SHR applying a vacancy rate of 5% to achieve a balanced budget for 2022/23. High level projections of future funding requirements have been prepared up to 2024/25 which recognise an average annual funding increase of £135,000 to reflect potential staff pay uplifts. High level scenario planning has been considered but as the Scottish Government only provides funding on an annual basis, SHR are unable to undertake any further analysis to potential future funding gaps. On 31 May 2022, the Scottish Government announced its Resource Spending Review which provides high level spending plans to 2026/27. Management intend to use this going forward to inform medium and long term financial and operational planning.

With staff costs accounting for 83% of budgeted expenditure in 2022/23 robust workforce planning is key to supporting the delivery of operational objectives in a financially sustainable manner. Management continue to monitor staffing requirements in the short term but recognise that a more strategic approach to workforce planning is needed.

We continue to recommend that a workforce strategy is developed as an area of priority, to support the management and mitigation of risks arising within the workforce. This includes delays in recruitment, the age profile of the workforce, succession risks and the potential of increased operational expectations that cannot be met from the existing workforce.

**Auditor judgement**



No major weaknesses in arrangements but scope for improvement exists

Pace and depth of improvement are adequate

Risks exist to achievement of operational objectives



## Our approach to the wider scope audit

- 41. Our approach to the wider scope audit (as set out in our 2021/22 External Audit Plan) builds on our understanding of SHR which we developed from previous years, along with discussions with management and review of minutes and key strategy documents.
- 42. During our audit we also considered the arrangements in place relating to the best value theme of fairness and equality.
- 43. Overall we concluded that SHR has appropriate arrangements in place in respect of these areas as noted below

### Fairness and equality

Accountable officers have a specific responsibility to ensure that arrangements are in place to secure best value in public services. This includes arrangements relating to the best value theme of fairness and equality.

SHR published an equalities statement in December 2019 that outlines their commitment to promoting equality and human rights throughout their regulation work and within the organisation.

SHR regulate the services offered by social landlords to their tenants, therefore their relationship to the service user is indirect. However, SHR is committed to promoting fairness and equality through their regulatory work, ensuring social landlords are compliant with the requirements of the Equality Act 2010, the Housing (Scotland) Act 2010 and the Scottish Government’s Scottish Social Housing Charter.

Additionally, SHR look to promote equality as an employer, drawing on Scottish Government HR services and policies to achieve this.



### Governance statement

**Our audit opinion considers whether the Governance Statement has been prepared in accordance with directions made by Scottish Ministers and is consistent with the financial statements.**

- 44. We have concluded that the governance statement has been prepared in accordance with directions from Scottish Ministers and is consistent with the financial statements.
- 45. From our audit work we have concluded that SHR has appropriate systems in place to record, process, summarise and report financial and

other relevant data. We have not identified any significant weaknesses or governance issues in SHR's accounting and internal control systems.

46. The Accountable Officer has confirmed that in his opinion, the control arrangements are appropriate and effective and no significant issues have been identified.
47. Overall, the disclosures in the governance statement are consistent with this. However, we note that the following documents are outstanding at the time of writing;
  - Scottish Government Assurances for Corporate Services; and
  - Audit Scotland's conclusions on shared systems and functions.

### Governance arrangements during COVID-19

48. With national lockdown announced on 23 March 2020, all SHR activity moved to being delivered remotely and SHR have continued to operate as such to date.
49. Governance arrangements have continued as normal with Board, ARAC and management team meetings being held remotely. The Board and management team have met more frequently than normal during 2021/22 to oversee SHR's response to the pandemic.
50. The Board continued to receive and consider all standing agenda items in 2021/22, including budget monitoring reports, quarterly performance reports and an update from the Chief Executive. We are satisfied that the Board received sufficient and timely information throughout the period to

support effective scrutiny, challenge and decision making.

### System of internal control

51. We have evaluated SHR's key financial systems and internal controls to determine whether they are adequate to safeguard public assets, and prevent and detect fraud, error and irregularity. Our approach has included documenting the key internal financial controls and performing walkthroughs to confirm that they are operating as intended.
52. We did not identify any significant weaknesses in SHR's accounting and internal control systems during our audit.
53. SHR uses Scottish Government payroll services and accounting systems (SEAS). On an annual basis, Audit Scotland, the appointed auditor to the Scottish Government, shares with us their findings on work carried out on those systems.
54. At the time of writing, this work is still ongoing and Audit Scotland are yet to conclude on the shared systems and functions.

### Internal audit

55. An effective internal audit service is an important element of an entity's overall governance arrangement. SHR's internal audit service is provided by the Scottish Government. During our audit we considered the work of internal audit wherever possible to avoid duplication of effort and to make the most efficient use of SHR's total audit resource.

## Prevention and detection of fraud and irregularity

56. We found SHR's arrangements for the prevention and detection of fraud and other irregularities to be adequate. However, we encourage SHR to review their relevant policies and procedures to ensure these remain fit for purpose and reflective of current arrangements.

### Action Plan Point 2

57. ARAC receive an annual report notifying the committee of any incidences of fraud or security breaches.



## Financial sustainability

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

58. Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities

## Financial sustainability

In recent years, staff costs has been a significant area of pressure for SHR following an accumulation of factors including the impact of increases in employer's pension costs and centrally negotiated pay deals. Recognising the risk this presents to SHR's financial sustainability, Scottish Government awarded an uplift in funding of £365k in 2021/22 and has maintained this level of funding for 2022/23.

Whilst recruitment activity has been ongoing, progress at the Scottish Government, HR shared service in filling vacant posts has been slow with delays in the recruitment and onboarding processes. As a result, SHR returned to the Scottish Government £225k of revenue funding and £50k of capital funding as part of the mid-year review process to support budgetary pressures and is forecasting an underspend of £100k for 2021/22.

We previously highlighted the need to develop a robust Workforce Strategy in a timely manner to support financial and operational planning, especially given the significance of staff costs. Ongoing work had been paused to allow resource to be refocused on managing the response to the COVID-19 pandemic and SHR has been unable to allocate managerial resource to take this forward in 2021/22.

*Noted in the 2021/22 External Audit Plan*

59. SHR has prepared a detailed budget for 2022/23 and high level projections for funding requirements up to 2024/25. Annual uplifts in revenue requirements are expected, reflecting the impact of projected staff pay increases. High level scenario planning has been completed, but as the Scottish Government only provides funding on an annual basis, SHR are unable to undertake any further analysis of

potential future funding gaps. These projections will be used to inform funding discussions with the Scottish Government to ensure SHR continues to receive sufficient resource to support effective and efficient service delivery.

60. Whilst we are satisfied that SHR has appropriate arrangements in place for short and medium term financial planning, further action is needed to develop a workforce strategy as an area of priority. Our detailed findings on the Board's financial framework for achieving long term financial sustainability are set out below.

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## Workforce planning

61. In 2018/19 we highlighted the need for SHR to develop a robust workforce strategy, outlining staff requirements in the medium to long term, the risks they face in achieving this and the mitigating actions needed such as succession planning, training and recruitment activity.
62. Following an initial workshop in November 2019, the development of a workforce strategy has been postponed, initially in response to the COVID-19 pandemic and now a need to prioritise the business support resource.
63. SHR has continued to reflect on workforce requirements in the short term. In 2020/21, to support a business case to the Scottish Government for additional funding, SHR outlined their current staffing requirement and the impact on operations if additional funding was not provided. SHR continue to monitor this staffing requirement to inform annual budget discussions with Scottish Government.
64. Management recognise the value in developing a more strategic approach to workforce planning, designed to systematically consider and manage the risks and opportunities arising within the workforce.
65. SHR recognise a risk within the corporate register that they may not have sufficient resource to deliver services effectively and this has been the highest scored risk since December 2020. Through the risk register, management consider the issues faced within the workforce, as well as the wider issues that may result in this risk crystallising.
66. Within the corporate risk register management have identified the following key risks to workforce management;
  - Recruitment – this has taken significantly longer than planned due to serious delays in Scottish Government HR services.
  - Staff demographics – particularly the age profile of current workforce.
  - Succession planning – specifically for those in senior positions or currently considering retirement.
  - Increased operational expectations that cannot be met from existing resource.

## Development of a workforce strategy

64. Management recognise the value in developing a more strategic approach

- Resilience of workforce – challenges arising from home working or current workload translating into absences, reduced performance and/or poor wellbeing.
67. Given the significance of the risk that SHR do not have sufficient resource to deliver effectively, management would benefit from considering this risk and the mitigating actions in further detail through a workforce strategy.
68. We recognise that there are barriers to SHR developing a workforce strategy. These primarily relate to a lack of internal resource within the Business team to take this forward as a priority, and the need for HR expertise to support this exercise.
69. SHR explored some potential delivery options with the Scottish Government in late 2021/22 but this was without success. Management intend to review the position on internal resourcing and working in a post-Covid environment in September 2022. At this stage they will consider the future timing and delivery method of the next phase of workforce planning.
70. Given the financial significance of staff costs and the significant risk faced by SHR if they do not have appropriate resource in operate effectively, we strongly recommend that the development of workforce strategy is taken forward as an area of priority in 2022/23.
71. As SHR's only source of income is funding from the Scottish Government, there is a greater degree of certainty over future funding streams than for some other public sector organisations which are involved in income generating activity. Therefore, the main focus for SHR is to achieve a balanced financial plan and to remain within the annual allocation.
72. For 2022/23 SHR has been allocated a cash revenue budget of £4.92 million and a non-cash budget of £0.2 million to cover depreciation and amortisation of non-current assets. This represented an uplift of £0.22 million in revenue funding compared to the initial 2021/22 allocation.
73. Staff costs account for 83% of budgeted expenditure in 2022/23 and a vacancy rate is routinely applied to achieve a balanced budget. Initial budget requests made to the Scottish Government for 2022/23 assumed a 3% vacancy rate. However, this process took place in advance of an additional 0.9% pay increase being awarded by the Scottish Government in February 2022.
74. Offsetting the impact of this pay uplift, SHR achieved a balance budget by applying an increased vacancy rate of 5%. At the time of writing, SHR is operating with an 8% vacancy rate so do not deem this to present a significant risk to their 2022/23 financial position.
75. SHR acknowledge that high inflation rates and price rises due to supply chain issues are likely to present a risk to their financial position. However, as the majority of expenditure relates to staff costs, the impact of this is expected to be low. SHR have taken a prudent approach by increasing the IT budget to accommodate expected price increases but continue to recognise centrally negotiated pay

## 2022/23 budget

rises as the main risk to the 2022/23 financial position.

### Capital budget

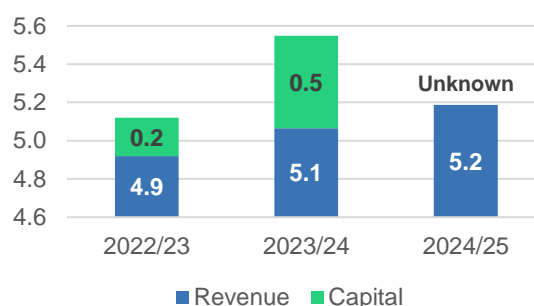
- 76. SHR has been allocated a capital budget of £200,000 for 2022/23. This is consistent with the prior year allocation.
- 77. SHR will be moving to a new office in 2023 and the majority of the capital budget will be spent on potential upfront costs of fitting this out (£80,000). SHR forecast that this move will cost a further £447,000 in 2023/24 and have made Scottish Government aware of this future capital requirement.
- 78. The remainder of the 2022/23 budget will be split between replacing IT assets (£20,000) and an unallocated proportion of £100,000. This unallocated element will provide sufficient contingency and flexibility in the identified capital projects or provide opportunity to commence further small scale projects as part of the post pandemic office recovery and in preparation for relocating the new office.

### Medium term financial plans

- 79. SHR prepared three-year projections as part of the Scottish Government spending review. These are high level projections to provide indicative funding requirements which will be updated on an annual basis.
- 80. Annual uplifts in revenue requirements are expected, reflecting the impact of

projected staff pay increases. SHR's capital requirement is projected to increase significantly in 2023/24 to cover the costs of relocating to a new office. Capital costs relating to the Business Intelligence System for 2023/24 and 2024/25 were unclear at the time of preparing these projections so have been excluded.

**Exhibit 2: Future funding requirements (£'m)**



Source: Scottish Government Spending Review submission

- 81. On 31 May 2022, the Scottish Government published its Resource Spending Review which outlines high-level parameters for resource spending to 2026/27 and high-level spending plans to deliver the Programme for Government.
- 82. This provides SHR with a high-level budget planning estimate over a five-year period and a clearer basis upon which to develop medium- and long-term financial plans. Management intend to use the Resource Spending Review going forward to inform medium-term financial planning.

# Appendices

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Appendix 1: Respective responsibilities of the Board and the Auditor	32
Appendix 2: Adjusted and unadjusted errors identified during the audit	36
Appendix 3: Action Plan	37
Appendix 4: Follow up of prior year recommendations	39
Appendix 5: Wider scope assessment	40

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## Appendix 1: Respective responsibilities of the Board and the Auditor

The Code of Audit Practice (2016) sets out the responsibilities of both the Board and the auditor and are detailed below.

### Board responsibilities

The Board has primary responsibility for ensuring the proper financial stewardship of public funds, complying with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

Area	Board responsibilities
<b>Corporate governance</b>	<p>The Board, through its Chief Executive (as accountable officer) is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.</p>
<b>Financial statements.</b>	<p>The Board has responsibility for:</p> <ul style="list-style-type: none"> <li>• preparing financial statements which give a true and fair view of its financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation;</li> <li>• maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support its financial statements and related reports disclosures;</li> <li>• ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority;</li> <li>• maintaining proper accounting records; and</li> <li>• preparing and publishing, along with the financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that is consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also address the longer term financial sustainability of SHR.</li> </ul> <p>Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the</p>



Area	Board responsibilities
	<p>entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.</p> <p>The Board is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of its objectives and safeguard and secure value for money from the public funds at its disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.</p>
<p><b>Standards of conduct for prevention and detection of fraud and error</b></p>	<p>The Board is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct.</p>
<p><b>Financial position</b></p>	<p>The Board is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> <li>• Such financial monitoring and reporting arrangements as may be specified;</li> <li>• Compliance with statutory financial requirements and achievement of financial targets;</li> <li>• Balances and reserves, including strategies about levels and their future use;</li> <li>• Plans to deal with uncertainty in the medium and long term; and</li> <li>• The impact of planned future policies and foreseeable developments on the financial position.</li> </ul>
<p><b>Best value</b></p>	<p>Accountable officers have a specific responsibility to ensure that arrangements have been made to secure best value.</p>

## Auditor responsibilities

Auditor responsibilities are derived from statute, the Code of Audit Practice, International Standards on Auditing (UK), professional requirements and best practice. These are to:

- undertake statutory duties, and comply with professional engagement and ethical standards;
- provide an opinion on the financial statements and the regularity of transactions;
- review and report on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports;
- notify the Auditor General when circumstances indicate that a statutory report may be required; and
- demonstrate compliance with the wider scope of public audit.

### 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 of Audit Practice 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.

## Independence

In accordance with our profession's ethical guidance and further to our External Audit Annual Plan issued confirming audit arrangements there are no further matters to bring to your attention in relation to our integrity, objectivity and independence.

We confirm that Azets Audit Services and the engagement team complied with the FRC's Ethical Standard. We confirm that all threats to our independence have been properly addressed through appropriate safeguards and that we are independent and able to express an objective opinion on the financial statements.

### Audit and non-audit services

The total fees charged to SHR for the provision of services in 2021/22 (with prior year comparators) is as follows:

	Current year £	Prior year £
Audit of Scottish Housing Regulator (Auditor remuneration)	18,430	18,050
<b>Total audit</b>	<b>18,430</b>	<b>18,050</b>
Non-audit services	-	-
<b>Total fees</b>	<b>18,430</b>	<b>18,050</b>

FRC's Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. No non-audit services were provided to the Scottish Housing Regulator.

### Audit quality

The Auditor General and the Accounts Commission require assurance on the quality of public audit in Scotland through comprehensive audit quality arrangements that apply to all audit work and providers. The audit quality arrangements recognise the importance of audit quality to the Auditor General and the Accounts Commission and provide regular reporting on audit quality and performance.

Audit Scotland maintains and delivers an [Audit Quality Framework](#).

The most recent audit quality report which covers our work at SHR since appointment can be found at <https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-202021>

## Appendix 2: Adjusted and unadjusted errors identified during the audit

### Adjusted differences

We did not identify any material adjustments during our audit of the Scottish Housing Regulator's annual report and accounts.

### Unadjusted differences

Our summary of unadjusted audit differences is presented below. We have discussed this with management and confirmed that all unadjusted differences are collectively and individually immaterial.

No	Detail	Assets	Liabilities	Reserves	SOCI
Details of unadjusted audit differences		Dr / (Cr)	Dr / (Cr)	Dr / (Cr)	Dr / (Cr)
		£'000	£'000	£'000	£'000
1.	Reclassification of accruals to trade payables for purchase invoices received prior to 31 March 2022		Accruals: 42  Trade Payables: (42)		
Net impact on (income) / expenditure (£'000)					-

### Disclosure amendments

No	Detail
1	Performance Report – further disclosure on details of future plans as required by the FReM
2	Remuneration Report – disclosure of start/leave date, actual and annualised salary for individuals in post for only part of the year
3	Related Party Transactions – inclusion of cross reference to remuneration report for detail of transactions with key management personnel

## Appendix 3: Action Plan

Our action plan details the weaknesses and opportunities for improvement that we have identified during our audit. The recommendations are categorised into three risk ratings:

**Key:**

**Significant deficiency**

**Other deficiency**

**Other observation**

1. Intangible asset useful life		Other deficiency
<b>Observation</b>	Internally developed intangible assets are deemed to have an estimated useful life of seven years, as outlined in SHR's accounting policies. However, management indicated that the operational life of this asset from 1 April 2022 is currently estimated as between three to five years.  We do not deem this to be material to the annual accounts and valuation of the asset as at 31 March 2022.	
<b>Implication</b>	If the estimated useful life of assets is not subject to regular review, there is a risk that the annual amortisation charge and valuation of the asset are materially misstated in the annual accounts.	
<b>Recommendation</b>	Management should undertake a review of the estimated useful life of assets in 2022/23, and on a regular basis, to ensure these remain appropriate and reflective of current operational plans.	
<b>Management response</b>	This will be reviewed in 2022/23.  <b>Responsible individual:</b> Accountant  <b>Due date:</b> March 2023	

## 2. Policies and procedures

### Other deficiency

<b>Observation</b>	<p>The anti-fraud and anti-bribery policies appear to be overdue for review, referring to positions within SHR that no longer exist.</p> <p>These documents do not record date of approval or date of next review; this is also true of the whistleblowing policies.</p>
<b>Implication</b>	<p>There is a risk that policies relating to the prevention and detection of fraud and irregularity are not fit for purpose if they are not subject to regular review.</p>
<b>Recommendation</b>	<p>Policies and procedures, specifically those relating to the prevention and detection of fraud and irregularity, should be kept under regular review. A control sheet should be maintained on each document recording date of approval, document owner and date of next review.</p>
<b>Management response</b>	<p>These will be reviewed in 2022/23.</p> <p><b>Responsible individual:</b> Business Manager</p> <p><b>Due date:</b> March 2023</p>

## Appendix 4: Follow up of prior year recommendations

We have followed up on progress in implementing the outstanding action raised in the prior years. This action remains in progress.

The recommendations are categorised into three risk ratings:

**Key:**

**Significant deficiency**

**Other deficiency**

**Other observation**

### Workforce plan – action raised in 2018/19

**Recommendation** SHR should incorporate the current work undertaken on staffing (2018/19) and bring this together in a robust Workforce Strategy. This should include future succession planning and expected vacancy rates to continue to meet balanced budgets moving forward.

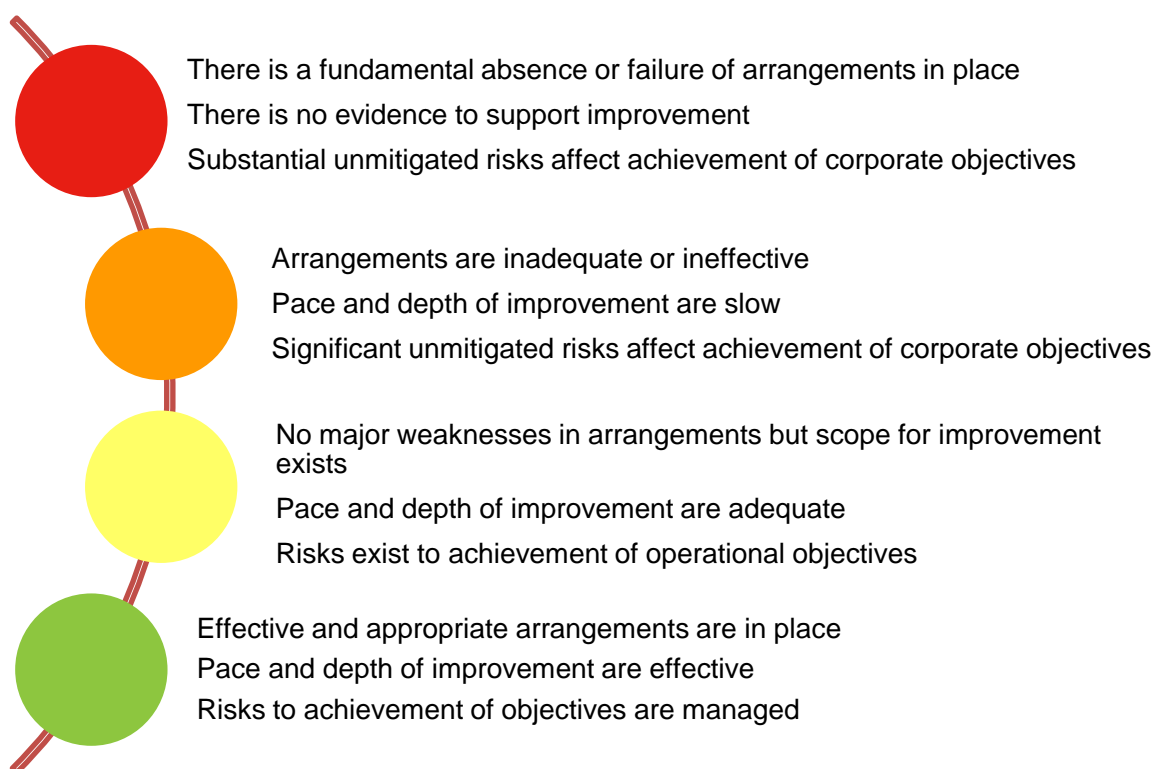
<b>Rating</b>	<b>Other deficiency</b>	<b>Implementation date</b>	Initial target date: March 2020
			Revised target date: March 2021

<b>In Progress</b>	<p>Management recognise the value in developing a more strategic approach to workforce planning and intend to present an update to ARAC in September 2022 on action taken by management. At this stage they will consider the future timing and delivery method of the next phase of workforce planning.</p> <p>Given the risks outlined in the body of our report, we recommend that this is progressed in 2022/23 as an area of priority.</p>
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## Appendix 5: Wider scope assessment

### Definition

We have used the following grading structure to provide an overall assessment of the arrangements in place as they relate to the dimensions of the wider scope audit (i.e. financial sustainability).







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