



**AUDIT COMMITTEE MEETING
Wednesday 20 January 2021**

MINUTE

- Present:** A Clark (Chair)
R Hutton; A Scott; M Trant
- In Attendance:** C Ironside; K Miller; C Hughes; A Hay (Staff Members)
J Alexander (Azets, External Auditor)
A Cameron (Quinn Internal Audit, Internal Auditor)
- Apologies:** None

Due to the current lockdown situation, this meeting was held 'virtually' with all Committee members and staff present accessing the meeting remotely.

ACTION

1 Apologies for Absence

There were no apologies.

2 Declarations of Interest

R Hutton, employee of Port of Leith Housing Association

3 Minutes of Audit Committee Meeting of 26 November 2020

The minutes of the meeting of 26 November 2020, were approved as a true record, proposed by A Scott, seconded by M Trant.

4 Matters Arising

Agenda Item 8 Financial Investment Advice

K Miller advised members that, as previously agreed, she had worked on developing the specification to quote for independent financial investment advice in respect of the Association's reserves. After discussions with the Chair, K Miller contacted the Association's external auditor, Azets. Independent of the external audit function, they offer a service to provide a list of potential options for investment and the likely return. As Azets are not registered to provide investment advice, they could not advise MEHA where to invest their surplus cash. The cost of this service would be less than £1,000. K Miller advised that if members were in agreement, she would report on the options available to the next meeting of the Audit Committee.

The Chair advised that he was keen to support the proposed approach.

J Alexander reiterated that Azets cannot give investment advice, rather a list of options. She further confirmed that she would have no access to the information provided by the banking team.

Members agreed to proceed on the proposed approach. They further agreed that an ad-hoc meeting of the Audit Committee should be held in February 2021 to enable presentation of a report to the full Board in March 2021.

KM

5 Committee Actions

In respect of Item 7(ii) Tenant Safety, it was agreed that this should be amended to state that the removal of affected material would be 'possible'. The proposed change was agreed.

AH

K Miller asked members to note that an additional column had been added to the table to show more clearly when original target dates had been amended. C Ironside explained the rationale for doing so, specifically to be more transparent in identifying where target dates had been changed. She further advised that the same change has been made to the Board Actions template.

CI

Staff agreed that the Actions report could also be colour-coded to identify those actions where the target date has changed.

Members noted the report.

6 Internal Audit Tracker

The Chair noted that the recommended action in respect of GDPR has been hampered by the impact of CoVid and C Ironside confirmed that this has been made more difficult due to staff now working from home.

With regard to recommendation 4 in respect of Tenant Safety, members noted that the implementation of Office 365 has been phased across the organisation. A Hay advised members that the Property Services Team

have been working on areas including asbestos management and electrical safety certificates to ensure that these are appropriately referenced before being transferred to Office 365. She confirmed that the intention is to roll out transfer of compliance records over the next few months.

AH

Members noted the report.

Items for Approval

7 Draft 25-Year Financial Plan

K Miller introduced the report that had been circulated previously, highlighting a number of key issues that had been included.

She confirmed that the assumption of a 0.5% rent increase had been taken on the basis of benchmarking and the outcomes of the tenant consultation. It was noted that the final decision of the level of rent increase will be taken at the full Board meeting on 27 January 2021

In response to a question regarding the option of a 0% increase, K Miller confirmed that this had been included in the section of affordability and added members to note that even if a 0% increase were to be applied, a number of rents would change due to the harmonisation process.

K Miller confirmed that the draft budget presented was based on the 0.5% proposed rent increase. She highlighted the key differences that were outlined in the report, including the proposal for an additional member of staff included as Appendix 6 to the report.

With regard to the matter of affordability, K Miller further explained the background as to how the Association had made use of the SFHA's affordability tool.

A member noted that it was not 13 people who would be affected in this regard, rather 13 households. K Miller confirmed that 7 out of the 13 households were in retirement housing and that details would be passed to the Housing Management team to ensure that appropriate welfare benefit checks would be offered.

KM/CH

C Hughes confirmed that the service charge in respect of Association tenants supported by The Action Group is paid through housing benefit.

K Miller drew members' attention to Appendix 2 of the report, noting that the lower than anticipated surpluses identified were mainly as a result of a significant increase in investment required to enable compliance with the ESSH2 standards. She confirmed that the proposed investment figures were based on interpretation of the initial guidance produced by the Scottish Housing Regulator and that staff will monitor how the guidance develops going forward.

Members also noted that there may be grant funding available in future years as it is unlikely that many organisations would be able to meet EESSH2 standards without significant investment.

K Miller advised members that, due to staff concerns about the impact of the investment required on the 25 year plan, a meeting with the Chair, Vice Chair, Audit Chair and former Chair had been arranged in December 2020 (unfortunately the Chair was unable to attend). It was agreed then that the plan should be presented unchanged to the Audit Committee.

K Miller confirmed that she had contacted Santander in December 2020 regarding the impact of the increased investment on the 25-year plan, however she has not yet received a response. She confirmed that the Association is due to make substantial loan repayments in the next few years and the current covenants only apply until the existing loans have been repaid.

In response to a question from a member, K Miller confirmed that the Scottish Housing Regulator's expectation is that the Association should include all affordable investment, however highlighted again that we are awaiting further guidance.

A Hay confirmed that a report will be presented to the next meeting of the full Board regarding EESSH2 requirements and a proposed timetable. The template guidance indicates that it is up to individual RSLs to formulate policy on what is affordable, however exemptions are only likely to be allowed where the design of properties is such that nothing can be done. In this regard A Hay further confirmed that the Association would carry out a cost/benefit analysis of proposed works.

K Miller then talked members through the scenarios that had been presented in the report.

K Miller noted that the report as presented was very lengthy and sought members' views on a change of format, members indicated that they would prefer the report to remain as is.

Members then discussed a number of general comments, noting in particular that the Board will have to consider what the Association should be doing in respect of EESSH2. At this stage it is appropriate to go with the plan as presented, with the caveat as to whether this can be considered 'affordable' without considerable borrowing.

Members noted that decisions regarding investment should take account of the expected lifespan of the various components being considered.

K Miller confirmed that she will advise the Committee when there is a response from Santander's credit department and asked members to note that the 25-year plan must be issued to Santander once it is approved by the Board.

KM

Members noted that the 25-year plan is reviewed annually.

J Alexander advised that she has yet to see the approach that other organisations are taking on planning EESSH 2 investment and agreed to provide feedback at the end of February once she has that information available.

Following discussion, members agreed to recommend the draft 25-year plan to the Board for approval, proposed by A Scott, seconded by M Trant.

(Post meeting note: there was a question as to whether the MEHA Chair attends Audit Committee as an observer or as a member and therefore can propose approvals and vote, according to the Association's Standing Orders "the Chair is entitled to attend committee meetings, cannot be a chair but can be an observer or member."

8 Internal Audit Programme 2021/22

A Cameron (Quinn Internal Audit) asked members to note that a number of changes were proposed to the plan agreed in January 2020 and outlined the reasons for these. He invited questions from the members and also asked if there were additional areas they felt should be subject to audit.

K Miller confirmed that Factoring is due to be reviewed by an external consultant and that the resulting report will be presented to the Audit Committee. A Hay advised that the revised Property Factors Code of Conduct has only just been issued and an intensive review of internal procedures will be necessary as a result.

K Miller asked members to note that a number of new areas have been introduced to the plan, specifically Anti-Money Laundering and Fraud.

Following discussion, members approved the Internal Audit Plan, proposed by M Trant, seconded by A Scott.

9 External Audit Plan 2021/22

J Alexander (Azets, External Auditor) talked members through the plan outlined in the letter dated 16 December 2020. She highlighted the section that outlines the key responsibilities of the External Auditor and also drew members' attention to a number of staff changes within her team.

J Alexander noted that the level of testing to be carried out will be the same as last year, although highlighted that there are new audit requirements for any estimates included in the accounts.

J Alexander confirmed that the audit will be carried out remotely, noting that this had worked very well last year so there are no concerns about this process.

In response to a question regarding the potential for management to override controls that are in place, J Alexander confirmed that her team have a range of analytic tools that enable them to investigate this issue appropriately.

The Chair thanked J Alexander for the proposed plan, which was approved, proposed by M Trant, seconded by A Scott.

10 Risk Assessment Review

C Ironside introduced the report that had been circulated previously. She advised members that the major risks are reviewed by the Senior Management Team on a fortnightly basis. There have been no material changes since this matter was last considered by the Board .

Following discussion members approved that no changes were required, proposed by M Trant and seconded by A Scott.

Items for Noting

11 Internal Audit Reports

The Chair noted that the reports included only minor recommendations and that staff had responded positively to these.

A Cameron confirmed that the Association has in place core controls that work effectively, noting that the Association should continue to monitor the impact of CoVid. A Cameron advised members that he considers the Association to be a low-risk organisation.

The Chair thanked A Cameron.

Members noted the reports.

- (a) **Complaints**
- (b) **Treasury Management**
- (c) **Tenant Safety**

With regard to the tenant safety report, A Cameron indicated that ours was the first audit in this area. He asked members to note that having carried out a number of further audits he feels that he was perhaps 'hard' on the Association, particularly in respect of the gas safety inspections affected by CoVid.

12 Half-Yearly Activity Analysis Report

Members noted the report.

13 **AOCB**

(a) **Signing of the External Audit Engagement Letter**

Members noted that this can be done electronically and will be arranged in the next few days.

KM

(b) **Internal audit**

K Miller advised members that the internal audit service will be required to go out to tender during 21/22.

KM

Members noted the position.

(b) **Internal and External Auditor Discussion Without Staff Present**

Staff members left the meeting at 6.30 p.m.

14 **Date and Time of Next Meeting:** Additional February meeting date to be arranged.