

TO:	Audit & Risk Sub-Committee
PREPARED BY:	Linda Sichi (Deputy CEO)
SUBJECT:	REVIEW INTERNAL AUDIT STRATEGY 2024/25
DATE OF MEETING:	19 March 2024
APPROVED BY:	Paul Martin (CEO)

# INTERNAL AUDIT STRATEGY

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## 1. INTRODUCTION

- 1.1 In line with the Scottish Housing Regulator (SHR) Regulatory Framework published in February 2019, Milnbank Housing Association (MHA) operates an Internal Audit Strategy (IAS). This Regulatory Framework includes the Regulatory Standards of Governance & Financial Management, and in terms of internal audit, its states at 4.5 and 4.6.

*"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".*

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

- 1.2 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 (MC) drives the process 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, & governance processes".*

- 1.3 Key links to the wider MHA: The IAS 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

- 1.4 The benefits of Internal Audit include:

- a) An independent opinion on a range of specific topics.
- b) The MC instruct the internal audit topics which allows a tailored approach.
- c) Provides the MC 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.

1.5 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 work together and embrace the culture of monitoring and reviewing how we deliver services to our customers. The MC 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.

MHA must also find out what tenants, other customers and partners think of our service and, therefore, need to be consulted on the service provision.

**2. THE RELATIONSHIP BETWEEN INTERNAL & EXTERNAL AUDIT**

2.a External auditor  $\implies$  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.

2.b Internal audit  $\implies$  operates 'inside' an organisation and is part of an organisation's internal control framework.

2.c MHA procure the services of an internal auditor every three years and it is strived to appoint 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. It is MHA's practice that an annual dialogue 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 IAS should provide value. On this basis, the approach adopted is a combination of external and internal audits, compliance checking and validations. A narrative of MHA's approaches is as follows:

### **3.1a. Internal Compliance Testing Audit**

Good Practice advises that compliance checks should be made to ensure the effectiveness of internal controls are being met. In MHA, using the function work plans, the relevant line managers are responsible for this. This is to assure line managers that:

- MHA, at an operational level, follow policies and procedures and to identify areas of policy or procedure that require review.
- Performance can be measured against action plans and objectives and promotes continuous improvement.
- It identifies areas of good practice, addresses weaknesses, and builds upon strengths. 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.

### **3.1b. External Independent Validation**

Part of MHA'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 business discussions.

### **3.1c. 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 MHA's tender evaluation process. This is 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. However, in terms of meeting good practice, the contractual arrangements in place will be reviewed every three years. MHA's internal audit process is set out in *APPENDIX A*.

### **3.1d. Benchmarking**

Benchmarking is whereby key performance indications (e.g., rent arrears, void targets) is gathered and compared against other landlords. The comparisons are subsequently used to highlight where MHAs performance is good and where it is lower than average. On an annual basis, MHA is required to submit information via the Annual Return on the Charter (ARC) on a range of services to the SHR to

demonstrate that MHA tenants, owners and other service users receive VFM. The MC and MHA residents are presented with outcome reports.

### **3.1e. Self-Assessment Regulatory Standards**

The Housing (Scotland) Act 2010 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 on-going basis.

## **4. IDENTIFYING INTERNAL AUDIT TOPICS**

When deciding the 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 audit register. The Audit & Risk Sub-Committee will also use the internal audit to look at processes and systems that work well to provide them with assurance.

To ensure that VFM 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. To cover all areas of MHA, a rolling programme will be implemented. APPENDIX B provides the details of the 2024/25 audit rolling programme. This provides the Audit & Risk Sub-Committee with evidence to confirm MHA 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**

The action points relating to internal audit are scheduled within the Governance, Compliance & HR Work Plan and are reported to the Audit & Sub-Committee quarterly.

# **APPENDICES**

## **MHA INTERNAL AUDIT PROCESS**

## **APPENDIX A**

### **1) ENGAGEMENT**

- At the 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 (e.g., policies), present in MHA offices (interviewing staff, testing controls and sampling processes and systems) and off-site work (e.g., 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.

**APPENDIX B**  
**ROLLING INTERNAL AUDIT PROGRAMME**

AUDIT TOPIC	DETAILS	No of Days 2024/25 (12)	No of Days 2025/26 (12)	No of Days 2026/27 (12)
Governance (5 days 2021/22)	<ul style="list-style-type: none"> <li>• Strategic Control</li> <li>• Business Plan</li> <li>• Financial Planning</li> <li>• Performance Monitoring</li> <li>• Committee Reporting Framework</li> <li>• Committee skills audits, training and development and succession planning</li> <li>• Complaints handling and compliance.</li> <li>• Subsidiary control and performance monitoring</li> </ul>	4 days		3 days
Risk Management (4 days 2020/21)	<ul style="list-style-type: none"> <li>• Identifying, assessing, and monitoring risks</li> <li>• Business Continuity and Disaster Recovery</li> </ul>			3 days
Financial Management (5 days 2021/22)	<ul style="list-style-type: none"> <li>• Treasury Management, budget setting, cash flow monitoring, financial management reporting</li> <li>• Payments and payroll</li> <li>• Income Management</li> </ul>		4 days	
IT (4 days 2020/21)	<ul style="list-style-type: none"> <li>• Management controls, planning and monitoring.</li> <li>• Data Assurance</li> </ul>			3 days
Housing Services (8 days 2022/23)	<ul style="list-style-type: none"> <li>• Rent setting and affordability, compliance with sector best practice.</li> <li>• Arrears management and Welfare Reform/UC frameworks</li> <li>• Allocations management and tenancy sustainment processes</li> <li>• Tenant and customer engagement</li> </ul>	2 days		3 days

AUDIT TOPIC	DETAILS	No of Days 2024/25 (12)	No of Days 2025/26 (12)	No of Days 2026/27 (12)
Asset Management/Maintenance (4 days 2020/21)	<ul style="list-style-type: none"> <li>Reactive repairs management</li> <li>Cyclical and planned maintenance, including SHQS and EESSH compliance.</li> <li>Gas safety, legionella, and asbestos management</li> <li>Health &amp; Safety at work and risk assessments</li> </ul>		4 days	
Development (2 days 2022/23)	<ul style="list-style-type: none"> <li>Procurement Framework</li> <li>Test financial management, including budgets, costs</li> </ul>	4 days		
Factoring (2 days 2021/22)	<ul style="list-style-type: none"> <li>Management controls, planning and monitoring</li> </ul>		4 days	
Wider Action (2 days 2022/23)	<ul style="list-style-type: none"> <li>Management controls, planning and monitoring for all non-housing activities</li> </ul>	2 days		

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Housing Services	<ul style="list-style-type: none"> <li>• Rent setting and affordability, compliance with sector best practice.</li> <li>• Arrears management and Welfare Reform/UC frameworks</li> <li>• Allocations management and tenancy sustainment processes</li> <li>• Tenant and customer engagement</li> </ul>			8 days
Development	<ul style="list-style-type: none"> <li>• Procurement Framework</li> </ul>			2 days
Wider Action	<ul style="list-style-type: none"> <li>• Management controls, planning and monitoring for all non-housing activities</li> </ul>			2 days