



# Code of Audit Practice

---

## 1. **EXTERNAL AUDIT RESPONSIBILITIES OF ASSOCIATIONS**

Every Housing Association is required under the Housing (Scotland) Act 2010 to have an annual external audit. The responsibilities of the Association with respect to the external audit include: -

- annual appointment of external auditor;
- agreeing the scope of the audit and provision of other services & the arrangements for implementing the audit plan;
- receiving & responding to reports from the auditor;
- agreeing the auditor's remuneration, and reviewing the audit fees charged;
- reviewing the auditor's appointment on an ongoing basis & instituting a tender process for the provision of external audit services at least every 7 years.

Furthermore, it is the Associations responsibility for maintaining effective internal controls in order to safeguard the assets of the Association, and for preventing and detecting fraud and other irregularities, and also for supplying the Scottish Housing Regulator with the relevant documents within the relevant time limits.

### 1.1 **Appointing the Auditor**

It is the responsibility of the Board to select an external auditor. Suitable candidates must be identified & tenders from at least 3 audit firms sought. Selection criteria should be drawn up with such considerations as track record of auditors, relevant experience in Housing Associations & whether other services would be available. The criteria should be fair, reasonable & well documented. The tenders received should be evaluated by the Audit Committee and the firm offering the best value for money and quality of service should be offered the post. The lowest bid may not necessarily offer the best value for money, as other considerations need to be taken into account such as experience and skills. If this is the case however, the reasons for not accepting the bid should be clearly documented.

Before commencement of each audit, the fee should be agreed by senior management that it is consistent with the tender price received from the auditors. Any fees for other services provided by of the duties & responsibilities of the auditor must be established. This is achieved by the auditor drawing up a document called an engagement letter within which his responsibilities will be clearly defined.

The auditor should not normally be involved with the accounting work of the Association, but should this situation arise, any external audit staff involved in this work should not be involved in the annual audit.

It should be noted that, if the auditor does provide these services, it still remains the responsibility of the Association to maintain proper accounting records.

With the size of the Association the external auditor should not also be providing internal audit services.

#### 1.2 **Implementing Audit Plan**

The external auditor is responsible for planning and controlling the audit and the extent of reliance on internal controls, internal audit function and any aspects of the audit requiring particular attention will be detailed in the plan. The timetable for the preparation of the accounts by the Association, together with associated working papers and schedules to be supplied by the Association should be documented in this report. This should then be discussed with the senior officers of the Association.

#### 1.3 **Reports from External Auditors**

The findings of the external audit should be presented to the Audit Committee by the senior auditor, at the earliest opportunity, with significant matters previously discussed with the senior officers of the Association.

An Audit Findings Report should also be presented at this time. This document sets out any weaknesses & deficiencies in the accounting systems & internal controls uncovered during the audit & also reports on any non-compliance with appropriate legislation. The Audit Committee must formally reply to this report stating, the actions to be taken and the relevant time scales.

#### 1.4 **Review of External Auditors Appointment**

Once appointed, a review of the auditor's performance should be made each year with such matters as quality, and cost effectiveness considered. If satisfactory, the auditor should be formally reappointed in accordance with the rules of the Association. If the Audit Committee is not satisfied with the auditor & any differences cannot be resolved, the audit should be put out to tender again & the above noted procedures followed. In any event, in order to ensure continued value for money, the Association must conduct a formal tendering process at least every 7 years.

## 1.5 **Fraud & Errors**

The Board is ultimately responsible for the prevention and detection of fraud and errors.

This can be discharged through the implementation by senior management of effective internal controls. Management should report to the Audit Committee on any actual or attempted fraud & a register of all incidents maintained for inspection.

It should be noted that the external auditor will plan his audit so as to give a reasonable expectation of detecting fraud or irregularities but the audit should not be relied upon for this purpose.

## 2. **RESPONSIBILITIES OF EXTERNAL AUDITOR**

The primary role of the external auditor is to report on the financial statements of the Association & to carry out appropriate investigations of the underlying records & control system in order to form an opinion on the statements.

If, in his opinion, the Association has not maintained a satisfactory system of control over its transaction, then the auditor has a statutory duty to report his findings to the Board.

### 2.1 **Defining Extent of Auditors Responsibilities**

As previously mentioned, the auditor should prepare an engagement letter to present to the Board, clearly defining the responsibilities in order to prevent future misunderstandings. The engagement letter is effectively the contract between the auditor and the Association. The letters contents should be previously discussed with the senior officers before being sent to the Audit Committee.

### 2.2 **Reports to Audit Committee**

The auditor should report to the Audit Committee on any weaknesses in the structure of the accounting systems and internal controls in the Audit Findings Report. It should also report on any deficiencies in the operation of controls and on whether any inappropriate accounting policies and practices are being used.

The auditor will only pick up on matters that have come to light as a result of his audit work and as with the engagement letter, the contents of the Audit Findings Report should be discussed first with the senior officers. Even if there are no significant matters to report, the auditor must still provide the Audit Committee with the Audit Findings Report.

## 3. **AUDIT COMMITTEE**

The Scottish Housing Regulator will assess the Association's compliance with the code and generally expects adherence to the standards and guidelines of the Institute of Internal

Auditors – UK. The Audit Committee has the duty to oversee and report to the Board on the financial reporting process, the accounting and internal control systems, and on audit matters.

### 3.1 **Constitution and Composition**

The Audit Committee is constituted formally as a standing committee and is empowered with the right of access to all records and documentation as deemed necessary.

It is comprised in line with the number of members specified within Standing Orders. The chairperson should be appointed in line with Standing Orders. Meetings should take place on a regular basis and the DCEO, other senior officers as required and Internal Auditor should normally attend.

A copy of the Audit Committee minutes should be made available to all members of the Board.

### 3.2 **Principal Duties**

**The Audit Committee should: -**

1. Monitor the financial reporting process ensuring that the financial statements conform to accounting standards & ensure that there are no outstanding matters of concern or disagreement with the external auditors;
2. Monitor and review the performance and work of the external auditors, recommending on their re-appointment or otherwise;
3. Ensure that internal control arrangements are systematically reviewed and that weaknesses in control are identified, reported and corrected;
4. Review the appropriateness of the planned work of the internal & audit function;
5. Produce an annual report for the Board commenting on the internal control system, the external auditor's Audit Findings Report and on the internal audit annual report.

## 4. **INTERNAL AUDIT FUNCTION**

### 4.1 **Scottish Housing Regulator Requirements**

The Scottish Housing Regulator requires that the Association should be able to demonstrate that:

- i) it carries out a rolling programme of internal reviews covering all aspects and activities and that
- ii) a formal report is provided annually to the Audit Committee commenting on the adequacy, reliability and effectiveness of the Internal Control System.

In order to comply with the above requirement of the Scottish Housing Regulator, the Association through the Audit Committee will assess areas of risk and sensitivity and monitor the programme of audit examinations, which ensures that all areas of activity are included and that the frequency of examination is appropriate to the risk involved.

#### 4.2 **Role of Internal Auditor**

It is the responsibility of the Audit Committee to define the extent of internal control and the internal audit function contributes to internal control by examining, evaluating and reporting on its adequacy and effectiveness.

Accordingly, the scope of the internal audit function should cover all the Associations operations, resources, staff services and responsibilities, and internal audit staff should be given every assistance in discharging their duties and allowed access to records, assets and personnel as necessary.

#### 4.3 **Terms of Reference**

The purpose, scope, authority and responsibility of the internal audit function should be clearly defined in a formal document approved by the Audit Committee and Management.

#### 4.4 **Conduct**

The external firms of internal auditors, designated to fulfil the role of Internal Audit will discharge their audit duties throughout the year and will examine the controls laid down to ensure adherence to management policies, to safeguard the assets, ensure compliance with statutory requirements, ensure the reliability of the financial information and ensure the efficient use of resources.

At the conclusion of each audit, a report will be provided detailing findings and recommendations and an opinion on the controls examined. The operation and conduct of the Internal Audit function should conform to the standards laid down in the "Standards and Guidelines for Professional Practice of Internal Auditing" issued by the IIA – UK.

## **APPENDIX 1 - Glossary**

### ***INTERNAL CONTROL SYSTEM***

The whole system of controls, financial & otherwise, established by the Board in order to carry on the business of an enterprise in an orderly & efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness and accuracy of the records. The individual components of an internal control system are known as "controls" or "internal controls".

### ***INTERNAL AUDIT***

An independent appraisal function within an organisation, for the review of systems of control and the quality of performance, as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic efficient use of resources.

### ***VALUE FOR MONEY***

Usually defined in this context in terms of economy, efficiency and effectiveness as follows:

- |                      |   |                                                                                                                        |
|----------------------|---|------------------------------------------------------------------------------------------------------------------------|
| <b>Economy</b>       | – | acquiring services for the minimum of cost                                                                             |
| <b>Efficiency</b>    | – | whether the supplier is competent and able to provide services within the required timescale                           |
| <b>Effectiveness</b> | – | consideration of the objectives of the Association and whether the supplier will be able to help meet these objectives |

## **APPENDIX II – Issues Arising**

### ***TENDERING PROCESS***

Although the Scottish Housing Regulator suggest that this process is conducted at least every 7 years, a period of 5 years or even more frequently, may be more appropriate for the Association. This would ensure that the most competitive rates are obtained & high standards of service are maintained.

### ***FRAUD & ERRORS***

Although the responsibility for prevention and detection of fraud and errors lies with the Board, the senior management of the Association are responsible for ensuring an effective internal control structure is in place and adhered to.