

Minutes from Online Audit and Risk meeting - Non-Confidential held 13th July 2023

Attendance	David Clowes (DC) (Acting Chair), John Rawson (JR) (Chair), Christine Gore (CG), Ian Mason (IM), Andrew Parfitt (AP), Richard Pineger (RP), Martin Surl (MS), Arthur Dzido (AD), Emma Wall (EW), Stafford Cruse (SC), Vicky Day (VD), Andy Tootell (AT), Adam Waller (AW), Nathan Coughlin (NC) Bishop Fleming, Lucy Cater (LC) SWAP
Recorder	Rhian Watts (RW),
Apologies	None
Quorate?	Yes

Item	Notes	Action for
	<i>This meeting was preceded by a private meeting for Committee members with the Internal and External Auditors.</i>	
1	<p>Meeting commenced at 17:36</p> <p>No apologies received.</p> <p>No declarations of interest.</p>	
2	<p><u>Board Champion for Risk (Verbal)</u></p> <p>IM updated the Committee on his activities as Board Champion for Risk and noted that he had held a session on development with Alison Salter (AS) (Head of Development) and a session on the viability of the HRA with SC. He highlighted that the challenges discussed in relation to the HRA also impact our development ambitions. IM noted that there are challenges to the HRA coming from many directions, particularly from the new regulatory framework and our targets for carbon net zero. He explained considerable reassurance had been provided by SC that we are thoroughly monitoring the Housing Revenue Account (HRA) through modelling being carried out on future scenarios. IM highlighted that his next session will be with Paul Woolcock (PW) (IT</p>	

	<p>Manager) to review the risk relating to IT failure and cyberattacks. AP noted that he would like to be included in the meeting if possible.</p> <p>The Committee noted the contents of the verbal update.</p>	
<p>3</p>	<p><u>Board Champion for Wellbeing, Safety and Health (Verbal)</u></p> <p>CG noted that she had met with Mark Way (MW) (Head of Building Services) and Emma McShane (EMcS) (Head of People & Culture) and had been reassured that CBH’s wellbeing, safety and health activities were on track. She commended the report later on the agenda to the Committee and noted that it reflects the importance placed on health and safety at CBH. CG highlighted also the crucial work being done on wellbeing and explained that this was highly welcomed by colleagues and supported us in being an employer of choice. She thanked everyone involved in providing the reports to the Committee. CG noted that she would be meeting with EMcS and MW regularly and noted that other Board members were welcome to attend. CG and IM agreed that they would also meet to review the overlap between their Board Champion roles.</p> <p>The Committee noted the contents of the verbal update.</p> <p>AT left the meeting.</p>	
<p>4</p>	<p><u>Agree non-confidential minutes of the 11.05.2023 meeting and note progress on current action points</u></p> <p>The Committee agreed that the non-confidential minutes of the 11.05.2023 meeting were a true record and noted progress on current action points.</p>	
<p>5</p>	<p><u>Review and recommend to CBH Board the External Audit Report on the group Financial Statements 2022-23</u></p>	

	<p>NC introduced the external audit report on the group Financial Statements for 2022-23. He explained that subject to final approval the audit had gone very smoothly due to the significant amount of effort and work put into the Financial Statements. NC highlighted that this had enabled Bishop Fleming to effectively audit the Financial Statements and give a clean opinion that they are a true and fair reflection of the performance for the year and the balance sheet position.</p> <p>NC explained the significant risk areas include management override controls, revenue recognition, the pension scheme, the going concern, accounting for PRS scheme, and review of IT systems and controls. He highlighted that a change in the pension scheme actuarial assumptions had led to it moving from a liability position to an asset position. NC explained that this meant that we needed to consider whether this asset should be recognised in the accounts and outlined the factors involved. He noted that they had agreed with management that the full asset would not be recognised as it doesn't meet all criteria i.e. it does not directly reduce pension contributions or allow for a refund. NC added that this was the view being taken by the majority of organisations they had discussed this with. The Balance Sheet would show a nil position.</p> <p>NC highlighted that they had considered the stress testing and cashflow forecasts and were comfortable with signing off on a going concern basis.</p> <p>NC noted that accounting for the PRS scheme was audited as a risk as it is considered under auditing rules a complex financial instrument and explained what considerations were required.</p> <p>He finished by explaining that Bishop Fleming had reviewed our IT systems and controls following the introduction of a new auditing standard. NC highlighted that the review had raised no major concerns but had identified one control weakness due to key systems, such as QL, requiring a single sign on. He noted that this</p>	
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	<p>risk was mitigated against by the use of 2 factor authentication and complex passwords that are changed regularly and not repeated. RP asked whether IT were managed their own internal administrator IT password access facility. NC confirmed that this was his understanding.</p> <p>NC then moved to unadjusted errors and highlighted that one manual error within the accounts had been identified where an accrual had been duplicated. He noted that this was reflected in the adjusted differences in the report table. IM asked for clarification on how the adjustments are calculated. NC explained that where an error is identified in sampled journals this is extrapolated across the rest of the population of accruals. He noted that if this figure is not considered significant it is included as an unadjusted item. NC added that in this case because this was a duplication the accrual understates profits. RP asked what the threshold was for materiality. NC explained that it is between 1-2% of annual turnover which means that as long as the total is under £130-150k amendments are not required, and in this instance it was below the threshold.</p> <p>JR commented on the going concern and noted that experience has shown that the future can be worse that we have imagined. He explained that the best we can hope for in those circumstances is some time to adjust, reduce expenditure, dispose of assets and increase income. JR highlighted that it was reassuring that we will have a period time to adjust and plan for the future. He added that it was important that we continue to be vigilant to the environment, both nationally and in the housing sector.</p> <p>IM asked whether we would consider including the pension position as an asset in future Financial Statements if the trend continues. NC explained that if the pension scheme is still in surplus at the next triennial evaluation and the year end audit retains that this is a true indication then it is possible to be recognised as an asset. He noted that it will be capped on what</p>	
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	<p>changes can be made to contribution rates for the valuation period.</p> <p>RP asked whether the change in pension liability was due to current inflation. NC confirmed that the change in the discount rate is based on bond yields which is partly impacted by inflation as well as the country's position in relation to national borrowing.</p> <p>RP noted that our accounting for the PRS scheme uses the retail price index (RPI) and asked why the consumer price index (CPI) is not used instead, as this is what social rent increases are based upon. SC explained that RPI is used in our modelling as historically market rents have tracked closer to RPI increases than CPI, so is a better indicator.</p> <p>AP noted that last year the Financial Statements had been delayed due to issues with resources within the Finance team. He asked whether these had now been resolved. NC confirmed that a number of positions had been filled which had allowed the team the time and resource to prepare the Financial Statements on a timely basis. AD commented that this had also provided the team with the opportunity to plan and segregate duties to aid delivery. He highlighted that it was positive to see the strong Financial Statements they had produced.</p> <p>The Committee reviewed the contents of the report and recommended it to Board.</p>	
<p>6</p>	<p><u>Review and recommend to Board the Financial Statements 2022-2023 for CBH Ltd</u></p> <p>AD introduced the group Financial Statements and explained that they cover both CBH and CBH Services. He explained that the aim of the report is to ensure that the 2022-23 Financial Statements are compliant with legislation, the Companies Act and accounting standards. AD highlighted with the exception of the adjustment for the pension scheme, the Financial Statements show the exact</p>	

	<p>same £76k surplus as the management accounts presented to Board in May. He noted that these Financial Statements relate to CBH and do not refer to CBC. AD explained that CBH had generated £14.6m in income during 2022/23, an increase of £828k from the previous year. He noted that expenditure had also risen to £15.8m, an increase of £552k. AD explained that this increase was primarily relating to the increased cost of materials, the use of subcontractors and the additional cost of void properties. He confirmed that we are reporting just over £1m in cash revenue reserves, which is above our £500k threshold. AD noted that the report also included a supplementary paper on our pension position and a going concern working paper. He explained that the going concern ensures that for the following 12 months we are viable and will be able to meet basic business requirements from a financial perspective.</p> <p>DC thanked the team for a very comprehensive report and noted that the strategic report gives a great overview of what CBH has done in the last financial year.</p> <p>IM noted that the KPIs relating to 'direct cost per property of responsive repairs' and '% of emergency, urgent and routine repairs completed within target' were both off target. He asked how target figures were reached and whether they were reviewed in year if the operating environment changed, for example the rise in inflation. IM commented that the 'average time taken to re-let minor void CBC properties' KPI had also been rated amber and asked whether this was due to staffing or cost pressures. SC confirmed that the KPI targets were approved by Board and CBC as part of the budget setting process. He agreed that they don't always reflect the current operating environment as they were effectively set back in 2021 before the cost inflection spike. SC explained that we do not change these targets partly throughout the financial year as they would not be in line with approvals but continue to report the impact of changes throughout the year to both Board and the Council. He noted that the targets are reviewed and approved annually. SC highlighted that the KPI</p>	
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	<p>results IM had mentioned were primarily due to the difficulty in resourcing, costs of materials and use of subcontractors impacting our cost and performance whilst we continue to aim to deliver high quality service to customers. He added that the impact of inflation and other challenges had been recognised in the new targets for 2023-24.</p> <p>CG noted that the time taken to resolve complaints had increased and asked whether this was for similar reasons. AW commented that this was primarily due to an increase in numbers of complaints following the Housing Ombudsman’s announcement in October. He explained that this had led to a difficult period in quarter 3 whilst we were recruiting additional resource and a legacy of complaints that were processed in quarter 4. EW highlighted that the changes to the Complaints Handling Code had also removed the dissatisfaction stage which landlords had previously used to triage complaints. She noted that any form of dissatisfaction is now considered as a complaint which had significantly increased levels.</p> <p>DC noted that the report states that <i>“CBH adheres to a policy of making payments in accordance with suppliers’ payment terms, aligning with best business practices”</i>. He asked whether this contradicts the external auditors’ identification of balances owed to some trade creditors. SC explained that one of these older balances was a duplication through manual error as identified by the external auditors. He added that others related to invoices that had not been accurately matched to receipts, while these had been paid already. SC noted finally that there was one old account which had been left due to an outstanding query but further investigation had shown that this had been cleared under another reference and has since been released.</p> <p>DC commented that whilst the tenant satisfaction measures (TSMs) had not come into law as of the 31 March 2023 it would be good to reflect the work already carried out in the Financial Statements. AD</p>	
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	<p>thanked him for the suggestion and agreed that a statement of the preparation carried out in 2022-23 should be included.</p> <p>ACTION – Include statement relating to TSM preparation in the Financial Statements.</p> <p>JR commented that it was positive that there are no surprises in the Financial Statements. He noted that it reflected the accuracy of the budget monitoring information provided to the Committee and Board. JR thanked the Finance Team for the high quality of work they provide.</p> <p>The Committee recommended the Group’s financial statements 2022-23 to be considered and signed off by the Board, subject to the changes noted in the minutes.</p>	<p>SC/AW</p>
<p>7</p>	<p><u>Review and recommend to CBHS Board the Financial Statements for 2022-2023 for CBH Services Ltd</u></p> <p>AD introduced the Financial Statements for 2022-2023 for CBH Services Ltd and explained that this was a subsidiary of CBH. He noted that the company had been no trading for 2 years. AD explained that we are maintaining a deficit of £20k within the reserves, supported by CBH. He confirmed that a separate external audit was not required for these Financial Statements.</p> <p>RP asked why we are maintaining the company. AD explained that it may have potential for future development and we may be able to utilise it for new opportunities. He noted that it was more cost effective to keep the company dormant rather than closing it and opening it again.</p> <p>IM asked for further detail on the deficit. SC explained that when the company was created it effectively captured all the activity for building work for CBH properties and effectively reduced tax exposure for these properties. He noted that it was funded by charging a small margin to CBH to cover administrative costs. SC confirmed that once the build had finished the overhead carried on</p>	

	<p>and there was a period where we had some costs coming in without an income margin. He noted that we could put money back into the company and charge CBH a management fee but that it was not necessary and could lead to further tax exposure. SC explained that instead this would be kept as a deficit until the company's status changed. DC commented that CBH provides a letter of support to CBH Services annually to cover this deficit amount.</p> <p>AD thanked Bishop Fleming, the Finance team and the Committee for the strong work carried out on the group Financial Statements. He noted that these were some of the best Financial Statements that he had seen.</p> <p>The Committee recommended the Board of CBHS Ltd to approve the financial statements for Cheltenham Borough Homes Services Limited for the year ended 31 March 2023 for signing on behalf of the Board by Steve Slater as a Director and Adam Waller as the Company Secretary of CBHS.</p>	
<p>8</p>	<p><u>Review and recommend to Board the Governance & Financial Viability Standard compliance:</u></p> <p>AD introduced the reports and explained that as a registered provider CBH must comply with the Governance and Financial Viability standards. He highlighted that these requirements were set by the Regulator of Social Housing (RSH) to ensure we are compliant for a number of elements, including independent skills level, complying with laws on assets and liabilities, conducting stress testing and certifying compliance in annual accounts.</p> <p>VD and AT joined the meeting.</p> <p>i. <u>Annual Financial Stress Testing report</u></p> <p>SC introduced the report and explained that stress testing enables CBH to understand what the financial risks are to the company and</p>	

	<p>the possible impacts of the wider financial environment. He highlighted that it ensures that we have a broader review when we set the budgets. SC noted that this referred only to CBH properties and that stress testing on the HRA is carried out separately. He explained that in both cases we look at key variables, including interest rates, cost inflation, rent inflation, and financial challenges to the HRA requiring cost savings in CBH. SC highlighted that we look at each of these variables individually and then as groups to understand what has the biggest impact and how we should react in worsening situations. He noted that we consider these scenarios through worsening degrees of severity. SC explained that this modelling had shown that the biggest impact that we need to be aware of for CBH are changes in rent and cost increases, and the gap between the two. He noted that whilst the HRA has an element of interest rate risk, this is much smaller for CBH because the loans we have taken out are primarily at fixed rates. SC highlighted the importance of monitoring what is happening in the environment to allow us to react appropriately. He noted that even in situations with severe financial impact we will have time to respond with mitigating actions, for example through the disposal of properties, reduction in staffing or cost saving exercises.</p> <p>JR asked when we would run into a deficit in the severe version of the scenario. SC confirmed that we would have negative cash flow in 2037, with net current assets going into deficit in 2029. He explained that at this point with cost outstripping rent we would need to consider alternative cash flow, potentially from additional funding from the council or other means. SC noted that we anticipate having a 5-6 year lead in for this scenario.</p> <p>JR commented that it was concerning in the short term that we no longer have certainty in a number of areas, including rent increases and inflation. He noted that the Bank of England had originally predicted that inflation would be at 2% by the end of the year and were now predicting 5%. JR asked what our own expectations for next year are. SC confirmed that the Bank of England are now forecasting 2% inflation by the end of 2024. He noted that we are</p>	
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	<p>still seeing high material and subcontractor costs due to high inflation but that we have worked with Travis Perkins to gain some control and secure 1-2% increases on materials in 2023/24. SC agreed that rent increases are still a significant unknown but confirmed that we are expecting them to be set based on CPI in September 2023, which is expected to be at 4-5%. He noted that these rents may be capped again. SC commented that we have been through a period where inflation was outstripping rent increases but noted that there are indications this position may reverse in the near future. He added that we are in a better position in the current year as the 7% rent increase cap was higher than the 5% we had previously modelled. AD noted that whilst we review stress testing with Board annually, we do carry out further stress testing internally when any major changes occur.</p> <p>IM asked what the financial impact of achieving carbon net zero and compliance were specifically for CBH owned properties. EW commented that the properties have an advantage over the HRA stock that most are relatively new builds so do not have the same liabilities. She noted they also are mostly individual properties so are not impacted by the legislation for communal areas. VD agreed that these properties are mostly not affected with the same issues as our older stock. SC noted that one exception was Gresham Court which is below an EPC C. He added that the financial model has included an allowance to bring the properties to that level but that we are currently reviewing whether this will be sufficient.</p> <p>MS asked whether we believe there is any risk of high inflation rates preventing us taking programmes forward if it doesn't come down as expected. AD explained that we are currently have no programmes scheduled for CBH owned properties. He confirmed that we have carried out separate stress testing including the impact of inflation on the HRA in January. He confirmed that we have modelled an increase in inflation in both stress testing activities. He noted that for the HRA if inflation increases severely we may need to consider where to find savings and efficiencies. AD highlighted that in this scenario we would be seeing the main</p>	
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	<p>impact in the 2030s so will have enough time to react to the situation to determine what we can achieve without jeopardising the business.</p> <p>The Committee reviewed the scenarios tested and the key risks to CBH's financial health and endorsed the approach taken and the appropriateness of the mitigating actions which are available to CBH and recommended the report to Board.</p> <p>CG left the meeting.</p> <p>ii. <u>Annual review of Asset & Liabilities Register</u></p> <p>AD introduced the annual review of the Asset & Liabilities register and noted that an expanded overview of the register had been included. He explained this was to give the Committee greater assurance on how the data is recorded and presented. AD highlighted that we have included the number and types of properties within our assets and a liability register to show existing and potential value of our loans. He noted that most of our loans are fixed except for one where we are required to pay 5% of the gross rent received on the dwellings. AD also explained that there are some liabilities that we don't need to record in our Financial Statements, for example contingency liabilities or capital commitments but they had still been included within the register for the awareness of the Committee and Board.</p> <p>The Committee reviewed the contents of the Asset and Liabilities Register as set out in Appendix 1, agreed that this approach remains appropriate for CBH and recommended the report to Board.</p> <p>iii. <u>Annual report on the governance requirements of the Governance & Financial Viability Standard</u></p> <p>AD introduced the report and explained that it confirms our compliance with the RSH's Governance & Financial Viability</p>	
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	<p>Standards for inclusion in the 2022-23 group Financial Statements. DC thanked AD and his team for the well written report and assurance provided.</p> <p>The Committee:</p> <ul style="list-style-type: none"> • Considered the review of CBH's compliance against the Standard (Appendix 2) as presented in Appendix 1. • Recommended the statements made in Appendix 1 for approval by the Board. • Recommended that this compliance is stated within the 2022-23 group financial statements . <p>SC left the meeting.</p>	
<p>9</p>	<p><u>The Internal Audit Annual Opinion 2022-2023</u></p> <p>LC introduced the Internal Audit Annual Opinion for 2022-23 and explained that it summarises the completed audits carried out during the financial year. She noted that 1 audit on the quality of data in relation to tenant satisfaction measures (TSMs) was currently in progress which combined 2 audits from the original 2022-23 Internal Audit Plan. LC highlighted that overall CBH had been given a low reasonable assurance the year. She noted that this was slightly lower than the assurance given for 2021-22.</p> <p>IM noted that the agreed time scale for the recommendations coming from the Incident Management audit had shifted from January to September and November. He asked if there were specific reasons for this change. AD explained that the audit had been carried out against old project management process which had now been improved. He noted it had been agreed we would revisit these recommendations once the current work on embedding the projects management framework is complete.</p> <p>DC thanked LC and her team for the work carried out and the great report.</p>	

	<p>The Committee:</p> <ul style="list-style-type: none"> Reviewed the Internal Audit Annual Opinion 2022-23 and recommended it to Board for approval. Noted the audits concluded since the last meeting and commented on their content as necessary. <p>LC and NC left the meeting.</p>	
<p>10</p>	<p><u>Internal Audit Priority 3 Recommendations Update</u></p> <p>AW introduced the report and noted 1 recommendation carried over from the previous report had now been completed. He highlighted that 6 new recommendations had been added following the completion of the ICT incident management audit. AD commented that there have been discussions with internal audit about where some of the 6 recommendations should be considered as observations instead of recommendations, for example in relation to bringing in new IT service desk management system. He explained that we are aiming to clarify this with internal auditors in the future to differentiate between recommendations and observations.</p> <p>DC commented that in the past we have experienced drift with priority 3 recommendations and noted that it is good that we now generally meet the deadlines agreed with management. EW commented that we have been proactively ensuring that we set deadlines the whole business understands and takes into account implications for multiple teams.</p> <p>The Committee noted progress on Priority 3 Internal Audit Management recommendations.</p>	
<p>11</p>	<p><u>Big Six Audit Action Plan</u></p> <p>VD introduced the progress update on Pennington Choices big six compliance audit carried out in May 2022. She noted that progress has slowed as the new Estate Compliance roles which are carrying</p>	

	<p>out statutory compliance duties are embedded. VD explained that a number of system changes have taken place to facilitate these roles, enable them to act efficiently and ensure that our data capture is good and automated as far as possible. VD highlighted that we are currently considering procurement frameworks with the potential to appoint them to carry out technical audits on individual areas of compliance.</p> <p>IM asked whether properties where gas has been capped are included in our gas safety certification KPIs. VD confirmed that these have been removed from the statistics.</p> <p>IM noted the emerging fire safety risk posed by charging electric scooters and bikes. He acknowledged that we can't prevent people bringing them into properties but asked whether communication on the risk was being considered. VD confirmed that this is being discussed. She noted that a serious fire had occurred in one property as a result of an electric bike being charged overnight and that Gloucester City Homes (GCH) had experienced a serious fire in a flat following an electric bike home conversion. VD highlighted that we have met with Gloucestershire Fire and Rescue to discuss the issue and are now working with the Shared Comms service to explore different opportunities for educating customers on the dangers and provide advice. RP asked whether the vehicles involved had been from reputable brands. VD explained that theoretically these were CE marked equipment but that the fire service had confirmed that it was generally cheaper brands and conversion kits causing issues. She added that the London Fire Brigade are currently carrying out a review of this issue following a number of incidents and that we have asked to be included in any learning released.</p> <p>DC noted that there was one outstanding high priority recommendation and asked for an update. VD confirmed that work was ongoing as the procurement exercise required was to review all of our processes and procedures to ensure we develop systems for the efficient capture of information. She explained</p>	
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	<p>that we have now established how this will be managed robustly through QL. VD noted that we had also engaged a consultant for the asbestos procurement and that there had been a delay due to him moving companies. She confirmed that work was now progressing well.</p> <p>The Committee noted progress against made against the 'Bix Six' Healthcheck Action Plan.</p>	
<p>12</p>	<p><u>Wellbeing, Safety & Health Update and Compliance Summary</u></p> <p>EW introduced the Wellbeing, Safety & Health update and Compliance summary for the period up to June 2023. AT provided the Committee with a presentation highlighting wellbeing, safety and health achievements for 2022-23 and the next steps and workplan for 2023-24</p> <p>DC thanked AT for the presentation and report and commended the passion for health and safety that he has shown every time he has presented to the Committee. He thanked AT, his team and all at CBH for putting wellbeing, safety and health at the heart of everything we do.</p> <p>RP noted an anti-social behaviour (ASB) incident relating to a customer becoming aggressive during a home visit. He asked approximately how many homes visits are conducted to gauge how often this sort of incident occurred and how it is managed. EW explained that we have at least a thousand repair visits monthly, daily visits to sheltered schemes and regular visits by other officers. She highlighted that some of these visits are more at risk of conflict than others, for example those carried out by ASB Officers and Tenancy Management Officers which can include discussions that trigger values or beliefs resulting in a reaction. EW noted that numbers of incidents fluctuate but that our response is key to ensure colleagues are supported, their wellbeing is looked after, and other colleagues are informed. AT explained that when a report is logged it automatically alerts all managers across the</p>	

	<p>business. He noted that teams also have the ability to check for previous incidents prior to any home visit.</p> <p>RP commented that he had been very impressed with the learning framework presented by the complaints handling team at a recent Board. He asked if a similar framework had been considered in relation to wellbeing, safety and health. AT confirmed this would be considered. EW commented that currently any learning from incidents is discussed with the Wellbeing and Safety Group (WASG) to ensure they are considered by a diversity of thought. She agreed that adopting a similar learning framework to that used for complaints could be beneficial.</p> <p>ACTION – To update the Committee on the potential development of wellbeing, safety and health specific learning frameworks in November.</p> <p>The Committee noted the information within the report.</p> <p>AT left the meeting.</p>	<p>EW/AT</p>
<p>13</p>	<p><u>Corporate Risk Update</u></p> <p>AW introduced the report and explained that risks had been reviewed by risk managers and the Board Champion for Risk. He highlighted that whilst no risks had been changed on this occasion in terms of impact or probability, adaptations had been made to the controls that sit behind the risks.</p> <p>The Committee considered and provided feedback on the information provided against Corporate Risks.</p>	

Meeting Closed at 19:55



Signed.....
 Chair of the Audit and Risk Committee
 (Digitally signed)

Date: 09/11/2023