

**MINUTES OF THE AUDIT & RISK MANAGEMENT COMMITTEE MEETING
HELD ON TUESDAY 10 JUNE 2025
IN PERSON AT SUITE 4, SALTIRE HOUSE, WHITEFRIARS CRESCENT, PERTH
AND VIRTUALLY ON MICROSOFT TEAMS**

Present: Derek Robertson Chair (SH)
Eric Farren (MT)
Gary Grigor (MT)
Margaret McLay (from Item 17.25) (MT)

Apologies: Keri-ann Osfield

In Attendance: Paul Hillard Paul Hillard Consulting (MT)
Steve McNaught Henderson Loggie (MT)
Peter Fotheringham Executive Director of Finance (SH)
Barry Johnstone Executive Director of People & Governance (SH)
Angela Murphy Head of Finance (SH)
Cameron Lyall Finance Manager (SH)
Robert Wright Head of ICT (MT)
Stuart Robertson Governance Manager (SH)
Jenny Dalton Governance Officer (Minute Taker) (MT)

The Chair welcomed members to the meeting and introduced Paul Hillard, who was assisting the Group with the governing body member appraisal process, and would be observing tonight's meeting. The Chair also introduced Steve McNaught of the Association's internal auditors, Henderson Loggie. The Chair extended a special welcome to Robert Wright, who had recently been appointed as Head of ICT after holding the position on a temporary basis for six months.

13.25 Apologies

Apologies were **NOTED** from Keri-ann Osfield. The Chair advised that Margaret McLay was travelling back from Carlisle and would join the meeting online as soon as possible.

14.25 Declaration of Interest

There were no declarations of interest.

ITEM for DISCUSSION and/or APPROVAL

15.25 Draft Minutes of the Audit & Risk Management Committee Meeting held on Tuesday 11 March 2025

Committee members **AGREED** that the minutes were a true and accurate record of the meeting. **APPROVAL** of the minutes was **PROPOSED** by Gary Grigor and **SECONDED** by Derek Robertson. The Governance Officer (GO) would arrange for the minutes to be signed by the Chair.

16.25 Matters Arising

There were no matters arising.

17.25 IT Strategic Roadmap

The Executive Director of Finance (EDoF) introduced the report and advised that the roadmap had been developed in response to the risk of failure of the Association's ICT systems identified in the Group's Corporate Risk Map. The roadmap had been developed by the Head of ICT and his team and set out the actions to be progressed over 2025/26. It had been considered by the Executive Management Team and was now being presented to the Audit Committee for feedback. The EDoF then handed over to the Head of ICT to present the key themes and significant projects from the roadmap.

The Head of ICT advised that Iomart had been served notice and the Group's hosting arrangements were being migrated to Aspire. This would provide a consolidated service and deliver improvement in operating stability and user experience.

The procurement of an updated telephony system was ongoing and was expected to be implemented in autumn 2025. In addition to moving to a cloud based system, the project was expected to deliver improved call recording and transcription as well as enhance security of payments and Interactive Voice Response management.

Margaret McLay joined the meeting at 6.15 p.m.

Risk management would also be a key focus over the next quarter and would include major incident management and change management. The IT specific Risk Register would also be updated.

Margaret McLay (MMcL) had several questions relating to application support and software procurement controls; use of Artificial Intelligence (AI); and supplier management. In response the Head of ICT highlighted the following key points:

- As part of the application support model, the future procurement of new software would be centralised to ensure the ICT team was aware of all software applications being used within the organisation and was able to support them.
- The proposed new telephony system would use AI to transcribe calls, The system would also provide a summary of points discussed and be capable of detailing how the operative dealt with the call. While AI would assist with key time and resource intensive tasks, there will still be a need for human involvement in sense checking the information and facts recorded. The Group did not currently have an Artificial Intelligence Policy but would be introducing one to provide staff with an appropriate framework and guidance.
- Following the recommendation made in the internal audit report, while reflecting on some of the recent high-profile cases being discussed publicly, the Group would be focussing on supplier management to ensure contractors had the appropriate cyber security policies and procedures in place.

Following a query on funding from MMcL, the EDoF advised that some of the actions in the road map were already included in this year's budget, whilst business cases for the larger scale business transformation projects would be brought to the Board for approval.

Gary Grigor (GG) queried whether the IT Team had the resources to deliver the Road Map aspirations, and the Group's state of readiness to embrace change. The Head of ICT advised that a large amount of core IT functions were now outsourced to companies such as Aspire, allowing the IT team to focus on other projects. The Head of ICT acknowledged that the plan was appropriately aspirational, but that with careful allocation of roles and responsibilities within the team delivery remained achievable. The Head of ICT added that since joining, he had experienced a willingness across the organisation to engage, support and collaborate on ICT improvement activities.

Following a further query from GG, the Head of ICT provided assurances that, notwithstanding the range of service improvement ambitions, Cyber Security and protecting IT systems from infiltration would continue to be the primary focus of the IT team.

The Chair closed the discussion by highlighting the importance of developing an AI Policy to serve the Group going forward.

18.25 Internal Audit Report – Asset Management Strategy

Steve McNaught (SMcN) advised that the scope of the audit was to undertake a high-level review of the strategic asset management arrangements in place within the Group, concentrating on planned and cyclical maintenance. No significant weaknesses were identified during the audit and the overall level of assurance was good. A number of strengths were highlighted in the audit report, including the comprehensive nature of the strategy, and the accompanying financial plans and implementation plan.

At the time of the audit, the Association was in the process of appointing a consultant to undertake stock condition survey work and the Executive Director of People & Governance (EDoPG) confirmed that a contractor had now been appointed.

Committee members congratulated the Executive Director of Operations (EDoO) and her team on the outcome of the audit.

19.25 Internal Audit Report – Electrical and Fire Safety

SMcN advised that the aim of the audit was to assess the effectiveness of the Group's electrical and fire safety management systems, compliance with relevant laws, regulations and standards, and the overall safety of electrical installations and other potential fire hazards within properties. No significant weaknesses were identified during the audit and the overall level of assurance was good, with strengths highlighted including the established arrangements for ongoing safety testing. One Priority 3 recommendation was made relating to the absence of an automated system for the work schedules and the risk that information manually recorded may not be accurately documented. It was noted that this was highlighted as an area for possible improvement and modernisation, rather than a control weakness or issue of non-compliance. The recommendation had been

accepted by the Asset Manager who confirmed that 5% of all updated records would be reviewed on a quarterly basis to ensure accuracy.

GG queried whether tenants received copies of the safety certificates as part of their tenancy agreements. The EDoPG advised that it was his understanding that they did but that he would confirm this with the Operations Team and update members.

20.25 Internal Audit Report – Workforce Planning

SMcN explained that the overall objective of the audit was to gain assurance that the workforce planning framework currently in development would provide a robust process for assessing current and future workforce needs, whilst delivering on the “Developing People” strategic objective. No significant weaknesses were identified during the audit and the overall level of assurance was good.

At the time of the audit, the Workforce Planning framework had been designed and approved and the initial Workforce Planning Analysis phase had been conducted.

The EDoPG confirmed that a detailed Workforce Action Plan, a Succession Plan and a Talent Plan had been scrutinised by the Executive Management Team (EMT) and that the key outcomes would be presented to the Remuneration Committee later in the month.

Committee members congratulated the EDoPG and his team on the outcome of the audit.

21.25 Internal Audit Report – Budgetary Control/Financial Reporting

SMcN explained that the audit had considered the budget setting and monitoring processes in place within Caledonia. No significant weaknesses were identified during the audit and the overall level of assurance was good.

SMcN advised that, as in any organisation, budget holders could change and that their level of experience in managing budgets could vary significantly. This particularly related to promoted staff that had become budget holders for the first time. This had been identified by Caledonia with financial business partnering being implemented within the organisation and rolled out to all budget holders from April 2025. Feedback had been positive, with budget holders stating that it allowed regular dedicated discussion and the ability to raise any concerns, ensuring that a resolution could be found if needed.

One recommendation relating to the development of a budget timetable was made, which would enhance and provide greater clarity of the overall budget setting process. The recommendation was accepted by the Finance Manager who confirmed that a budget timetable would be developed for the 2026/27 budget setting process.

Committee members congratulated the EDoF and his team on the outcome of the audit.

22.25 Internal Audit Report – IT Controls

SMcN explained that the scope of the audit was to review the allocation of roles and responsibilities within the IT team to ensure that the IT control environment was being

maintained in line with the Group's procedures and risk profile, and with reference to the latest Scottish Government guidance for public sector organisations.

While no significant weaknesses were identified, it was recognised that there was scope for improvement in a small number of control areas and the overall level of assurance was satisfactory. This grading also reflected the continually evolving nature of IT security risks and the need to maintain an ongoing improvement focus within the control environment. Two Priority 3 recommendations had been made, relating to development of an appropriate action plan for addressing the technical control gaps listed in the report; and completion of an annual self-assessment against the requirements of the Public Sector Cyber Resilience Framework (PSCRF). These had been accepted by the Head of ICT.

23.25 Internal Audit Report – Follow-up Review 2024-25

SMcN explained that each year the Audit Plan included a follow-up review of the recommendations made in the internal reports issued in the previous reporting year.

The overall conclusion was that good progress had been made in implementing the previous internal audit recommendations that had reached their target completion date, with 7 of the 10 recommendations being graded as “fully implemented” and 3 graded as “partially implemented” with revised completion dates provided. A new finance system was expected to be implemented during financial year 2026/27 and as such revised completion dates for two recommendations relating to factoring income had been identified as 31 December 2027. SMcN advised that, whilst it would normally be expected that internal audit recommendations would be addressed within a shorter timescale, it was acknowledged that the replacement of the finance system required significant planning and was a medium-term objective for the Group and therefore the revised completion dates had been accepted.

24.25 Internal Audit Annual Report 2024/25

SMcN advised that two changes had been made to the internal audit programme for 2024/25, in comparison to the agreed programme. Due to structural and staffing changes that occurred during the year, the Service Charges and IT Strategy audits had been deferred to the 2025/26 audit programme at the request of the management team. The remaining internal audit work undertaken during the year followed the planned activity set out in the agreed Annual Internal Audit Plan for 2024/25.

All internal audit reports prepared in 2024/25 assessed systems as “Good” or “Satisfactory”. There were no major internal control weaknesses noted from internal audit work carried out during the year. In general, procedures were operating well in the areas selected, but a few areas for further strengthening or improvement had been identified and action plans agreed to address these issues. SMcN commented that the number of positive audit reports highlighted the general direction of travel that had been observed by Henderson Loggie over recent years, resulting from a maturity of the risk management and control environment.

The internal auditors' opinion was that the Caledonia Group had adequate and effective arrangements in place for risk management, control and governance. Proper arrangements were also in place to promote and secure Value for Money. There were two

strategic risks where the residual risk level was outwith the agreed risk appetite. These risks were “Failure to comply with Health & Safety legislation and procedures (including Fire Safety)” and “Cyber Attack”. SMCN advised that this did not affect the auditor’s opinion, however it now required to be highlighted in the annual report as a result of the introduction of the new Global Internal Audit Standards in January 2025.

The EDoPG referred to the discussion on cyber security earlier in the meeting and the acknowledgement that it was one of the most significant risks faced by the organisation. He added that Health & Safety was also a significant risk. Although these risks were monitored carefully and everything possible was done to mitigate them, they could not be mitigated completely, thus the reason the risk levels were outwith the agreed risk appetites.

The Chair highlighted the positive work that had been done on the Risk Register over the last few years, particularly with regards to Board members awareness of risk management.

25.25 Review of Top Business Risks

The EDoPG presented the report and referred to the last Management Board meeting when members requested that the EMT consider the strategic risk relating to contractor availability and performance due to the continuing difficult operating environment. The EMT had considered the risk identification and mitigating actions in detail, including the measures emerging from the functional review, particularly strengthening the procurement function and technical capacity to manage reactive maintenance contractors; adopting longer-term planning and budgeting; and, at an executive level, relationship building with the construction sector. With the external environment remaining challenging, there had been no movement in the risk.

The EDoPG referred to the EMT’s recommendation that ARMC members consider including “Cordale: Subsidiary Governance” as a new risk on the risk register. In May 2025, Caledonia had exercised its step-in rights to strengthen Management Committee membership and governance at Cordale. This had included the appointment of three Caledonia Board members to the Cordale Management Committee and Margaret McLay being appointed as interim Chair. The DoPG advised that failure of Cordale to comply with constitutional and regulatory requirements presented significant reputational and financial risk and added that, as the constitutional parent of Cordale, Caledonia was responsible for ensuring Cordale’s compliance with legal, constitutional and regulatory requirements.

All members present agreed that “Cordale: Subsidiary Governance” should be added to the Risk Register. The EDoPG advised that the risk would now be added to the register for further consideration at the next ARMC meeting.

26.25 Review and Approval of Financial Returns

The Head of Finance (HoF) explained that the purpose of the report was to seek approval for the submission of the annual Loan Portfolio Returns (LPR) for Caledonia and Cordale and to note the submission of the annual Five-Year Financial Projections (FYFP) Returns for Caledonia and Cordale to the SHR, which were previously circulated to ARMC

members by email. The HoF confirmed to members that appropriate member approval had been obtained to enable the FYFP returns to be submitted by the 31 May 2025 deadline.

The HoF explained that the LPR for Caledonia included the first two tranches of the private placement facility and included a note in the comments that subsequent tranches would follow. Facilities on the return also required closure of Bank of Scotland £4.2M and Lloyds Group £20M. Assistance by SHR to close these in advance of submission had been sought and was now resolved on their portal. This would be reflected in the submission following approval by the Committee, with the LPR then being submitted to the Regulator by 30 June 2025.

ARMC members **AUTHORISED** the submission of the LPR to the Scottish Housing Regulator and **NOTED** that the FYFP returns had been submitted to the SHR following their earlier **APPROVAL**.

27.25 SHAPS Defined Benefit Pension Scheme Disclosure Assumptions

The HoF presented the report and advised that, as in previous years, the Committee was being asked to consider whether the assumptions proposed by The Pensions Trust (TPT) were appropriate and relevant. An overview of the key assumptions and the methodology adopted by the Trustees in determining the assumptions was attached to the report for consideration.

Only those assumptions that could be amended were outlined in the report and, should Committee members wish to amend any of these assumptions, then independent actuarial advice would need to be obtained.

Following consideration of the report, members **AGREED** to the **ADOPTION** of the actuarial assumptions proposed by TPT.

ITEMS for INFORMATION

28.25 Annual Treasury Management Strategy Report

The EDoF presented the report and advised that it was a requirement of the Group Treasury Management Policy that an annual report be presented to the ARMC including the key treasury management activities during the previous financial year and those for the coming 12 month period.

The key activities during 2024/25 included the drawdown of the second tranche of the private placement facility and the renegotiation of covenants on both Lloyds and the Royal Bank of Scotland (RBS) and the renewal of the Lloyds RCF, which allowed the closure of some Antonine legacy loans.

Going forward in 2025/26, the key actions would include the drawdown of the final tranche of the private placement facility, liaising with lenders to release properties from security where appropriate, identifying and agreeing the future funding plan for Cordale facilities and continuing to consider the future funding strategy for Caledonia, noting that the existing plan was fully funded to March 2028.

Committee members **NOTED** the contents of the report.

29.25 Cyber Security Update

This report is confidential as it contains business information on cyber risks and publication would harm commercial interests.

Committee members **NOTED** the contents of the report.

30.25 Update on Group Fraud Registers 2024-25

Committee members **NOTED** that the Group members’ Fraud Registers for the year ending 31 March 2025 had been inspected by the respective governing body Chairs and the Chief Executive. There were no cases of fraud or attempted fraud detected at either Caledonia or Cordale during 2024/25.

31.25 Any Other Competent Business

The EDoF advised that the External Auditor tender process would be undertaken over the summer months in order that the appointment of auditors could be recommended at the Annual General Meetings in September. A team of senior staff would be undertaking the scoring of the tenders; however, it would be beneficial to have a Committee member on the team. Following discussion, it was **AGREED** that Gary Grigor would join the team.

Members **NOTED** the strategy session was scheduled for Tuesday 17 June 2025 and that the next Audit & Risk Management Committee meeting would be held on Tuesday 12 August 2025.

There being no other competent business, the Chair thanked everyone for their contributions and the meeting concluded at 7.50 p.m.

Chair’s Signature: