



Yorkhill Housing Association

INTERNAL AUDIT REPORT

Risk Management

FINAL

June 2020

LEVEL OF ASSURANCE

FULL

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REPORT ISSUED TO	
Marion Menabney	Chief Executive
Members of the Management Committee	

REPORT TIMING	
Auditor:	Alexander Cameron
Date work performed:	26 th May 2020
Draft report issued:	23 rd June 2020
Final report issued:	6th July 2020

AUDIT ENGAGEMENT

BACKGROUND

As part of the 2020/21 Internal Audit Plan, it was agreed that internal audit review the design, effectiveness and efficiency of Risk Management controls in place within Yorkhill Housing Association.

RATIONALE

The purpose of this review is to provide the Management Committee and Management with assurance on the effectiveness of the controls in place in relation the management of the Risk Management process.

RISKS

Based upon a risk assessment undertaken by Quinn Internal Audit Services Ltd, discussions with management, and knowledge as a result of previous audit work the key risks associated with the area under review are:

- Failure to comply with risk management procedure;
- The Association may not identify and monitor its key strategic and operational risks;
- Failure to report adequately on risk management activities; and
- Failure to integrate risk management into the business planning process.

SCOPE

Rationale:-

The objective of this audit was to review the adequacy of the control framework established by the management team in relation to the control and monitoring of the risk management process within the Association. The objective of the review was to establish if the risk management framework was being applied effectively and if the processes in place were robust.

Scope: -

The audit considered:

- the arrangements for identifying and monitoring the mitigating controls with regards to the Association's business significant risks;
- the timely update of the Risk Register;
- related risk management policies; and
- the integration of risk management into business planning.

APPROACH

The auditor spent two days off-site reviewing evidence to support compliance with the Association's various policies and procedures.

Both paper and electronic files were reviewed and the Director remotely interviewed. Two days was spent off-site analysing findings and drafting this report.

The Association received brief feedback at a close out meeting at the end of the audit fieldwork.

As part of the Internal Audit process, a draft report is issued to senior management: -

- so that the accuracy of our findings within this report can be validated; and
- a management response received with regards to the recommendations (if applicable).

Once a response is received, the final report is issued.

LIMITATIONS OF THE AUDIT

The matters raised in this report are only those that came to the attention of the auditor during the course of the internal audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made.

This report has been prepared solely for Yorkhill Housing Association. No responsibility to any third party is accepted, as the report has not been prepared for third party purposes.

KEY FINDINGS

It was found that the Risk Management Policy and guidance are in place which clearly define the structure, roles and responsibilities for risk management (including the respective roles and responsibilities of the various Committees and Management) and the process for identifying and evaluating all significant strategic and operational risks.

The review highlighted areas of good practice these are noted below:-

- **Risk Management Policy** - The Risk Management Policy outlines general principles and the key components of the risk management approach.
- **Risk Register and Action Notes** - The risk reporting arrangements outlined in the Risk Management policy and guidance have been implemented.
- **Mitigating Controls**- The process for assessing risks has been clearly defined. A review of mitigating controls found that action was being taken to reduce the impact and likelihood of risk.
- **Integration of risk management** – The risk management process appears to be well integrated and proportionate within the Association with staff feeding into the risk management review in regular intervals.

RECOMMENDATION PRIORITY LEVELS

RECOMMENDATION PRIORITY	
Priority 1	A fundamental control. Action should be taken immediately.
Priority 2	An important control. Action should be taken at the earliest opportunity.
Priority 3	An enhancement to the current control framework. Enhancement may include better practice or efficiency suggestions. Action should be taken when practically possible.

RECOMMENDATIONS

No.	Finding	Priority	Recommendation
1	<p>The Association outlines controls and Risk Actions within the risk register.</p> <p>It is worth considering using a heading named 'evidence' in order to show a link between proposed actions and the underlying evidence.</p>	3	<p>In order to improve oversight the Risk Register could outline the levels of assurance by including an evidence column after the 'Action Column' to provide an audit trail for mitigating controls and actions completed for each risk within the risk register. This would help link Risk Registers to the Annual Assurance statement.</p>
<p>RISK: Failure to integrate risk management into the business planning process.</p>			
Management Comment		Implementation Date	Responsible Individual
Accepted		October 2020	Chief Executive

SUMMARY OF FINDINGS

Yorkhill Housing Association's Risk Management Policy and guidance was approved by the Management Committee in March 2019.

The Policy states the Association's approach to risk management and identifies a framework for the identification, assessment, management and reporting of risks.

Risks are assessed by the likelihood of the risk occurring and what the impact is if that risk occurs. Detailed guidance on this is given within the Risk Management policy and associated guidance.

The Association's Risk Management policy details the following key components of risk management as follows:

- Identifying Risks
- Assessing Risks
- Prioritising Risks
- Reducing Risks

The policy indicates the roles and responsibilities of the Management Committee, Sub-committees, Senior Staff and Staff team. These remits fit with expected practice with each layer of the Association retaining an appropriate role within the process.

The Associations Business Plan outlines the strategic objectives of the organisation and provides for these objectives to be put in the context of risk management.

There is a clear link between the strategic aims of the Association and the risk analysis contained within the Business Plan.

SUMMARY OF FINDINGS

The Risk Management Policy states that responsibility for risk management lies with the Management Committee.

The Management Committee are expected to: -

- Set the Risk Culture
- Determine Risk Appetite
- Approve major changes to risk profile
- Monitor risk
- Annually review the process

The Property Sub-committee and Governance and Finance Sub-committee are responsible for assisting the Management Committee by ensuring the risk management process is operating effectively.

This is done by: -

- Monitoring risks at each meeting
- Reviewing Strategic and Operational risks
- Making recommendations to the Management Committee (Culture, Appetite, Tolerance and Response)
- Assuring themselves that risk is managed appropriately

Operational risks are identified from a number of sources within the Association including team meetings, staff training, day to day operations and risks identified by internal and external audit.

The Management team are charged with the responsibility of implementing controls, identifying risks, contributing to the culture and preparing mitigation controls.

SUMMARY OF FINDINGS

The Risk Registers are composed of two risk themes which provides staff with reference to be used across the Association.

- Strategic risk register – Governance Risk Register
- Operational risk registers – Governance, Finance, IT, GDPR, Housing Management, Maintenance, Factoring and Health and Safety

These two risk areas are composed of reasonable types of risks for the sector and are split between the Director, Senior Staff and Staff teams.

The number of risks identified on each register are digestible for the organisations various stakeholders.

In order to improve oversight the Risk Register could outline the levels of assurance by including an evidence column after the 'Action Column' to provide an audit trail for mitigating controls and actions completed for each risk within the risk register. This would help link Risk Registers to the Annual Assurance statement. **See recommendation 1.**

In line with good practice it was noted that the Management Committee approve the Risk Register Review Schedule which outlines a timetable for the review of risks and the process the Management Committee and staff team must undertake on an ongoing basis.

A review of Committee minutes demonstrated that appropriate updates are provided by the Director and Managers to the relevant Committee on the risk profile of the Association including:

- areas of increasing risk;
- risks where controls are not considered to be effective; and
- horizon scanning for areas of possible future risk.

The Auditor reviewed the scoring and found that risks are scored appropriately which allows for the highest scoring risks as assessed by SMT to be focussed on by the relevant Committee. This increases focus on strategic and high level risks and avoids focus on operational matters.

SUMMARY OF FINDINGS

Responsible individuals have been identified for each department to promote risk awareness and are responsible for the maintenance and updating of operational risk registers on an ongoing basis.

A review of the risks identified within the current risk registers appears appropriate, given the current direction of the Association and the risks being faced by the RSL sector.

Reporting on risks was sampled and tested to determine whether the mitigating controls in place were appropriate and operating effectively and determine if the risk had been managed appropriately.

The risk selected as part of this review was “Health and Safety and wellbeing of Employees during Covid-19 pandemic.” which is risk 3 of the Strategic Risk Register and has a risk scoring of 15 which makes it the highest scoring health and safety risk facing the Association.

In order to assess the level of risk assessment undertaken as part of the Association’s control of the risk the Auditor reviewed the following documents: -

- Copies of email sent to staff outlining social distancing
- List of job lines for maintenance from 31st March to 31st April (to show only urgent and emergency repairs being done due to covid)
- Staff Attendance records for 1st May to 31st May (to show that not too many staff where in office during lockdown.)

Following review of the above evidence the Auditor was able to conclude that the Association had implemented controls in response to the identified risk and in line with the appropriate risk register.

SUMMARY OF FINDINGS

The second risk selected as part of this review was “Enhanced Fire Protection” which is on the Maintenance Risk Register and has a risk scoring of 10 which makes it a medium high risk facing the Association.

In order to assess the level of risk assessment undertaken as part of the Association’s control of the risk the Auditor reviewed the following documents: -

- Details of the fire contract in place (who is contractor, what are the works, length of the contract i.e. Fire Alarm install/testing etc)
- Copy of Fire safety register
- Any details of forced access
- Copy of most recent monitoring report

The Auditor found that the reports to the Board highlighted the main risk areas present.

Following review of the above evidence the Auditor was able to conclude that the Association had implemented controls in response to the identified risk and in line with the appropriate risk register.

SUMMARY OF FINDINGS

The third risk selected as part of this review was “Ineffective Treasury management operations, borrowing, investment and interest rate changes.” which is on the Finance Risk Register and has a risk scoring of 12 which makes it a medium scoring risk facing the Association.

In order to assess the level of risk assessment undertaken as part of the Association’s control of the risk the Auditor reviewed the following documents: -

- The Treasury Management policy which was updated and approved by Committee in February 2019.
- The 2018/19 annual Treasury Management report as per policy approved by Committee.
- Attached Management accounts 2019/20
- Triodos bank loan documents.
- Covenant compliance report completed quarterly and copy of Management Accounts sent to lender.

A review of controls found that the Association had effectively assessed the risk of its treasury management with the Finance Manager presenting competent reports and engaging appropriate controls in order to address this risk.

OVERALL ASSURANCE LEVEL RATINGS

Taking account of the number and type of recommendations and the associated risks, the topic/area audited has been assigned one of the following four assurance levels:

Full Assurance

- ⇒ A sound system of controls in place and procedural requirements being rigorously applied and/or
- ⇒ No evidence of potential legal or serious regulatory breach and/or
- ⇒ Supporting policies and procedures are satisfactory and/or
- ⇒ Policies and procedures take account of current regulatory and best practice requirements

Reasonable Assurance

- ⇒ Overall sound system of controls in place but some minor weaknesses in the application of procedural requirements (or minor weaknesses in the formulation of the procedures) and/or
- ⇒ No evidence of potential legal breach but some evidence of minor regulatory breach and/or
- ⇒ Supporting policies and procedures require to be reviewed but do not put the control objective at risk in their current format
- ⇒ Satisfactory assurance may also be used where the criteria for significant assurance are met but the processes are new or not sufficiently tested.

Limited Assurance

- ⇒ Weaknesses in the system of controls or a degree of non-compliance with procedural requirements that puts the control objective at risk and/or
- ⇒ Evidence of legal and/or regulatory breach and/or
- ⇒ Inadequate supporting policies and procedures that may put the control objective at risk

No Assurance

- ⇒ Weaknesses in the system of controls that leave the processes/system open to significant error or abuse and/or
- ⇒ Significant non-compliance with basic control processes that pose the risk of significant error or abuse and/or
- ⇒ Evidence of legal and/or regulatory breach where this presents or could present a significant risk to the organisation and/or
- ⇒ Very poor supporting policies and procedures (or a lack thereof) that are likely to put the control objective at risk
- ⇒ “No assurance” will normally be used where there is a lack of willingness or ability to address serious issues that have been raised

STAFF INTERVIEWED

NAME	JOB TITLE
Marion Menabney	Chief Executive
Quinn Internal Audit would like to thank staff for their assistance during this audit.	