

INTERNAL AUDIT STRATEGY

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CONTENTS

	<u>Page</u>
1. Introduction	3
2. The Relationship between Internal & External Audit	4
3. MHAs approach to Internal Audit	5
a) Internal Compliance Testing Audits	
b) External Independent Validation	
c) Internal Auditors	
d) Benchmarking	
e) Self-Assessment Regulatory Standards	
4. Identifying Internal Audit Topics	9
Appendices	10

1. INTRODUCTION

Milnbank Housing Association (MHA) first introduced an internal audit system at the beginning of 2003. This was known as the Performance Management Strategy and was based on the SFHA Raising Standards in Housing Framework. This was superseded by the Scottish Housing Regulator (SHR) Regulatory Framework published in February 2019.

Within the Framework, the Regulatory Standards of Governance & Financial Management state at 4.5:

"The RSL has an internal audit function. The governing body ensures the effective oversight of the internal audit programme by an audit committee or otherwise. It has arrangements in place to monitor and review the quality and effectiveness of internal audit activity, to ensure that it meets its assurance needs in relation to regulatory requirements and the Standards of Governance and Financial Management"

and the Regulatory Standards of Governance & Financial Management state at 4.6:

"The governing body has formal and transparent arrangements for maintaining an appropriate relationship with the RSL's external auditor and its internal auditor"

Internal audit is a business tool designed to help organisations achieve their objectives. The key focus is on evaluating and improving the effectiveness of risk management, control and governance processes within an organisation. The Management Committee (Committee) drives the process in order to ensure that they are provided with the independent assurance needed.

Definition of Internal Audit: The Global Institute of Internal Auditors defines internal audit as:

"An independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes"

Key links to the wider MHA: The Internal Audit Strategy aims to provide a clear direction for internal audit activity and link to:

- MHA Objectives & Values
- MHA Business Plan
- MHA Risk Management Strategy
- Relevant SHR & other published guidance
- MHA Financial Projections

The benefits of Internal Audit include:

- a) Independent opinion on a range of specific topics.
- b) The Committee instruct the internal audit topics which allows a tailored approach for MHA.
- c) Provides the Committee with an independence assurance that MHA is being managed and operates effectively and that risks are managed or mitigated.
- d) Internal auditors must comply with a Code of Ethics which means that they have an obligation to more than MHA, it also ensures a responsibility to act in the best interests of the public.
- e) Promotes best practice, testing and monitoring systems to help prevent and/or detect corrupt practices.

Adopting a positive culture:

A positive approach to internal audit must be applied and it is essential that there is an environment that ensures all staff functions are working together and that staff are comfortable with the culture of monitoring and reviewing how we deliver services to our customers.

In addition to staff, a key to the success of having an effective Internal Audit Strategy is the Management Committee who, in partnership with the management team, has a responsibility in leading MHA at a strategic level to ensure our objectives, values and work plans are being followed through. This should be achieved through regular dialogue at committee meetings.

The Association must also find out what tenants, other customers and partners think of our service and, therefore, need to be consulted on the service provision and this is achieved via surveys, public meetings, focus groups and feedback from committee members.

2. THE RELATIONSHIP BETWEEN INTERNAL & EXTERNAL AUDIT

External auditor ⇔ operates 'outside' an organisation, coming in from an external company and assessing the reasonableness of the statement made by the organisation regarding its financial health.

Internal audit ⇔ operates 'inside' an organisation and is part of an organisation's internal control framework.

MHA have recently procured the services of Alexander Sloan with regards to providing Internal Audit Services. This was done through a tender process via a small working group who looked at the tenders and interviewed all 4 contractors who submitted tenders.

MHA strived to appoint the services of an internal auditor who has an in-depth knowledge of the social housing sector. Although there is no specific requirement, as accepted good practice, MHA would generally not appoint an external and internal auditor from the same company as this ensures there is a clear separation between the two functions. However, MHA expects that the external and internal auditors will rely upon each other's work to provide a level of assurance that MHA is appropriately governed and managed (e.g. if an internal audit found control weaknesses in the management of the payments process, the external audit would conduct a more thorough assessment of the payments process as part of the year-end assessment and vice-versa). It is MHA's practice that an annual communication takes place between the external and internal auditors to identify any issues or concerns that they may have regarding MHA's governance and risk management framework.

3. MHA's APPROACH TO INTERNAL AUDIT

MHA recognises that the Internal Audit Strategy should provide value to the organisation. On this basis, the approach that has been adopted is a combination of external and internal audits, compliance checking and validations. A narrative of MHA's approaches is as follows:

a. Internal Compliance Testing Audit

Good Practice advises that a suitable person should be designated as having specific executive responsibilities for ensuring the effectiveness of internal controls as part of their job role. In MHA, the Compliance Officer (CO) is charged with this. The CO will undertake compliance testing on a rolling programme basis and will provide reports on findings to the Management Team and subsequently the Management Committee. Through internal compliance testing audits, MHA aims to:

- Ensure that the Association, on a day to day basis, follows the set policies and procedures and to identify areas of policy or procedure that require review.
- It allows MHA to measure performance, its achievements against action plans and objectives and to ensure that there is continuous improvement.
- It identifies areas of good practice, addresses the weak areas and builds upon the strengths of the organisation. Where compliance testing increases, or potentially increases the current risk scoring, the risk will subsequently be reviewed and re-scored against the Risk Heat Map.

This level of internal compliance testing auditing ensures all members of staff and committee are involved and encourages understanding of the collective nature of performance initiatives.

Compliance Testing will be via service delivery plans which cover all functions within MHA. Each area of function has specific targets of achievement with timescales. In addition to the above, other areas of the business to subject to compliance testing will be selected by the Audit & Risk Sub-Committee, and ultimately the Management Committee, as part of the annual review of the Internal Audit Strategy. By way of example, APPENDIX 1 provides a summary of the internal compliance testing audits that were conducted during the financial year 2020/21.

The Internal Compliance Testing Audit Procedure: Using the corporate MHA Internal Compliance Testing Checking Form (APPENDIX 2), the undernoted procedure is carried out:

Step Action

1. When a service area of the business has been selected, the relevant policy and/or procedure will be reviewed. This will include involving staff responsible for the service area being reviewed.
2. MHA practice will then be examined against Policy and/or procedure. During the compliance check, documentation will be collated as an audit trail.
3. A summary of findings will be given to the relevant staff member and line manager. This will highlight the service area examined, the findings and any recommendations to be considered. The summary will specify an assessment grading. Finally, the report will highlight if the Risk Register requires to be reviewed.
4. Where action is necessary, the line manager will be expected to manage this until it is positively concluded. At this stage, external validation may be required.
5. A summary of the service areas assessed will form part of the Audit & Risk Sub-Committee quarterly reports.

b. External Independent Validation

Part of the Association's rolling programme of auditing includes appointing external organisations to validate specific areas of work (e.g. financial plan, ARC). This will be determined by the Audit & Risk Sub-Committee through the planned annual Action Plan and/or in response to unplanned issues that may arise during the course of the business discussions.

c. Internal Auditors

MHA's internal auditor has been secured in line with our procurement policy and procedures. This included asking companies for quotes as part of the Association's tender evaluation process. This will be followed by agreeing the methodology and the fixed number of audit days required which will be determined by the Audit Needs Assessment. MHA acknowledges there is no requirement to change the appointed internal auditor after a set period of time. However, in terms of meeting good practice, the contractual arrangements in place will be reviewed every three.

MHA's internal audit process is as follows:

1) ENGAGEMENT

- Usually prior to start of new financial year, the Audit & Risk Sub-Committee appoint the internal auditor in accordance with procurement policy and delegated authorities.
- They also agree the engagement terms of reference.

2) AUDIT NEEDS ASSESSMENT (ANA)

At the start of internal audit contract, agree details of topics, objectives and time frame

- The ANA will be led by the Chair & Sub-Committee with senior management and internal auditor providing guidance
- Have an open and honest discussion about MHA key risks (strategic and operational) and areas of internal audit to focus on.
- Audit & Risk Sub-Committee approve the ANA.

3) CONTACT DETAILS

At the start of engagement, the communications protocol agreed.

- Internal auditors report to Chair and/or Sub-Committee.
- Committee decide name senior manager to co-ordinate internal audit at operational level.

4) ANNUAL INTERNAL AUDIT PLAN

At the start of each audit year the Audit & Risk Sub-Committee agree the audit topics with senior management and auditor guidance/input.

- Approval of the Annual Plan by the Management Committee

5) ADVANCED AUDIT NOTIFICATION

Usually 1 month before audit fieldwork commences the Auditor will produce details of audit topics, fieldwork dates, risks being considered, staff involvement and documents to view.

6) **INTERNAL AUDIT FIELDWORK**

The internal audit will be carried out through a mixture of viewing MHA documents (eg. policies), present in MHA offices (interviewing staff, testing controls and sampling processes and systems) and off-site work (eg. drafting reports)

7) **FINDINGS AND RECOMMENDATIONS**

At the end of the audit, from the fieldwork, a report on the findings will be produced and discussed with senior management.

- Recommendations may or may not be made. If made, they must be proportionate to associated risks

8) **DRAFT INTERNAL AUDIT REPORT**

The draft internal audit report should be reviewed by senior management and provide comment on the findings and recommendations.

9) **FINAL INTERNAL AUDIT REPORT**

The final version of the internal audit report should be presented to the Audit & Risk Sub-Committee by the internal auditor.

10) **FOLLOW UP AUDIT**

- On a quarterly basis the CO will provide an update on any follow up work resulting from the internal audit report.
- This will subsequently be discussed with the internal auditor a year after the internal audit was conducted.
- The Internal Auditor will present a report on the findings of the follow up work.

d. Benchmarking

Benchmarking is whereby performance information (e.g. rent arrears levels, void targets, repairs services) is gathered and compared against performance indicators across a range of other landlords. The comparisons are subsequently used to highlight where MHAs performance appears to be poor and why. On an annual basis, MHA is required to submit information via the Annual Return on the Charter on a range of services to the SHR in order to demonstrate that MHA tenants, owners and other service users receive VFM. The Association is currently members of Scotland's Housing Network Benchmarking. The Committee and MHA residents are presented with outcome reports on the above items.

e. Self-Assessment Regulatory Standards

The introduction of the Housing (Scotland) Act 2010, amongst other powers, gives the SHR remit to ensure that Housing Association's like MHA comply with the Regulatory Standards of Governance and Financial Management. MHA provides

written details how it meets the 7 Regulatory Standards within the Association's Code of Governance. The Regulatory Standards are reviewed on an annual basis by the Management Committee.

Following the SHR's publication of MHAs Regulation Plan 2018/19, an independent review of the Association's approach to self-assessment on complying with the Regulatory Standards was completed in July 2019 and the resulting Action Plan is being addressed.

4. IDENTIFYING INTERNAL AUDIT TOPICS

When deciding the annual internal audit topics to be included within the Audit Needs Assessment, MHA's focus will be on high-risk areas as identified within the risk register. The Audit & Risk Sub-Committee will also use the internal audit as an opportunity to look at processes and systems that appear to be working well in order to provide them with this confirmation.

In order to ensure that value for money is achieved, MHA will generally require the internal auditor to focus on the Top 10 business risks. As part of the internal audit planning, the Audit & Risk Sub-Committee will decide on the topics to be covered and the time dedicated to each to ensure that the numbers of days are sufficient to provide the information and assurances it requires. In order to cover all areas of MHA, a rolling programme will be implemented. APPENDIX 3 provides the details of the audit rolling programme to be implemented by Internal Auditor. This will also help to provide the Audit & Risk Sub-Committee evidence to confirm the Association is achieving VFM, there are risk controls and mitigation in place, compliance with the SHR Regulatory Standards and the Housing Charter and to counter fraud and bribery controls where applicable.

5. INTERNAL AUDIT ACTION PLAN

Following Management Committee approval of the new Business Plan 2020/23, the actions points relating to internal audit are scheduled within the Governance, Compliance & HR Work Plan 2020/23. The compliance elements, including internal audit, are reported to the Audit & Sub-Committee on a quarterly basis.

APPENDICES

APPENDIX 1 – INTERNAL COMPLIANCE AUDIT CHECKS & EXTERNAL VALIDATION 2020/21

FUNCTION	COMPLIANCE AREA	INTERNAL/ EXTERNAL	TARGET COMPLETION	DATE COMPLETED	REPORTED TO COMMITTEE
Governance	Review Internal Audit Strategy	Internal	May 2020	18.08.20	18.08.20
HR	Review of Managing Attendance Policy	External – Mentor	May 2020	14.05.20	26.05.20
Governance	Audit of ARC 2019/20	External – CD Consultancy	May 2020	29.05.20	16.06.20
HR	Review of Senior Manager Salary Structure	External – Mentor	June 2020	17.06.20	-
Various	Internal Compliance Check – 2019/20 Action Points	Internal	June 2020	06.10.20	-
Finance	Internal Compliance Check – Treasury Management	Internal	June 2020	03.11.20	16.02.21
Housing	Internal Compliance Check – Anti-Social Complaints	Internal	June 2020	29.06.20	18.08.20
Governance	Clarify any areas for Internal Audit with Auditors	External – Azets	July 2020	18.01.21	N/A
Housing	Internal Compliance Check – Rent Consultation Action Points	Internal	July 2020	19.11.20	16.02.21
Housing	Internal Compliance Check – Rent Arrears Management	Internal	July 2020	19.11.20	16.02.21
Property Management	Internal Compliance Check – Written Statement for Factoring Services	Internal	July 2020	22.02.21	May 21 meeting
Various	Internal Compliance Check – Prevention of Fraud	Internal	August 2020		
Housing	Internal Compliance Check – Housing Lists	Internal	September 2020	26.11.20	16.02.21
Governance	Implement Year 1 of Internal Audit rolling programme	External	October 2020		Due to commence 01.04.21 due to Covid-19 pandemic

Finance	Internal Compliance Check – Financial Regulations	Internal	October 2020		
Finance	Review of Finance Report	External – HRC Ltd	October 2020	07.10.20	16.02.21
Finance	Internal Compliance Check – Former Tenant Arrears	Internal	November 2020	19.11.20	16.02.21
Finance	Internal Compliance Check – Recharges	Internal	November 2020	26.11.20	16.02.21
Various	Internal Compliance Check – MHA Procedure Manuals	Internal	December 2020	19.02.21	May 21 meeting
Governance	Internal Compliance Check – Control of Payments and Benefits	Internal	November 2020		
Asset Management	Internal Compliance Check – Call Outs	Internal	January 2021	26.01.21	May 21 meeting
Finance	Internal Compliance Check – Expenses	Internal	February 2021		

APPENDIX 2

INTERNAL COMPLIANCE TESTING CHECK

<u>FUNCTION</u>	
<u>SERVICE AREA</u>	
<u>POLICY/PROCEDURE USED</u>	
<u>METHODOLOGY FOR TESTING</u>	
<u>FINDINGS</u>	
<u>RECOMMENDATIONS</u>	
<u>RISK REGISTER REVIEW REQUIRED</u>	
<u>ASSESSMENT GRADING</u>	
ASSESSMENT	DEFINITION
■	Immediate action required - Fundamental absence or failure of key control procedures.
■	Urgent action required -The control procedures in place are not effective, inadequate management of key risks.
■	Planned action required -No major weaknesses in control but scope for improvement
■	No action required -Adequate & effective controls which are operating satisfactorily
<u>RESPONSIBLE LINE MANAGER</u>	
<u>REVIEW DATE</u>	
<u>SCHEDULED AUDIT MEETING DATE</u>	

Conducted by:

Date:

INTERNAL AUDIT COMPLIANCE TESTING CHECK – FOLLOW UP ACTION

(Form to be returned to Data Protection Officer within one month of Compliance Check being issued)

SERVICE AREA:	
MANAGER/FUNCTION:	

RECOMMENDATIONS:	
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ACTION TAKEN OR NEW PROCEDURE IMPLEMENTED BY MANAGER:	
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DATE ACTION TAKEN:	
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ANY OTHER RELEVANT NOTES:	
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DATE ACTION COMPLETED:	
ACTIONS CONFIRMED BY:	
DATE NOTED BY DPO:	

APPENDIX 3
ROLLING INTERNAL AUDIT PROGRAMME

AUDIT TOPIC	DETAILS	No of Days 2020/21 (12)	No of Days 2021/22	No of Days 2022/23
Governance	<ul style="list-style-type: none"> • Strategic Control • Business Plan • Financial Planning • Performance Monitoring • Committee Reporting Framework • Committee skills audits, training and development and succession planning • Complaints handling and compliance • Subsidiary control and performance monitoring 		5 days	
Risk Management	<ul style="list-style-type: none"> • Identifying, assessing and monitoring risks • Business Continuity and Disaster Recovery 	4 days		
Financial Management	<ul style="list-style-type: none"> • Treasury Management, budget setting, cash flow monitoring, financial management reporting • Payments and payroll • Income Management 		5 days	
IT	<ul style="list-style-type: none"> • Management controls, planning and monitoring • Data Assurance 	4 days		
Housing Services	<ul style="list-style-type: none"> • Rent setting and affordability, compliance with sector best practice • Arrears management and Welfare Reform/UC frameworks • Allocations management and tenancy sustainment processes • Tenant and customer engagement 			8 days

AUDIT TOPIC	DETAILS	No of Days 2020/21	No of Days 2021/22	No of Days 2022/23
Asset Management	<ul style="list-style-type: none"> • Reactive repairs management • Cyclical and planned maintenance, including SHQS and EESSH compliance • Gas safety, legionella and asbestos management • Health & Safety at work and risk assessments 	4 days		
Development	<ul style="list-style-type: none"> • Procurement Framework 			2 days
Factoring	<ul style="list-style-type: none"> • Management controls, planning and monitoring 		2 days	
Wider Action	<ul style="list-style-type: none"> • Management controls, planning and monitoring for Carbon Footprints Nursery and all non-housing activities 			2 days