



Waverley Housing

Internal Audit Annual Report 2019/20

March 2020



Scott-Moncrieff
business advisers and accountants

Waverley Housing

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Introduction

The Institute of Internal Audit International Standards (IIAIS) state that:

“The Chief Audit Executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.”

“The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control.”

To meet the above requirements, this Annual Report summarises our conclusions and key findings from the internal audit work undertaken at Waverley Housing (Waverley) during the year ended 31 March 2020, including our overall opinion on Waverley’s internal control system.

Acknowledgement

We would like to take this opportunity to thank all members of management and staff for the help, courtesy and co-operation extended to us during the year.

Overall internal audit opinion

Basis of opinion

As the Internal Auditor of Waverley, we are required as per IIAIS to provide the Audit and Internal Control Committee with assurance on the whole system of internal control. In giving our opinion it should be noted that assurance can never be absolute. **The most that the internal audit service can provide is reasonable assurance that there are no major weaknesses in the whole system of internal control.**

In assessing the level of assurance to be given, we have taken into account:

- All reviews undertaken as part of the 2019/20 internal audit plan;
- Any scope limitations imposed by management;
- Matters arising from previous reviews and the extent of follow-up action taken including in year audits;
- Expectations of senior management, the Board and other stakeholders;
- The extent to which internal controls address the client's risk management /control framework;
- The effect of any significant changes in Waverley's objectives or systems; and
- The internal audit coverage achieved to date.

In my professional judgement as Chief Internal Auditor, sufficient and appropriate audit procedures have been conducted and evidence gathered to support the basis and the accuracy of the conclusions reached and contained in this report. The conclusions were based on a comparison of the situations as they existed at the time against the audit criteria. The conclusions are only applicable for the entity examined. The evidence gathered meets professional audit standards and is sufficient to provide senior management with the proof of the conclusions derived from the internal audit.

Internal Audit Opinion

In our opinion Waverley has a framework of controls in place that provides reasonable assurance regarding the organisation's governance framework, effective and efficient achievement of objectives and the management of key risks.

Gary Devlin
Scott-Moncrieff

March 2020

Internal audit work performed

Scope and responsibilities

Management

It is management's responsibility to establish a sound internal control system and maintain an effective internal audit function. The internal control system comprises the whole network of systems and processes established to provide reasonable assurance that organisational objectives will be achieved, with particular reference to:

- risk management;
- the effectiveness of operations;
- the economic and efficient use of resources;
- compliance with applicable policies, procedures, laws and regulations;
- safeguards against losses, including those arising from fraud, irregularity or corruption; and
- the integrity and reliability of information and data.

Internal auditor

The Internal Auditor assists management by examining, evaluating and reporting on the controls in order to provide an independent assessment of the adequacy of the internal control system. To achieve this, the Internal Auditor should:

- analyse the internal control system and establish a review programme;
- identify and evaluate the controls which are established to achieve objectives in the most economic and efficient manner;
- report findings and conclusions and, where appropriate, make recommendations for improvement;
- provide an opinion on the reliability of the controls in the system under review; and
- provide an assurance based on the evaluation of the internal control system within the organisation as a whole.

Planning process

In order that we can provide an annual assurance statement supporting the Governance Statement, we include all of Waverley's activities and systems within the scope of our internal audit reviews.

Our strategic and annual internal audit plans are designed to provide the Audit and Internal Control Committee with assurance that Waverley's internal control system is effective in managing the key risks and best value is being achieved. The plans are therefore informed by the client's risk management system and linked to the Corporate Risk Register.

The Strategic Internal Audit Plan was agreed in consultation with senior management and formally approved by the Audit and Internal Control Committee

The Annual Internal Audit Plan is subject to revision throughout the year to reflect changes in Waverley's risk profile.

We have planned our work so that we have a reasonable expectation of detecting significant control weaknesses. However, internal audit can never guarantee to detect all fraud or other irregularities and cannot be held responsible for internal control failures.

Cover achieved

Our Internal Audit Plan comprises 20.5 days per annum. We completed 20.5 days of core internal audit work in 2019/20 with no additional audit work.

A comparison of actual coverage against the 2019/20 plan is attached at Appendix 1.

We confirm that there were no resource limitations that impinged on our ability to meet the full audit needs of Waverley and no restrictions were placed on our work by management.

We did not rely on the work performed by a third party during the period.

Reports

We have prepared a report for each of the internal audit reviews completed and presented these reports to the Audit and Internal Control Committee.

Where relevant, all reports contained action plans detailing responsible officers and implementation dates. The reports were fully discussed and agreed with management prior to submission to the Audit and Internal Control Committee.

We made no significant recommendations that were not accepted by management.

Performance summary

As part of our internal monitoring of performance, we monitor and report our performance against a range of key performance indicators (KPIs). Our 2019/20 performance for the KPIs agreed is set out below:

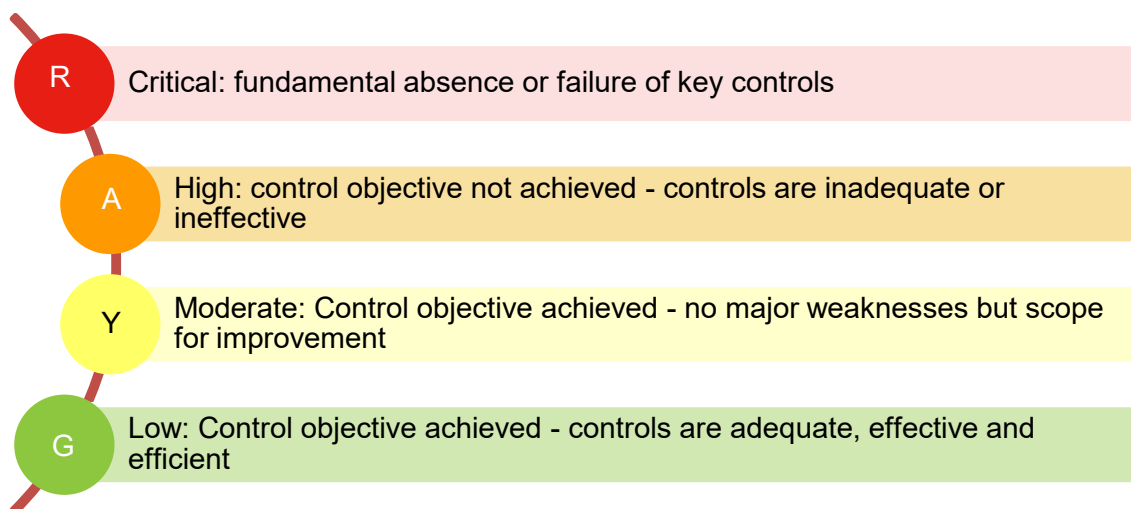
KPI	Description	2019/20 result
1	The annual internal audit plan is presented to and approved by the Audit and Internal Control Committee at the start of the audit year.	Draft plan presented at March 2019 AICC meeting. Final approved at June 2019 AICC meeting.
2	90% of draft reports are issued within 15 working days of completing fieldwork.	100% of reports issued within 15 working days.
3	90% of management responses are received within 10 working days and the final report issued within 5 working days.	100% of management responses received within 10 working days. 100% of final reports issued within 5 days.
4	At least 90% of the audit recommendations we make are agreed with and accepted by management.	100% of audit recommendations were agreed and accepted.
5	An Internal Audit Manager will attend AICC meetings as agreed within the audit timetable, to present and discuss our reports.	Internal Audit Manager attended all AICC meetings as required.
6	The annual internal audit plan is delivered within agreed cost and time parameters.	Plan delivered within agreed cost and time parameters.
7	The annual internal audit report and opinion is presented to and approved by the Audit and Internal Control Committee at the first meeting after the year-end each year.	To be presented with annual report in March 2020.
8	All internal audit outputs are finalised and submitted at least 10 working days before the AICC meeting.	100% of outputs finalised and submitted within 10 working days of AICC meeting.

Summary of reports by control objective and action grade

Three internal audit reports have been completed during 2019/20, as summarised in the table below.

Review	Control objective assessment	No. of issues per grading			
		4	3	2	1
Estate Management and Anti-Social Behaviour		-	-	1	1
Procurement		-	-	2	1
Financial Ledger		-	-	1	-
Freedom of Information		-	-	-	-

Control objective assessment definitions

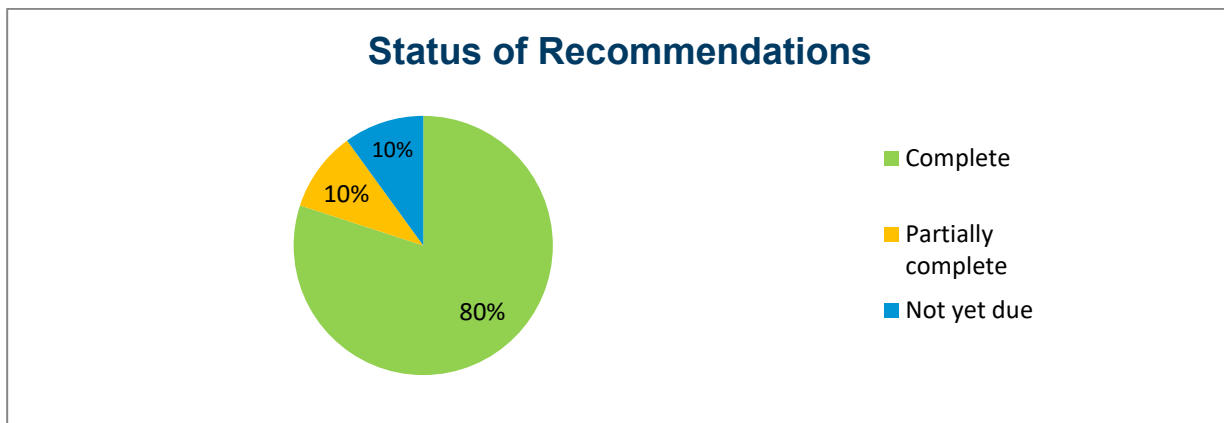


Management action prioritisation definitions

4	•Very high risk exposure - major concerns requiring immediate senior management attention.
3	•High risk exposure - absence / failure of key controls
2	•Moderate risk exposure - controls not working effectively and efficiently.
1	•Limited risk exposure - controls are working effectively, but could be strengthened.

Progress in implementing internal audit actions

We reviewed management's progress in implementing the 10 recommended actions and obtained sufficient evidence to close eight (80%) of these actions. Of the two remaining actions, one is partially complete while the other is not yet due.



Independence

IIAIS require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

We can confirm that the staff members involved in each 2019/20 internal audit review were independent of Waverley Housing and their objectivity was not compromised in any way.

Conformance with Public Sector Internal Audit Standards

We confirm that our internal audit service conforms to the Public Sector Internal Audit Standards, which are based on the International Standards for the Professional Practice of Internal Auditing. This is confirmed through our quality assurance and improvement programme, which includes cyclical internal and external assessments of our methodology and practice, against the standards.

A summary of the results of our most recent internal assessment is provided at Appendix 2.

Appendix 1 – Planned v actual days 2018/19

Internal review	Planned Days	Actual Days
Financial Ledger	3	3
Procurement	4	4
Estates Management and Anti-Social Behaviour	4	4
Freedom of Information	4	4
Follow up of previous recommendations	1.5	1.5
Audit management, annual planning and audit needs assessment, AICC liaison	4	4
Total	20.5	20.5

Appendix 2 – Summary of Internal Quality Assurance Assessment

We are pleased to disclose the outcome of our regular internal and external quality assessments with our clients. We believe it is important to provide you with assurance that the service you receive is of a high quality and fully compliant with internal audit standards.

Outlined below are extracts from our most recent external quality assessment undertaken in July 2018.

External Quality Assessment summary

Executive Summary

We are pleased to report that Scott-Moncrieff may state in their internal audit reports that the work “has been performed in accordance with the IPPF”. The team similarly conform to the Public Sector Internal Audit Standards (PSIAS).

*The Internal Audit team **fully meet the vast majority of the Standards, as well as the Definition, Core Principles and the Code of Ethics**, which form the mandatory elements of the Institute of Internal Auditors’ International Professional Practices Framework (IPPF), the globally recognised standard for quality in Internal Auditing. The Institute describe this as “**Generally Conforms**”.*

This is an excellent result and is based on an extensive external quality assessment (EQA) covering the team’s approach, methodology, processes and a sample of files by an experienced external assessor who is a serving Head of Assurance and Audit Committee Chair.

Overview of the External Quality Assessment Process

We undertook extensive background research covering the team’s methodology and processes, before undertaking an intensive onsite visit over 25-28 June 2018, in which we interviewed a small number of team members and reviewed a sample of working files covering a representative range of the team’s clients and sectors. After the onsite visit we finalised our evaluation, assessment and reporting.

The EQA involved comparison of working practices against the Institute of Internal Auditors’ global International Professional Practices Framework¹ (the IPPF) and the Public Sector Internal Audit Standards (PSIAS).

During this external assessment we have followed this process:

- Examined and reflected upon the requirements of the Definition of Internal Auditing, the Code of Ethics and each International Standard. We have used the relevant Interpretation within the Standards to build our understanding.*
- Considered the key conformance criteria needed to demonstrate compliance.*
- Recorded the full range and extent of the evidence that exists within the team and that demonstrates conformance with the Standard. We have undertaken this through interviews with team members as well as reviewing files and engagement reports.*
- Compared the evidence to the key conformance criteria and assessed the degree of conformance. We have used the standard IIA definitions that are provided below on page 13 to guide our evaluation.*

Conformance to the Standards: The International Professional Practice Framework (IPPF)

Our objective of this External Quality Assurance (EQA) review was to undertake an independent, objective external quality assessment of the Scott-Moncrieff Internal Audit team against the IPPF and PSIAS. This included

¹ The global IPPF is followed by more than 180,000 internal auditors in 190 countries around the world.

considering the team's conformance to both the IPPF and PSIAS and informally benchmarking the function's activities against best practice.

The Institute of Internal Audit's (IIA's) International Professional Practice Framework (IPPF) includes the Definition of Internal Auditing, Core Principles, Code of Ethics and International Standards. There are 64 fundamental principles to achieve with 118 points of recommended practice.

We include a summary of the Internal Audit Service's conformance to both the IPPF and the core principles below. Overall, we believe that the Internal Audit Service has achieved an excellent performance given the breadth of the IPPF and the diverse organisational contexts and sectors that the team operate across.

Summary of IIA Conformance	Standards	N/A	Does not Conform	Partially Conforms	Generally Conforms	Total
Definition of IA and Code of Ethics	Rules of conduct	0	0	0	12	12
Purpose	1000 - 1130	0	0	0	8	8
Proficiency and Due Professional Care	1200 - 1230	0	0	0	4	4
Quality Assurance and Improvement Programme	1300 - 1322	2	0	1	4	7
Managing the Internal Audit Activity	2000 - 2130	0	0	1	11	12
Engagement Planning and Delivery	2200 - 2600	1	0	0	20	21
Total		3	0	2	59	64

The overall assessment resulting from the EQA is that the Scott-Moncrieff Internal Audit team “generally conforms to the IIA’s professional standards”.

The Scott-Moncrieff Internal Audit team are able to say in reports and other literature that it “conforms to the IIA’s professional standards” and that its work has been performed “in accordance with the IPPF.”

This EQA was conducted as a full external quality assessment using methods recommended by the Chartered Institute of Internal Auditors.

Key Achievements

We believe that the team perform particularly well in a number of areas. We were most impressed by the following points:

- The Scott-Moncrieff Internal Audit team delivers an effective, efficient and economic independent and objective assurance service across a range of client organisations primarily in the government, education, health and social housing sectors.
- The team develop an Audit Charter, Audit Needs Assessment, strategic and annual plans with each client. The team take account of the client's risk maturity.
- Annual planning is comprehensive and is a participative process involving clients and stakeholders at appropriate stages. Progress against the annual plans are documented and reported on regularly to respective audit committees and senior managers.
- The team have developed an appropriate methodology for auditing key objectives, risks and controls across client organisations at a high level. The operational internal audit processes are fit for purpose,

documented in a professional audit manual and supported by use of Pentana an effective Audit Management Software application.

- *The team are beginning to make use of IDEA, an effective file interrogation software package since its adoption earlier this year. This has the potential to help make the team's internal audit process even more efficient, while enhancing the quality of assurance provided to client organisations.*
- *The team's standard internal audit engagement report template is professional, useful and represents good practice. The approach is concise. The reports we reviewed were jargon-free and (on the whole) reader friendly.*
- *Our file reviews demonstrated appropriate compliance with the methodology and sufficient evidence of appropriate supervision and review.*
- *The team's internal audit delivery is very efficient, with tightly focused engagements resulting in short durations and (usually) minimal elapsed time from start to finish.*
- *Follow up of outstanding recommendations occurs at least annually.*
- *Continuous Personal Development (CPD) is encouraged, knowledge sharing occurs across the team through quarterly development days (and other initiatives) and expertise from elsewhere across Scott-Moncrieff can be accessed (if required) for more specialist engagements.*
- *Client feedback is actively sought following the internal audit engagements and reported to the Audit, Risk and Governance Committee.*

Opportunities for Further Development

We believe that the Scott-Moncrieff Internal Audit team fall slightly short against just two Standards, both of which we assess as "partially conforms".

The first of these is Attribute Standard 1312, External Assessments. This Standard states, "External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation..." We understand that a CHEIA peer review was the only previous, formal external assessment of elements of the Scott-Moncrieff Internal Audit team. Our current review represents the first formal external assessment and so the team have not fully conformed to this Standard to date.

The second is Performance Standard 2050, Coordination. The Standard states, "The chief audit executive should share information, coordinate activities and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimise duplication of efforts". The need to consider how best to rely on and coordinate with other assurance providers is an emerging area of internal audit practice. It depends as much on the client and their other assurance providers as it does internal audit. However, we believe that it is something that could be explored more fully as governance, risk management and control maturity increases across larger client organisations.

We also make a small number of additional suggestions for further development to enhance these – and other – areas of the team's service delivery.

We are happy to provide audit committee members with the full report, if required.

Our response

We welcome the findings of this external assessment. A detailed action plan has been put in place to address the areas for further development to further enhance our internal audit practices.

