



53 Ballindalloch Drive, Glasgow G31 3DQ

EXTERNAL AUDIT **STRATEGY**

DECEMBER 2019/REF.S3

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SECTION 1

INTRODUCTION

EXTERNAL AUDIT STRATEGY

An external audit is conducted on an annual basis to ensure that the Association's internal financial controls safeguard our assets against unauthorised use or disposition, the Association maintains proper accounting records and financial information is reliable.

In order to ensure that the above is achieved an External Audit Strategy has been compiled. This strategy covers issues relating to the requirements of an external audit being conducted, current and proposed procedures undertaken by Milnbank Housing Association and a timetable of implementation to ensure that targets are met.

AIM OF STRATEGY

The aim of this strategy is:

- To provide guidance for Milnbank employees in highlighting their role in the external audit process.
- To provide a summary for the Association's Auditor specifying who the main contact is in each area of audit activity.
- Demonstrate that MHA meets the various legislative and good practice guidance required of an external audit.

FINANCIAL AUDIT REQUIREMENTS

All MHA's financial activities are conducted within the acts that govern auditing requirements, these are: The Co-operative and Community Benefit Societies Act 2014, the Housing (Scotland) Act 2010 and the Registered Housing Associations (Accounting Requirements) (Scotland) Order 1999. Also all relevant Statements of Recommended Practice (SORP), as applicable from time to time and, from 1 January 2015, adopts International Financial Reporting Standards (IFRS) via the requirements of FRS 102.

SCOTTISH HOUSING REGULATOR STANDARDS OF GOVERNANCE AND FINANCIAL MANAGEMENT

In terms of the SHR Guidance this is laid out in their Framework document of February 2019 and links to their requirements to monitor The Scottish Social Housing Charter via the ARC.

Regulatory Standard 3 states:

“The RSL manages its resources to ensure its financial well being and economic effectiveness.”

“The RSL bases its financial forecasts on appropriate and reasonable assumptions and information.”

Additional Audit Guidance is provided for “RSLs of systemic importance” but all RSLs are expected to adhere to this as good practice.

“The governing body has a formal and transparent arrangements for maintaining an appropriate relationship with the RSLs external auditor” and

“The audit committee makes recommendations to the governing body in relation to the appointment and re-appointment and removal of external auditor”.

The Regulator has also published various papers on financial viability and “Governance Matters” since 2013 expressing concerns and opinions on risks from Welfare Reform; Universal Credit; Pension Costs etc., and from 2015/16 the implications of the new accounting standards being introduced under FRS 102 with effect from financial year end (15/16).

MILNBANK HOUSING ASSOCIATION STRATEGIC OBJECTIVES

The Mission Statement for Milnbank Housing Association is;

The purpose of Milnbank Housing Association is to meet housing and related needs within our community and provide our tenants and other customers with an excellent service.

MHA has 10 Operational Objectives, 1 of which relates specifically to the associations finances, as follows:

create financial capacity

AUDIT & RISK SUB-COMMITTEE

The Audit & Risk Sub-Committee are responsible for monitoring the External Audit process. The Audit and Risk Sub-Committee meet every quarter and will receive reports on External Audit Performance.

APPOINTMENT OF EXTERNAL AUDITOR

The appointment of External Auditors will be carried out by a Competitive Tendering Process no more than every 7 years. This was last competitively tendered during 2011 and Messrs. Scott Moncrieff re-appointed at the AGM in September 2011. Their tenure will last to financial year end 2017/18 inclusive.

However, following the major accounting changes apparent for financial year ends 2015/16 and 2016/17 it was agreed to extend the appointment of Messrs. Scott Moncrieff for a further 3 years to permit greater continuity in our financial reporting. This was approved at full Management Committee in September 2017 and will run to 2020/21 inclusive.

The continued independence of external auditor is protected by the appointment of a new director of audit to oversee the association's affairs, along with the rotation of Scott Moncrieff staff undertaking the Interim and Final Audits.

SECTION 2

AUDIT REQUIREMENTS

Prior to an external audit being conducted a plan of the areas that will be covered during a visit is provided, dates agreed for both the interim audit and final audit, duration of the visit and format.

The Finance Manager provides details to all staff on the above areas thus ensuring that prior notification is provided and to allow those staff involved in the external audit to prepare materials, files etc.

Although the main focus of the external audit is on financial matters, it also covers a wide range of other activities within MHA. The following provides a comprehensive list of the activities that are covered and the named officer/s responsible for providing this information as appropriate:

GOVERNANCE	
Committee minutes & reports	Governance/HR
Share Register	Governance/HR
Personnel records	HR
Staff structure	HR
Internal Audit & Compliance Checks	Data Protection Officer
Policy Development & Review Schedule	Depute Director
Tender Register	Director
HAG Reconciliation Register	Finance Officer

PAYROLL	
Payroll Administration	Finance Manager/Officer/Assistant
Payroll summary & BACS	Finance Manager/Officer/Assistant
Salary, pensions & PAYE (Payments action)	Finance Manager/Officer/Assistant
Random salary checks	Finance Manager/Officer/Assistant

BANKING	
Cash payments at office	Finance Officer/Assistant

PURCHASE LEDGER CONTROL	
Purchase orders	Finance Assistant
Bacs/Cheque payments	Finance Assistant
Work orders received	Maintenance Assistant

SALES LEDGER CONTROL	
Invoices issued	Finance Assistant
Payments	Finance Assistant

RENT CONTROL	
Rent received	Housing Services Manager/ Officers
Bad Debt Review; Comprehensive review of rent arrears > £1,000 to be considered on case by case basis for provisioning purposes. General provision to be applied for arrears < £1,000. To include both Current and Former tenant arrears.	Housing Services Manager/ Officers Finance Manager

FACTORING CONTROL	
Issue accounts	Property Manager/Management Assistant
Payments received	Property Management/Finance Assistant

IT	
Access rights to system	IT Co-ordinator
Implementing & checking daily back up	External IT Consultants/IT Co-ordinator

MILNBANK SUBSIDIARY COMPANIES	
MCE financial records	Finance Officer/Assistant
MPS financial records	Finance Officer/Assistant

CARBON FOOTPRINTS NURSERY and SUPPORT SERVICES	
CFN financial records	Finance Officer
Support financial records	Finance Officer/Support Admin

ACCOUNTING STANDARDS	
FRS 102 implementation/compliance	Finance Manager/Finance Officer

Section 3

External Audit Process

This document has summarised the key elements of the legislative requirements of an external audit and has detailed areas where the Association is aware that need to be addressed and how they are being rectified. Particular emphasis has been placed upon staff being responsible for their particular function, with the Finance Manager providing an overseeing role. This strategy will be used as a working document throughout the year and will be reviewed annually prior to the interim external audit being conducted which is normally January of each year.

The Finance Manager is responsible to provide the required information, and to ensure that all staff co-operate with requests made by the external auditors.

In order to emphasise the importance of MHA's external audit, the following aims to provide staff with an outline of the process.

a) Appointment of External Auditor

In terms of MHA's governance rules, an external auditor is appointed, upon the recommendation of the management committee annually by the members at the AGM.

An audit fee and an agreement of the services being provided is agreed via an engagement letter.

b) External Audit Plan

- 1) Interim Audit - On an annual basis the Finance Manager will agree dates and the requirements for the corporate MHA Interim Audit which is generally scheduled in for January for the end of that financial year. This will last for approximately 2/3 days, the aim of this being to carry out preparative work on MHA corporate finances prior to the full audit later in the year.
- 2) Final Audit - Following confirmation of the Interim Audit the Finance Manager will also agree the dates for the corporate MHA Final External Audits which are generally scheduled for around June/July of each year and the duration of this is generally 2/3 working weeks, with the aim of this being to carry out a full audit of MHA's financial management systems and control mechanisms.
- 3) Annual Accounts - From the work carried out during the external audit, a set of annual accounts is produced covering the financial year 1 April to 31 March. Individual accounts are prepared for MHA and the subsidiary companies MPS and MCE

and then consolidated to produce Association and Group accounts. The annual accounts are then approved by the management committee and presented to the members at the AGM for final approval. A set of annual accounts are also submitted to the Scottish Housing Regulator on an annual basis and to the Association's funders along with other recognised Stakeholders as required.

4) Audit Management Report

This is issued to the Management Committee upon completion of the full audit with the aim being to verify that MHA complies with all various legislation and guidance.

The Report is prepared in great detail and also highlights any practices that should be reviewed which are subsequently categorised into grades from reviewing efficiency to very high risk exposure.

The management committee are required to respond to any issues highlighted with an accompanying action plan, if required. The use of a detailed Report is seen as an increased level of scrutiny required by the SHR and other interested stakeholders e.g. Lenders and other Grant providers such as the Big Lottery. The SHR has also increased its level of engagement with external auditors and their reports are now expected to be more robust with greater expectations being placed upon them to highlight potential issues or weaknesses identified during the audit process.

It is now mandatory that this Report is sent to SHR along with all annual accounts as part of their annual returns.

Section 4

ACTION PLAN

The final audit for year end 31 March 2019 confirmed all outstanding audit points from the previous year were satisfied and no further points were raised in the Audit Management Report for 2019.

The following table provides a summary the strategy action points for 2019/20.

ACTION	LEAD OFFICER	COMPLETED BY
Host pre Audit Planning Meeting	Finance Officer	February 2020
Facilitate interim audit	Finance Officer	December 2019
Facilitate final audit	Finance Manager	May - July 2020
Present annual accounts 2019/20 to Management Committee	Finance Manager	September 2020
Present annual accounts 2019/20 at AGM	Director	September 2020
Ensure annual accounts are submitted to the relevant bodies	Finance Manager	September 2020
Ensure any action points in the Audit Management Report are completed within a reasonable time period	Finance Manager	September 2020

The table below details the planned timetable for the 2019/20 Audit Programme.

<u>Stage of Audit</u>	<u>Date (Days TBC)</u>	<u>Team</u>
Planning Meeting	Tuesday 04 February 2020	James McBride; Aileen Ogston
Interim Audit	Tuesday 10 December – Thursday 12 December 2019	Michael Clapham
Final fieldwork – Milnbank Property Services Limited	W/C 01 June 2020 - TBC	Michael Clapham
Final fieldwork – Milnbank Community Enterprises Limited	W/C 18 May 2020 - TBC	Michael Clapham
Final fieldwork visit 1– Milnbank Housing Association Limited	W/C 13 July 2020 – 2 weeks	Gary & Victoria
Management Committee meeting to approve the financial statements	08 September 2020	James McBride
AGM	17 September 2020	James McBride