

Please note – these Minutes have been edited to remove any commercially sensitive or confidential discussions

ITEM 2

MELVILLE HOUSING ASSOCIATION LIMITED

Minute of the Audit Committee Meeting held on Monday 30 July 2018 at 5.30pm in the Board Room, Corn Exchange 200 High Street, Dalkeith

PRESENT: Glen Alexander (via Telephone)
Donna Bogdanovic
Paul Cameron

IN ATTENDANCE: Morag MacDonald, Chief Operating Officer
Jeremy Chittleburgh, Chiene + Tait
Jennifer Hazel, Wylie and Bisset
Mary Monteith, PA to Chief Executive (Minute)

G ALEXANDER IN THE CHAIR

1a OPENING REMARKS

**Action
Required**

The Chief Operating Officer advised that following the Chair's recent resignation from the Board and Audit Committee, a new chair needed to be elected. Glen Alexander was proposed by the Chief Operating Officer and this was approved by both Members present. The meeting was then handed over to the new Chair.

The Chair thanked members and welcomed everyone to the meeting, especially the representatives from Chiene + Tait and Wylie + Bisset.

Note

1b DECLARATION OF ANY OTHER COMPETENT BUSINESS

Noted that there were no items of any other business to be raised.

Note

1c	DECLARATION OF INTEREST	Action Required Note
	<u>Noted</u> that there were no declarations of interest.	
1d	APOLOGIES	Note
	<u>Noted</u> that apologies were received from Caron Quinn and Andrew Noble.	
2	MINUTE FROM PREVIOUS MEETING 12 MARCH 2018 AND MATTERS ARISING	Approve
2.1	<u>Noted</u> that the Chair took members through the minutes and these were approved by Glen Alexander and seconded by Paul Cameron.	
	Matters Arising	
2.2	There were no matters arising from the previous meeting.	Note
3	NOTIFIABLE EVENTS	
3.1	<u>Noted</u> that as reported – we have no notifiable events.	Note
3.2	<u>Noted</u> that the Chair asked members if they were aware of any other notifiable events. Members confirmed that there were no other notifiable events that they were aware of.	Note
3.3	The Audit Committee noted the contents of this report.	Note
4.	RISK MANAGEMENT	
4.1	<u>Noted</u> that Morag explained that this report was self explanatory and asked for questions.	Note
4.2	<u>Noted</u> that the Chair asked about Staff/Board – risk of key person dependency being classed as high risk. It was explained that the staff team is small and therefore the impact of gaps should key personnel leave was significant – hence the high risk classification.	Note
4.3	<u>Noted</u> that one member commented that she found the risk	Note

	map comprehensive and helpful.	Action Required
4.4	The Audit Committee noted the contents of this report	Note

5. EXTERNAL AUDIT ANNUAL REPORT AND ANNUAL ACCOUNTS

Decision

5.1	Noted that Jeremy Chittleburgh, Partner, Chiene & Tait, introduced the External Audit report and gave a brief explanation of the audit process. He directed members to the Audit Summary Report.	Note
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5.2	Noted that it was explained that no internal weaknesses were identified during the audit.	Note
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5.3	Noted the main business risks which were identified at the planning stage and tailored to Melville had been satisfied during the audit, including:	Note
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- Existence and ownership of our housing stock
- Value of properties and that they are not overstated
- Recoverability of Rent Arrears
- Completeness of rental income, void loss etc
- Provisions with regard to our properties affected by CO2 at Newbyres Avenue, Gorebridge
- Borrowings and Covenants
- Accounting for major works and development
- Accounting for derivatives
- Checks for the opportunity for Fraud
- Related parties
- Liabilities
- Compliance

Issues Arising during the Audit

5.4	Noted that Melville's Finance Team were complimented for the quality of information provided during the audit.	Note
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5.5	Noted that during the audit C+T reviewed the issues relating to carbon dioxide in our housing stock. The auditors were pleased to note the current testing going on in these properties	Note
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	and were satisfied that no material impairment of the value of these properties was evident at this point but recommended that this should be kept under review.	Action Required
5.6	Noted that whilst the auditors were satisfied with the treatment of the £500k HEEPS Loan for energy efficiency works, following discussions with Management, it has been included as an unadjusted difference on the letter of representation.	Note
5.7	Noted that it was highlighted that following revisions to FRS 102, it will be necessary to have a formal Deed of Covenant in place between IDL and Melville for the gift aid of donations and it was advised that a proforma for this can be provided.	Note
5.8	Noted that it was noted that service costs reported had not been fully recovered in recharges to tenants. Auditors were advised that some costs recorded as service costs are not covered in the service charge and should probably be considered reactive costs. Service charges and related costs are reviewed annually and this will be picked up in our next review.	Note
5.9	Noted that as the Ironmills (IDL) figures are not material to the overall group, it was highlighted that should the Audit Committee agree, it was not necessary to have an audit for IDL. This would reduce the annual audit fee. The Audit Committee supported this proposal.	Note

Issues raised in the Previous Year

5.10	Noted that the Auditors recommended that the Board continue to review the carrying value of the Corn Exchange, currently reviewed, considered and documented on an annual basis, to satisfy themselves that the carrying value is appropriate.	Note
5.11	Noted that the position of our subsidiary remains steady.	Note

Forthcoming developments

5.12	Noted that Audit Committee members were directed to the Technical Accounting and Reporting Developments document which was included as Appendix 2 to the report. This gives an overview of various factors which will affect the Housing Sector.	Note
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		Action Required
	ISA Requirements	
5.13	Noted that it was explained how Internal Standard on Auditing (ISA) requirements had been satisfied during the course of the audit.	Note
	Letter of Representation	
5.14	Noted that Members were asked to review the Letter of Representation and recommend approval and signing by the Board at their meeting on 8 August.	Note
	Questions from Committee	
5.15	Noted that the Chair asked what would happen next year if no progress was made on Newbyres properties. The external auditor advised that if we were not able to let all properties, we may have to consider an impairment provision.	Note
5.16	Noted that a member queried the liability for our Newbyres property. The Committee were advised that there was no specific liability provided for in the accounts as it needs to be clearly definable, but that we have provided £100,000 in our 2017/18 budgets for remedial works.	Note
5.17	The Audit Committee noted the contents of this report and agreed to recommend the Accounts and Letter of Representation to the Board for approval/signing	Note Approve
6.	MEETING IN PRIVATE WITH EXTERNAL AUDITOR	
6.1	Noted that in line with good practice, staff members left the meeting to allow Audit Committee members to meet in private with the external auditor.	Note
7.	INTERNAL AUDIT REPORTS AND DRAFT PLAN FOR 2018/19	
	Reactive Repairs Audit	
7.1	Noted that the Internal Auditor took members through the Internal Audit Annual Report and highlighted the following:	Note

		Action Required Note
	<ul style="list-style-type: none"> ▪ No major issues in any of the audits undertaken with adequate and effective management, control and governance processes in place. ▪ the basis of opinion/level of assurance given ▪ All of the audits conducted received a Strong rating. It was pointed out that it was rare to see so few recommendation made over the year with average being 17 and Melville having 5 – an excellent outcome. 	
7.2	<u>Noted</u> that the auditor was pleased to report that Wylie & Bisset had achieved 100% in all of the KPI's relating to the audit process.	Note
7.3	<u>Noted</u> that the Audit Committee were advised that the Management Response time had been excellent as was the co-operation of the staff during all of the audits. The Chair asked that this feedback be passed on to staff.	Note
Gas Safety Audit		
7.4	<u>Noted</u> that Members were given an overview of the scope of the audit and highlighted the work undertaken <ul style="list-style-type: none"> ▪ Discussions with relevant staff about the arrangements in place for gas safety, reporting in place for management and performance monitoring of gas contractor ▪ Reviewing/assessing robustness of policies and procedures ▪ Obtaining KPI/performance reports and assessing the appropriateness of current performance ▪ 191 gas properties (10%) reviewed for gas safety certificates. 	Note
7.5	<u>Noted</u> that access to the Association systems was a big help in the process and the Auditor would recommend this approach for future audits.	Note
7.6	<u>Noted</u> that the overall conclusion for this audit was Strong with no recommendations (against an average of 4).	Note

7.7	<u>Noted</u> that various areas of good practice were highlighted in the report.	Action Required Note
7.8	<p><u>Noted</u> that two observations were made from the audit:</p> <ul style="list-style-type: none"> ▪ Noted that some paper copies of gas certificates were not held on file by Association, but these were provided the same day they were requested by the previous contractor Minute removed or edited due to information relating to personal/confidential items or being commercially sensitive ▪ ARC return for 16/17 showed 99.8% gas services completed, now the KPI report shows performance at 100%. Auditors are happy that this shows that the Association had taken steps to address the previous issues. 	Note
7.9	<p><u>Noted</u> that a Member asked about the contractor used to conduct the independent checks for gas safety and how often staff met with them, further information would be sought from Property Services.</p> <p>Post Meeting Note: Email sent to Audit Committee Members 07/08/18.</p>	Note
7.10	<p><u>Noted</u> that the Committee discussed Fire Safety and if our procedures were audited. It was acknowledged that this subject was covered as part of Health and Safety, but the Chief Operating Officer suggested that it could be added as an Agenda item to the next Audit Committee, with a report from staff on what we do at Melville to raise fire safety awareness with tenants and staff, and what checks are carried out on buildings.</p>	Action Morag Note
7.11	The Audit Committee noted the contents of this report	
8.	MEETING IN PRIVATE WITH INTERNAL AUDITOR	
8.1	<u>Noted</u> that in line with good practice, staff members left the	Note

	meeting to allow audit committee members meet in private with the internal auditor.	Action Required
9.	INSURANCE SUMMARY	
9.1	Noted that the Chief Operating Officer directed members to the summary tabled and highlighted that insurance costs were down considerably over last few years.	Note
9.2	Noted that our insurance services were tendered in 2016 and it was pointed out that we had completed some benchmarking and are satisfied that we have a good deal on our insurance cover.	Note
9.3	Noted that it was pointed out that Fleet insurance was not required as we no longer have pool cars.	Note
9.4	Noted that our professional indemnity insurance was provided through our SFHA membership. Noted that the Chief Operating Officer asked what this actually covered us for. It was explained that is a form of liability insurance which helps protect professional advice and service-providing individuals and companies from bearing the full cost of defending against a negligence claim made by a third party and covered damages awarded in such a civil lawsuit.	Note
9.5	Noted that clarification on the Terrorism cover clause was requested. It was explained that this is a new policy and pointed out that whilst the risk of a direct attack was small, there was an example in England of a building being destroyed as a result of a tenant building a bomb in their home which accidentally went off. This cover protects against that type of scenario (as well as direct attacks).	Note
9.6	Noted that our External Auditor commented that this was a prudent move as there has been an increase in these cases.	Note
9.7	The Audit Committee noted the contents of this report and advised that they were happy with insurances noted.	Note

10. AUDIT COMMITTEE CHECKLIST	Action Required
10.1 Noted that Members were advised that this check list was developed in 2012, based on a good practice guide from the National Audit Office, to allow members to assess their performance as a Committee and their support to the Board in line with their remit.	Note
10.2 Noted that following concerns about their lack of finance background expressed by some members, there was a discussion on the benefits of having non-finance people on this Committee. It was noted that the Audit Committee is not just about finance and should not just be made up of finance people. The bulk of the internal audit reports, for example, are about operational practices. It was pointed out that non-finance members can often ask the most pertinent questions. The auditors present also reassured members about how useful their presence of this Committee was.	Note
10.3 The Audit Committee noted the contents of this report and agreed that the information on the checklist was an accurate representation of the Audit Committee performance for the year	Note Agree
11. AUDIT COMMITTEE DRAFT ANNUAL REPORT	
11.1 Noted that Members reviewed the Draft Annual Report which set out the activities covered by the Committee in the last year and Audit Committee Remit.	Note
11.2 Noted that as set out in the report, it was also agreed that it would be desirable if a member of the Ironmills Board was invited to be a member of the Audit Committee.	Note
11.3 Noted that after consideration the Audit Committee agreed that the Annual Report of the Audit Committee should be submitted to Melville’s Board on 8 August.	Note Approve
12. POLICY REGISTER	
12.1 Noted that members asked about the progress on the Mentor Handbook that would replace the employment policies. It was	Note

	explained that the Chief Executive had met with our Employment Law advisers to work on this and it was hoped that this would be ready for approval in early Autumn.	Action Required
12.2	The Audit Committee <u>noted</u> the contents of the updated policy register.	Note
13.	REGISTERS	
13.1	<u>Noted</u> that there had been the following entries in the registers since the last meeting of the Audit Committee: <ul style="list-style-type: none"> ▪ 3 items recorded in the Entitlements, Payments and Benefits Register ▪ 1 entry in Declaration of Personal Interest Register 	Note
13.2	<u>Noted</u> that there have been no entries to any of the other registers since the last Audit Committee meeting.	Note
13.3	<u>Noted</u> that registers were signed following the meeting.	Note
14.	ANY OTHER COMPETENT BUSINESS	
14.1	<u>Noted</u> that there was no Other Competent Business.	Note
15.	DATE OF NEXT AUDIT COMMITTEE MEETING	
15.1	<u>Noted</u> that the next Audit Committee meeting will be held on 26 November 2018.	Note