

MINUTES OF THE AUDIT & RISK MANAGEMENT COMMITTEE MEETING HELD ON TUESDAY 6 JUNE 2023 ON MICROSOFT TEAMS

Present: Andrew Richmond Chair
Katherine Burke
Eric Farren (Cordale Rep)
Allan Jones (from Item 20.23)
Lorna Williamson

In Attendance: David Archibald Henderson Loggie
Leigh Grubb Director of Finance & Governance
Garry Savage Director of Strategy & Innovation
Andrew Kilpatrick Director of Assets
Tim Calderbank Director of Customer Services
Jenny Dalton Governance Officer (Minute Taker)

The Chair welcomed Eric Farren to the Committee.

14.23 Apologies

Apologies were **NOTED** from Derek Robertson. The Chair advised that Allan Jones was running late and would join the meeting when he could.

15.23 Declaration of Interest

There were no declarations of interest.

16.23 Draft Minutes of the Audit & Risk Management Committee Meeting held on Tuesday 15 March 2022

As the only members present at the meeting on 15 March 2023, the Chair and Lorna Williamson **AGREED** the minutes were a true and accurate record of that meeting. The minutes were subsequently **APPROVED** by the Committee.

17.23 Matters Arising

There were no matters arising that were not dealt with elsewhere on the Agenda.

The Chair asked David Archibald (DA) to present the Internal Audit Reports. DA advised that the results of all three internal audits had been positive in terms of the processes in place, with only a small number of recommendations made.

18.23 Internal Audit Report – Reactive Repairs

DA advised that the audit had provided assurance that the Group's reactive repairs systems met control objectives with some weaknesses present. The overall level of assurance was "Satisfactory". Four recommendations had been made, one of which was Grade 2 and the remainder Grade 3. Management had accepted all three recommendations and the actions to be undertaken and the target completion dates were set out in the report.

The Chair noted the absence of a Procurement Officer and the Director of Finance & Governance (DoFG) advised that several attempts had been made to recruit to this post, however all had been unsuccessful. A renewed effort was being made to fill the post, this time at Team Leader level to reflect the autonomy of the role, and the post would be advertised within the next week.

Eric Farren advised that he had experience of the procurement sector and offered his assistance. The Chair thanked Eric for the offer and suggested that the DoFG contact him if help or guidance was required in the short term.

Members discussed the difficulty of reviewing the Procurement Policy without the input of a Procurement Officer and **AGREED** that the target date for reviewing the policy should be amended to 31 December 2023 to allow time for the post to be filled and the successful applicant to settle in to the post. In the meantime, it was **AGREED** that the Procurement Policy should be sent to Eric Farren for comment.

With regards tenant feedback on repairs, the Director of Customer Services (DoCS) advised that the forthcoming large-scale tenant satisfaction survey would include satisfaction with the repairs service. The DoCS further explained that previous methods of obtaining tenant feedback on repairs had not worked as well as anticipated and that, following the successful implementation of the new telephony system, additional capacity within the Customer Services Team would be directed towards post-inspection checks with tenants when satisfaction feedback would be sourced and recorded.

19.23 Internal Audit Report – Payroll

This audit had provided assurance that the Association’s payroll system met control objectives with the overall level of assurance being “Good”. No issues had been identified and DA advised that this reflected well on the People Team and Payroll Team. DA explained that payroll was a big risk for organisations if staff were not well acquainted with it, however this was not an issue for Caledonia at present.

(Allan Jones joined the meeting at 6.20 pm)

20.23 Internal Audit Report – Business Continuity/Disaster Recovery

This audit had provided assurance that the Group’s business continuity/disaster recovery systems met control objectives with the overall level of assurance being “Good”. Two recommendations had been made, both of which were Grade 3. Both recommendations had been accepted by the Management Team and the actions to be undertaken and their target completion dates were set out in the report.

Allan Jones suggested that the target date for Business Continuity Plan testing be brought forward to before the winter months and it was **AGREED** that management would seek to tighten the timescales around completing this action.

The DoFG advised that one option being considered was to exclude some members of the Executive Management Team from the scenario test so that an assessment could be made as to the organisation’s ability to respond to a crisis without access to its full leadership team. This would also provide opportunities to assess the contribution which could be made by Operational Managers in such a scenario.

Allan Jones (AJ) queried whether there were any opportunities for partnership working within the social housing sector with regards to tenant participation. The DoCS confirmed that the Association was open to working with other organisations and that this would be discussed further by EMT.

AJ advised that he had a query on the reactive repairs audit report and asked how recharges to previous tenants were dealt with. The DoCS confirmed that the process was the same as for existing tenants with recharges being pursued when the final invoice was received from the contractor. This could cause delays that inevitably hindered successful collection and a more efficient process was currently being investigated.

21.23 Internal Audit Report – Follow-up Review 2022/23

DA advised that the Group had made good progress in implementing the recommendations followed-up as part of this review, with 20 of the 24 recommendations being assessed as “fully implemented”. Three recommendations were assessed as “partially implemented” and would be included in the next formal follow-up review in 2023/24.

One recommendation had been considered but not implemented. The recommendation related to report 2021/05 – Adaptations, which recommended that consideration be given to adopting a suitable risk-based approval process for self-referrals for low value stage 3 medical adaptations. Due to budgetary conditions, management had decided not to introduce this measure at this time, although it would be kept under consideration.

The Chair queried why it had taken so long to come to this decision and the Director of Assets (DoA) advised that, although management had been keen to implement the recommendation after detailed consideration they had concluded that, as adaptations were routinely oversubscribed each year and the budget spent well before year end, introducing a self-referral option at this time would only put further pressure on the budget. The DoFG advised that the Executive Management Team had decided not to request that the Management Board consider increasing the adaptations budget when considering the 2021/22 budget proposals due to the fact that the budget was already under considerable pressure due to economic conditions.

22.23 Internal Audit Report – Annual Report

DA confirmed that the internal audit plan for 2022/23 had been delivered in its entirety, with a broad range of work undertaken. There were no issues identifying major internal control weaknesses noted from the internal audit work carried out during the year and good progress had been made in implementing previous internal audit recommendations followed up this year. In general, procedures were operating well in the areas audited, however a few areas for further strengthening were identified and action plans had been agreed to address these issues. The agreed actions would be followed up in 2023/24.

The internal auditors’ opinion was that the Caledonia Group had adequate and effective arrangements in place for risk management, control and governance. Proper arrangements were also in place to promote and secure Value for Money.

23.23 Internal Audit Report – Internal Audit Annual Plan 2023/24

DA advised that initial discussions had been held with the DoFG with regards the development of an internal audit plan for 2023/24. He would also meet with the full Management Team to look at key risks over the next three years as well as strategic policy with a view to compiling a three-year audit programme. It was proposed to spread the audit programme more evenly through the year and to avoid periods of heavy workload for staff. The audit programme would then be sent to the Chair of the ARMC for review prior to it being presented to the August Committee meeting for consideration and approval. DA added that environmental sustainability was one area being considered for audit.

The Chair asked that if any members had any suggestions for areas to be audited in 2023/24 that they contact him or the DoFG.

24.23 Annual Treasury Management Strategy Report

The DoFG presented the report and advised that it was the first to be produced under the Group's revised Treasury Management Policy framework. The report outlined the key treasury management activities during the financial year ended 31 March 2023 and included:

- The signing of the private placement facility agreement in April 2022 and the receipt of the first tranche of funding in March 2023.
- A final redemption payment being made to Nationwide, ending this long-standing relationship.
- A number of valuation exercises of the security portfolios charged to the Group's lenders were completed.
- Internal audit of the Group's Treasury Management Policy and processes undertaken, resulting in a "Good" level of assurance being attained.
- A favourable outcome of the assessment against the recently introduced Golden Rules thresholds, with three exceptions that were outlined in the report. Whilst the Golden Rule thresholds were relatively new for the Group, the DoFG welcomed Committee members' views on any proposed amendments to these measures.

The DoFG then highlighted the key activities for 2023/24, which included:

- Nationwide security release.
- Additional security to be pledged to Private Placement investors.
- The review and rationalisation of security held with other lenders.
- The consideration of plans to extend or replace the Lloyds facility.
- The progression of discussions with lenders on covenant flexibility.

25.23 SHR Financial Returns

The DoFG explained that the purpose of the report was to seek approval for the submission of the annual Loan Portfolio Returns (LPR) for Caledonia and Cordale and to note the submission of the annual Five-Year Financial Projections (FYFP) Returns for Caledonia and Cordale to the SHR, which were previously circulated to ARMC members by email, with the exception of Eric Farren who had not been formally appointed as Cordale representative on the Committee at that time. The DoFG confirmed to members that sufficient approval had been obtained to enable these

returns to be submitted by the 31 May 2023 deadline. The DoFG advised that there were no particular issues to highlight in the LPR.

ARMC members then **AUTHORISED** the submission of the LPR to the Scottish Housing Regulator and **NOTED** that the FYFP returns had been submitted to the SHR following their earlier **APPROVAL**.

26.23 SHAPS Defined Benefit (DB) Pension Scheme Disclosure Assumptions

The DoFG presented the report and advised that, as in previous years, the Committee was being asked to consider whether the assumptions proposed by The Pensions Trust (TPT) were appropriate and relevant. An overview of the key assumptions and the methodology adopted by the Trustees in determining the assumptions was attached to the report for consideration.

The DoFG explained that only those assumptions that could be amended were outlined in his report and that, should Committee members wish to amend any of these assumptions, then independent actuarial advice would need to be obtained.

Following consideration of the report, members **AGREED** to the **ADOPTION** of the actuarial assumptions proposed by TPT.

27.23 Cyber Security Update

The DoSI presented the report and highlighted a number of areas as follows:

There had been a renewed effort to ensure that cyber security e-learning modules were completed by staff. New cyber security learning modules would be issued every two months, with the learning modules in the in-between months focussing on other business priorities. As the Access e-learning system did not provide a phishing simulation function, the previous e-learning providers, TerraNova, would be used to provide this function only.

Challenges were being experienced in recruiting to the two permanent ICT Officer roles. A strong candidate had been identified, however this person subsequently declined the offer of employment after receiving an enhanced salary offer from their current employer. A second round of recruitment activity was now underway using the recruitment agency who had helped the Association recruit ICT Officer staff previously and it was hoped that this would be successful.

Members discussed the difficulties for the public sector in competing with the private sector to recruit ICT staff. AJ queried whether other Register Social Landlords (RSLs) were experiencing these difficulties and, if so, suggested that the possibility of joint working could be considered in future. Members also acknowledged that remote working could allow suitable applicants to be recruited from anywhere in the country and even from countries outside Scotland. The DoSI agreed that, should the current round of recruitment activity be unsuccessful, then other options would have to be considered and advised that the ARMC would be kept updated.

Members noted the update provided by the DoSI on the challenges experienced with the introduction of multi-factor authentication arrangements for the Group's RDS Farm arrangement, and also the steps currently being taken to address these.

28.23 Review of Top Business Risks

The DoFG advised that, following the request at the March ARMC meeting, the Risk Map had been updated to acknowledge the additional risks associated with changes in the political landscape in Scotland. The Chief Executive would continue to provide information on political issues affecting the social housing sector within her report to the Caledonia Management Board with updates also provided at governing body strategy sessions.

29.23 Update on Group Fraud Registers 2022/23

Committee members **NOTED** that the Group members’ Fraud Registers for the year ending 31 March 2023 had been inspected by the respective governing body Chairs and the Chief Executive. There were no cases of fraud or attempted fraud detected at either Caledonia or Cordale during 2022/23.

30.23 Update on Identified Actions from the Internal Audit Programme

The DoFG advised that, in order to avoid duplication, he had removed the actions reported in the Internal Auditor’s follow-up report earlier on this Agenda from this register, leaving two outstanding recommendations. As an Annual Treasury Management Report had been submitted to this ARMC meeting, one of those recommendations was now fully implemented.

With regards the recommendation to provide tenant participation training to staff, the DoCS advised that TPAS was no longer able to provide training and consideration was being given to using an e-learning module as an alternative. Allan Jones noted that the completion date for this recommendation had passed and the DoCS advised that this would be amended to 30 September 2023.

The DoFG confirmed that the report would continue to provide information on the progress of actions until they were considered by the Internal Auditors in the follow-up review in order to provide assurance to the ARMC that the recommendations were being actioned.

31.23 Any Other Business

There was no other business to discuss.

Date of Next Meeting

Members **NOTED** the next ARMC meeting would be held on Tuesday 15 August 2023 commencing at 6 p.m.

There being no other business, the meeting concluded at 7.25 p.m.

Chair’s signature