

**Minutes of the Meeting of the Performance & Audit Committee
held on Thursday 2 March 2017
79 Hopetoun Street, Edinburgh**

PRESENT:	Mr D Scobie Mrs J McCormick Mr M McFee Mr W Nicolson Mr W Smalley	Chair
IN ATTENDANCE:	Mr B Logan Mr S Smith Mrs N Harcus Ms S Gilbride Ms H Thomson Ms M Goldie Ms C Innes Mrs C McSkimming Mr A Strickland Miss C Beesley Mrs K Adams Ms G Callaghan	Chief Executive Director of Finance & ICT Services Assistant Director (Strategic Development)/Acting Director of HR Assistant Director: Tenancy Services Assistant Director: Property Services Assistant Director: Care Services Head of Development Housing Performance Manager Business Improvement Manager Governance & Administration Manager RSM (External Auditor) (up to and including Item 211(i)) TIAA (Internal Auditor) (up to and including Item 213(ii))

207. Apologies for Absence

Apologies for absence were received from Mr M Singh.

208. Declaration of Interests

There were no declarations of interest.

209. Minutes of the Meeting held on 10 November 2016 and Confidential Minutes of the Meeting held on 10 November 2016

The Minutes of the meeting held on 10 November 2016, having been previously circulated, were approved and signed by the Chair.

In/...

In respect of the Confidential Minutes of the meeting held on 10 November 2016, which had been previously circulated, the Assistant Director: Care Services, advised that, in respect of Minute 200(ii) Confidential Item: Allegation of Fraud: Finavon Court, Glenrothes, it had not been possible to establish or confirm that any fraudulent activity had been carried out on the bank card and therefore the statement that there had been fraudulent activity was inaccurate. Thereafter, the Confidential Minutes of the meeting of the meeting held on 10 November 2016 were approved and signed by the Chair.

210. Business Arising

Nil

211. Priority Items

(i) Confidential Item: External Audit Plan 2016-2017

The Committee received Report PAC/5(i)/MAR/17 and a report in relation thereto from the Director of Finance & ICT Services.

The External Auditor had issued an Audit Plan for the year ended 31 March 2017. She highlighted the main areas within the Plan as follows:

- Pages 2-3 – sets out the engagement objectives
- Page 4 – sets out the timetable and communication plan
- Pages 5-6 – the key risks affecting the Audit Plan:
 - Management override of internal control – a key area of focus for all audits. Key financial systems would be reviewed to identify any changes in these systems. Discussions had taken place with the Finance team who had confirmed that there had been no significant changes. Journal processing would also be reviewed together with reviewing the work of the internal auditor
 - Going Concern – cash flow forecasts and assumptions would be reviewed to at least 12 months after the proposed date of sign off of the financial statements. No issues were anticipated although the External Auditor was aware that there may be some requirements for funding moving forward
 - Cut off – Development and Component Spend – the External Auditor was aware that The Walled Gardens was due to complete by the end of March. Development and component replacement spend would be reviewed
 - Useful lives of housing property components – the External Auditor was aware that Bield had re-assessed the useful lives of some housing property components in the year in line with the Asset Management Strategy. These would be reviewed to ensure they are reasonable
- Page 7 – sets out the audit fee for the year
- Page 8 – note that there were no issues being brought forward from the previous year. A query was raised in respect of the qualified accounts and the External Auditor confirmed that any issue which may arise in relation to pensions, would only be at the next valuation date
- Page 16 – provided an update on the key issues in respect of FRS102 and SORP. There would possibly be some changes in 2019 in relation to financial instruments and some clarification and guidance was expected on this but there were currently no significant changes. A Committee member asked for

further clarification on what SORP and FRS102 meant and their effect on the accounts. It was agreed that the External Auditor would provide further clarification on this issue at next Committee meeting when the accounts would be presented.

The Committee considered the External Auditor's report and noted the position regarding the audit of the accounts for the year to 31 March 2017. They also noted that further clarification on SORP and FRS102 would be provided by the External Auditor at the next Committee meeting in June.

212. Performance

(i) Confidential Item: Corporate Key Performance Indicators - Q3

(ii) Business Strategy Tasks – Q3

The Committee received Report PAC/6(ii)/MAR/17 and a report in relation thereto from the Business Improvement Manager. The report displayed the status of each task in relation to its original deadline which was either on track, slightly behind schedule, significantly behind schedule or complete.

The Business Improvement Manager advised that currently 7 tasks were slightly behind schedule and a further 2 tasks were significantly behind schedule. In respect of the 2 significantly behind schedule, these related to (i) reviewing key processes – this task had been put on hold pending the organisational review although a plan would be developed to progress the action by the end of Q2 2017-18; and (ii) sales at the Walled Gardens – an update on this would be provided later in the agenda

A query was raised in respect of staff PDP meetings and what percentage of these had been undertaken. The Assistant Director (Strategic Development)/Acting Director of HR advised that an audit in this respect was currently being undertaken. Another query was raised in respect of the employee survey and the Assistant Director (Strategic Development)/Acting Director of HR advised that this would be presented to the Employee Forum within the next couple of weeks and thereafter to the Board.

The Committee noted the current update for the period 1 October to 31 December 2016.

(iii) Complaints Update

The Committee received Report PAC/6(iii)/MAR/17 and a report in relation thereto from the Assistant Director (Strategic Development)/Acting Director of HR.

The Assistant Director (Strategic Development)/Acting Director of HR advised that there had been 144 complaints up to the end of December 2016. It was noted that the number of complaints being recorded had reduced from 227 in 2013 and this could be down to under-recording. Steps were being taken to ensure all complaints were properly recorded. The number of Stage 2 complaints had increased and these were becoming more complex and taking up significantly more staff time.

The/...

The Committee noted the contents of the Complaints Report for the period 1 April 2016 – 31 December 2016.

(iv) Confidential Item: Development Performance Report

213. Internal Audit

(i) Internal Audit Reports

(a) Tenancy Sustainment and Debt Management

The Committee received Report PAC/7(i)(a)/MAR/17 and a report in relation thereto from the Assistant Director: Tenancy Services.

The Internal Auditor advised that the audit highlighted 6 priority 2 recommendations. Policies and procedures were well-designed and most of the recommendations related to non-compliance. The report had also highlighted some areas of good practice. The areas of weakness related to the following:

- Records on CTX and Pandora were insufficient in some cases of rent arrears
- Arrears were not addressed at an early stage
- A query raised by a tenant's family member relating to service charges had been ongoing for over a year
- There were some breaches in payment plans
- Debt management procedures were not prescriptive in respect of the timescales for court action
- Monitoring in one owner services case was thought to be inadequate as it was shown as a rent arrear when in fact it was actually a void loss

Suggestions for process improvement were as follows:

- Income and expenditure assessments require to be carried out with tenants in arrears to assess what is an affordable amount which will clear arrears in a timely manner
- There was a need for a defined procedure for pursuing debts granted by decree
- Write-offs should be processed timeously
- Where arrears are to be written off due to there being no funds available, evidence of the lack of funds should be recorded
- Delays in having payments show up on CTX should be reduced.

A query was raised in respect of the sample sized used for the audit and the Assistant Director: Tenancy Services confirmed that this was around 25. There was also a query in respect of how many tenants were currently in arrears. The Assistant Director: Tenancy Services advised that Bield's ICT systems did not provide that information. In respect of the housing management system, it was planned to implement a new system during Q1 of 2018/19. The Director of Finance & ICT Services, whilst accepting the failings of the current systems, advised that the resources involved in replacing CTX with a new system would be huge although in the long run would result in a system fit for purpose. Disappointment was expressed that the audit had resulted in only 'limited' assurance.

The Assistant Director: Tenancy Services advised that much of Housing Officers' time was taken up with staff management but that staff spent 1-2 days per week on arrears so they were trying to keep on top of the situation with limited resources. It was noted that the position could get worse with the introduction of the LHA cap. A request was made by a Committee member for some reassurance that write-offs would be dealt with more quickly. It was agreed that this should be the case and the current position was that all write-offs were up-to-date. The Assistant Director: Tenancy Services advised that staff were receiving training via TC Young in respect of arrears/write-offs/court work.

In conclusion, the Chair suggested that the common themes emerging from the audit report related to training and the CTX system upgrade. The Committee and the Internal Auditor all expressed some sympathy with the resource issues and constraints which did not make this piece of work easy to undertake. It was suggested that this area could be looked at again in a future audit.

The Committee approved the audit report.

(b) Contract Management

The Committee received Report PAC/7(i)(b)/MAR/17 and a report in relation thereto from the Business Improvement Manager.

The Internal Auditor advised that the audit highlighted 1 priority 2 recommendation. This related to management formalising a contract management framework which included appropriate guidance to contract managers within Bield on the action to be taken in the event of poor performance. Substantial assurance had been given for the audit which was very positive. The Committee congratulated those involved on a good outcome.

The Committee approved the Audit report.

(ii) Progress Update on Audit Recommendations – Q3

The Committee received Report PAC/7(ii)/MAR/17 and a report in relation thereto from the Business Improvement Manager. He advised that 8 recommendations had been completed during Q3 with 7 slightly behind schedule. The remaining recommendations were on track.

The Committee noted the Progress Update on Audit Recommendations listed in the report.

The Internal Auditor left the meeting at this point.

(iii) Internal Audit Tender Update

The Committee received a verbal report from the Assistant Director (Strategic Development)/Acting Director of HR. She reminded Committee that a paper had been presented to them in November 2016 which had referred to setting up a working group to look at the scope of audits. This group had been created and a tender document issued. The closing date for this was 24 March. Internal presentations were due to take place on 18 April and the contract award expected

to take place on 19 April. An update on the position would be provided at the next Performance & Audit Committee meeting due to take place in June.

The Director of Finance & ICT Services advised Committee that he had learned recently of another RSL going through a similar process for which they had received 7 responses. It was suggested making a distinction between a 'tick box' exercise and quality audits. The Assistant Director (Strategic Development)/Acting Director of HR advised that the audit tender had already been split between, approximately, £15K for basic audits and £10K for more specialist audits.

The Committee noted the position.

214. Policies
Nil

215. Risk Management

(i) Risk Register

The Committee received Report PAC/9(i)/MAR/17 and a report in relation thereto from the Business Improvement Manager. He explained that Committee would usually only receive a report on the exceptions, highlighting only those risks which had been amended by the SMT since the Committee last received a report. However, since the report reflected the new Business Strategy for 2016-21, the whole Risk Register had been attached. The usual report would be provided moving forward. It was confirmed that the only changes since the last report related to the timescales and the narrative. No risks had been changed in respect of their ratings.

There were 2 severe risks (numbers 11 – relating to the failure of new developments to generate property sales value and sales to programme; and 13 – relating to increased pension deficits and liability resulting in existing arrangements becoming unaffordable). There were also 9 substantial risks.

The following risks were discussed in more detail:

Risk 17 – Breach of information security – a query was raised as to whether Bield had insurance for these events. The Director of Finance & ICT Services confirmed that Bield did have insurance in respect of information security but not for cyber security. The Assistant Director: ICT Services had felt that with current arrangements this insurance for cyber security would not prove to be value for money.

Risk 21 – Long term sickness absence at senior staff level – a query was raised as to whether the reasoning column should be amended to reflect the new position of the Assistant Director (Strategic Development)/Acting Director of HR. The Chief Executive explained that this position was different from that of the Director of Care Services as he was taking on two director roles and this situation shouldn't arise with the interim position in respect of the Director of HR.

Risk 22 – Failure to deliver reactive repairs service due to contractor performance – a query was raised as to the performance of Mears. The Assistant Director: Property Services advised that performance had improved although there were still some issues to be resolved.

Risk 27 – The imposition of a LHA cap – the Chief executive advised that he, together with the Chief Executives from Hanover and Trust, had undertaken some significant work in this respect. A piece of work had been commissioned to issue a summary of the possible implications of the LHA cap which had been issued to Ministers, Government and senior civil servants. A meeting was due to take place with senior civil servants following a meeting with the Social Security Minister. There had been some good coverage in the Herald newspaper which outlined the impact on older people across Scotland. This had been followed up with a letter to all MPs/MSPs.

The Chief Executive advised that this was a huge risk to Bield and would affect around 89% of tenants.

The Assistant Director: Tenancy Services advised that a company called Support Solutions had been commissioned to undertake some work and they had advised that they felt confident that Bield's properties would qualify for exemption.

The Committee noted the updated report on the Bield Risk Register.

216. Any Other Business

(i) Note of Meeting between Bield and SHR

A query was raised in respect of reference at the last Board meeting of the notes from the meeting with the Regulator being made available. The Chief Executive confirmed that these were not ready in time for the last Board meeting but would be circulated as part of the Chief Executive's report being presented to the March Board meeting.

217. Date of Next Meeting

Tuesday 20 June 2017 in Edinburgh.