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<b>Policy Name</b>	<b>Internal Audit Policy</b>
<b>Policy Author</b>	<b>Depute Director</b>
<b>Approved by Sub Committee</b>	<b>N/A</b>
<b>Approved by Management Committee</b>	<b>January 2022</b>
<b>Latest date of Next Review</b>	<b>October 2022</b>

West Whitlawburn Housing Co-operative will provide this policy on request at no cost, in larger print, in Braille, in audio or other non-written format, and in a variety of languages. Please contact the office.

## **This policy should be read in conjunction with the SFHA Internal Audit Guidance For Scottish Housing Associations and Co-operatives June 2021**

### **1 Definition**

Internal audit is a business tool designed to help organisations achieve their objectives. Its focus is on evaluating and improving the effectiveness of risk management, control and governance processes within an organisation. The process is driven by the governing body of an RSL in order to ensure that it is provided with the independent assurance it needs.

The Global Institute of Internal Auditors defines the role of 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.”<sup>1</sup>*

### **2 Regulatory Standards**

The Scottish Housing Regulator requires RSLs to have in place robust self-assessment arrangements to illustrate compliance with the Regulatory Standards of Governance and Financial Management.

Standard 1: The governing body leads and directs the RSL to achieve good outcomes for its tenants and other service users.

Guiding Standard 1.2: The RSL’s governance policies and arrangements set out the respective roles, responsibilities and accountabilities of governing body members and senior officers, and the governing body exercises overall responsibility and control of the strategic leadership of the RSL.

Standard 3: The RSL manages its resources to ensure its financial wellbeing, while maintaining rents at a level that tenants can afford to pay.

Guiding Standard 3.3: The RSL has a robust business planning and control framework and effective systems to monitor and accurately report delivery of its plans. Risks to the delivery of financial plans are identified and managed effectively. The RSL considers sufficiently the financial implications of risks to the delivery of plans.

Standard 4: The governing body bases its decisions on good quality information and advice and identifies and mitigates risks to the

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<sup>1</sup> Global Institute of Internal Auditors - [About Internal Auditing](#)

organisation's purpose.

Guiding Standard 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. Where the RSL does not have an audit committee, it has alternative arrangements in place to ensure that the functions normally provided by a committee are discharged.

Guiding Standard 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.

### **3 Assurance and Notification**

RSL's must:

- Prepare an Annual Assurance Statement in accordance with published guidance, submit it to the Scottish Housing Regulator (SHR) between April and the end of October each year, and make it available to tenants and other service users.
- Notify SHR during the year of any material changes to the assurance in its Assurance Statement.
- Have assurance and evidence that we are meeting all of legal obligations associated with housing and homelessness services, equality and human rights, and tenant and resident safety.
- Notify SHR of any tenant and resident safety matters which have been reported to, or are being investigated by the Health and Safety Executive, or reports from regulatory or statutory authorities, or insurance providers, relating to safety concerns.
- Make our Engagement Plan easily available and accessible to its tenants and service users, including online.

#### **3.1 Annual Assurance Statements**

The annual assurance statement must either confirm that the committee is assured that WWHC is complying with all relevant regulatory requirements and standards, or highlight any material areas of non-compliance and how WWHC will address these.

Internal audit is **part** of the ongoing process for gathering evidence to

ensure the committee has the necessary level of assurance it needs to complete the statement as internal auditors give an independent opinion on the specific topics that they audit.

The self-assurance process is crucial to ensuring strong governance within the organisation, with regulatory compliance the side-effect of a robust process.

## **4 Roles and Responsibilities**

### **4.1 Management Committee**

The Management Committee oversees the implementation of this policy and holds ultimate responsibility for ensuring the internal audit function is providing it with the necessary level of assurance.

The Management Committee agrees WWHC's audit requirements and the topics to be considered over a three to five year period, subject to annual review in order to ensure that they are still the most relevant audit topics/ areas that require attention.

This remit and authority of the Management Committee is documented within WWHC's Standing Orders.

The Management Committee must:

- Be honest with the internal auditor with regards to the risks WWHC faces and the concerns they have with regards to their risk management and control framework.
- Ensure that the Internal Audit Plan is covering the areas of highest risk and/or the areas where the governing body requires assurance.
- Ensure that the internal auditor has been given full and unrestricted access to all relevant documents and staff to allow the internal auditor to do their job.
- Ensure there is a system in place to monitor the implementation of the agreed recommendations.

### **4.2 Responsibilities**

The Management Committee will satisfy itself that there are sufficient and systematic reviews of all internal controls through appropriate internal audit arrangements and will:

- Input to, review and approve the planned programme of internal audit work to ensure its appropriateness.
- Ensure that weaknesses in control identified are addressed by following through internal audit recommendations.
- Commission any special investigation into matters of particular concern.

- Monitor and review the effectiveness of the internal audit activities.
- Control the appointment, reappointment and removal of the internal auditor.
- Review and report on all Registers i.e. Fraud, Bribery and Corruption, Payments and Benefits, Gifts and Hospitality and Declarations of Interest annually.
- Ensure the level of the internal audit function remains appropriate.
- Comply with the terms of the WWHC's Equal Opportunity policy to prevent discrimination taking place.

### **4.3 Internal Auditors**

The internal auditor will detail the scope of each topic/area they have audited.

The Internal Auditor has the right of access to the Internal Audit Committee Chairperson and also the right to request a meeting of the Internal Audit Committee be convened, if in their opinion it is necessary.

The internal auditor has an obligation to immediately highlight any serious concerns to senior staff and the Chairperson if necessary.

The internal auditor has an obligation to comply with the IIA Global International Professional Practices Framework, which includes abiding by the Code of Ethics.

### **4.4 Senior Staff**

Senior staff must work in full collaboration with the internal auditor. They must have an open and honest discussion with them regarding the risks faced and regarding any systems, processes or procedures that are not working properly. It is only with this open and honest approach that the internal auditor can make a true assessment of the topic/area being audited.

Senior staff must ensure that the internal auditor is given full and free access to the staff and information/systems relating to the topic/area being audited. They must ensure that the relevant staff make themselves available for the duration of the audit fieldwork.

### **4.5 Staff**

As with senior staff, staff must be open and honest with the internal auditor. An internal audit cannot be relied upon to find everything that is wrong. The only way the internal auditor is going to know about any issues is if the staff (and/or senior staff) highlight the issues to the auditor.

WWHC encourages a staff culture of openness so that staff feel comfortable in raising issues or concerns.

## **5 The Internal Audit Process**

It is important that WWHC has a robust risk identification and control system in place. In line with the Risk Management Policy, the Management Committee defines the Co-operative's Risk Appetite and monitors and evaluates the control and management of identified risks presented to the Management Committee by the Director. The Management Committee annually reviews the Risk Management Strategy to coincide with the Business Planning process, with the key risks highlighted.

### **5.1 Audit Needs Assessment**

An Audit Needs Assessment (ANA) will be carried out, detailing the audit topics to be covered over a period of time. The ANA will be reviewed annually, producing the annual internal audit plan.

The internal auditor will review a WWHC's key governance documents such as Rules, Business Plan/Internal Management Plan, Risk Register and Standing Orders in order to gain a full understanding of its strategic and operational objectives and its framework of governance and risk management.

### **5.2 Annual Internal Audit Plan**

When preparing the Audit Plan, consideration must be given to:

- the outcome of previous internal audit work
- the findings and assessments of the external auditors
- new and emerging risks that have been identified
- the status/outcomes from the regulatory assurance self-assessment.
- high-risk areas identified in the risk management strategy
- processes and systems that appear to be working well, but where the Management Committee would like confirmation that they are operating as effectively and efficiently as possible.

The Management Committee agree WWHC's audit requirements and agree the topics to be considered a three to five year period, subject to annual review in order to ensure that they are still the most relevant audit topics/areas that require attention.

The internal audit function reports directly to the Management Committee, not the senior staff team.

Regardless of the topics chosen, the internal auditor should always be assessing, for each audit topic, evidence to confirm:

- compliance with the Regulatory Standards of Governance and Financial Management;
- compliance with the Scottish Social Housing Charter;
- relevance to the Annual Assurance Statement framework;
- counter fraud and bribery controls (where applicable);
- risk control and mitigation; and

- the achievement of value for money

The Annual Internal Audit Plan will state the total number of days per audit topic. Some topics/areas being audited will only be reviewed once in a three-year cycle, and some will require more frequent review depending upon the related risks/level of assurance required.

### **5.3 Adjustments to topics audited due to the pandemic**

The COVID-19 pandemic has presented evolving risks and challenges never anticipated or tested. WWHC's internal audit service must be able to quickly adapt and adjust to the changing risk profile and shifting audit requirements.

#### **Fraud**

Internal auditors will focus on fraud during their assessments with a view to identify control gaps and ensure they are mitigated effectively.

Throughout this process, internal auditors will ask the following:

- What exposure to fraud and error does WWHC have due to its responses to COVID-19?
- How is WWHC managing fraud and error risks?
- What processes are in place to measure fraud and error and evaluate the effectiveness of activities to prevent or detect this?

#### **Control circumvention**

The internal auditor will test how management has adjusted financial and operational procedures to cope with remote work arrangements and offices being unavailable or staff working in a blending pattern [part of the time in the office, part of the time working from home].

This evaluation will include the:

- re-alignment of IT security controls to deter cyber-attacks;
- the lack of employee experience with remote working and using internet communication methods;
- re-evaluation of separation of duties - when many employees were away from the office [or were furloughed].

## **Future Approach**

Internal auditors will need to give:

- a. Assurance on the effectiveness of remote working, emphasising such factors such as team morale, control mind-set and communication.
- b. Clearer documentation of the auditor's scope and purpose to allow strong challenge and review of those working remotely.
- c. Greater consideration of more extreme stress scenarios.
- d. Assurance on control resilience to circumvention and fraud.
- e. Re-assessment of how WWHC operations have changed to test control effectiveness in the new operating environment.

The internal auditor's role after the pandemic should include consideration of:

- The ability of management to make appropriate decisions during times of stress;
- Any cultural concerns arising from employees' ability to adapt and respond to the pandemic;
- Financial resilience and liquidity;
- Dependencies on suppliers and third parties;
- Effectiveness of business continuity plans; and
- Adequacy of IT systems.

### **5.4 Internal Audit Fieldwork**

The Annual Internal Audit Plan states the total number of days per audit topic. The internal auditor will carry out:

- Initial information gathering – relevant strategies, policies, procedures; etc.;
- On-site work – testing controls, interviewing staff, close out meeting to discuss findings and recommendations with relevant manager; and
- Off-site work – further analysis of findings, drafting a report, having the report quality checked, issuing draft report for management comments, issuing a final report, presenting the findings and recommendations to the Management Committee.

### **5.5 Remote auditing**

Following the Covid-19 pandemic, WWHC have increasing exposure to the internal audit service being provided remotely. Internal audits will ensure that GDPR, IT security and confidentiality are protected and that there is no compromise in the internal audit process.



When conducting remote auditing, WWHC will consider:

- The existence and maintenance of an up-to-date data sharing agreement.
- How comfortable staff are issuing information remotely?
- How the auditor will access key information?

A format will be followed regarding data sharing and WWHC must ensure they are confident that the integrity of their data will not be compromised. The internal auditor will liaise with WWHC's IT provider to confirm the security of the data transfer method, and also request that the auditor confirm what they will do with the data they have received once the internal audit has concluded.

## 5.6 Recommendations & Priority Ratings

Not every internal audit will result in recommendations being made and at times there may be suggestions for improvement.

The value of the internal audit, however, comes from the Management Committee receiving assurance on regulatory compliance.

If recommendations are made, they will have a priority rating to indicate the importance of the recommendation and the urgency with which they have to be implemented.

Grading	Classification
High	Major weakness that needs to be brought to the attention of the Management Committee and addressed by senior management of the Co-operative as a matter of urgency.
Medium	Significant issue or weakness which should be addressed by the Co-operative as soon as possible.
Low	Minor issue or weakness reported where management may wish to consider our recommendation.

## 5.7 Levels of Assurance

The topic/system/process that has been audited will be given an overall assurance assessment. The assessment given will depend upon the nature of the topic being audited, the risks associated with the topic and the number and priority rating of the recommendations made.

<b>Assurance</b>	<b>Classification</b>
Strong	Controls satisfactory, no major weaknesses found, no or only minor recommendations identified.
Substantial	Controls largely satisfactory although some weaknesses identified, recommendations for improvement made.
Weak	Controls unsatisfactory and major systems weaknesses identified that require to be addressed immediately.
No	No or very limited controls in place leaving the system open to significant error or abuse, recommendations made require to be implemented immediately.

## **5.8 Annual Internal Audit Report**

At the end of the financial year, the internal auditor will produce an Annual Internal Audit Report which summaries the outcomes of the audits that have been carried out over the previous year and makes an assessment (based on the audits) of WWHC's framework of governance, risk management and control.

This report will assist the Management Committee in making its Annual Assurance Statement to the Scottish Housing Regulator.

The Internal Auditor will present the report to the Management Committee in order to provide the opportunity for the Management Committee to directly ask the auditor questions.

## **5.9 Follow Up**

Follow up is an audit that seeks evidence to confirm that agreed recommendations from the previous financial year's internal audits have been implemented.

At the conclusion of an audit, findings and proposed recommendations are discussed and an action plan is put in place detailing how the agreed recommendations will be implemented.

WWHC has an internal system for monitoring the implementation of internal audit recommendations by reviewing progress at monthly senior staff meetings and reporting to Management Committee.

## **6 Link with External Audit**

External audit is dealt with under cover of the External Audit Policy and through the Finance Sub Committee.

WWHC's internal auditor and external auditor will not be the same firm to ensure clear separation between the two functions.

External audit and internal audit rely upon each other's work to provide a level of assurance that WWHC is appropriately governed and managed.

The external auditor will have full access to internal audit reports.  
The internal auditor will have full access to external audit reports.

Internal and external auditors will be free to meet as and when required.

Should either the internal or external auditor request a meeting with the Management Committee with senior staff being absent, this request will be granted.

## **7 Procurement and Resources**

The Co-operative will effectively resource the Internal Audit function to meet internal audit requirements and will carry out a rolling programme of reviews covering the entire control system.

When procuring an internal auditor, WWHC will comply with the Procurement Policy and procedures. This policy should be read in conjunction with the SFHA Internal Audit Guidance For Scottish Housing Associations and Co-Operatives March 2018 which provides additional guidance.

The Management Committee has responsibility for the appointment of consultants through appropriate procurement arrangements to carry out internal audit functions.

A change of internal auditor is a Notifiable Event and the Notifiable Events Policy will be implemented.

## **8 Equalities and Human Rights**

We are committed to ensuring equal opportunities and fair treatment for all people in our work. In implementing this Policy, we will provide a fair and equal service to all people, irrespective of factors such as gender, race, disability, age, sexual orientation, language or social origin, or other personal attributes.

## 9 Review

This policy will be reviewed on a 3 yearly basis.

### Policy Implementation Checklist

<b>Equality and Diversity Compliant</b>	Yes
<b>Equality Impact Assessment required</b>	No specific issues of concern
<b>Data Protection (GDPR) compliant</b>	Yes
<b>Health &amp; Safety compliant</b>	Yes
<b>Training requirements</b>	
<b>Regulatory Framework Assurance Information Bank Updated</b>	GS 1.2 GS 3.3 GS 4.5 GS 4.6
<b>Policy Implementation</b>	

<p><b>Reporting arrangements</b></p> <p>Management Committee</p> <p>Senior staff</p>	<p>Annual report on registers</p> <p>Annual review and update of audit plan</p> <p>Monthly progress reports</p> <p>Monthly progress reports</p>
<p><b>Policy register updated</b></p>	
<p><b>Published on Website</b></p>	
<p><b>Publicity material issued</b></p>	<p>N/A</p>
<p><b>Related Policies</b></p>	<p>Standing Orders</p> <p>External Audit</p> <p>Risk Management</p> <p>Business Plan</p> <p>Annual Assurance Statement and review process</p>