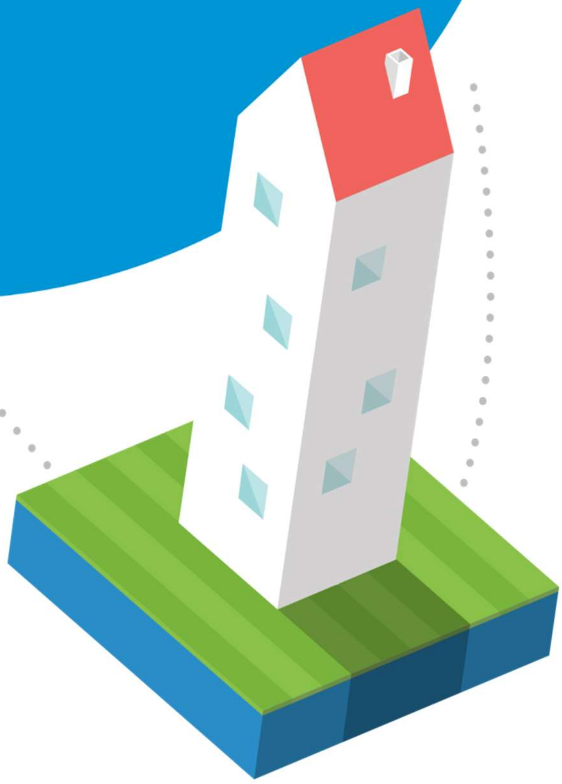
Scott-Moncrieff
business advisers and accountants
With Campbell Dallas

Yorkhill Housing Association Limited

Audit management report for the year ended 31 March 2020



Yorkhill Housing Association Limited

Audit management report for the year ended 31 March 2020

1 Purpose of this report

International Standards on Auditing (UK) 260, “Communication with those charged with governance” and 265 “Communicating deficiencies in internal control to those charged with governance and management” require Scott-Moncrieff to report the significant findings from our audit to you.

Our procedures are carried out solely for the purpose of our audit so that we can form and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK). Our audit does not necessarily disclose every weakness and for this reason the matters referred to may not be the only shortcomings which exist.

We take this opportunity to remind you that:

- This report has been prepared for the sole use of Yorkhill Housing Association Limited;
- It must not be disclosed to any third party without our written consent; and
- No responsibility is assumed by us to any other person who may choose to rely on it for his or her own purposes.

The report has been discussed and agreed with Gary Watson.

We would like to thank Gary Watson and the rest of the staff for their kind co-operation and assistance during our audit.

2 Audit conclusion

In our opinion the financial statements give a true and fair view of the state of the Association's affairs as at 31 March 2020 and of its income and expenditure for the year then ended. The financial statements have been prepared in accordance with applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

We confirm that there are no issues affecting the Association's ability to continue as a going concern. We agree with the Management Committee's conclusion that the impact of COVID-19 should not significantly affect the going concern status of the Association or the Group and that the disclosures in the financial statements in respect of this is appropriate

We did not identify any subsequent events which require amendments or disclosures to be made to the financial statements out with the impact of COVID-19.

Auditor Independence

International Standard on Auditing (UK) 260, "Communication with those charged with governance" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

The Ethical Standard for Auditors 2019 states that *"Where partners and staff in senior positions have a long association or extensive involvement with an entity relevant to the engagement, self-interest, self-review and familiarity threats to the integrity or objectivity of any person performing the engagement may arise. Similarly, such circumstances may impair, and could compromise, independence."* Jennifer Alexander has held a senior position in the audit of the Association for a period of 10+ years. In line with the Ethical Standard, a 2nd partner review has been performed and has confirmed that Jennifer's integrity or objectivity has not been compromised.

Baldwins Holdings Limited, a company in the same group as Scott-Moncrieff Audit Services, provides taxation services to the Association. All tax services are provided by an independent tax partner and staff who have no involvement in the audit of the financial statements. We will also iXBRL tag the financial statements for submission to HMRC if requested. This will be carried out by a person who is not involved in the audit and after the signing of the financial statements.

We can confirm that we have complied with the Financial Reporting Council's Auditing Ethical Standard. In our professional judgement the audit process has been independent and our objectivity has not been compromised.

Audit and non-audit fees

	Current year £	Prior year £
Audit of Association	11,875	11,500
Total audit	**11,875**	**11,500**
Corporation tax compliance services	525	510
Services relating to taxation	**525**	**510**
Total other non-audit services	-	-
Total non audit services	**525**	**510**
Total fees	**12,400**	**12,010**

Audit and non-audit fees – Future services

	Expected fees for the year ended 31 March 2021 £
Audit of Association	12,230
Total audit	**12,230**
Corporation tax compliance services	540
Services relating to taxation	**540**
Total other non-audit services	**-**
Total non-audit services	**540**
Total fees	**12,770**

3 Audit risk areas identified at the planning stage

Identified audit risk areas

As noted in our audit planning letter submitted to the Management Committee we identified the audit risk areas, noted in the table below, as significant matters. We considered these matters in detail during our audit fieldwork.

Audit risk areas	Audit findings
Risk 1 – Management override of controls	
In any organisation, there is a risk that management and Committee members have the ability to process transactions or make adjustments to the financial records outside of the normal financial control processes. Such transactions could lead to a material misstatement in the financial statements. We treat this as a presumed risk area in accordance with International Standard on Auditing (UK) 240: "The auditor's responsibilities relating to fraud in an audit of financial statements". **Whilst we do not suspect any incidences of management override, we will review the accounting records for significant transactions that are outside the normal course of business and obtain evidence to ensure that these are valid and accounted for correctly.**	Our review of the accounting records did not identify any significant transactions outside the normal financial control processes. We did not identify any evidence of management override. Conclusion: We have gained satisfactory assurance in respect of the mitigation of this risk.
Risk 2 – Revenue recognition	
Under International Standard on Auditing (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 the Association could adopt accounting policies or recognise income in such a way as to lead to a material misstatement in the reported revenue position. **Whilst we do not suspect any incidences of fraud or error, we will evaluate each type of revenue transaction and document our conclusions.**	We evaluated each material revenue stream, considered the Association's revenue recognition policy and carried out testing to ensure this is appropriate and has been applied. Conclusion: We have gained satisfactory assurance in respect of the completeness and occurrence of revenue transactions in the year.

Audit risk areas	Audit findings
Risk 3 – Recoverability of rental arrears	
The recoverability of rental arrears is becoming more difficult with welfare reform, the gradual rollout of universal credit and continued pressure on the household income of the Association's tenants. **As part of the preparation of the financial statements, senior management and the Management Committee must perform a detailed review of the housing arrears at the year end and identify those that will not be recoverable and write these off and identify those that may not be recoverable and make a suitable provision against them. We would also expect, in most cases, that former arrears balances are either written off or are fully provided against.** **As part of the audit of the financial statements we will review the bad debt write off and provision made by the Association to determine if these are appropriate. We will place a particular focus on former arrears balances and significant current arrears balances.**	The rental arrears balance at the year-end has been reviewed. A year end adjustment in respect of the provision against arrears has been made. Details of this can be found in appendix 1. Conclusion: Satisfactory assurance has been gained in respect of the mitigation of this risk.
Risk 4 – SHAPS past service deficit liability	
The Association is a member of the SHAPS defined benefit pensions scheme. Each year the pensions trust provides a year end accounting valuation. The Association needs to account for the pension movement in the financial statements and ensure the disclosure is appropriate. The Association must also satisfy themselves that the actuarial assumptions are reasonable. We then need to check and agree the above.	The report issued by TPT detailing the defined benefit pension liability at 31 March 2020 has been reviewed and we are satisfied that this has been correctly recorded within the financial statements. All disclosures relating to the defined benefit pension liability within the financial statements have been reviewed with reference to accounting standards and guidance issued by the SHAPS administrators, TPT, and found to be sufficient and appropriate. We have reviewed the assumptions used and considered these to be reasonable compared with benchmark data. Conclusion: Satisfactory assurance has been gained in respect of the mitigation of this risk.
Risk 5 – Completeness of Expenditure	
Given the RSL is spending tenant's monies and grant funds it is important that we ensure that the purchase is appropriately incurred and subject to the appropriate control procedures. **We will test a sample of expenditure items in the year to ensure these are appropriate and have been authorised in line with the Association's policies.**	Conclusion: No issues were identified from the sample of expenditure items tested.
Risk 6 – Impairment of Housing Stock	

Audit risk areas	Audit findings
There is a risk that the underlying value of the housing properties is less than as recorded in the financial statements. We will review for impairment indicators.	We did not identify any indication of impairment. Conclusion: We have gained satisfactory assurance in respect of the mitigation of this risk.
Risk 7 – Impact of COVID-19	
As part of our consideration of post balance sheet events and going concern, we will consider the current and expected future impact of COVID-19 on the Association. We will require that forecasts supporting the 12 month period following the financial statements have been updated to take into account the expected impact of COVID-19.	We reviewed budgets and forecasts which consider the impact of COVID-19 on the Association. Conclusion: We agree with the Management Committee's conclusion that the impact of COVID-19 should not significantly impact the going concern status of the Association.

4 Significant audit and accounting matters

Significant issues identified during our audit fieldwork

We did not identify any further significant issues during the course of our audit work.

Audit adjustments

A summary of the effect of the audit adjustments is shown below. A schedule of the actual adjustments can be found in appendix 1.

Number of audit adjustments	Effect on Total Comprehensive Income
5	Decrease of (£23,137)

We agreed all audit adjustments with Gary Watson.

Unadjusted items

A summary of the net effect of the unadjusted items is shown below. A schedule of the unadjusted items can be found in appendix 2.

Number of unadjusted items	Effect on Total Comprehensive Income
2	Decrease of (£3,314)

We agreed with Gary Watson that these amounts are not material and thus they have not been incorporated into the financial statements.

Qualitative aspects of accounting practices and financial reporting

During the course of an audit, we consider the qualitative aspect of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. Our observations are as follows:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	We have reviewed the significant accounting policies, which are disclosed in the financial statements, and we consider these to be appropriate to the Association.
The timing of the transactions and the period in which they are recorded.	We did not identify any significant transactions where we had concerns over the timing or the period in which they were recognised
The appropriateness of the accounting estimates and judgements used.	We are satisfied with the appropriateness of accounting estimates or judgements used in the preparation of the financial statements.
The potential effect on the financial statements of any uncertainties including significant risks and disclosures such as pending litigation that is required to be disclosed in the financial statements.	We did not identify any uncertainties including any significant risk or required disclosures that should be included in the financial statements.
The extent to which the financial statements have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed in the financial statements.	We did not identify any unusual transactions in the period from our testing.
Apparent misstatements in the Board of Management's report or material inconsistencies with the financial statements.	There has been no misstatement or material inconsistency with the financial statements included in the Management Committee's report.
Any significant financial statement disclosures to bring to your attention.	There are no significant financial statement disclosures that we consider should be brought to your attention. All disclosures made are required by relevant legislation and applicable accounting standards.
Disagreement over any accounting treatment or financial statement disclosure.	There was no disagreement during the course of the audit with regards to any accounting treatment or disclosure.

Qualitative aspect considered	Audit conclusion
Difficulties encountered in the audit.	We did not encounter any difficulties during the audit.

Fraud and irregularity

Responsibility for preventing and detecting fraud and other irregularities lies with the Management Committee. We are not required to search specifically for such matters and our audit should not be relied upon to disclose them. However, we planned and conducted our audit so as to give a reasonable expectation of detecting any material misstatements in the financial statements resulting from improprieties or breach of regulations.

We are pleased to report that we did not identify any issues of concern in relation to fraud and irregularity.

Legality

We planned and performed our audit recognising that non-compliance with statute or regulations may materially affect the financial statements.

We are pleased to report that we did not identify any instances of concern with regard to the legality of transactions or events.

5 Review of financial performance

The material movements in the financial statements were:

Statement of Comprehensive Income		
Account	2020 £x – 2019 £y (change £z, w%)	Explanation for movement
Turnover	2019 £2,181,922 - 2019 £2,134,651 (increase of £47,271, 2%)	Increase in turnover is due primarily to the rental increase of 2.1% applied in the year. Remaining variance is immaterial.
Operating Expenditure	2020 £2,055,776 - 2019 £1,940,158 (increase of £115,618, 6%)	The variance is due to the following: - Staff costs have increased by £86k from the prior year. This was due to a slight increase in staff numbers as well as a payrise of 2.2% in the year. - Major repairs increased by £32k from prior year. This varies depending on the schedule of works to be completed in the year.

Statement of Financial Position		
Account	CY £x – PY £y (change £z, w%)	Explanation for movement
Housing properties	2020 £7,596,723 - 2019 £7,696,030 (decrease of -£99,307, 1%)	The decrease in housing properties relates to depreciation charge of £402k offset by additions of £303k.
Creditors due in <1 year	2020 £1,262,655 - 2019 £1,129,843 (increase of £132,812, 12%)	Trade creditors have increased by £162k whilst accruals have decreased by £26k. This is due in part to the timing around the year end as the trade creditor payment run was completed on 1 April as a result of COVID-19.
Creditors due in >1 year	2020 £6,116,605 - 2019 £6,938,025 (decrease of -£821,420, 12%)	The decrease is due to a reduction in deferred capital grants following a £264k release to income in the year, repayment of housing loans of £307k as well as a decrease in the SHAPS defined benefit liability at the year-end following the TPT valuation of £250k.

6 Accounting systems and internal controls

During the course of our audit of the financial statements, we examined the principal internal controls which the Management Committee have established to enable them to ensure, as far as possible, the accuracy and reliability of the Association's accounting records and to safeguard the Association's assets.

It should be noted that our audit was planned and performed in order to allow us to provide an opinion on the financial statements and it should not be relied upon to reveal all errors and weaknesses that may exist.

Action plan – audit recommendations

We identified a number of observations which we consider require management action. Recommendations to address the observations are detailed in the action plan below, together with management responses.

		No of audit observations	
Grade	**Definition**	**Current year**	**Prior year**
5	Very high risk exposure - Major concerns requiring immediate attention	-	-
4	High risk exposure - Absence / failure of significant key controls	-	-
3	Moderate risk exposure - Not all key control procedures are working effectively	-	-
2	Limited risk exposure - Minor control procedures are not in place / not working effectively	1	-
1	Efficiency / housekeeping point	2	-

Action plan

1	SHAPS pension deficit payments
Observation	It was noted that the pension deficit payments were recorded against the P&L in the year.
Risk and recommendation	The SHAPS pension deficit payments represent payments towards prior year liabilities of the pension scheme. It is, therefore, no appropriate to allocate these against P&L, as these payments will have already been accounted for via the pension liability in the Statement of Financial Position. We recommend that the SHAPS deficit payments be allocated against the pension liability during the year, to be corrected at the year-end through the actuarial valuation.

	Grade 1
Management response	Management response outstanding

2	Title deeds testing
Observation	It was noted that the Association did not hold title deeds for its office or for one of the properties we selected in our sample testing (35 Regent Moray Street).
Risk and recommendation	There is a risk that the rights and obligations of the entity cannot be verified. We would recommend that title deeds are located to ensure that the rights and obligations of these assets can be identified. **Grade 1**
Management response	Management response outstanding

7 Future developments

As part of our service to you and to help you keep up to date with the latest accounting, audit and tax developments relative to your organisation, we publish regular e-bulletins. We would encourage you to sign up to receive information on topics and events which are of interest to you via our website: http://www.scott-moncrieff.com/news/e-bulletin-signup.

Appendix 1 – Audit adjustments

As summarised in Section 4, we identified the following adjustments during the audit. We have discussed these adjustments with Gary Watson who has agreed that they should be incorporated into the financial statements.

Actual adjustments - current year						
	JE detail	SOCI Dr	SOCI Cr	SOFP Dr	SOFP Cr	Impact on SOCI
1	Gain/ loss on disposal	3,927				-£ 3,927
	Release of deferred capital grant (OCI)		3,927			£ 3,927
	Being reallocation of HAG from gain/loss on disposal					
2	Depreciation - HLB General Lettings	£ 11,118				-£ 11,118
	Loss on disposal of fixed assets		£ 11,118			£ 11,118
	Being re-allocation of disposal of components, i.e. excess depreciation					
3	Accruals and deferred income			66,442.00		
	Rent prepaid			88,940.00		
	Other creditors				155,382.00	
	Being re-allocation of creditor balances					
4	Loans due > 1 year			£ 1,523		£ -
	Loans due 1-2 years			£ 1,523		£ -
	Loans due 2-5 years			£ 4,570		£ -
	Loans due > 5 years				£ 7,617	£ -
	Being correction to split of loans					
5	Bad debts expense	£ 23,137				-£ 23,137
	Provision for bad debts				£ 23,137	
	Being increase in bad debt provision for the year					
			Impact on SOCI			-£ 23,137

Appendix 2 – Unadjusted items

As summarised in Section 4, we identified the following unadjusted items during the audit. We agreed with Gary Watson that these amounts are not material and thus they have not been incorporated into the financial statements.

Unadjusted items - current year						
	JE detail	**SOCI**		**SOFP**		**Impact on SOCI**
		Dr	**Cr**	**Dr**	**Cr**	
1	Service costs - general lettings	3,000				- 3,000
	Prepayments				3,000	
	Being reduction of prepayment					
2	Insurances	£ 6,912				-£ 6,912
	Prepayments				£ 6,912	
	Being inclusion of buildings insurance prepayment in the year					
			Impact on SOCI			-£ 3,314

Appendix 3 – Your audit team

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