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Audit findings report

Caledonia Housing Association

Year ended 31 March 2026

Presented to the Audit and Risk Management Committee

6 August 2026





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Executive summary

Status and overview of the audit

Our audit progressed as planned and the work is substantially complete.

We anticipate issuing an unmodified audit opinion on the financial statements for both Caledonia and Cordale.

Final materiality

Materiality has not changed since we presented our audit plan.

Unadjusted misstatements

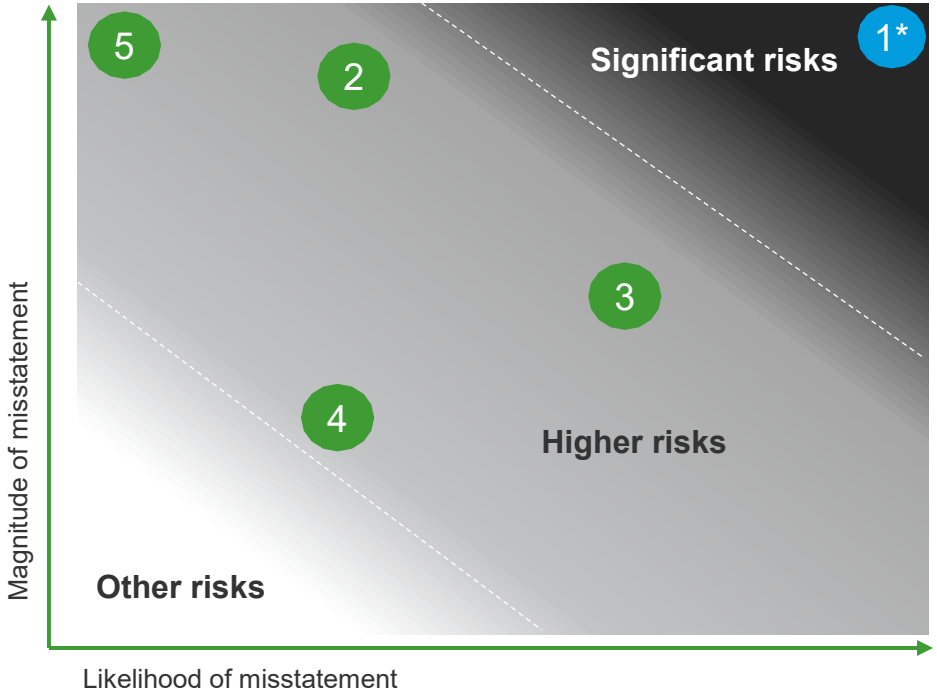
There are no unadjusted misstatements.



Key audit risk findings

(See Appendix for risk description and planned work)

We have set out below details of those areas that we considered to be the key audit risks arising when we presented our audit plan. There have been no changes to the risks identified.



* = ISA 240 'The auditor's responsibilities relating to Fraud in an audit of financial statements' identifies that there is a presumed fraud risk in relation to revenue recognition and management override of controls. As a result, these have been classified as significant risks.

Audit risks summary

Risk item	Risk identified	Relevant entities	Change in risk
1	Management override of controls	Caledonia Cordale	▶
2	Impairment of fixed assets	Caledonia Cordale	▶
3	Valuation of defined benefit pension liability	Caledonia	▶
4	Cut off and classification of planned maintenance	Caledonia Cordale	▶
5	Going concern	Caledonia Cordale	▶

Audit risks findings

Findings	
Management override of controls	We have updated our system notes in the year and have walked these through to ensure these were operating as planned. In general, we found that the controls and processes were operating as they should be, and that segregation of duties appears appropriate. As referred to in our original audit plan (the wording of which is replicated in the Appendix) we have reviewed three key areas in response to this risk: *Use of estimates* We have reviewed the key estimates in the financial statements; which we have deemed to be the valuation of the defined benefit pension scheme obligations, the valuation of investment properties, the impairment of assets under construction, and the useful lives of fixed assets. The defined benefit scheme and impairment of assets under construction are significant enough to warrant a separate risk therefore please refer to page 6 for our work in these areas. The valuation of investment properties was reviewed for Cordale specifically (as the value is not material for Caledonia, but it is for Cordale) and confirmed that these were recognised in line with a previous valuation with no fundamental changes in market conditions that could cause a material adjustment to the value of these properties. We have undertaken some trend and rental yield analysis for benchmarking purposes in the year, and whilst we have not identified a material issue, we would recommend that management consider formally updating the valuations to reflect within the financial statements. We assessed the useful lives of fixed assets in line with component replacement / planned maintenance plans and have not identified any issues with the application of useful lives against component types. We reviewed disclosures in respect of the key judgements and estimates included in the financial statements and we have concluded the disclosure is complete and accurate. *Use of journals* We have reviewed the journals recorded through the general ledger in the period against a set of risk criteria by using our Alteryx software. This software combines a variety of factors including who has posted the journal, when the journal was posted, which codes the journal is impacting, what the description is on the journal, amongst many other factors, to provide us with a list of journals deemed to be inherently higher risk. We have identified a sample of journals in the period from this risk assessment, and we obtained explanations of these journals along with evidence of the transactions being posted. We are satisfied that these journal postings are reasonable and had supporting documentation and evidence behind each of them. *Exceptional transactions outside normal course of business* The main transaction outside the normal course of business was in respect of Eco4 funding for assets. This was an arrangement whereby Caledonia received the benefit of component assets for no cash cost as this was funded by a third party. Management have appropriately treated these as assets (recognising that there is a benefit of these works that represents an asset) and income, although this is not cash income. The value of this is required to be the fair value of works and management have calculated an appropriate fair value based on estimated costs had the works been done directly. We are satisfied that the treatment and disclosures in this respect are appropriate, and that management have included an accounting policy for other income reflecting this. We have concluded from this work that we have not identified any instances of management override of internal controls.

Audit risks findings

Findings	
Impairment of assets under construction	*Cost of development* We have tested a sample of costs included in additions in the year, confirming that the costs recorded are accurate and have been recorded in the correct period. *Review of impairment charges* We have reviewed management's impairment analysis and checklist, considering the rationale behind the conclusions. We have performed an analysis around the conclusions related to properties under construction that had not moved in the year, such as Morgan Street and Rosebank ultimately noting that management's conclusions were appropriate. Additionally, we performed an analysis over voids noting that voids remain low, 1.10% and 1.69% for Caledonia and Cordale respectively, which supports management's conclusion that there are no impairment indicators in respect of the core housing stock present as at the balance sheet date. The above target for Cordale based on an analysis of voids is largely attributed to the new development at Dalquhurn that took time to occupy, and does not reflect a potential risk of impairment. Therefore, we are satisfied with management's conclusion that there is no indicators of potential impairment given the analysis performed and level of funding available for existing developments.
Valuation of defined benefit pension	*Assumptions and valuation* We have obtained the year end valuation pension reports from The Pensions Trust and we have reviewed the assumptions and data used by The Pensions Trust in reaching the year end valuation position; using independently received data to verify the scheme asset position and using benchmarking data to assess the reasonableness of the underlying assumptions. We have concluded that the assumptions adopted are appropriate in line with available benchmarking data. *Disclosure* We have reviewed the disclosure in the financial statements to confirm that management have applied the assumptions and valuations from The Pensions Trust correctly. We are satisfied that the disclosure in the financial statements accurately reflects the figures provided by The Pensions Trust. *Conclusions* Based on the work performed above we are satisfied that the pension liability is presented accurately in the financial statements.
Cut off and completeness of planned maintenance	*Planned maintenance* We have reviewed the controls management have in place over their purchasing process and are satisfied that these are designed and operating effectively. We have examined the population of planned maintenance expenditure for the period either side of the year end and tested these items to invoice to verify that they are recorded at the correct value and that the classification as an item of expenditure is reasonable. We have reviewed the accruals recorded and verified that any estimates made by management are appropriate and have identified no exceptions with regard to this risk. We have reviewed the planned maintenance costs against the budgets and work plans for the year to confirm there is no material completeness risk. Based on the work we have performed we are satisfied that there are no issues with regards to the cut-off and completeness of planned maintenance expenditure.

Audit risks findings

Findings	
Going concern	As noted in the audit plan, the sector as a whole if facing challenges due to rising costs, particularly for RSLs carrying out development works due to the significant increases in costs, and the availability of contractors. We have reviewed budgets and forecasts in the year noting that management's assessment goes to 31 March 2031, thus sufficiently covering the required 12-month period post sign off. We would highlight that similar pressures are being seen for the Group as across the sector with an intention to catch up on planned maintenance but pressures on subcontractors in relation to materials and labour costs are limiting capacity. We note that the Group has a strong cash position, with £13.0m held at year end in Caledonia and £0.6m in Cordale. The cash flow forecasts show that a high level of cash is expected over the 5-year forecast period, noting that there are some planned drops as development works continue. Additionally, the current finance arrangements currently have £53.5m in undrawn Revolving Credit Facilities within the Group including £1.5m in undrawn RCFs in Cordale. This will be used first to fund developments, and this is forecast to cover up until at the earliest Q2 2028/29 which is beyond the going concern period. There are no indicators that there will be issues with refinancing. The forecasts for the ongoing operations of the Group do not indicate any going concern issues, with forecast surplus of £1.1m and £1.2m for the next 2 years in Caledonia, and £188k and £262k for the next 2 years in Cordale. From our review of the forecasts, we have noted the key assumptions made in these forecasts as follows: • Annual rent increase – We have agreed the forecast increase is in line with CPI, and we have confirmed the rent increase implemented for 2026/27. • Increase in operating costs – The forecast costs are based on historic costs, inflating by CPI in most areas, and including additional increases, where deemed necessary. We have deemed the anticipated increases to be reasonable. • Staff cost increase – Forecasts include increase to staff costs in line with CPI. We have agreed the pay rise issued on the 1st April 2026 has been included in the forecast for 2026/27. • Interest Rates – The rates included in the forecasts are based on the agreed interest rate for each facility, and we have agreed these are in line with our testing of interest costs in the current year. Management have prepared sensitivities on the cash flows, to show the results of fluctuations in each of the assumptions. Over the 5 year forecast period we can see that the covenants will still be complied with in all of the sensitised circumstances, therefore we are satisfied that there are no issues arising. As noted in the audit plan, the key risk in relation to going concern is covenant compliance, as a breach of these legally entitles the funders to reclaim their funds; which would cause substantial doubt on the going concern assumption. We have reviewed corroboration to confirm the change to an EBITDA basis for some of the loans and confirmed covenant calculations are being performed in line with the definitions of these covenants, as set out in the loan agreements. We have also reviewed the covenants in line with the forecast results and confirmed that there is sufficient headroom on each covenant at year end and in the forecasts such that no breaches are anticipated to occur, and that no issues have been identified with calculation of covenants at year end. We have reviewed the disclosures made in relation to going concern and confirmed these are in line with the assessment made. Overall, we have not identified any issues relating to going concern over the next 12 months.

Qualitative aspects of accounting

Management judgements and accounting estimates

The following areas are considered to be the principal management judgements and estimates. The graphic below visually represents the impact (lower or higher) on the financial statements of a change in management's estimate. In overview, a reasonably possible change in estimate that has a low impact means that such a change will have limited impact on the financial statements.

Areas of judgement / estimate	Low impact	High impact
Valuation of housing properties and impairment		■
Valuation of defined benefit pension liability		■
Valuation of investment property	■	
Useful lives of housing property assets	■	
Bad debt provision	■	
Useful lives of other fixed and intangible assets	■	
Valuation of other fixed and intangible assets	■	

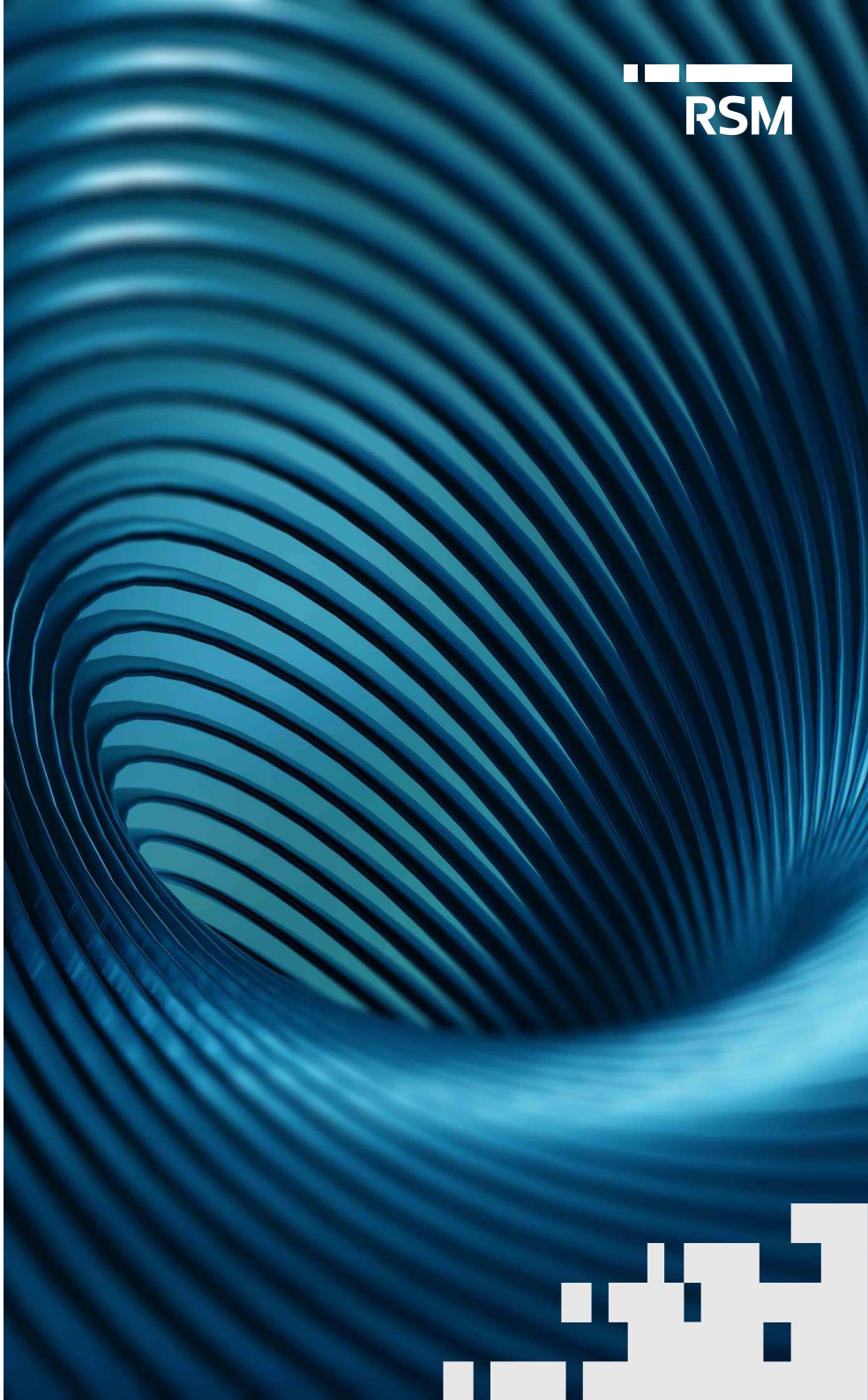
Other areas identified during the audit

Management are undergoing a process over 2026/27 to implement Xledger as a new finance system with an expected go-live date of 1 October 2026, with focus being placed on reconciliations and clear-out of older balances as part of this. In our audit we have identified some older balances in respect of HAG removed from deferred capital grant due to disposals that has remained in creditors for a long period of time, in some cases over 10 years, as well as some older prepayments from the historic combinations with Bellsmyre and Faifley. Management are considering these balances as part of the clear-up prior to the implementation of the new Xledger system.



Recommendations on controls

There are no recommendations on internal controls which came to our attention during the course of our audit work. This does not constitute a comprehensive statement of all internal control matters or of all improvements which may be made and has addressed only those matters which have come to our attention as a result of the audit procedures performed. An audit is not designed to identify all matters that may be relevant to you and accordingly the audit does not ordinarily identify all such matters.




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Appendix

Financial statement disclosures

During the course of our audit, we reviewed the adequacy of the disclosures contained within the financial statements and their compliance with both relevant accounting standards and the requirements of FRS 102, the RSL SORP 2018 and the Determination of Accounting Requirements 2019.

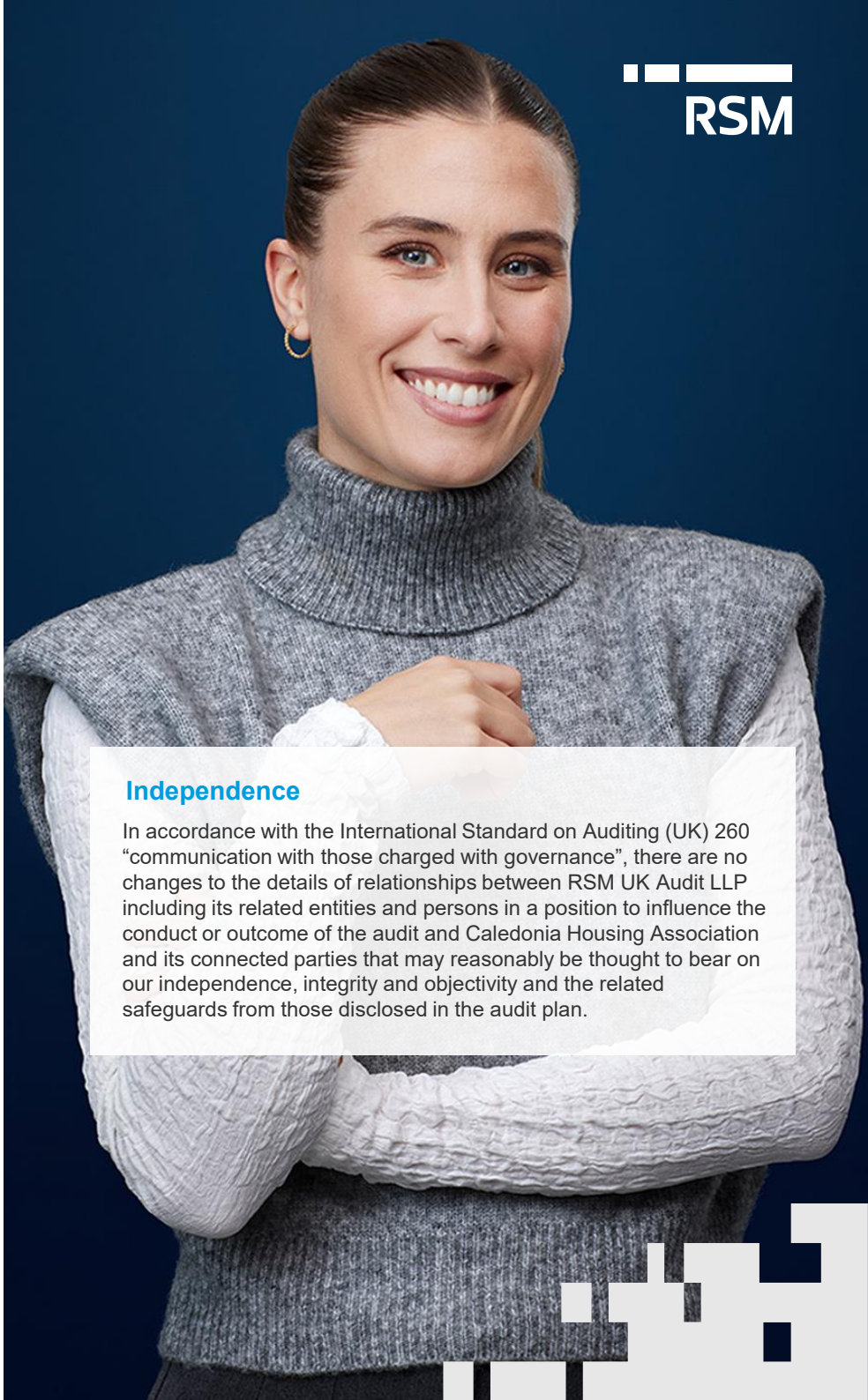
The following disclosure matters were brought to your attention and subsequently adjusted / not adjusted in the revised financial statements.

Unadjusted disclosures	Adjusted disclosures
None significant to note	The narrative reporting required to include Peter Fotheringham as a member of KMP during the year, with some adjustments to dates within the KMP disclosure accordingly.
	We recommended that further narrative on the voids being above target in Cordale was recommended for both sets of financial statements.
	The statement of cash flows required amendment to reflect the non-cash nature of the Eco4 funding income/assets.
	An accounting policy in respect of other income for Eco4 funding was included.
	The contingent liabilities note required to be updated to reflect the latest developments including the Pension Schemes Act 2026 and the SHAPS scheme benefits review.

Other matters to be reported

Representations requested

Except for those representation which we request on all audit assignments (http://www.rsmuk.com/standard-representations) we will not be seeking specific representations from the Board on any specific matters.



Independence

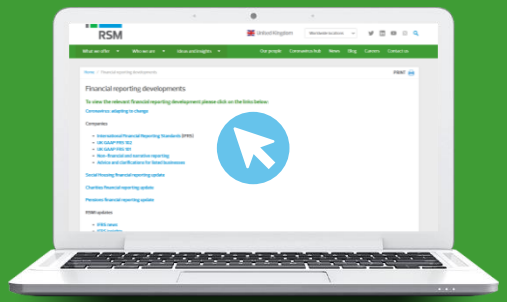
In accordance with the International Standard on Auditing (UK) 260 “communication with those charged with governance”, there are no changes to the details of relationships between RSM UK Audit LLP including its related entities and persons in a position to influence the conduct or outcome of the audit and Caledonia Housing Association and its connected parties that may reasonably be thought to bear on our independence, integrity and objectivity and the related safeguards from those disclosed in the audit plan.

Financial reporting updates

Financial reporting updates

A full list of financial reporting updates can be found by clicking the link below:

Please click here



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Keep up to date on the latest news and legislation changes by signing up to receive our alerts and newsletter.
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SORP 2026: preparing for change

The amendments to FRS102 and Housing SORP 2026 will be effective for periods commencing on or after 1 January 2026

Income recognition

Income from contracts will be recognised under a five-step model, which focuses on identifying the distinct goods and services ('performance obligations') promised to the recipient and the amount of consideration the provider will be entitled to in exchange for each of these performance obligations.

The changes may impact the timing and amount of income that the provider recognises, to varying degrees, depending on the nature and terms of contracts and current income recognition policies.

Income from service charges, supported housing and other care service contracts, commercial development and property sales are those most likely to be impacted.

Rental income continues to be accounted for under lease accounting requirements. However a practical challenge for providers will be to identify the "lease and non-lease" components of income from tenants in order to account for them under the income and leases sections of the SORP respectively.

Government grants and capital grants continue to be treated as non-exchange transactions and therefore treated under the current grant sections.

Leases

For lessees, the current distinction between finance and operating leases has been removed. Most leases (subject to exemptions for low value items and lease terms of less than 12 months) will now come onto the balance sheet with the recognition of a lease liability and corresponding right-of-use asset, with straight-line operating lease expense replaced with depreciation and interest.

These amendments could impact key figures, KPIs and borrowing covenants.

Leases for nominal payment ("peppercorn leases") are unlikely to meet the definition of a lease and would be recognised as non-exchange transactions and not subject to the lease requirements.

Leases with payments at significantly less than market rent will be considered to have a non-exchange element with this element forming part of the cost of the right of use asset.

Lessor accounting remains unchanged however there is a new requirement in FRS102 for lessors to disclose a maturity analysis of future lease payments receivable under operating leases. This needs to be disclosed annually for the first 5 years and a total for the remaining years. The underlying assumptions also need to be disclosed. Collating this information could be a time-consuming exercise for many providers.

SORP 2026: preparing for change

The amendments to FRS102 and Housing SORP 2026 will be effective for periods commencing on or after 1 January 2026

Other changes:

Enhanced Narrative Reporting: Extending the strategic report requirements to housing providers with more than 1,000 units (lowered from 5,000)

Shared Ownership: Updated guidance on how to account for repair responsibilities and Right to Shared Ownership requirements

Stock Swaps: Standardises the treatment of unit exchanges and related grant income under FRS 102.

Regeneration Schemes: Provides clearer criteria for capitalising costs and impairment reviews across complex regeneration projects.

Provisions: Improves consistency in recognising provisions for non-compliance with regulations and standards such Decent Homes, building safety, and net zero.

Preparing for change

We believe early preparation is essential to ensure that your business is ready for the changes in UK GAAP. We recommend assessing the impact of the changes on your financial statements and business as well as:

- factoring the changes into KPI's and budgets;
- assessing the impact on borrowing covenants;
- updating reporting and management information systems; and
- explaining the impact of the changes to key stakeholders including lenders and the board.

How can we help?

RSM's financial reporting specialists offer a range of tailored services to support you with the transition including:

- Impact assessments and workshops to help your team understand the amendments and actions needed;
- Assistance with preparation of new disclosures required
- Preparation of your financial statements that incorporate all relevant changes.

Provision of such services will be subject to suitable safeguards to ensure compliance with Ethical Standards for Auditors.


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Audit risk summary
taken from the audit plan

Audit risk summary

Risk	Description	Response
Management override of controls	This is a key area of focus for all audits where the management of the organisation differs from those charged with governance, and is a standard risk to be considered by auditors under the provisions of ISA (UK) 240. Systems of internal control are designed to mitigate inherent risks of error within the core control systems to an acceptable level. By nature, a management override or by-pass of controls cannot be eliminated solely by the implementation of controls and therefore as part of our audit we will perform additional tests of detail to address this risk.	We will update our documentation of the key financial systems notes and we will perform walkthrough testing to confirm that they are operating effectively and as intended and determine whether segregation of duties appears appropriate. We will review journal processing noting how journals are processed and reviewed and the general nature of journals processed within the relevant entities. We will test the appropriateness of a sample of journal entries recorded in the general ledger and other adjustments made in the preparation of financial statements, tracing selected entries back to source documentation. We will consider and investigate any which appear to be out with the norm in respect of timing of posting, amounts posted, or with regards to who has posted the journal. We will review significant accounting estimates and policies which could involve bias resulting in a material misstatement - such as pensions; which is covered in a separate item below. We will discuss the basis and business rationale for any significant non-routine or exceptional transactions which come to our attention during the course of our audit and will fully report the outcomes of our testing in our audit findings report. We will also review the work of internal audit and consider the effect of any weaknesses identified by internal audit on our audit work.

Audit risk summary (continued)

Risk	Description	Response
Impairment of fixed assets	The change in the economy over the last few years and increases to prices in the construction industry resulting from materials and labour costs on their end has meant that the cost of construction has substantially increased. As a result, in the sector there is a much higher risk that the cost of construction is not covered by net cash flow to be generated from developments when considered over 30-year plans; resulting in higher risks of impairment. We are aware of significant progress made in developments completing in 2025/26 in respect of the Baillndean, Bellsmyre phase 1, and Whitehill Court projects and these completed developments will be scrutinised in more detail to evaluate for any risk of impairment as the impact of this could be material to the financial statements, and furthermore unidentified impairments represent a risk to achievement of financial covenants, thus this is reflected as a higher assessed risk. Impairment assessments carried out by management will consider the value in use of the developments and compare this to the carrying value. However; this assessment involves a high level of judgement and estimation uncertainty. Additionally, any impairment recognised could have a substantial impact on covenants as noted in the going concern risk below, and therefore we have recognised this a higher assessed risk.	We will consider management's assessment of whether there are indicators of impairment present in the year that would necessitate performing a full impairment review; and determine whether this assessment is complete and whether the conclusion is appropriate. Where indicators are identified; we will review management's final calculations of the impairment of the completed developments in the year; considering the value in use and the assumptions behind this calculation to determine whether the valuation is reasonable. We will consider the impact of any impairment on covenant compliance linking in with our work on going concern (see risk further below). We will confirm any impairment is appropriately classified and disclosed in the financial statements.

Audit risk summary (continued)

Risk	Description	Response
Valuation of defined benefit pension liability	Caledonia Housing Association participates in the Scottish Housing Associations' Pension Scheme (SHAPS). It is expected that the Pensions Trust (TPT) will prepare the year end valuation reports for the SHAPS scheme, which includes FRS 102 disclosures, and management should review the valuation reports along with the underlying assumptions. The actuarial assumptions used contain a high degree of judgement and estimation – the nature of the liability is that it is highly susceptible to changes in external factors. This is likely to be more pronounced this year given the economic environment; inflationary rates and pressures on staff costs resulting from this. Based on 31 March 2025 figures; the combined gross pension liability (before the deduction of assets) was £10.8m. For an adjustment to be material, the assumptions underlying the valuation of the liability would need to have impact of 28.6% on the liability (based on those figures). In our view, and considering the use of experts as above, any changes in assumptions are not likely to have a material impact on the financial statements and as such we have recognised this risk as a "higher" risk as opposed to a significant risk.	We will obtain the valuation reports produced by TPT and review the reasonableness of the methodology, data and assumptions used in the valuation. We will consider management's consideration of the assumptions used and assess the independence and competence of any management's expert used to provide additional comfort over the review process in place. We will assess the sensitivity of the assumptions adopted based on market trends and other benchmarking information and determine whether we think that there is a risk that the pension liability is misstated. We will assess whether the valuation is recognised in the financial statements correctly and whether the disclosure within the financial statements is accurate and complete in accordance with the relevant accounting requirements. We will consider the latest position in respect of past service deficit costs and whether any appropriate adjustments are made in pensions figures disclosed in the financial statements for 31 March 2026.
Cut off and classification of planned maintenance	The nature of maintenance and repairs is such that work can cover lengthy periods and sometimes invoices can be received later than the year end which increases the risk that cut-off errors are present in the financial statements, particularly when works are being caught up on towards the end of a financial year. From testing in prior years, and discussions with management, we are aware that there can be significant delays in the entity receiving invoices for works orders, and therefore these can be missed from the year end accrual, and as there are expected delays in the planned maintenance programme we expect that there will be a larger volume of activity towards the end of the year so this risk is increased as a result. Further, the process for identifying accruals is a manual one, and therefore increases the risk that required accruals are not identified. Lastly; there is some judgement involved in classifying maintenance as revenue expenditure or capital expenditure which can introduce risk of error into the process.	We will assess management's procedures for ensuring that all spend relating to the 2025/26 financial year is correctly captured; including those that are invoiced after the year end. We will review a sample of transactions immediately after 31 March 2026 to ensure that spend is recognised in the appropriate accounting period, with accruals for costs being made as appropriate. We will review both revenue and capital expenditure to confirm that the treatment of each type is appropriate in line with component accounting considerations and also whether the assets are providing economic benefits to the Group.

Audit risk summary (continued)

Risk	Description	Response
Going concern	The sector as a whole is facing challenges around costs and ability to carry out works; particularly for developing RSLs such as Caledonia – the costs to develop have substantially increased over recent years and more pressure is being seen on financial covenants. Whilst the ongoing operation of the business is not noted as a risk, the risk remains compliance with banking covenants, as a breach of these legally entitles the funders to reclaim their funds; which would cause substantial doubt on the going concern assumption. Whilst there have been changes to covenants in recent years which provides more headroom (and we are expecting increased maintenance costs in the year as a result) this remains a key area of focus for all our social housing audits where debt is present. We are aware that the final £25m tranche of private placement funding was drawn down in November 2025 and revolving credit facilities were repaid from this funding; and that further drawdowns were seen in Cordale Housing Association to complete the Dalquhurn project. Cordale Housing Association needs to be considered in its own right; and key considerations will be around available funding. We will consider what, if any, further funding Cordale needs in its own right to support the going concern assumption. There are specific areas of risk noted on the pages above but given the risk to covenants and the current economic environment we have elevated the going concern status to a higher assessed risk.	As part of our audit we will evaluate management's view on the going concern assumption and in doing so we will: • Consider the appropriateness of the forecasts prepared by management for the purposes of the going concern assessment, ensuring the period assessed complies with relevant accounts regulations and the method used is applicable for the nature of the group and the assessment required in the current economic conditions. • Compare actual results for year to date to budgets and forecasts to assess appropriateness of the forecasts. • Assess the forward-looking assumptions used by management in their assessment relating to going concern. • Assess management’s sensitivity analysis and scenario analysis to reasonably possible changes in their assumptions, including downsides. • Review covenant calculations to confirm they are consistent with definitions outlined in loan/funding agreements and calculated correctly. • Review the appropriateness and sufficiency of related disclosures in the financial statements with a particular focus on the going concern accounting policy.

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