



POLICY TITLE	AUDIT POLICY
AUTHOR	CHRISTINE LEITCH
DATE OF APPROVAL	18 JULY 2017
DATE FOR NEXT REVIEW	JULY 2020
REVIEW BODY	MANAGEMENT COMMITTEE
POLICY ON WEBSITE	YES
SCOTTISH HOUSING REGULATOR STANDARDS	<p>STANDARD 1 : The governing body leads and directs the RSL to achieve good outcomes for its tenants and other service users</p> <p>STANDARD 2 : The RSL is open about and accountable for what it does. It understands and takes account of the needs and priorities of its tenants, service users and stakeholders. And its primary focus is the sustainable achievement of these priorities.</p> <p>STANDARD 3 : The RSL manages its resources to ensure its financial well-being and economic effectiveness.</p> <p>STANDARD 4 : The governing body bases its decisions on good quality information and advice and identifies and mitigates risks to the organisations purpose</p> <p>STANDARD 5 : The RSL conducts its affairs with honesty and integrity</p>

## 1. INTRODUCTION

This Policy paper takes account of The Scottish Housing Regulator Guidance Notes and its Regulatory Standards and will comply with the requirements set out in relevant publications issued by the Auditing Practices Board (APB) from time to time in relation to accounting and audit practice.

## 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 Association meets the requirements of The Scottish Housing Regulator in relation to regular returns to The Scottish Housing Regulator
- To ensure that the Management 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
- This policy will be reviewed every three years or as legislation dictates

## 3. EXTERNAL AUDIT

### **Appointing the Auditor**

Every five years, the Association will tender for the services of an external auditor.

The firms selected for tendering will be eligible for appointment as auditors under the Companies Act 1989 and will be registered with the Financial Conduct Authority as Registered Auditors

At least three firms will be asked to tender and the selection of these will be based on:

- Previous experience of housing association audit
- Previous experience of working for a similar sized organisation
- Ability to undertake additional duties such as Taxation and Accounts consultancy work.

Tenders will be opened in the presence of at least two Committee Members and one staff member and the tenders written in the Tender Register. Although the Management Committee do not require to accept the lowest tender, if they do not they must record their reasons at the next available Management Committee Meeting.

### **Reviewing the Performance of the Auditor**

The performance of the Auditor will be reviewed annually against the criteria set out in Appendix One.

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 will be followed.

### **Auditor's Engagement Letter**

Following selection of an Auditor through the above process, the Management Committee should receive an Engagement Letter from the Auditor, which should conform to the standards set out by the APB.

This letter will be reviewed at least every three years.

### **Communication with Auditor**

Prior to commencement of the audit, the Auditor should provide a plan for carrying out the audit. This should set out the extent to which they intend to rely on internal controls, the internal audit function and any aspects of the audit requiring particular attention. A timetable for implementation to meet the Association's requirements in relation to the Annual General Meeting will also be provided. This audit plan will require to be approved by the Management Committee.

Once the audit has been carried out, the Finance Consultant should present the results to the Management Committee prior to presentation at the Annual General Meeting. He or she should highlight any issues which the Auditor proposes to include in the Management Letter.

When the Management Letter is received, the Management Committee will respond to this in writing within one month of receipt giving timescales for implementation of any recommendations contained therein.

### **Audit Fees**

Prior to commencement of the audit, the Director will agree with the Auditor the fee that will be charged.

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 additional work which they could not have foreseen at the planning stage.

### **Additional Work**

The Association may use the Auditor to carry out accountancy work or provide financial advice. However, where this is the case, the personnel carrying out the accountancy work must be different from the personnel carrying out the audit.

Fees for such work must be agreed prior to the work commencing and must be shown separately from the Audit Fee.

#### **4. INTERNAL FINANCIAL CONTROL**

##### **Committee Statement**

Internal Financial Control is defined in The Scottish Housing Regulator Guidance Note 97/02 as “the internal controls established in order to provide reasonable assurance of:

- the safeguarding of assets (against unauthorised use or disposition)

and

- the maintenance of proper accounting records and the reliability of financial information used within the association or for publication”

In order to comply with the requirements of this Guidance Note and the Cadbury Committee’s Code of Best Practice, the Management Committee require to report on the effectiveness of the Association’s system of internal control and to make a statement to this effect in the Annual Accounts. The minimum requirements of what should be contained in this statement are included at Appendix Two.

As part of his or her appointment, the Auditor will require to review the Association’s statement and issue a report as an additional section to the Auditor’s Report in the Annual Accounts. The Auditor’s duty in this respect is to advise that the Committee has provided the statement and that the statement is not inconsistent with the information they are aware of from their work on the audit. They are not required to review the Association’s effectiveness in complying with this requirement nor to investigate the reasons for non-compliance.

##### **Fraud and Error**

The Finance Development Sub Committee will review on an annual basis the Association’s Financial Procedures and Controls to ensure that they remain appropriate in ensuring that the ability to commit fraud is minimised.

They will report to the Management Committee, any changes in the Procedures and Controls and any cases of actual or attempted fraud and any action taken.

#### **5. INTERNAL AUDIT**

##### **Audit Committee**

As the Association has less than 1500 houses, it has been agreed that an Audit Committee will comprise of the Development and Finance Sub-Committee that will meet twice per year.

The role of this committee will be to act as a focal point for channelling advice to the Committee on audit matters and for ensuring that a regular review of the operation and effectiveness of the Association's internal controls is undertaken. A report on these matters will be provided annually to the Management Committee and the person responsible will be assisted in this by the staff members carrying out the internal audit and by the external auditor.

### **Procedures for Internal Audit**

The Association will invite tenders from suitably qualified and experienced people to undertake a comprehensive Internal Audit Review over a three year period to encompass the following all areas of the Association's business including ;

- Corporate policies such as Equal Opportunities
- Development
- Housing Management
- Maintenance
- Property Management (Owners and Commercial)
- Finance and Administration
- Committee Reporting and Accountability

Once an examination of each of these has been carried out, a written report should be prepared by the person carrying out the audit, which will set out the findings and any recommendations arising. It should also include an opinion on the adequacy of the internal controls in that area.

These reports will be given to the head of the particular section, the Director and the Committee Members responsible for internal audit together with an action plan to address the points contained in the report.

## **6. REPORTING TO THE SCOTTISH HOUSING REGULATOR**

Regular Returns, as detailed in Appendix Five, will be submitted to The Scottish Housing Regulator within the timescales outlined. These requirements may alter from time to time and this Appendix will be updated as required.

## **7. REVIEW**

This policy will be reviewed 3 yearly to ensure that it continues to meet the aims and objectives of the Association in relation to audit procedures.

## **APPENDIX ONE**

### **PERFORMANCE CRITERIA FOR EXTERNAL AUDITOR**

#### **CRITERIA**

##### **1. LETTER OF ENGAGEMENT**

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

##### **2. AUDIT PLAN**

An Audit Plan to be provided showing the extent to which they intended to rely on internal controls, the internal audit function and any aspect of the audit that required particular attention.

##### **3. ANNUAL TIMETABLE**

A timetable to be provided and adhered to for:

- Carrying out the Annual Audit
- Preparation and signing of Annual Accounts
- Presentation of results to the Management Committee
- Presentation of results at the Annual General Meeting

##### **4. MANAGEMENT LETTER**

- Issues to be included in the Management Letter will be highlighted to Committee in advance
- A Management Letter outlining problem areas and suggested corrections to internal systems to be provided for the Management Committee within three months of the Annual Audit

##### **5. QUALITY OF STAFF**

- Suitably qualified staff are utilised on the Audit work
- Staff carrying out the Audit are not responsible for preparing the Annual Accounts
- A partner of the Audit firm was available to discuss the Annual Accounts and provide any guidance necessary on this and any other accountancy matters.

##### **6. 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.

## APPENDIX TWO

### COMMITTEE STATEMENT ON EFFECTIVENESS OF INTERNAL CONTROL

The Committee of Management:

1. Acknowledge their responsibility for the Association's system of internal financial control.
2. Have in place a description of key procedures
3. Confirm that it has reviewed the effectiveness of the system of internal financial control
4. Have in place procedures to deal with information on weaknesses that may result in material loss, contingencies or uncertainties which require disclosure in the audited accounts
5. Understand that the system can only provide reasonable and not absolute assurance against material misstatement or loss.



## **APPENDIX THREE**

### **KEY FUNCTIONS OF AN AUDIT COMMITTEE**

#### **A. OVERVIEW OF FINANCIAL REPORTING**

1. To assist the Committee of Management in ensuring that financial reports to external parties, in particular, the annual financial statements, are balanced and fair and conform to accounting standards
2. To confirm to the Committee of Management that there are no outstanding matters of disagreement between management and the external auditor
3. To learn from the external auditor of his or her principal matters of concern.
4. To review and approve the submission of the ARC on an annual basis

#### **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 Committee of Management
3. To recommend to the Committee of Management the re-appointment or otherwise of the external auditor
4. To recommend to the Committee of Management the fee to be paid to the external auditor.

#### **C. OVERVIEW OF INTERNAL CONTROL**

1. To satisfy the Committee of Management 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 Committee of Management accordingly
3. To consider the external auditor's management letter
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 approve in advance the appointment and termination of any in-house head of internal auditing or approve changes to externally-provided internal audit services
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 management policies and directives in order to achieve the Association's objectives.
2. Safeguard the assets and interest of the Association, particularly from 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.

## **APPENDIX FIVE**

### **RETURNS REQUIRED BY THE SCOTTISH HOUSING REGULATOR**

- |    |                         |             |
|----|-------------------------|-------------|
| 1. | LOAN PORTFOLIO ANALYSIS | SIX MONTHLY |
| 2. | STATISTICAL RETURN      | ANNUALLY    |
| 3. | PERFORMANCE RETURN      | ANNUALLY    |
| 4. | ARC                     | ANNUALLY    |