

INTERNAL AUDIT POLICY

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| Purpose: | To set out the Association's policy on internal audit and to provide practical guidance to Board members and staff about their roles and responsibilities for internal audit, highlighting the importance of having in place robust, independent assurance. |
| Review Date: | New Policy |
| Guidance: | SFHA Internal Audit Guidance – originally published March 2018 & updated June 2021 |
| Regulatory Standards: | Standard 4: The governing body bases its decisions on good quality information and advice and identifies and mitigates risks to the organisation's purpose. |
| Other Relevant Policies | <ul style="list-style-type: none"> • Rules • Standing Orders • Risk Management Policy • Finance Regs & Procedures • Notifiable Events Policy • Complaints Policy • Equality & Human Rights Policy • Data protection Policy • Procurement Policy • Business Continuity & Disaster Recovery Policy |
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1. INTRODUCTION

- 1.1 Internal audit is a business tool designed to help Dalmuir Park Housing Association (DPHA) achieve its objectives. The focus of internal audit is on evaluating and improving the effectiveness of risk management, control and governance processes within DPHA. The process is driven by the Board as the governing body in order to ensure that it is provided with the independent assurance it needs. Internal audit is defined by the Global Institute of Internal Auditors 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.”¹

2. REGULATION

- 2.1 **Scottish Housing Regulators (SHR) Regulatory Standards of Governance & Financial Management (2019) Standard 4** states:

“The governing body bases its decisions on good quality information and advice and identifies and mitigates risks to the organisation’s purpose.”

1. Guidance Note 4.3 states: “The governing body identifies risks that might prevent it from achieving the RSL’s purpose and has effective strategies and systems for risk management and mitigation, internal control and audit.”

2. Guidance Note 4.5 states: “The RSL (Registered Social Landlord) 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.”

3. Guidance Note 4.6 states: “The governing body has formal and transparent arrangements for maintaining an appropriate relationship with the RSL’s external audit and its internal auditor.

4. The Internal Audit function forms part of DPHA’s risk management framework.

2.2 Scottish Social Housing Charter

¹ Global Institute of Internal Auditors - [About Internal Auditing](#)

1. Outcome 13 - Value for Money, states that:
“Social landlords manage all aspects of their businesses so that tenants, owners and other customers receive services that provide continually improving value for the rent and other charges they pay.”
2. This standard covers the efficient and effective management of services. It includes minimising the time houses are empty; managing arrears and all resources effectively; controlling costs; getting value out of contracts; and giving better value for money by increasing the quality of services with minimum extra cost to tenants, owners and other
3. Customers; and involving tenants and other customers in monitoring and reviewing how landlords give value for money.”
4. The Internal Audit function assists in identifying areas of improvement for all the areas listed in Outcome 13.

3. PRINCIPALS AND OBJECTIVES

- 3.1 The core principles of our internal audit function are:
 - a. Demonstrates integrity.
 - b. Demonstrates competence and due professional care.
 - c. Is objective and free from undue influence (independent).
 - d. Aligns with DPHA’s strategies, objectives, and risks.
 - e. Is appropriately positioned and adequately resourced.
 - f. Demonstrates quality and continuous improvement.
 - g. Communicates effectively.
 - h. Provides risk-based assurance.
 - i. Is insightful, proactive, and future-focused.
 - j. Promotes organisational improvement.
- 3.2 DPHA has a clear commitment to continuous improvement and to the exploration of new ideas in all areas of its work. The objectives of this policy are to ensure that an effective internal audit framework is in place to assist DPHA in achieving its strategic and operational objectives as well as its regulatory and legal requirements.

4. ROLES AND RESPONSIBILITIES

4.1 Role of the Board

1. The Board is the driving force behind the internal audit process and holds ultimate responsibility for ensuring the internal audit function is providing it with the necessary level of independent assurance.

2. The Board (and the Audit & Risk Committee) must:
 - Be honest with the internal auditor with regards to the risks DPHA faces and any 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 Board 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 that they understand the internal auditor's findings and the recommendations and have a system in place to monitor the implementation of the agreed recommendations.
3. Through delegated authority from the Board, the Audit & Risk Committee has oversight of the annual internal audit plan, audit reports and any remedial action identified by the internal auditor.

4.2 Role of Audit & Risk Committee

1. DPHA has an Audit & Risk Committee as part of its governance structure. The remit and authority of the Audit & Risk Committee is documented within the Standing Orders. The Committee has the delegated authority to manage, amongst other duties, the internal audit and external audit function.
2. The Audit & Risk Committee acts in an advisory capacity to the Board but will also be able to take decisions as defined within its delegated authority/remit.
3. At least three non-executive members of the Board serve on the Audit & Risk Committee. The Chairperson of DPHA may be a member of the Audit & Risk Committee but must not be Chair of the Committee. Staff must not be members of the Audit & Risk Committee.
4. The Audit & Risk Committee will meet with the internal auditor at least once a year, without staff being present, to ensure there are no unresolved issues of concern. The internal auditor has the right of access to the Audit & Risk Committee Chairperson and also the right to request a meeting of the Audit & Risk Committee to be convened, if in their opinion, it is necessary.

4.3 Role of Internal Auditors

1. An internal auditor must be clear on the audit work they have undertaken – detailing what has and has not been included within the scope of each topic/area they have audited. If there has been a slight deviation from the scope of the audit initially agreed within the Annual Internal Audit Plan, the internal auditor must provide an

explanation. It is important to note that a significant deviation from the original scope of an audit approved by the Board will need the deviation approved by them.

2. The internal auditor has an obligation to immediately highlight any serious concerns to the Chief Executive and the Chairperson if necessary.

4.4 Role of the Leadership Team

1. The Leadership Team 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 or area being audited.
2. The Leadership Team must ensure that the internal auditor is given full and free access to the staff and information or systems relating to the topic or area being audited. They must ensure that the relevant staff make themselves available for the duration of the audit fieldwork.
3. The Chief Executive will act as the main contact for the internal auditor.

4.5 Role of Staff

1. As with the Leadership Team, staff must be open and honest with the internal auditor. Staff must never hide anything from the internal auditor – as the whole point of the audit is to ensure that processes, procedures, systems and controls are working as effectively and efficiently.
2. It is important that an RSL encourages a staff culture of openness and honesty so that staff feel comfortable in raising issues or concerns. This will help to maximise the benefit of internal audit.

5. INTERNAL AUDIT REMIT

- 5.1 The internal audit remit covers all aspects of DPHA's activities. This includes, but is not limited to, the independent assessment of systems, processes, controls, information and operations relating to the following:

- Corporate Governance
- Strategic Planning & Control
- Risk Management
- Finance Systems
- Management Information
- Housing Management Services
- Maintenance Services
- Tenant Health & Safety
- Care Services

- Human Resources
- ICT
- Other activities as identified by the Board and Leadership Team

6. BENEFITS OF INTERNAL AUDIT

- 6.1 Internal Audits can deliver substantial benefits and assurance to DPHA through its primary focus on the systems of internal control, resulting in better performance and enhanced risk management. A properly planned internal audit will not only provide benefits to the Board and staff, but to tenants and all customers and service users.
- 6.2 The Board will benefit from the assurance that adequate and effective levels of internal control are in place to mitigate against identified risks and warn of potential problem areas. The internal audit process will also provide the Board with a level of assurance that DPHA are complying with regulatory and legislative requirements.
- 6.3 Staff will benefit from assessment that operational practices are appropriate, effective, mitigating risks, following sector best practice and offering the best value for money. The internal audit process may also highlight areas where training is required.
- 6.4 Consequently, tenants, customers and service users will benefit from the high quality of service provided by DPHA.

7. INDEPENDENCE & OBJECTIVITY

- 7.1 Internal audit is independent of the activities that it audits, in order to ensure unbiased judgements and impartial advice and line with good practice, accountability and transparency we will not appoint the same firm to carry out our internal audit and external audit functions.
- 7.2 Although there is no specific requirement, it is generally accepted good practice and therefore recommended that your internal auditor and external auditor are not the same firm. This ensures clear separation between the two functions.
- 7.3 That said, external audit and internal audit still rely upon each other's work to provide a level of assurance that an organisation is appropriately governed and managed. For example, if an internal audit has 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 their year-end assessment. Conversely, if the external audit has found control problems during their year-end assessment, the problem area will become the focus of an internal audit.

- 7.4 DPHA will appoint independent internal auditors who will carry out their work freely and objectively allowing them to offer the impartial and unbiased judgements required. Staff will ensure that the internal auditors have access to information and explanations relevant to the performance of all audit work. There will be no restricted areas, and the internal auditor will have freedom to make enquiries and to expect complete answers to all relevant questions and information requests.
- 7.5 Our internal auditors are required to advise us immediately if a conflict of interest (real or perceived) arises before or during the course of their work with DPHA. To mitigate against the risk of the conflict continuing, DPHA reserves the right to appoint a new internal audit provider in such circumstances. This approach is in line with best practice.
- 7.6 The work of the internal auditors will adhere to the mandatory Chartered Institute of Internal Auditors' guidance including the:
- Chartered Institute of Internal Auditors - [Internal Auditors' Standards](#)
 - Global Institute of Internal Auditors (2017) [Code of Ethics](#)
 - Chartered Institute of Internal Auditors (2017) [Code of Professional Conduct](#)
 - Chartered Institute of Internal Auditors (2017) [Principle of Professionalism](#)

8. PROCUREMENT AND ROTATION

- 8.1 In compliance with DPHA's Financial Regulations internal audit services will be procured every three years.
- 8.2 It is important that the relationship between the auditor, staff and the Board always remains professional and independent. If following the outcome of procurement, the internal auditors are re-appointed, the internal auditors should ensure their auditors are rotated and the internal auditor always complies with the IIA Global Code of Ethics and works to the IIA Global Standards. The DPHA's staff and governing body members must also comply with their own Codes of Conduct and their respective remits. This will help to ensure that the internal audit function remains impartial, and the Board is assured of the accuracy of the internal audit findings and recommendations.

9. PLANNING

- 9.1 At the start of the internal audit contract, an Audit Needs Assessment (ANA) will be carried out, detailing the audit topics or areas to be covered over the term of the contract. This is broken up into a number of stages:
- a. Review of key governance documentation/previous Internal Audit.
 - b. Reflect the sector wide risk areas highlighted by the SHR.
 - c. Identifying audit topics

- d. Planning Meeting
- e. Approval by the Board after recommendation from Audit & Risk Committee.

- 9.2 When deciding upon the internal audit topics to be included within the ANA, focus should be placed upon high-risk areas as noted within the risk register. It is also an opportunity to look at processes and systems that appear to be working well, but where the Board would like confirmation that this is operating as effectively and efficiently as possible.
- 9.3 Regardless of the topics chosen, the internal auditor should always be assessing, for each audit topic, evidence to confirm:
- Compliance with the Scottish Social Housing Charter;
 - Compliance with the Regulatory Standards of Governance and Financial Management;
 - 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.
- 9.4 For each year of the internal audit contract, an annual audit programme will be agreed based on the ANA and will include a follow up review by the internal auditor. Follow up is an audit that seeks evidence to confirm that agreed recommendations from the previous financial year's internal audits have been implemented and is a crucial stage in the internal audit process.
- 9.5 Internal audits will be carried out on an annual basis to cover selected functions within the association and ensure compliance with guidance provided by the SHR, current legislation and any good practice documents prepared by Scottish Federation of Housing, Chartered Institute of Housing etc. The internal auditor and will also reflect the sector wide risk areas highlighted by the SHR.
- 9.6 Internal audits can be carried out remotely, in-person or using a hybrid remote/in-person approach.

10. BUSINESS CONTINUITY AND FLEXIBILITY

- 10.1 It is important that our internal audit service can quickly adapt and adjust to any changes to our risk profile and shifting audit requirements as a result of major incidents (such as pandemics) that impact on our business continuity. Therefore, our ANA may have to be amended and if this happens approval will be required by the Board.
- 10.2 Past crises have shown internal auditors that in the middle of an incident:

- Good controls may be deliberately bypassed and may go unnoticed for some time; and
 - Whenever controls are bypassed or fail the auditors must keep digging until they get to the root cause of the reason for the bypass/failure.
- 10.3 It is vital that the internal auditor tests how management has adjusted financial and operational procedures to cope with incidents, remote work arrangements and offices being unavailable or staff working in a hybrid arrangement [part of the time in the office, part of the time working from home]. There should be a particular focus on ICT security controls.

11. REPORTING

- 11.1 A closing meeting will be held at the end of each audit. At this meeting the internal auditor discusses their findings and recommendations at the end of the fieldwork with the appropriate members of the Leadership Team depending on the topic being audited.
- 11.2 The outcome of the audit process and any recommendations will, in the first instance, be reported in draft form to the Chief Executive Officer for comment and the management response.
- 11.3 After reviewing the draft internal audit report, the Chief Executive will consult with the Leadership Team as appropriate and then respond in writing to the auditor advising if they accept the recommendations and enclose a draft programme detailing the timescales for implementation/review and identify who will be responsible for specific items. This is referred to as the Management Response. If the Association does not agree with any of the draft recommendations, then an explanation for this will be detailed and discussed with the internal auditor.
- 11.4 Should any reports of fraud, mismanagement or other serious comments be made by the internal auditor, then the Board will be notified immediately, and appropriate steps taken in line with the Association's specific policies and procedures and staff conditions of service. Specific reference should be made to the Association's Notifiable Events Policy.
- 11.5 The internal auditor will report their finalised report to the Audit & Risk Committee and thereafter the Committee will recommend the finalised report, recommendations and management response to the Board for approval. Once approved by the Board the recommendations will be added to the Recommendations Monitor with progress on implementation reported to the Audit & Risk Committee until all recommendations are complete.
- 11.6 Internal audit has an important role to play in ensuring that management has effective systems in place to detect and prevent corrupt practices within an

organisation. This is part of its normal role of supporting the governing body's oversight of risk management.

- 11.7 Whilst it is important to note that it is not the job of internal audit to directly detect or prevent corrupt practices, as responsibility for this lies with the Board and the Leadership Team, internal audit's role includes promoting anti-fraud and anti-bribery best practice, testing and monitoring systems and advising on change where it is needed by making recommendations. This can help prevent and/or detect corrupt practices.

12. ANNUAL INTERNAL AUDIT REPORT

- 12.1 At the end of the financial year, the internal auditor produces an Annual Internal Audit Report. This report summaries the outcomes of the audits that have been carried out over the previous year and makes an assessment (based on the audits) of the organisation's framework of governance, risk management and control. This report will assist the Board in making its annual Statement on Internal Control.
- 12.2 The Annual Internal Audit report will be presented to the Audit & Risk Committee without staff in attendance. These 'private' discussions should focus on assurance that the scope or the function of internal audit is not being limited, that the internal auditor is being given full access to staff and documentation as required to fulfil their remit, and any other items/matters either party wishes to bring to the table.

13. MAKING A COMPLAINT

- 13.1 If tenants, customers or service users wish to complain about our approach to Internal Audit, they should refer to the Association's Complaints Policy.

14. EQUALITIES AND HUMAN RIGHTS

- 10.1 The Association is committed to promoting an environment of respect, understanding, encouraging diversity, and eliminating discrimination by providing equality of opportunity for all. This is reflected in its Equality and Human Rights Policy.

15. DATA PROTECTION

- 15.1 We will treat personal data in line with our obligations under the current data protection regulations and our Data Protection Policy. Information regarding how data will be used and the basis for processing data is provided in our Fair Processing Notices.

16. POLICY REVIEW

16.1 This policy will be reviewed on a three-yearly cycle by the Board or earlier if required.