MINUTES OF THE AUDIT & RISK MANAGEMENT COMMITTEE MEETING
HELD ON WEDNESDAY 1 JULY 2026
VIRTUALLY ON MICROSOFT TEAMS

Present:	Derek Robertson	Chair
	Eric Farren	
	Gary Grigor	
	Douglas McLaren	
Apologies:	Margaret McLay	
	Barry Johnstone	Executive Director of People & Governance
In Attendance:	Steve McNaught	Henderson Loggie
	Ross Carlin	Executive Director of Finance
	Julie Watson	Head of Investment & Sustainability
	Cameron Lyall	Head of Finance
	Robert Wright	Head of ICT
	Stuart Robertson	Governance Manager

The Chair welcomed members to the meeting and congratulated colleagues on the organisation's recent success at the Scottish Home Awards, recognising the contribution and hard work of staff.

13.26 Apologies

Apologies were **NOTED** from Margaret McLay.

Steve McNaught advised that he would have to leave the meeting after presenting the internal audit items.

The Chair noted that Keri Ann Osfield had stepped down from the Board and therefore from the Committee. The Committee agreed that its' thanks to Keri Ann for her contribution over the previous two years should be recorded.

14.26 Declaration of Interest

There were no declarations of interest.

ITEM for DISCUSSION and/or APPROVAL

15.26 Draft Minutes of the Audit & Risk Management Committee Meeting held on Thursday 12 March 2026

Committee members **AGREED** that the minutes were a true and accurate record of the meeting and the minutes were subsequently **APPROVED**. The Governance Officer (GO) would arrange for the minutes to be signed by the Chair.

16.26 Matters Arising

There were no matters arising that were not dealt with elsewhere on the agenda.

17.26 Internal Audit Reports and Actions Update

Steve McNaught (SMcN) noted that the covering report summarised the reports being considered at the meeting and advised that, given the number of reports on the agenda, he would focus on the key points.

Internal Audit Report – Reactive Repairs

The audit reviewed the Group's procedures and systems for identifying, recording and actioning repairs. The procedures and systems were assessed as **satisfactory** overall, with two Grade 3 recommendations.

The audit identified that, in 13 of the 15 repairs tested, the time taken to complete the repair exceeded the target timescales set out in policy. The working papers showed that most delays were due to factors such as contractors waiting for parts or waiting for other works to be completed before the final repair could be carried out. SMcN noted that this suggested there was scope to improve contractor performance management and ensure clearer communication and documentation of the reasons for delays.

The audit also considered the pursuit of rechargeable repairs. It found that recharges were not always given the same priority as rent arrears. SMcN confirmed that this was not considered a significant risk, as arrears were still being pursued, however there was scope to improve compliance with policy and to maximise recovery of money due.

Following a query from a Committee member, SMcN confirmed that the audit had considered the value of recharges that were not being chased. Following discussion with staff and review of the data, the auditors were satisfied that the issue did not represent a significant proportion of recharge income. For that reason, the recommendation was graded as Grade 3 rather than Grade 2.

The Head of Investment & Sustainability (HoI&S) advised that the recommendations had been accepted and confirmed that her team was working to improve the process going forward.

Internal Audit Report – Service Charges

SMcN advised that service charges were additional charges to tenants above basic rent, generally covering maintenance and upkeep of communal areas, landscaping and related shared services.

The report was graded **good** overall, with no recommendations. Key strengths included clear policies and procedures, a fair rent and service charge setting process including effective consultation with tenants, appropriate use of SFHA affordability calculators, clear communication with tenants and service users, and appropriate arrangements for recovering service charge arrears.

The Committee **NOTED** the positive findings and that no significant concerns had been identified.

In response to a question from the Chair, SMcN confirmed the audit established that Cordale Committee members had received training to support their understanding of service charges in the context of the wider income streams and finance of the Association. The Chair noted the wider development work undertaken with the Cordale Committee and commented that the organisation was now in a stronger position as a result.

Internal Audit Report – Tenant Participation

SMcN noted that tenant participation was both a statutory and regulatory requirement in Scotland and was central to ensuring tenants were involved in the Association's decision-making. He advised that the report was graded **good** overall. SMcN noted that tenant engagement remained a challenging area across the sector, but the audit had identified a significant body of ongoing work at Caledonia, including a new five-year business plan, a tenant engagement strategy aligned to that plan, and the "Engagement for Everyone" operating model. The main opportunity for improvement related to developing a training programme for staff so that roles and responsibilities within the "Engagement for Everyone" model were clearly understood.

Members discussed the importance of providing multiple ways for tenants to participate and noted positive examples of engagement through the rent review process.

The Chair welcomed the findings and noted that tenant-centred decision-making had been a priority for the Board over recent years.

Internal Audit Report – Annual Return on the Charter (ARC)

SMcN explained that the audit assessed how the ARC data was collected, validated and reported, and considered the quality and accuracy of the data. The audit sampled 16 ARC indicators across a range of reporting areas. It found that data was largely drawn from system-generated reports with minimal manual intervention, supported by checks, validations and year-on-year comparisons. The audit work traced data back to source and found the 2025/26 return to be accurate, robust and appropriately validated. The report was graded **good**, with no recommendations for improvement.

Internal Audit Report - Factoring

SMcN presented the factoring internal audit report, which reviewed arrangements for managing factoring supplier contracts, including compliance with contractual terms and performance management arrangements between Caledonia and contractors. The report was graded **satisfactory** overall and included two grade 2 recommendations and three grade 3 recommendations.

Strengths included knowledgeable staff, awareness of legal requirements and a responsive service when issues were raised by owners or service users. Areas for improvement included the need to document the end-to-end debt recovery process for factoring debt, establish a single repository for factoring contracts, improve documentation of contractor performance assessments and associated improvement actions, and strengthen management reporting on contractor performance and service KPIs.

Julie Watson confirmed that staff followed a process for debt recovery, but accepted that this should be formally documented. She also confirmed that contractor performance monitoring was taking place, but that evidence and documentation required improvement. Members were advised that recruitment of a Compliance Officer would support stronger contractor performance monitoring and reporting. Committee members welcomed the reassurance that management had considered the findings and had a clear route to progress the recommendations.

Internal Audit Report – Follow-up Reviews

SMcN presented the annual follow-up of previously raised internal audit actions and advised that, of the 14 recommendations followed up, 11 had been fully implemented. Three recommendations remained outstanding due to system limitations. These included multi-factor authentication (MFA) limitations in two systems and the ability to separate and track income components such as factoring, service charges and rent within current systems. It was noted that these issues were expected to be addressed through planned system replacement or improvement work.

The Head of ICT (HoICT) added that MFA functionality had recently become available for the two systems identified and that implementation work was planned ahead of the scheduled Cyber Essentials Plus certification process.

18.26 Internal Audit Annual Report

SMcN presented the annual internal audit report, summarising the internal audit work completed during the year as part of the 2025/26 internal audit plan. Based on the work undertaken during the year and prior internal audit experience, Henderson Loggie's opinion was that the Group had adequate and effective arrangements for risk management, control and governance, and proper arrangements to secure value for money. The report also highlighted risks sitting above the organisation's risk appetite, in line with the new Global Internal Audit Standards. Members noted that these risks were already considered through the Committee's regular Strategic Risk Register review.

The Committee noted changes to the plan during the year, including deferral of the IT strategy audit to the following year. SMcN confirmed that no significant issues had been raised through the year's audits and that reports had generally been graded good or satisfactory.

19.26 Final Strategic Plan and Annual Internal Audit Plan 2026-27

SMcN presented the final three-year internal audit strategy, noting that it had previously been considered in draft form by the Committee in March, and that there had been no significant changes to the proposed audits for 2026/27. The strategy also set out the planned audit programme for the following two years. Audits identified for the subsequent two years were indicative and would remain subject to review to allow flexibility for emerging priorities and risks. Members noted that future changes to the audit programme could be requested by the Committee or management as required.

Committee members **APPROVED** the final three-year internal audit strategy and noted the flexibility to amend the programme in years two and three in response to changing priorities and risks.

The Chair thanked Henderson Loggie for its work during the year and noted the reassuring feedback received through the internal audit reports. SMcN then left the meeting.

20.26 Review of Top Business Risks

The Governance Manager (GM) presented the regular review of the strategic risk register and advised that no changes were proposed to risk scores during the period, noting that the full register and updated assessment comments had been provided for all risks for reference.

The GM highlighted that three risks remained outside agreed risk appetite: Failure to comply with health and safety legislation, Cyber Security and Subsidiary governance. The GM advised that upward movement had been considered for the first two of these, but was not recommended at this stage, given the progress made in implementing relevant remediation plans. Similarly, downgrading the subsidiary governance risk had also been considered, but was not recommended at this stage given the integration of new Committee members remained at a relatively early stage. The GM emphasised there would be further opportunity to reconsider these areas in the coming weeks ahead of the August ARMC meeting.

Committee members **NOTED** the strategic risk register and **AGREED** that the current risk scores should remain unchanged.

21.26 Review and Approval of SHR Financial Returns

The Head of Finance (HoF) presented the Five Year Financial Projections, noting that these had been prepared based on the budgets submitted in February and that the figures agreed back to those budgets.

The Committee noted that the indicators and performance metrics were calculated by the Scottish Housing Regulator on a consistent basis across associations and that the submission represented a regulatory requirement rather than new information.

The HoF also presented the loan portfolio returns. For Caledonia, key changes included receipt of the third tranche of the private placement in November, totalling £25 million, and the resetting of both revolving credit facilities. There had been no changes to covenants. For Cordale, members noted that a loan had been repaid in February, simplifying the covenant position by removing a covenant attached solely to that loan.

The HoF confirmed that all required returns had been submitted within the relevant May and June deadlines.

In response to a query from the Committee, the EDoF and HoF outlined ongoing treasury discussions, particularly in relation to Cordale's loan book and the balance between fixed and variable debt. Members noted that discussions with Virgin Money were ongoing regarding potential fixed-rate arrangements and that external treasury advice may be sought in relation to Cordale's loan position and the wider Treasury Management Policy review.

The Executive Director of Finance (EDoF) explained that the intention was to keep Cordale's loan portfolio simple and avoid over-complication through derivatives or similar arrangements. Further discussion was expected at the August Board meeting.

The Committee **NOTED** the annual return information and the loan portfolio returns, including the prior email approval of the loan portfolio submission.

22.26 SHAPS Defined Benefit Pension Scheme Disclosure Assumptions

The EDoF presented the paper on the actuarial assumptions used to calculate the year-end defined benefit pension liability. He advised that the assumptions had been prepared by Mercer and that management was comfortable with the approach taken. The estimated pension liability had reduced from £10.8 million to £10.5 million, and the deficit had reduced from £1.34 million to £1.1 million. The life expectancy assumptions had increased and the discount rate had risen to 6.08%, reflecting current interest rate conditions.

In response to a question from the Chair, the EDoF explained that market performance over the previous six to twelve months had been stronger than expected, contributing to the reduction in the deficit. He also noted that higher interest rates had increased the discounted cashflow rate applied, reducing the current amount required to meet the future liability. The HoF confirmed that deficit recovery payments were planned at approximately £1 million over the next four years.

Members **NOTED** the report and the actuarial assumptions used to calculate the year-end defined benefit pension liability.

ITEM for INFORMATION

23.26 Annual Treasury Management Strategy Report

The EDoF presented the report, noting that the final tranche of the private placement had been received during the year and that Cordale's loan portfolio had been reduced by one loan as part of ongoing work to simplify covenant arrangements.

The EDoF explained that cash held with Royal Bank of Scotland had temporarily exceeded the trigger level following receipt of the final private placement tranche but had subsequently returned below the relevant threshold. This was noted as a one-off event rather than an ongoing concern. He advised that there may be opportunities to release security where asset cover had increased and security exceeded required levels and that this would be considered as part of the covenant and security review work over the next 12 months.

The EDoF added that, at group level, the organisation remained in a good position in relation to fixed and variable debt. However, Cordale's variable debt position remained higher, at approximately 67%, and would be reviewed as part of the ongoing covenant work.

The EDoF highlighted upcoming treasury activity, including continued work to streamline covenants and a review of the Treasury Management Policy. The review would include consideration of gearing limits in light of reduced grant funding and lender expectations. Further discussion was expected at the August Board meeting.

The Committee **NOTED** the report.

24.26 Cyber Security Update

This item is confidential as it is commercially sensitive and publication would harm commercial interests.

25.26 Fraud Register Update

The GM presented the annual fraud register update, noting that the report was provided for information and fulfilled the requirement to update members annually on the content of the fraud register.

The only case recorded on the fraud register during the year related to the cyber security incident discussed earlier in the meeting. The GM advised that, although the incident had been reported as a data breach and notifiable event, it had also been recorded as a fraud incident due to the presumed intent of the malicious actor.

The Committee **NOTED** the Fraud Register update.

26.26 Any Other Competent Business

The Chair raised the issue of national resilience planning and the potential organisational risks arising from wider geopolitical instability, including the possibility of international conflict within the medium term. The Chair suggested that time be set aside at a future meeting for a general discussion on organisational preparedness, tenant readiness and the potential implications for business risk. This would allow the Committee to consider whether a further Board-level session should be arranged.

Members agreed that this was an appropriate matter for further consideration, particularly in relation to potential impacts on energy, communications, connectivity and wider service resilience.

There being no other competent business, the meeting concluded at 6.50 p.m.

Chair's signature: ....