

CLYDESDALE HOUSING ASSOCIATION LIMITED

Policy: Internal Audit Policy

Date: 29 May 2019

Lead Officer: Chief Executive

Review Date: May 2022

Regulatory Standard: **Standard 4**

The governing body bases its decisions on good quality information and advice and identifies and mitigates risk to the organisation's purpose.

Regulatory Guidance:

- 4.3 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.
- 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.
- 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.

Clydesdale Housing Association will provide this policy on request at no cost, in large print, in Braille, in audio or other non-written format, and in a variety of languages.



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Introduction

1. Clydesdale Housing Association (CHA) considers internal audit as a business tool designed to help achieve our objectives. Its focus is on evaluating and improving the effectiveness of risk management, control and governance processes.
2. The internal audit process is driven by our Management Committee in order to ensure that it is provided with the independent assurance it needs.
3. The internal audit process forms part of CHA's governance framework and the outcomes of internal audits feed into assessment for the Annual Assurance Statement.
4. Internal audit is defined by the Global Institute of Internal Auditors ("About Internal Auditing", 2017) 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.”

5. The Chartered Institute of Internal Audit ("What is Internal Audit", 2017) further defines the role of Internal Audit as:

“to provide independent assurance that an organisation's risk management, governance and internal control processes are operating effectively.”

6. CHA is committed to using internal audit and will maintain internal audit arrangements suitable to the size and complexity of the organisation to assist risk management, further continual improvement and meet our assurance needs in relation to regulatory requirements and the Standards of Governance and Financial Management.

Aims of the Policy

7. To set out the management of the internal audit function to ensure compliance with Regulatory requirements and guidelines, and that it is in line with the requirements of the Chartered Institute of Internal Auditors;
8. To set out the roles and responsibilities of the Governing Body, Staff and the Internal Auditor; and
9. To ensure stakeholders are aware of our approach to internal audit.

The Internal Audit Process

10. The internal audit process will be integrated and embedded into CHA's overall planning and assessment process. It will typically follow the stages below:

Internal audit needs assessment

11. Key governance documentation, such as our Rules, Business Plan, Risk Management Log, Standing Orders and Financial Regulations will be reviewed by the Internal Auditor in order to gain a full understanding of CHA's objectives and our framework for governance and risk management.
12. Consideration will also be given to the outcome of previous internal audit work, and the findings and assessments of our external auditors.
13. The internal audit needs assessment will include a meeting between the Internal Auditor, the Senior Management Team, the Chair of the Management Committee and the Chair of the Audit & Risk Sub-Committee - in order to gain a further insight into CHA's activities and challenges.

Approval of Internal Audit Strategy and Annual Internal Audit Plan

14. Based on the risks identified during the internal audit needs assessment, the Internal Auditor will meet with the Audit & Risk Sub-Committee and present proposals for internal audit activity over the following three to five years – this will represent the Internal Audit Strategy
15. The Internal Audit Strategy will be reviewed annually to take account of changes within CHA's operating environment or the organisation itself. The Internal Auditor will amend the Internal Audit Strategy to take account of feedback from the Audit & Risk Sub-Committee before final approval of the Strategy.
16. The Audit & Risk Sub-Committee will also consider the Internal Auditor's proposals for internal audit activities over the year ahead – this will represent the Annual Internal Audit Plan. This will list the:
 - a) audit topics to be reviewed over the next year;
 - b) scope for each audit, including indicative sample sizes where applicable;
 - c) timetable of when each topic will be reported on; and
 - d) resources required for each topic.
17. In providing feedback on the Internal Audit Strategy and the Annual Internal Audit Plan, the Audit and Risk Sub-Committee will give due consideration to the level of assurance it requires to meet CHA's regulatory requirements and the Standards of

Governance and Financial Management. This will include consideration of other assurance sources used by CHA in order to avoid duplication and maximise value for money.

Internal audit fieldwork

18. This stage in the process will typically include:

- a) Initial information gathering – relevant strategies, policies and procedures, etc.;
- b) On-site work – testing controls, discussions with staff, close out meeting to discuss findings and recommendations with relevant manager;
- c) Off-site work – further analysis of findings.

Internal audit reporting

19. This stage will typically include the Internal Auditor:

- a) writing and issuing a draft report for management comments;
- b) issuing a final report;
- c) presenting findings and recommendations to the Audit and Risk Sub-Committee.

20. Recommendations included within reports should be proportionate to the level of risk posed and will be prioritised accordingly to assist CHA's action planning – this prioritisation should indicate the importance of the recommendation and urgency with which it should be implemented.

21. Internal Audit recommendations accepted by the Audit & Risk Sub-Committee will be recorded within an Internal Audit Action Plan and progress against agreed recommendations will be reported at each Audit & Risk Sub-Committee meeting by the Chief Executive.

Internal audit follow up

22. This element of internal audit seeks evidence to confirm that agreed recommendations from the previous financial year's internal audits have been implemented. Essentially this will involve validation of the Internal Audit Action Plan.

Roles & Responsibilities

Role of the Governing Body

23. The Management Committee is ultimately responsible for ensuring that internal audit takes place at CHA. The Management Committee has developed Terms of Reference that specifically delegate responsibility to the Audit and Risk Sub-Committee for ensuring the effective delivery of the internal audit function. These include:

- a) Overseeing the process for selecting the Internal Auditor and recommending them for appointment to the Management Committee;
- b) Approving the Internal Audit Strategy and Annual Internal Audit Plan and ensure that the scale of the internal audit service is appropriate;
- c) Reviewing the reports of management and internal audit on the effectiveness of systems for internal control, financial reporting and risk management, including the fraud and loss report;
- d) Reviewing and keeping track of progress from internal audits and independent recommendations in the Internal Audit Action Plan including progress reports to the Management Committee;
- e) Considering management's response to any major internal audit recommendations, including those which management may disagree with;
- f) Assessing the effectiveness of the internal audit service;
- g) Meeting with the Internal Auditor without paid staff being present (should the Chair of the Audit & Risk Sub-Committee consider it necessary);
- h) Providing direct access to the Chair of the Audit and Risk Sub-Committee to the Internal Auditor where necessary; and
- i) Ensuring that the Internal Auditor and external auditor engage with each other annually or more regularly if required.

24. The Audit and Risk Sub-Committee will:

- a) Be honest with the Internal Auditor with regards to the risks CHA faces and the concerns it has with regards to CHA's risk management and control framework;

- b) Ensure that the Internal Audit Strategy and Annual Internal Audit Plan are covering the areas of highest risk and/or the areas where the governing body requires assurance; and
- c) 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.

Role of Internal Auditors

- 25. 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.
- 26. 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 Audit and Risk Sub-Committee will need the deviation approved by them.
- 27. The Internal Auditor has an obligation to immediately highlight any serious concerns to senior staff and the Chair of the Audit and Risk Sub-Committee if necessary. The Internal Auditor must not wait until the next face to face meeting with the Audit and Risk Sub-Committee to raise serious matters. Serious concerns identified by the Internal Auditor may have implications under CHA's Notifiable Events Policy which should also be referred to in these circumstances.
- 28. On occasion, Internal Auditors have also been engaged to investigate fraud, corruption or other topics (such as a breach of the organisation's Code of Conduct). This should only ever occur if the auditor:
 - a) is given a clear and limited mandate that does not prejudice the internal audit's prime role as the independent third line of defence;
 - b) has the specific expertise needed in a particular case;
 - c) has the resource capacity; and
 - d) the governing body approves of the Internal Auditor's appointment as an investigator.
- 29. An Internal Auditor must comply with the IIA Global International Professional Practices Framework, which includes abiding by the Code of Ethics.

Role of the Management Team

- 30. The Management Team will work in full collaboration with the Internal Auditor. They will 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.

- 31. The Management Team will 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 will ensure that the relevant staff make themselves available for the duration of the audit fieldwork.
- 32. The Management Team will encourage a staff culture of openness – so that staff feel comfortable in raising issues or concerns. This will help to maximise the benefit of internal audit.

Role of Staff

- 33. As with the Management Team, staff will be open and honest with their Internal Auditor. Staff will 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 as possible.
- 34. If there are process/system failures or other problems, the Internal Auditor must be given full details, in order to recommend improvements.

Review

- 35. This policy will be routinely reviewed every three years or more frequently if required.

Approved by the Committee of Management on:	
Signed:	Signed:
Secretary/Chairperson	Chief/Depute Chief Executive