# Hexagon Housing Association Ltd

**Minutes of the Audit & Risk Committee meeting held on Tuesday, 7th July 2015 at 4:30pm at 130-136 Sydenham Road, London SE26 5JY**

**Present**: Ian Watts (Chair), Debbie Bankole-Williams, Kellie Elmes, Ian Mansell, Martin Large, Liz Kulczycki (BDO), Paul Jagger (BDO), and Laurence Moore (Mazars).

**In attendance:** Jon Cross, Kerry Heath, Tom McCormack, Chris Melville, Phil Newsam and Val Sharpe.

**Apologies:** None

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|  |  | ***Action*** |
| ***A/15/32*** | The Chair welcomed all to the meeting and introductions were made all around. |  |
| ***A/15/33*** | Declaration of Interests |  |
| A/15/33/1 | There were no declarations of interests. |  |
| ***A/15/34*** | Minutes of the inquorate meeting held 12th May 2015 |  |
| A/15/34/1 | Ian Mansell apologised for not sending his apologies for the May meeting. |  |
| A/15/34/2 | **Minute A/15/20/3 – Progress against FRS 102 transition plan** – the minute was amended to read: Liz said that although Hexagon is the only association ***within her client group*** presenting the accounts in this way at the moment, it is an acceptable format. |  |
| A/15/34/3 | The above change made, the minutes were **agreed**. |  |
| ***A/15/35*** | ***Matters arising from the minutes*** |  |
| A/15/35/1 | Phil confirmed that the decision items from the last meeting, which had been inquorate, have all been approved via email. |  |
| A/15/34/2 | **A/15/19/5 – Management Letter points arising from the interim audit** - Liz confirmed that the point raised regarding compliance with laws and regulations has been removed from the Management Letter. |  |
| A/15/34/3 | **A/15/24/3 – Internal Audit Report – Compliance (February)** – Laurence offered to follow up with Narinder Sandher the action point regarding a link to voids performance information to enable comparison of our data with that of other housing associations. | LM |
| ***A/15/35*** | ***Changes to Terms of Reference*** |  |
| A/15/35/1 | Phil presented the report which sought approval to amend the terms of reference for the Audit & Risk Committee in order to comply with the NHF Code of Governance 2015 as regards preventing the Chair of the Hexagon Board being a voting member of the Committee. |  |
| A/15/35/2 | The first paragraph relating to the criteria for membership was therefore amended to read: The membership will be between 5 and 7 members, with the membership agreed by the Hexagon Board. ***The Chair of the main Board may attend the Audit & Risk Committee, but may not be a voting member of the Committee.***  Members **approved** this change. |  |
| ***A/15/36*** | ***Internal Controls Assurance*** |  |
| A/15/36/1 | Tom presented the annual Internal Controls Assurance statement. The Chair said he had found the statement very useful and would suggest that the statement is continued to be provided for Members, even though it is no longer a regulatory requirement.  The Chair also asked Directors to discuss with the auditors, his suggestion of devising a Business Assurance Map which looked at risks and sources of assurance that the main risks are being managed. | Directors |
| A/15/36/2 | After further discussion, the Committee **approved** the Internal Controls Assurance Statement (as set out in Appendix 1) for inclusion in the Financial Statements. |  |
| ***A/15/37*** | ***Going concern review for Hexagon*** |  |
| A/15/37/1 | Phil presented the report which set out the evidence that Hexagon can be considered as a going concern for at least 12 months following approval of the Financial Statements. |  |
| A/15/37/2 | After a brief discussion, Members **agreed** that Hexagon is a going concern, and that this basis remains appropriate for the financial statements. |  |
| ***A/15/38*** | ***Going concern for Horniman*** |  |
| A/15/38/1 | The Committee also **agreed** that Horniman is a going concern, and this basis remains appropriate for the financial statements. |  |
| ***A/15/39*** | ***Draft Financial Statements*** |  |
| A/15/39/1 | Phil presented the draft financial statements for both Hexagon and Horniman for the year ended 31st March 2015. She explained that there will be changes to the statements following their review by external auditors, BDO, but these changes are not significant. |  |
| A/15/39/2 | Phil reported that that Horniman has a tax provision of £21,458 due to a staircasing transaction which occurred in late March. The timing of this left insufficient time to calculate a matching increase in gift aid.  She said that going forward, in the month before the year end, the Finance team will ask the Housing Services team whether there is any staircasing activity in the pipeline. |  |
| A/15/39/2 | Martin Large suggested the use of sub-headings might assist with improving the presentation of the report. Phil she will consider using “more active” headings in next year’s report, when writing the report in line with the new rules. | PN |
| A/15/39/3 | After further discussion, Members **agreed** to recommend the Hexagon financial statements for approval by the Hexagon Board, subject to any minor changes and those prescribed by the auditors. |  |
| A/15/39/4 | Referring to the Horniman accounts, Debbie queried why there is a difference in the amounts stated for corporation tax. Phil offered to look into this and to make any amendment, if necessary, before the accounts go the Board for approval. | PN |
| A/15/39/5 | The Committee **agreed** to recommend the Horniman financial statements for approval, subject to the checking and amendment, if necessary, of the query regarding the corporate tax figure. |  |
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| ***A/15/40*** | ***Executive report from BDO LLP*** |  |
| A/15/40/1 | Liz presented the BDO Executive report and said the majority of their audit work has been completed, apart from minor outstanding items, which are detailed on Page 3 of the report. |  |
| A/15/40/2 | Liz said that one of the areas flagged up is the provision for bad debt, which the auditors believe has been set too high. Liz will share with officers how other associations are approaching this. | LK |
| A/15/40/3 | Liz will amend the commentary on Page 19 (Tax matters) as the wording has been included in error. | LK |
| A/15/40/4 | Letter of Representation - In response to Debbie’s question as to whether the auditors had any concerns, Liz confirmed that they did not and that they would only be concerned if they were unable to get adequate responses to queries raised. |  |
| A/15/40/5 | Members **noted** the report and the extra information provided by Phil which responded to matters raised in the BDO Executive report. |  |
| A/15/40/6 | It was also noted that the report will be going to the full Board at its meeting on 28th July. |  |
| ***A/15/41*** | ***Private session with auditors without officers present*** |  |
| A/15/41/1 | The Chief Executive, all Directors, and Val Sharpe left the meeting at this point. |  |
| A/15/41/2 | The Auditors were asked for any feedback positive or negative on the external audit that they believed the Board should be aware of. The feedback was all positive and it was noted that the Hexagon finance team worked well with the Auditors when PN was on leave which was good to see and demonstrated some effective succession planning. |  |
| A/15/41/1 | When the Directors re-joined the meeting this was fed back and a more general conversation was had on succession planning for key senior posts. The Executive were asked to take this away for further discussion. | Officers |
| ***A/15/42*** | ***Internal audit report on Serious Detriment*** |  |
| A/15/42/1 | Laurence Moore presented the report and said two ‘significant’ recommendations have been made. One in relation to ‘Landlord Health & Safety Performance Indicators’ and the other relating to ‘Completion of Health & Safety repairs’. He reported ‘adequate’ assurance on the effectiveness of internal controls in place. |  |
| A/15/42/2 | The Chair commented that the report appears to be very focused on compliance issues. |  |
| A/15/42/3 | After further discussion, Members **noted** the report and the management responses to the recommendations. |  |
| ***A/15/43*** | ***Changes to Corporate Risk*** |  |
| A/15/43/1 | Phil presented a report which set out the most serious gross and net risks recorded on the revised Corporate Risk Map. |  |
| A/15/43/2 | Members **noted** that the following risks have increased since the last meeting and agreed that these have been reasonably identified and the risk management strategies in place are appropriate:  CDrisk31 – Financial impact of extending Right to Buy to housing associations.  RRrisk8 – High level of variation orders impact on budgetary control over responsive repairs.  CDrisk22 – The impact of further welfare cuts. |  |
| A/15/43/3 | In relation to the risk of further welfare cuts, Tom said he will be doing a detailed report to the next Board meeting, following the Chancellor’s summer budget announcement due out tomorrow. |  |
| ***A/15/44*** | ***Review of Performance of Mazars as internal auditors*** |  |
| A/15/44/1 | Members discussed the performance of Mazars, aided by the report presented by Phil. The Chair commented that the internal audit function will need to be re-tendered next year as the current three-year contact will expire then. Phil said the process of re-tendering the contract will need to begin at the November meeting, so as to ensure it is completed by February 2016. |  |
| A/15/44/2 | On the issue arising from the survey on Mazars’ performance, Laurence said he will report back to Lee Cartwright the comment that officers would prefer to make management responses “face to face”. |  |
| A/15/44/3 | Members **noted** the report and had nothing further to add. |  |
| ***A/15/45*** | ***Progress against FRS 102 transition plan*** |  |
| A/15/45/1 | Phil reported that not very much has happened since the May meeting and that she will be re-writing the report in the Autumn. |  |
| A/15/45/2 | Members **noted** the verbal report. |  |
| ***A/15/46*** | ***Report of attempted cheque fraud*** |  |
| A/15/46/1 | Phil reported that an attempt had been made to obtain £3,700.00 via a fraudulent Hexagon cheque. We were notified by the bank into which the cheque had been lodged and we were able to confirm that the cheque had not been issued by us. The cheque did not clear and Hexagon has not incurred any losses. The fraud section of our bank has been notified. |  |
| A/15/46/2 | Phil said we do not issue a large number of cheques and are considering reducing the number even further. She will be discussing this with the Finance Manager as reducing the number of cheques issued will go some way to further reducing the risk of fraud. |  |
| A/15/46/3 | Members **noted** the report. |  |
| ***A/15/47*** | ***Any Other Business*** |  |
| A/15/47/1 | There was no other business. |  |
| ***A/15/48*** | ***Date of Next meeting*** |  |
| A/15/48/1 | Members noted the date of the next meeting is 3rd November 2015. |  |
| A/15/48/2 | There being no other business, the Chair declared the meeting closed at 6.20pm.  Minutes of the Audit & Risk Committee meeting held on 7th July 2015.  Signed……………………………………..(Chair)  Date……………………………………….. |  |