



External and Internal Audit Policy & Procedures

F.05

Reviewed

May 2024

Date next due for review:

May 2027

This policy document can be produced in various formats, for instance, in larger print or audio-format; and it can also be translated into other languages, as appropriate.

Our equalities and human rights policy statement describes our key equality commitments that we use to develop all organisational services; this includes employment services and services to tenants and other customers.

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The Scottish Housing Regulator Reg. No: HAC176; Registered Scottish Charity No: SC041992; FCA Reg. No: 2029RS; Property Factor Reg. No: PF000345.

1. **INTRODUCTION**

This policy takes account of the Scottish Housing Regulator's (SHR) Standards of Governance and Financial Management for RSLs (February 2019). It also takes account of the requirements of the Financial Reporting Council in relation to audit and assurance services.

2. **AIMS OF POLICY**

- To ensure that the Association meets the requirements set out by the Scottish Housing Regulator in respect of external and internal audit
- To ensure that the Finance, Audit and Risk Sub-committee is aware of its responsibilities in relation to these functions
- To ensure that staff are aware of their responsibilities in relation to these functions

3. **EXTERNAL AUDIT**

Appointing the Auditor

Approximately every three years, and no more than every five years, the Association will tender for the services of an external auditor.

The appointment of an external auditor will be for three years, with the option to extend to five years, subject to annual review. Any extension beyond 5 years should only happen in exceptional circumstances and will be subject to careful consideration and decision by the Finance, Audit and Risk Sub-committee, subject to final approval by the Management Committee.

The firms selected for tendering will be Statutory Auditors registered under the Companies Acts and will be members of the Institute of Chartered Accountants of Scotland.

The tender opportunity will be advertised and at least four firms will be asked to tender and the selection of these will be based on:

- Previous experience of similar sized housing association audits
- Familiarity as to the regulatory framework within which housing associations operate
- An ability to undertake additional duties if requested to do so.

Prior to appointment, references will be sought from existing or previous clients and if required the Finance, Audit and Risk Sub-committee will hold interviews to aid selection.

The tender process will be as detailed in our Financial Procedures. The Association will assess the applications on a mixture of quality of the submission (60%) and price (40%). The Association is not obliged to appoint on the lowest price.

Reviewing the Performance of the Auditor

The performance of the Auditor will be reviewed annually against the criteria set out in Appendix One. The Director and the Finance Manager/Agent will complete this assessment within one month of the audit being completed.

Where the performance is considered satisfactory, the auditor will be re-appointed in accordance with the Association's rules.

Where the performance is considered to be unsatisfactory, then the above procedures for tendering may be followed.

Auditor's Engagement Letter

Following selection of an auditor, the Finance, Audit and Risk Sub-committee should receive an Engagement Letter from the auditor which must conform to the standards set out by the Financial Reporting Council.

This letter will be reviewed in line with the Auditor's review policy, each time there is a material change to the terms of service and at least every three years.

Communication with Auditor

Prior to commencement of the audit, the auditor and the Association should agree an audit timetable. This must take into account the Association's Finance, Audit and Risk Sub-committee meeting held to approve the Statutory Accounts and the AGM and will be agreed between the auditors, the Association's Director and the Finance Manager/Agent. The audit timetable will be reported to the Finance, Audit and Risk Sub-committee and Management Committee once agreed.

At the first Finance, Audit and Risk Sub-committee meeting following completion of the audit, the Audit Partner, or an appropriate substitute, should present the Accounts to the Finance, Audit and Risk Sub-committee. The Audit Partner should highlight any issues which they propose including in the Audit Summary Report and Letter of Representation.

When the Audit Summary Report is received, the Finance, Audit and Risk Sub-committee will respond setting out how it proposes to deal with any points raised.

A copy of the Audit Summary Report, the Finance, Audit and Risk Sub-committee response and the Statutory Accounts will be forwarded to SHR in the required format prior to 30 September each year.

Audit Fees

Prior to commencement of the audit, the Director will agree with the Auditor the fee which will be charged. The audit fee should be in alignment with the tender and subsequent contract agreed. Any variation to the proposed audit fee must be agreed in advance between the Auditor and the Director, and reported to the Finance, Audit and Risk Sub-committee.

Should this fee vary when the final audit has been carried out, the Auditor must justify it by illustrating that they required to carry out required additional work which they could not have foreseen at the planning stage.

Additional Work

The Association may ask the auditor to carry out additional items of work or advice. If this has any potential conflict with their work as statutory auditors, measures designed to maintain their independence will be introduced such as different personnel being used. If this is not possible or the non-audit service is prohibited then the service will be sourced from another firm for example internal audit.

Fees for such work must be agreed prior to the work commencing and must be shown separately from the Audit Fee. The fees must be insignificant relative to the audit fee and on a non-contingent basis such that they will not, and cannot be perceived to, impact on the objectivity of the auditor.

4. COMMITTEE STATEMENT ON INTERNAL FINANCIAL CONTROLS

Committee Statement on Internal Financial Control in the Annual Accounts

As part of its reporting in the statutory accounts, the Management Committee acknowledges its ultimate responsibility for ensuring that the Association has in place a system of controls designed to give reasonable assurance with respect to:

- The reliability of financial information used within the Association, or for publication;
- The maintenance of proper accounting records;
- The safeguarding of assets against unauthorised use or disposition.

The minimum requirements of what should be contained in this statement are included at Appendix two.

As part of their appointment, the external auditors are required to review the Committee's statement and to report to the members whether, in their opinion, the Committee's statement is consistent with the information that came to their attention during the course of the audit.

The external auditor is expected to plan their work in such a way that there is a reasonable chance of detecting any material non-compliance with Regulatory Standards.

Fraud and Error

The Finance, Audit and Risk Sub-committee will periodically review the Association's Financial Regulations, Financial Procedures and Treasury Management Policy which set out the control systems in operation to ensure that the ability to commit fraud is minimised, subject to final approval by the Management Committee.

The Director will report to the Management Committee any cases of actual or attempted fraud and any action taken and will report on whether they consider the internal controls to be satisfactory. Both the internal and external auditors will be made aware of any actual or attempted fraud.

The Association will maintain a Register of Frauds to record any incidents of fraud or attempted fraud which will be open for inspection by members of the Management Committee, the Auditor and the Scottish Housing Regulator. Where no loss or fraud has occurred, the register will be signed each year by the Chairperson or Director to this effect.

5. INTERNAL AUDIT

Finance, Audit and Risk Sub-committee

The Finance, Audit and Risk Sub-committee will ensure that the key functions of such a committee, as outlined in Appendix Three, are discharged adequately.

It is the responsibility of the Finance, Audit and Risk Sub-committee to ensure that a suitable person is designated as having specific executive responsibility for ensuring the effectiveness of internal controls as part of their job specification. In the Association, the Director will be responsible for ensuring that internal controls are effective (both financial and non-financial).

The Director will ensure that an annual review is undertaken of the internal control systems and that the Finance, Audit and Risk Sub-committee receives a report on the adequacy, reliability and effectiveness of the internal control system.

Procedures for Internal Audit

Each year, the Association will undertake a risk assessment in order to assess areas of potential risk and areas of particular sensitivity. This will be carried out jointly with staff and Committee.

At least every three years, the Association appoint a suitably qualified internal auditor which has appropriate experience of housing associations and the regulatory environment. The tender and appointment process will be as per the Association's financial procedures.

Internal Audit is a service to the Association which contributes to internal control by examining, evaluating and reporting to staff and Committee on the adequacy and effectiveness of the Association's internal controls. The controls which are implemented should conform to the criteria outlined in Appendix Four and should cover the whole internal control system of the Association not just financial control.

Areas which will be examined, therefore, in the course of the Internal Audit are:

- Corporate Services
- Housing Services
- Maintenance
- Finance
- Governance
- IT
- Risk Management

Not all of these areas will be examined on each visit but will be programmed over a number of visits so that each area is examined at least once every three years. Areas to be examined will be identified through the internal audit planning process and will involve the internal auditor, Committee and staff and will be based on a number of factors, but particularly risk management assessments carried out as part of the business planning process.

Once an examination has been carried out, a written report should be prepared by the internal auditor. It should also include an opinion on the adequacy of the internal controls in that area and make recommendations as to how any weaknesses can be corrected.

These reports will be given to the Director and senior staff to consider their factual correctness and to provide a management response to the auditor prior to being issued to the Finance, Audit and Risk Sub-committee to consider. It is expected that the internal auditor will attend a Finance, Audit and Risk Sub-committee meeting to present an annual report on their audit work and will be available for any questions from the Committee.

Where improvements are recommended, there will be a follow-up report prepared and issued to the Association by the internal auditor within 12 months of the initial review of each area of work. This report will summarise the initial findings of the review, detail the improvements subsequently implemented by the Association and conclude on the adequacy of those changes.

The internal auditor is expected to plan their work in such a way that there is a reasonable chance of detecting any material non-compliance with Regulatory Standards.

6. REVIEW

This policy will be reviewed every three years or earlier if necessary to ensure that it continues to meet regulatory requirements as well as the aims and objectives of the Association in relation to audit procedures.

APPENDIX ONE

PERFORMANCE CRITERIA FOR EXTERNAL AUDITOR

CRITERIA

MET NOT MET

1. LETTER OF ENGAGEMENT

A Letter of Engagement was provided confirming the understanding of the duties and responsibilities undertaken.

2. AUDIT PLAN

An Audit Plan was timeously provided and incorporated notification of the fee for the audit

3. ANNUAL TIMETABLE

A timetable was provided and adhered to for:

- Carrying out the Annual Audit
- Preparation and signing of Annual Accounts
- Presentation of results to the Finance, Audit and Risk Sub-committee
- Presentation of results at the Annual General Meeting

4. AUDIT FIELDWORK

Materiality set at an adequate level, especially not too high to ensure a robust audit process.

Dynamic sample sizes are used to take into account the size of the population and nature of the transactions, essentially ensuring a sufficient number of samples are taken to be able to draw reliable conclusions

5. MANAGEMENT LETTER/AUDIT SUMMARY REPORT

- Issues to be included in the Management Letter were highlighted to Director in advance
- A Management Letter outlining problem areas and suggested corrections to internal systems was provided for the Management Committee within one month of the Annual Audit

6. QUALITY OF STAFF

- Suitably qualified/experienced staff were utilised on the Audit work
- A partner of the audit firm was available to present and comment on the Annual Accounts and to provide any guidance necessary on this and any other relevant matters.

7. **PROVISION OF ADDITIONAL SERVICES**

- Written agreement to provide services in addition to the basic external Audit was provided
- Fees and timetable for this additional work were agreed in advance and adhered to.
- There were no conflicts with their external audit work

APPENDIX TWO

COMMITTEE STATEMENT ON EFFECTIVENESS OF INTERNAL CONTROL

The Statement should contain as a minimum the following:

1. The Management Committee acknowledging its ultimate responsibility for ensuring that the Association has a system of internal financial controls that are appropriate for the business environment in which it operates.
2. Acknowledgement that these controls are designed to give reasonable assurance (as opposed to absolute assurance) with respect to:
 - a. the reliability of financial information used within the Association, or for publication;
 - b. the maintenance of proper accounting records; and
 - c. the safeguarding of assets against unauthorised use or disposition.
3. A description of the key elements of the Association's financial controls.
4. Confirmation that it has reviewed the effectiveness of the system of internal financial control in existence for the financial year under review.
5. Confirmation of whether any weaknesses were found in the internal financial controls which resulted in material losses, contingencies or uncertainties which require disclosure in the financial statements or in the audit report.
6. An explanation that the system can only provide reasonable and not absolute assurance against material financial misstatement or loss.

APPENDIX THREE

KEY FUNCTIONS OF A FINANCE, AUDIT AND RISK SUB-COMMITTEE

A. OVERVIEW OF FINANCIAL REPORTING

1. To assist the Management Committee in ensuring that financial reports to external parties, in particular, the annual financial statements, give a true and fair view of the Association's financial affairs and have been prepared in accordance with the regulatory framework
2. To confirm to the Management Committee that there are no outstanding matters of disagreement between management and the external auditor
3. To learn from the external auditor of their principal matters of concern.

B. OVERVIEW OF EXTERNAL AUDIT

1. To consider whether or not the Association is getting good value for money from its external auditor
2. To review the external audit work on behalf of the Management Committee, essentially reviewing the performance of the external auditor in line with Appendix One
3. To recommend to the Management Committee the re-appointment or otherwise of the external auditor
4. To recommend to the Management Committee the fee to be paid to the external auditor

C. OVERVIEW OF INTERNAL CONTROL

1. To satisfy the Management Committee that there is a sufficient, systematic review of the internal control arrangements of the Association, both operational (relating to effectiveness, efficiency and economy) and of financial reporting controls
2. To ensure that weaknesses in control are being corrected and reported to the Management Committee accordingly
3. To consider the external auditor's audit report within the statutory accounts, audit summary report and letter of representation
4. To commission special investigations into matters of particular concern relating to internal control
5. To learn from the internal audit function of any major audit findings and to advise thereon

D. OVERVIEW OF INTERNAL AUDIT

1. To ensure that the Association has appropriate internal audit arrangements

and to approve the scope and/or limitations of such arrangements.

2. To consider the reports of the internal auditor and to ensure that any recommendations are implemented.
3. To review the planned programme of work of the internal audit function to ensure its appropriateness.

APPENDIX FOUR

CRITERIA FOR INTERNAL CONTROLS

The controls implemented by Management should:

1. Ensure adherence to policies and procedures in order to achieve the Association's objectives.
2. Safeguard the assets and interests of the Association, particularly by minimising the risk of financial losses arising from fraud
3. Ensure compliance with statutory and other regulatory requirements
4. Ensure, as far as possible, the reliability and integrity of financial and operating information utilised for internal management reporting, Committee reporting and external reporting
5. Ensure efficient, effective and economic use of resources