

## **Appendix E – Internal Audit**

The Audit & Risk Assurance Committee of the Board of SHR has received reports on the following in the last two years:

- data protection;
- open data;
- procurement;
- Notifiable Events; and
- consultation on our new Regulatory Framework.

In addition it has received annual reports summarising Internal Audit (IA) work relating to Scottish Housing Regulator during each year and providing overall assurance opinion on SHR's risk management, control and governance arrangements.

# MOU with Internal Audit Directorate of the Scottish Government

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## **1 Overview of the Document**

### **Purpose of this Memorandum of Understanding (MoU)**

1.1 This MoU sets out the basis on which Internal Audit Directorate (IAD) will provide internal audit services to Scottish Housing Regulator (SHR).

### **Summary scope of services**

1.2 IAD has been engaged to provide SHR with internal audit services, including (subject to resource availability) any additional special projects, investigations and advisory services as agreed. The primary objectives of IAD in relation to SHR are to:

- Provide a professional, independent and objective assurance and consulting service to the Accountable Officer (AO) SHR on risk management, control and governance.
- Evaluate and report on the effectiveness of risk management, control and governance arrangements through an annual programme of assurance and advisory assignments.

### **Quality Standards**

1.3 The services described in this document will be conducted in full accordance with the UK Public Sector Internal Audit Standards (PSIAS). IAD will monitor and report on the service provided in accordance with the overarching IAD Charter and Strategy as approved by the Scottish Government Audit and Assurance Committee (SGAAC).

### **Revision or Termination**

1.4 Any revisions to the MoU will be introduced after consultation and agreement between AO and IAD. Either party will give at least six months' notice of intention to end this arrangement. The MoU will be subject to a full review after three years

## **Confidentiality and ownership of information and records**

1.5 The classification of all papers, information and material coming to the attention of and produced by IAD shall be respected. They may not normally be disclosed to any person outside SHR without the permission of SHR and IAD, unless expressly required by law. Where the disclosure of information is required as part of the wider governance requirements across the Scottish Government or for consolidation within the Scottish Government accounts, this permission may not be unreasonably withheld.

1.6 All reports, documents and other data held (including electronic) or generated by IAD as a result of audit activity shall be the property of SHR but will also be held securely within IAD's file management system (Galileo) and on the Scottish Government's corporate record management system (eRDM).

1.7 Personal data received and required as part of an audit will be stored, transferred and destroyed securely in line with current applicable standards on information security e.g. The General Data Protection Regulation 2018 and Scottish Government Security Policy Framework.

## **2 Scottish Housing Regulator Responsibilities**

2.1 The Accountable Officer (AO), SHR is responsible for ensuring there are effective arrangements for risk management, governance and internal control, the assessment thereof, and for the annual Governance Statement (prepared in accordance with the requirement of the Scottish Public Finance Manual) submitted to the Permanent Secretary / Principal Accountable Officer.

2.2 In accordance with the agreed scope of services, SHR will:

- Appoint an overall sponsor for internal audit (the "Internal Audit Sponsor"). This individual will be responsible on behalf of SHR for strategic engagement with IAD, including: facilitating input to the development of the annual internal audit plan; discussing progress of the plan; as appropriate, escalating any issues to the AO; and, updating IAD on issues within SHR which may impact on the delivery of the internal audit plan.

- Ensure that the annual internal audit plan developed by IAD is reviewed and approved by the AO and noted by the Audit Committee (AC).
- Assign an Engagement Sponsor for each review who will be responsible for (a) approving terms of reference; and (b) clearing internal audit reports for distribution to SHR and the appointed External Auditor. The Engagement Sponsor will in turn ensure that a relevant Engagement Manager is appointed to each internal audit assignment. The Engagement Manager will be IAD's key contact for the day to day conduct of the assignment. The Engagement Manager will also keep the Engagement Sponsor updated on the progress of the assignment and, as appropriate, escalate issues to them.
- Ensure the Scottish Government Director of Internal Audit (DIA) has access to the AO/AC on a regular basis.
- Ensure that Engagement Sponsor and Manager effectively engage in internal audit assignments, in accordance with the Scottish Public Finance Manual (SPFM) and the overall IAD Charter and Service Standards. IAD Service Standards include:
  - Meet with IAD 6 weeks ahead of planned field work start date.
  - Agree with IAD the Terms of Reference at least 2 weeks ahead of planned field work start date.
  - Attend clearance / wash-up meeting with IAD within 1 week of field work completion.
  - IAD will issue the draft report within 2 weeks of clearance / wash-up meeting.
  - IAD will issue final report within 2 weeks of draft report issue date.
- Provide access to all necessary information including records, documents and correspondence relating to the agreed audit activity, including information requiring security clearance to review, for which the client will have a duty to safeguard and handle appropriately under the prevailing central government Security Policy Framework.

- Ensure reasonable access any land, premises or members of staff of SHR.
- Meet appointments, information requests and agreed deadlines for responses and recommendations, providing explanations concerning any matter relevant to the agreed audit activity. It is recognised that on occasion meetings may require cancelling and/or deadlines may not be met due to unforeseen circumstances.
- Respond to IAD's request for feedback through customer engagement processes.

### **3 IAD Responsibilities**

3.1 IAD will assign a Senior Internal Audit Manager (SIAM), an Internal Audit Manager (IAM) and other staff as required to direct, plan and deliver internal audit services to SHR.

3.2 In accordance with the agreed scope of work IAD will:

- Develop an annual risk-based internal audit plan incorporating indicative timescales, which meets SHR's needs and takes account of other sources of assurance.
- Undertake work outwith the scope of the agreed annual audit plan subject to resource availability and subject to discussions and agreement between the SIAM and the Internal Audit Sponsor within SHR.
- Share information and coordinate activities with external audit to ensure proper coverage and minimise duplication of effort and documentation as required.
- Deploy staff with sufficient knowledge, skills and experience to deliver the agreed scope of work.

- Plan and deliver assurance and advisory assignments in accordance with the overall IAD Charter and Service Standards, which include:
  - Consult clients 6 weeks ahead of planned field work start date.
  - Issue agreed Terms of Reference at least 2 weeks ahead of planned field work start date.
  - Hold clearance / wash-up meeting within 1 week of field work completion.
  - Issue draft report within 2 weeks of clearance / wash-up meeting.
  - Issue final report within 2 weeks of draft report issue date.
  
- Meet with the Engagement Sponsor and/or Engagement Manager at the end of the fieldwork to confirm the factual accuracy of the internal audit findings and test viability/feasibility of proposed recommendations.
  
- Provide a draft report, or equivalent, with details of the findings, implications and recommendations for review and agreement by the key contacts, before submission and finalisation of the report with the Engagement Sponsor.
  
- Hold regular strategic engagement meetings with the Internal Audit Sponsor to review progress against the internal audit plan, discuss corrective actions where appropriate and to discuss topics of potential interest to SHR's risk management, governance and internal control environment.
  
- Provide regular progress reports to the AC in relation to the internal audit plan. It is recognised that on occasion meetings may require cancelling and/or deadlines may not be met due to unforeseen circumstances.

## 4 Agreement

4.1 This MoU (and associated Annexes) sets out the entire basis on which the services will be provided by IAD to SHR.

Michael Cameron  
1.1.1 SHR (Chief Executive, Accountable Officer)

DD MMM YYYY  
Date

Sharon Fairweather  
1.1.2 Director of Internal Audit

DD MMM YYYY  
Date



**SUMMARY OF RESPONSIBILITIES**

2. Activity	3. IAD	4. SHR
Annual Internal Audit Planning (Jan – Mar)	<ul style="list-style-type: none"> <li>• Review SHR risk registers, previous year's assurance activities and assurances planned from other sources to compile provisional list of areas for internal audit coverage in forthcoming financial year.</li> <li>• Engage with Senior Management Team to agree a list of potential areas for IAD coverage.</li> <li>• Present list of proposed areas for internal audit plan to AC.</li> <li>• IAD agrees internal audit plan with SHR, including indicative dates (e.g. Q1 / Q2 / Q3 / Q4) for each assignment.</li> </ul>	<ul style="list-style-type: none"> <li>• Director and / or Deputy Directors review risk registers, previous year's assurance activities and assurances planned from other sources to compile provisional list of areas for internal audit coverage in forthcoming financial year.</li> <li>• Senior Management Team engage with IAD to agree a list of potential areas for IAD coverage.</li> <li>• AC considers proposals for internal audit plan.</li> <li>• SHR agrees annual internal audit plan with IAD including indicative dates (e.g. Q1 / Q2 / Q3 / Q4) for each assignment.</li> </ul>
Assignment Planning	<ul style="list-style-type: none"> <li>• Hold planning meeting with Engagement Sponsor and / or Engagement Manager at least 6 weeks prior to proposed fieldwork start date.</li> </ul>	<ul style="list-style-type: none"> <li>• Engagement Sponsor and / or Engagement Manager to attend planning meetings on agreed date, whenever possible</li> </ul>
	<ul style="list-style-type: none"> <li>• Send draft Terms of Reference (ToR) after</li> </ul>	<ul style="list-style-type: none"> <li>• Engagement Sponsor to approve ToR.</li> </ul>

	<p>planning meeting to Engagement Sponsor.</p>	
	<ul style="list-style-type: none"> <li>• Issue agreed ToR at least 2 weeks before planned fieldwork start date.</li> </ul>	<ul style="list-style-type: none"> <li>• Engagement Manager to distribute agreed ToR to key internal stakeholders.</li> </ul>
Fieldwork	<ul style="list-style-type: none"> <li>• Complete fieldwork in accordance with the ToR timescales.</li> </ul>	<ul style="list-style-type: none"> <li>• Engagement Manager to ensure timeous access to key staff, systems and documentation as previously agreed.</li> </ul>
	<ul style="list-style-type: none"> <li>• Inform Engagement Manager of any issues as they arise.</li> </ul>	<ul style="list-style-type: none"> <li>• Engagement Manager to keep Engagement Sponsor updated on progress of assignment.</li> </ul>
	<ul style="list-style-type: none"> <li>• Hold end-of-fieldwork clearance / wash-up meeting within 1 week of fieldwork completion to present facts / findings, effects (actual and speculative) of findings and proposed recommendations.</li> </ul>	<ul style="list-style-type: none"> <li>• Engagement Manager (and Engagement sponsor if they wish) to attend and respond to IAD's findings and proposed recommendations.</li> </ul>
	<ul style="list-style-type: none"> <li>• Request evidence to substantiate any new management clarifications / assurances.</li> </ul>	<ul style="list-style-type: none"> <li>• Ensure all queries / points of clarification requested by IAD at end-of-fieldwork meeting are provided within the agreed timeframe.</li> </ul>
Reporting	<ul style="list-style-type: none"> <li>• Issue draft report to Engagement Sponsor and Engagement Manager</li> </ul>	<ul style="list-style-type: none"> <li>• Engagement Sponsor reviews, provides feedback on, and completes management</li> </ul>

	<p>within 2 weeks of end-of-fieldwork meeting.</p> <ul style="list-style-type: none"> <li>• Finalise and issue report.</li> </ul>	<p>action plan to enable final report to be issued within 2 weeks of receiving draft report confirm acceptance of final report.</p>
	<ul style="list-style-type: none"> <li>• Issue final report to SHR, appointed External Auditor, Internal Audit Sponsor, Engagement Sponsor, Engagement Manager and others as appropriate.</li> </ul>	<ul style="list-style-type: none"> <li>• Engagement Manager liaises with relevant staff to ensure assignment action plan is transferred to SHR audit / assurance recommendations tracker.</li> </ul>
<p>Progress Reporting to SHR Audit Committee</p>	<ul style="list-style-type: none"> <li>• Provide update on progress against agreed internal audit plan at each meeting.</li> </ul>	<ul style="list-style-type: none"> <li>• Set AC dates and inform IAD when papers are required to be submitted</li> <li>• Provide relevant action points from AC meeting that affect IAD.</li> </ul>

**KEY CONTACTS**

5.

6. SHR 7.	8. Role	9. Contact details
Michael Cameron	Chief Executive / Accountable Officer 10.	Chief Executive, Scottish Housing Regulator, Buchanan House, 58 Port Dundas Road, Glasgow, G4 0HF Michael.Cameron@scottishhousingregulator.gsi.gov.uk Tel. 0141 242 5561
Iain Muirhead	Director of Strategy and Communications / Internal Audit Sponsor	Director of Strategy and Communications, Scottish Housing Regulator, Buchanan House, 58 Port Dundas Road, Glasgow, G4 0HF Iain.Muirhead@scottishhousingregulator.gsi.gov.uk Tel: 0141 242 5569
11. IAD 12.	13. Role	14. Contact details
15. Sharon Fairweather	Director of Internal Audit	Scottish Government Internal Audit Directorate, Area 3D North, Victoria Quay, Edinburgh EH6 6QQ <a href="mailto:DirectorofInternalaudit@gov.scot">DirectorofInternalaudit@gov.scot</a>
16. Jim Montgomery	Senior Internal Audit Manager	Scottish Government Internal Audit Directorate, 7th Floor Atlantic Quay, 150 Broomielaw, Glasgow G2 8LU <a href="mailto:Jim.Montgomery@gov.scot">Jim.Montgomery@gov.scot</a>
Mabel Hall	Audit Manager/ Business Partner	Scottish Government Internal Audit Directorate, 7th Floor Atlantic Quay, 150 Broomielaw, Glasgow G2 8LU <a href="mailto:Mabel.Hall@gov.scot">Mabel.Hall@gov.scot</a> Tel : 0141-278-4417

## Annex C

### Glossary

AO	Accountable Officer
AC	Audit Committee
DIA	Director of Internal Audit (formerly, Head of Internal Audit)
IAD	Internal Audit Directorate
IAM	Internal Audit Manager
MoU	Memorandum of Understanding
PSIAS	Public Sector Internal Audit Standards
SHR	Scottish Housing Regulator
SIAM	Senior Internal Audit Manager
SG	Scottish Government





Scottish Government  
Riaghaltas na h-Alba  
gov.scot

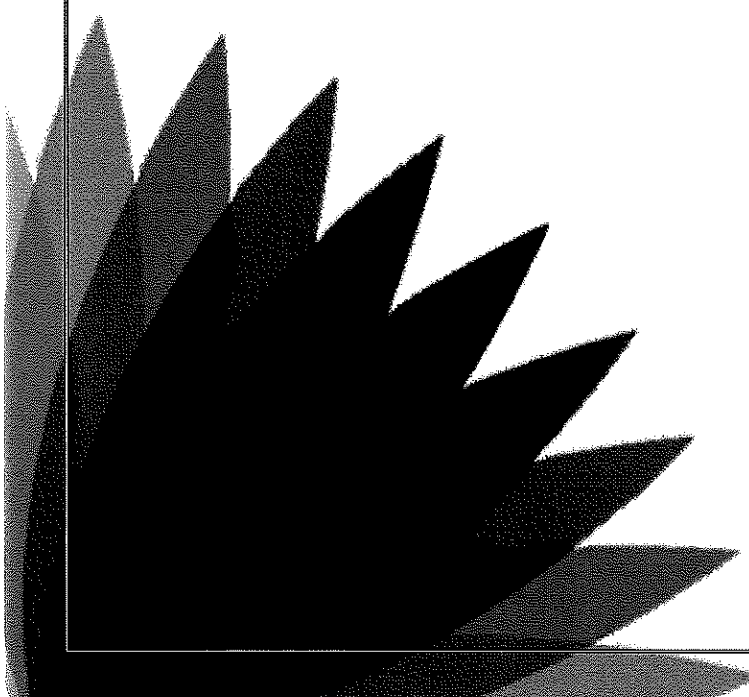
# **Internal Audit Report**

## **Scottish Housing Regulator 2017-18**

### **Notifiable Events**

**Internal Audit Directorate**

Report Issue Date: 3-05-2018



## **Review Title**

<b>Assurance Category</b>	<b>Substantial</b>
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<b>Recommendations Profile</b>	<b>1 Medium</b>	<b>2 Low</b>
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## **Audit Information**

Senior Internal Audit Manager:	<b>Jim Montgomery</b>
Internal Audit Manager:	<b>Mabel Hall</b>
Internal Auditor:	<b>Amy McNee</b> <b>Peter Graham</b>
Date of fieldwork:	22 01 2018 – 14 02 2018
Issue date of draft report:	13 03 and 25 04 2018
Issue date of final report:	03 05 2018

## **Report Distribution**

Michael Cameron, Chief Executive, (Accountable Officer)*
Scott-Moncrieff*
Christine MacLeod, Director of Regulation, Governance & Performance
Lorna Clark, Regulation Analyst

\*Final Report only



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**2 Introduction**

**3 Findings**

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### **Annexes**

**A Definition of Assurance and Recommendation Categories**

## 1. **Executive Summary**

1.1. We have provided an overall substantial assurance opinion, which means we believe that the controls are robust and well managed. See Annex A for a full explanation of our assurance and recommendation categories.

1.2. Our review identified 1 medium and 2 low recommendations. We have summarised below the key examples of good practice and improvement opportunities.

### 1.3. Good Practice Examples

- Excellent organisational knowledge and staff skills
- Relationship and management of relationships between SHR and landlords is effective in ensuring transparency and collaborative working.

### 1.4. Improvement Opportunities

- Management of notifiable events is not systematically reviewed or quality assured.
- Internal guidance could be further developed detailing how notifiable events should be managed.
- Landlord compliance checks are not undertaken to ensure appropriate registration with the Information Commissioners Officer (ICO).

## **2. Introduction**

2.1. This internal audit review of Scottish Housing Regulator's (SHR) Notifiable Event arrangements formed part of the Audit Plan agreed by the Accountable Officer and noted by the Audit and Risk Assurance Committee on 22 June 2017.

2.2. The scope was to evaluate and report on the controls in place to manage the risks surrounding SHR's Notifiable Event arrangements.

2.3. Notifiable events are those events deemed to be of sufficient significance to a landlord that SHR must be notified to ensure that these events are managed appropriately, to ensure that tenants interests are protected and minimise the risk of adverse publicity.

2.4. The remit items and key risks, which were deemed to be generic were:

### **2.5. Remit 1 – Policy and Procedures**

- Notifiable Events policies and procedures are not aligned to SHR Regulatory Guidance resulting in reputational damage.

### **2.6. Remit 2 – Robustness of Notifiable Events process**

- Processes do not effectively provide assurance that Notifiable Events are being reported and managed resulting in reputational risk.
- Processes are inefficient and/or disproportionate and do not provide Value for Money (VfM).
- Processes are insecure resulting in personal data loss, reputational damage and financial loss.

### **2.7. Remit 3 – Stakeholder Engagement**

- SHR fail to maintain effective stakeholder relationships resulting in the Notifiable Events process being ineffective resulting in reputational risk.
- Stakeholder engagement processes are inefficient and do not provide VfM.

- 2.8. We assessed the controls actually in place against those we believe should be in place, based on: organisational policies and procedures; the legal and regulatory framework within which SHR operates; and, leading industry and professional practices.
- 2.9. To ascertain the controls in place, we interviewed a number of managers and staff, and reviewed relevant documentation. We also conducted compliance testing of these controls.
- 2.10. Our findings, which cover examples of good practice as well as improvement opportunities, implications and recommendations, were fully discussed with relevant managers and staff during the review.
- 2.11. We are grateful for the co-operation received from all managers and staff involved in the process.

### **3. Findings**

- 3.1. In this section of the report, we detail our findings, which include examples of good practice and improvement opportunities. For improvement opportunities, we identify the finding, describe the impact / potential impact and make recommendations that are designed to be viable and realistic.

#### **Remit 1 – Policy and Procedures**

- 3.2. The Framework Agreement between Scottish Ministers and SHR (March 2015) is the overarching document which guides the work that SHR undertakes. This is underpinned by the Housing (Scotland) Act 2010 and the Public Services Reform (Scotland) Act 2010. While neither piece of legislation references notifiable events specifically, the legislation does detail requirements for landlords to seek consent from SHR for certain proposals, such as dissolution, restructuring, and disposal of land or assets.
- 3.3. The SHR Framework provides the context in which notifiable events reside, making specific reference to these. Sitting below this document is the 'Notifiable Events - Regulatory Guidance' published February 2016, which provides guidance on the three types of events which need to be reported. These are events which put at risk: the interests or safety of tenants and other service users; the financial health of the landlord, public investment, or the confidence of lenders; and the good governance and reputation of an individual landlord or the landlord sector.
- 3.4. The guidance makes clear that events must be reported through the landlord portal and that events shouldn't be reported 'just in case'. It also provides guidance as to the information landlords need to provide when notifying an event, including how the landlord intends to address the issue.
- 3.5. SHR deems certain landlords as systemically important. This assessment is based on the size of the landlord, the number of properties they own and their importance in providing housing in a particular area. As a result these landlords

have additional requirements to report. These include changes in senior staff, any material change in strategic direction of an organisation, and problems in relationships with key stakeholders.

3.6. Landlords are responsible for managing notifiable events but SHR can provide guidance and/or direct to additional information sources. Certain events may require investigation by SHR. Dependent on the nature of these events and how sufficiently they are being managed by the relevant landlord, SHR has the power to step in to support the RSL's management of these. This process, which enables SHR to ensure the landlord is managing and making appropriate decisions, is known as intervention.

3.7. The notifiable events guidance states that SHR has eight working days to respond to a notifiable event. While the number of notifiable events received is reported at SHR's quarterly Board meeting, at the time the audit was conducted SHR did not report on the eight working day target. At the exit meeting it was confirmed by SHR that a process to report on this target has since been implemented.

3.8. Overall, we are content that SHR notifiable events policies and procedures align with SHR regulatory guidance.

### **Remit 2 – Robustness of Notifiable Events process**

3.9. The 'Notifiable Events - Regulatory Guidance', is supported by two further documents, one internal and one external, advising how staff and landlords respectively should utilise the landlord portal.

3.10. When a landlord reports a notifiable event the landlord system issues a standard acknowledgement. The case is then assigned to a team member to process. The team member reviews the information provided by the landlord and assesses whether the issue is being appropriately managed with further information requested through the landlord system if needed. If a case is sufficiently managed, or the event has completed, the record is closed by the individual team member, they do not require approval to do so. There is no

targeted timeframe in place to close notifiable events as these can remain open over long periods of time, dependent on the issue. For example, changes to pension schemes can take significant periods to resolve, and therefore a target for resolution would not be beneficial.

- 3.11. If the individual assigned the case judges that the landlord is not managing the event appropriately, a case conference process is utilised. This process involves holding a detailed discussion with their manager/ team to agree on an approach. A record of this meeting is retained on a case conference template, including background and recommended action.
- 3.12. SHR utilise a variety of evidence sources to identify the occasional situations when landlords have failed to notify events, including newspaper reports, tenants' complaints, landlord meeting minutes and whistleblowing complaints. Contact is made with landlords where there is evidence to suggest that they should have notified events to SHR, but have failed to do so. SHR also utilises a governance risk assessment process, which pulls information from the landlord system and enables an assessment to be made not just across landlords who haven't reported events, but also landlords who merit further engagement by SHR. Despite SHR not having a responsibility to seek out notifiable events they do identify and follow up non-reported events. . In our opinion it is good practice that they do so and take appropriate action to identify and ensure reporting of these.
- 3.13. While there is documentation illustrating how to record notifiable events within the landlord portal SHR has no formal, written procedure detailing how notifiable events should be managed. Instead, SHR relies on organisational knowledge and staff experience. This raises concerns over consistency, particularly as there is no formal Quality Assurance (QA) process conducted, and a risk of loss of corporate knowledge, if staff leave the organisation.
- 3.14. When raised with SHR, they advised that due to the variation of cases received in their opinion it is not possible to have one approach. Generally the processes are efficient however our opinion is that there would be benefit to having some

overview around the processing of cases, such as common events reported (e.g. top five events) and how these should be managed. This would ensure consistency, protect corporate knowledge and minimise time involved in reviewing cases.

3.15. SHR also advised that due to their current recruitment freeze there have been no new members of staff and therefore no training/guidance has been required. We recognise there are Notifiable Events processes in place for the Business Information System however there is no detailed case management process. While there is no indication that the recruitment freeze is likely to be lifted we would still recommend that formal case management processes and procedures are put in place as reference for current staff to ensure consistency and provide an opportunity to review processes and identify efficiencies. It would also provide support if individuals are moved into the team from another role. **(Recommendation 1)**

3.16. As part of our testing we selected a sample of 16 cases (10%) from the 158 notifiable events reported since April 2017. As a whole we found that cases were managed effectively, although 5 of the 16 cases tested had not been updated and maintained effectively within the landlord portal. This meant we were unable to ascertain the current status of the cases, with some outstanding documentation missing. However implementing a QA, lessons learned process and more detailed guidance around how cases should be processed would address these issues. **(Recommendation 2)**

3.17. The Regulatory Guidance makes clear that landlords must be registered with the Information Commissioner's Office (ICO) as data controllers and that their registration appropriately covers their obligation to provide data to SHR for regulatory purposes. SHR does not conduct checks to confirm compliance with Regulatory Guidance, as they have advised this falls out of the scope of their responsibilities. We conducted testing against the ICO register and can confirm that of the sample selection taken all landlords were appropriately registered. Landlords must also ensure that their policies and procedures reflect the requirement to report notifiable events. SHR advised that they do not undertake



work to ensure this, but that issues may be identified if intervention work is undertaken at a landlord. We recognise that legislation does not state that SHR should conduct checks, however, we would recommend that SHR conducts some checks against landlords to ensure compliance with their Regulatory Guidance. **(Recommendation 3)**

3.18. Information between SHR and landlords is exchanged by utilising the Landlord Portal. This is a secure database and documentation is stored within SharePoint. Only members of SHR and authorised users within landlords have access to the Portal. Landlords have access to their data only, and cannot access that of other landlords. Landlords are responsible for managing who within their organisation has access to the Portal and for ensuring that access to the portal is restricted. Information held within SharePoint can be restricted further by password protecting if information is of a particularly sensitive nature. We are content that there are sufficient procedures in place to ensure transmission of data, and that the data held internally is secure.

### **Remit 3 – Stakeholder Engagement**

3.19. The primary notifiable events stakeholder grouping is the landlords, therefore engagement is focused on them. This engagement is conducted through regular contact with portfolio managers and the documentation discussed above.

3.20. These documents detail engagement and communication processes along with guidance on the management and reporting of notifiable events. A defined complaints procedure is also available and aimed at tenants and landlords with a focus on resolving the matter informally where possible. Landlords tend to raise few complaints as issues that relate to notifiable events are generally captured and resolved informally. We reviewed SHR's complaints and correspondence tracker and are content that complaints and concerns raised around Notifiable Events are appropriately managed.

3.21. In addition to the engagement detailed above, when the Landlord Portal went live in 2016 SHR wrote to all landlords to advise it was being launched and how

to access support when using this. As part of this process SHR invited a number of landlords to provide user feedback prior to the launch of the system. Responses to this consultation were retained and utilised for system development. Landlords also have the option of contacting their Regulation Analyst or Regulation Manager for advice and guidance as and when required.

3.22. Landlords of systemic importance are required to receive extra engagement from SHR. This involves implementing a Regulation Plan which sets out the engagement that SHR will have with them within the relevant financial year. Engagement plans are also implemented for landlords where SHR deems that engagement and monitoring is necessary.

3.23. Outwith the day to day management of landlords there is little regular, defined, stakeholder engagement around notifiable events. However, given the nature of the work undertaken, the closeness of the relationship between portfolio holders and landlords, and that patterns/themes are proactively identified and addressed, we are content that engagement processes are suitable, efficient and proportionate.

#### 4. Action Plan

No	Issue / Risk(s)	Recommendation	Priority (H/M/L)	Management Response / Action Owner	Action Due
1	<p><b>Issue</b></p> <p>There is no formal notifiable event guidance detailing case management processes.</p> <p><b>Risk</b></p> <p>Cases are not managed consistently, leading to differing levels of support offered to different landlords and loss of corporate knowledge if staff leave the organisation. (Paragraph 3.15)</p>	<p>Implement more detailed formal guidance documents for staff on how to manage reported notifiable events, such as the timescales and link to templates and other relevant documentation.</p>		<p>The standard templates for responding to the two possible outcomes are embedded within the system and we adopt a tailored approach where further action is required.</p> <p>Recommendation accepted to develop guidance to formalise this operational approach.</p> <p>Christine Macleod</p>	31.3.19
2	<p><b>Issue</b></p> <p>There are no Quality Assurance (QA) checks completed against work undertaken in respect of notifiable events.</p> <p><b>Risk</b></p> <p>Cases are not managed</p>	<p>Implement QA processes and procedures, including a lessons learned process.</p>	M	<p>There is operational quality assurance built in at various points of the process around performance and consistency.</p> <p>Recommendation accepted to develop a systematic QA process to formalise this operational approach.</p>	31.3.19

	<p>appropriately, leading to complaints and a failure to safeguard tenant's interests.</p> <p>Staff performance and training needs are not assessed effectively (Paragraph 3.16)</p>			Christine Macleod	
3	<p><b>Issue</b></p> <p>SHR does not conduct checks to ensure that landlords are registered with the Information Commissioner's Office (ICO) and that landlords have appropriate policies and procedures in place.</p> <p><b>Risk</b></p> <p>Landlords fail to adhere to SHR Regulatory Guidance, resulting in failure to protect tenants interests. As a consequence media attention is directed to SHR resulting in their reputation being damaged (Paragraph 3.17)</p>	<p>We would recommend SHR introduce a process to provide assurance that landlords are registered with ICO. E.g. Include a section in the annual return on the charter asking landlords to confirm that they are registered with the ICO and have the policies and procedures in place required to adhere to the Regulatory Guidance</p>		<p><b>Recommendation Rejected</b></p> <p>It is not our policy with regard to notifiable events or any other regulatory guidance to check each landlord is complying with all of our requirements or is to ensure appropriate registration with the ICO. This would not be reasonable, appropriate or proportionate.</p>	

**Annex A**

**Definition of Assurance and Recommendation Categories**

**Assurance**

<p><b>Substantial Assurance</b>  <b>Controls are robust and well-managed</b></p>	<p>Risk, governance and control procedures are effective in supporting the delivery of any related objectives. Any exposure to potential weakness is low and the materiality of any consequent risk is negligible.</p>
<p><b>Reasonable Assurance</b>  <b>Controls are adequate but require improvement</b></p>	<p>Some improvements are required to enhance the adequacy and effectiveness of procedures. There are weaknesses in the risk, governance and/or control procedures in place but not of a significant nature.</p>
<p><b>Limited Assurance</b>  <b>Controls are developing but weak</b></p>	<p>There are weaknesses in the current risk, governance and/or control procedures that either do, or could, affect the delivery of any related objectives. Exposure to the weaknesses identified is moderate and being mitigated.</p>
<p>[Redacted content]</p>	

**Recommendations**

<p>[Redacted content]</p>	
<p><b>Medium</b></p>	<p>Moderate risk exposure or weakness with need to improve related controls.</p>
<p><b>Low</b></p>	<p>Relatively minor or limited weaknesses.</p>





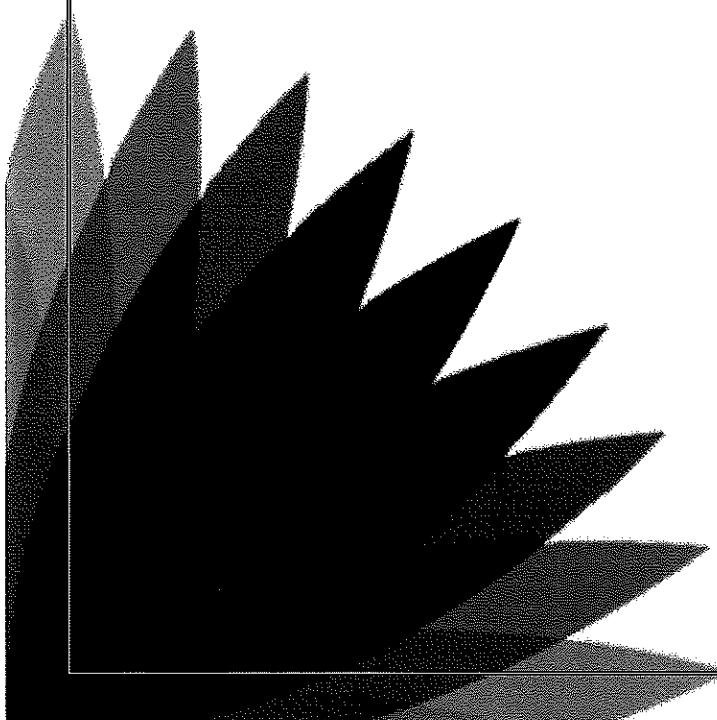
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# **Internal Audit Report**

## **Scottish Housing Regulator 2019-20**

**Regulatory Framework Review**

**Directorate for Internal Audit  
and Assurance**



## **Regulatory Framework Review**

<b>Assurance Category</b>	<b>Substantial</b>
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<b>Recommendations Profile</b>	<b>1 Medium</b>	<b>0 Low</b>
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### **Audit Information**

Senior Internal Audit Manager:	<b>Jim Montgomery</b>
Internal Audit Manager:	<b>Amy McNee</b>
Internal Auditor:	<b>Peter Graham</b>
Date of fieldwork:	<b>05 08 – 20 09 2019</b>
Issue date of draft report:	<b>04 10 2019</b>
Issue date of final report:	<b>31 10 2019</b>

### **Report Distribution**

Michael Cameron, Chief Executive, (Accountable Officer)*
Scott-Moncrieff*
Iain Muirhead, SHR Director of Digital and Business Support

\*Final Report only



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## **1. Executive Summary**

1.1. We have provided an overall substantial assurance opinion, which means we believe that the controls are robust and well managed. See Annex A for a full explanation of our assurance and recommendation categories.

1.2. Our review identified one medium recommendation. We have summarised below the key examples of good practice and improvement opportunities.

### 1.3. Good Practice Examples

- Programme management of the review.
- Substantial engagement with stakeholders.
- Realistic and achievable timescales.

### 1.4. Improvement Opportunities

- Monitoring and tracking resource utilisation to demonstrate value for money and enable lessons to be learned for future programmes.
- Ensure Memoranda of Understanding with other Scottish scrutiny bodies and regulators are updated to reflect the new Regulatory Framework.

## **2. Introduction**

2.1. This internal audit review of Scottish Housing Regulator's (SHR) Regulatory Framework consultation process formed part of the Audit Plan agreed by the Accountable Officer and noted by the Audit and Risk Assurance Committee on 20 March 2019.

2.2. The review is intended to provide assurance over the development of the SHR's new Regulatory Framework. The Framework is SHR's statement on performance of functions and sets out how it regulates Registered Social Landlords (RSLs) and Local Authorities. This review forms part of our planned audit coverage agreed by the Accountable Officer and noted by the SHR Audit and Risk Assurance Committee on 20 March 2019.

2.3. In 2018-19 SHR undertook a full review of its Regulatory Framework. The finalised Framework was published in February 2019. The purpose of this review is to provide assurance on this process, including assessment of stakeholder engagement, alignment with strategic aims and project management.

## **3. Scope**

3.1. To evaluate and report on the controls in place to manage the risks surrounding SHR's management and development of the new Regulatory Framework Review. The remit items outlined below were discussed, in broad terms, at the planning meeting held with the SHR Director of Digital and Business Support on 4 June 2019.

3.2. The risks for the remits are a combination of generic risks and risks specific to SHR.

### **Remit 1 – Strategic Alignment**

Key Risk:

- Regulatory Framework does not align with relevant statutory and legislative requirements or contribute to delivery of SHR objectives, including the SHR

Corporate Plan, and/or needs of tenants, landlords and other key stakeholders.

## **Remit 2 – Stakeholder Engagement and Management**

Key Risk:

- Failure to identify and appropriately engage and manage stakeholders.

## **Remit 3 – Project Management**

Key Risk:

- Framework review project managed ineffectively, without adherence to recognised project management principles, including unclear objectives for change, lack of alignment with strategy, business case understood poorly, and insufficient ownership and buy-in from senior management/board.
- Insufficient staff and/or staff do not have the right skills, experience and expertise to undertake the work.

## **4. Approach**

4.1. We assessed the controls in place against those we believe should be in place, based on: organisational policies and procedures; the legal and regulatory framework within which Scottish Housing Regulator operates; and, leading industry and professional practices.

4.2. To ascertain the controls in place, we interviewed a number of managers and staff, and reviewed relevant documentation. We also conducted compliance testing of these controls.

4.3. Our findings, which cover examples of good practice as well as improvement opportunities, implications and recommendations were fully discussed with relevant managers and staff during the review.

4.4. We are grateful for the co-operation received from all managers and staff involved in the process.

## **5. Findings**

5.1. In this section of the report, we detail our findings, which include examples of good practice and improvement opportunities. For improvement opportunities, we identify the finding, describe the impact / potential impact and make recommendations that are designed to be viable and realistic.

### **Remit 1 – Strategic Alignment**

5.2. The 2010 Housing Act requires SHR to review how it performs its functions every 5 years. SHR opted to develop a new Framework via extensive consultation with stakeholders, as opposed to making no changes beyond responding to external changes such as legislative amendments. SHR's approach to the consultation process was intended to be open, and ensure clarity and transparency for stakeholder organisations.

5.3. To ensure the new Framework aligned with SHR strategy, the SHR Board undertook a Strategy Workshop in October 2017, where the Board's agreement was sought on key decisions and outputs to set the strategic direction for the Regulatory Framework discussion paper. This indicates early engagement with senior stakeholders within SHR and a clear understanding of required outcomes. A further workshop was held with the Board in April 2018. Papers for decision and updates on progress were also presented to the Board through the course of the programme, demonstrating continuous engagement, and supporting alignment with strategic objectives and relevant statutory and legislative requirements.

5.4. We noted that the Regulatory Framework does not include any specific reference to Scotland's National Performance Framework (NPF). However, the Regulatory Framework links into SHR's statutory objectives, functions and the priorities as laid out in the SHR Corporate Plan. The Corporate Plan includes a small reference to the NPF, detailing which National Outcomes to which their work contributes.

The new Framework is shorter, at 46 pages, compared to the previous 64 pages. Section headings are different, although there is continuity in the information contained.

5.5. The statutory objectives and functions are highlighted in the new version and there has been a move towards Local Authorities (LAs) and Registered Social Landlords (RSLs) taking responsibility for assuring themselves. SHR hope that this the emphasis on governance and assurance will result in less of a need for intervention over time. Landlords are required to assure themselves, their tenants and SHR that they meet the Standards and Requirements; and are responsible for ensuring the delivery of good outcomes and services. The framework sets out these requirements, supported by a suite of updated statutory guidance issued by SHR.

5.6. The move to Landlords assuring themselves is a significant one, as they are all now required to have an internal audit function provide this assurance. To ensure this work is undertaken, all landlords are required to submit an Annual Assurance Statement. These are to be received by SHR for the first time in October 2019.

5.7. The Framework states that SHR coordinates its work and shares information with other scrutiny bodies and regulators, supported by memoranda of understanding (MoU). These bodies are: - Scottish Public Services Ombudsman; Audit Scotland; Care Inspectorate; and Office of Scottish Charity Regulator. We noted that some of these MoUs were out of date, however, SHR is aware and an action to update these is included within the SHR operating plan for 2019-20.

5.8. SHR substantially overhauled the Framework, which was informed by the organisation's learnings from operating within the previous Framework. In our opinion, introducing landlord self-assurance, supporting landlords with a suite of guidance providing greater clarity on requirements, improving terminology, language and tone represent notable positive differences. We are also content that the Framework aligns with the SHR Corporate Plan and future plans.

## Remit 2 – Stakeholder Engagement and Management

5.9. SHR developed a bespoke format for stakeholder engagement for the Framework review, building on the stakeholder identification methodology in its Communication Strategy, and incorporating the team's strong working understanding of key stakeholders. SHR management advised that they did not carry out a formal stakeholder mapping exercise for the Framework review, although it is our opinion that SHR's planning for stakeholder engagement was appropriate for the nature of the review. In addition to this, the strategy does incorporate SHR audiences and communication channels. We note that the Communication Strategy is now due for review, and that this is incorporated into SHR's Operating Plan for 2019-20

5.10. Building on the Communication Strategy, SHR used a Communication Plan to schedule and track stakeholder engagements, providing a clear breakdown of stakeholders and methods of communication. SHR's 'Approach to Consultation and Engagement' document supports this, providing further detail on contents of planned stakeholder meetings. There is clear linkage and consistency with the Communications Plan. Both documents highlight the scale and depth of stakeholder consideration, and a structured approach to getting value from engagements.

5.11. We reviewed a sample of four SHR Programme Boards, each six months apart. Stakeholder engagement was allocated a specific agenda point in each - aside from the last because the programme had completed - with progress, issues and considerations reported in detail to the Board. There is clear linkage between the Communication Plan and the actions reported. Board minutes also provide evidence of decision-making and approval of key decisions made in the Framework Review in relation to stakeholder feedback received. For example, we reviewed Board minutes which record a discussion about adapting wording in the Framework - changing 'non-compliant' to 'working towards compliance' – in response to stakeholder feedback.

5.12. Work towards developing the consultation discussion paper began in 2017, with the formal consultation made available to stakeholders and individuals via the SHR website and publicised by partners. This included promotion through Twitter

and relevant partner bodies, such as the Tenant Participation Advisory Service (TPAS) and the Tenants Information Service (TIS).

5.13. An analysis of consultation responses was published February 2019, which was undertaken by an independent body. The analysis details that there were over 100 responses from a range of stakeholders including RSLs, housing representative organisations, equalities organisations, LAs, tenant groups, individuals and others.

5.14. SHR undertook its own analysis of the consultation feedback and also published this in February 2019. This includes confirmation that impact assessments were undertaken for both equalities and business and regulatory impact, with the outcomes included in the consultation document. It does not explore the consultation responses in as much detail as the procured body, however, it does place the work SHR undertakes in the larger context of the service that it delivers. It provides specific detail on what information and documentation SHR will update and refresh to reflect the comments received.

5.15. A number of working group meetings were also held with landlords and LAs. We were provided with agendas and workshop lead notes from these, and are content that these were appropriate to support Regulatory Framework feedback. SHR also engaged with other key housing authorities in Scotland, namely, the Scottish Federation of Housing Associations (SFHA) and Scotland's Housing Network (SHN).

5.16. SHR ensured that internal staff were engaged throughout the process, many of whom were involved in the delivery in various capacities. In order to illustrate the work and outcomes intended, in-progress updates were also provided to staff. This included presentations, staff events and staff briefings.

5.17. In conclusion, SHR went beyond the requirements of the current Communication Strategy with strong understanding of - and mature working insight into - key stakeholders for the Framework Review. This incorporated a variety of external consultation methods and ensuring engagement of internal staff throughout the process. The implementation of the Communication Plan, with clear linkage to



supporting documents demonstrated a structured approach to getting value from engagements. Finally, the third party analysis and publication of consultation feedback, as well as published SHR response, demonstrated transparency of decision making in the Framework Review.

### **Remit 3 – Programme Management**

5.18. While the title of this remit is 'Project Management', it is important to note that the review was set up as a Programme. The SG has specific Programme and Project Principles, which should be adhered to by all organisations who fall under the SG umbrella, including non-ministerial offices, such as SHR. There was no specific reference or referral to these Principles during the course of the programme, however, we are content that the process followed aligned with these. However, it may be useful for SHR to consider these, and to engage with Portfolio, Programme and Project Assurance when developing future programmes and projects.

5.19. To manage the Regulatory Framework review, SHR set up a Programme Board, and developed a Terms of Reference and a Programme Initiation Document (PID). The Board were responsible for the sign-off process, with drafting submitted by the management team and the Head of Planning and Performance, who led the consultation, for review and approval. The programme was led by the Head of Planning and Performance on the basis of relevant experience.

5.20. The PID was finalised May 2017 and provides the context for the Regulatory Framework review. This included a timetable for delivery and clearly identified phases and workstreams and established a framework to monitor delivery. A number of assumptions were made at the outset of the programme, including treating the programme as high priority and assuming budgets continued at their current levels.

5.21. At the outset of the review, SHR sought advice from SG Better Regulation team regarding Business and Regulatory Impact Assessments (BRIA). Advice to conduct a BRIA was followed, with the final BRIA tabled to the Programme Board. This is an example of good practice, as it demonstrates SHR's alignment with wider SG regulatory expectations and clearly links to the purpose of new Framework.

Legal advice was also sought by the team in relation to the management of the programme, this included advice on regulatory standards and the consultation narrative.

5.22. The PID established the use of a risk log and an issue log, which were reported to the Programme Board and recorded in the Programme Board Highlights papers. Evidence of their discussion is included in the corresponding Minutes. Risk treatments were cross referenced where relevant against risks in the Corporate Risk Register with risk treatments interlinked.

5.23. A wide range of SHR team members were involved, and the risk log and Corporate Risk Registers highlighted that capacity was one of the key risks to the Review, and was also identified as having potential to impact operational work. The financial budget availability for the regulatory review is included within the PID, however there was no indication of cost, or resource days/hours of SHR staff time. There are no records for overall resources spent to deliver the 'core work' of the Framework Review. This presents a missed opportunity to evaluate and apply learnings from this review into the next review and/or any work on a similar scale within SHR. **(Recommendation 1)**

5.24. The Head of Planning and Performance left the organisation at end November 2018, by which time the majority of development work for the review was complete. SHR confirmed that no replacement was assigned to cover the role within the review, and no formal handover process was recorded. Programme Board reports and minutes show that work continued in their absence and review was successfully completed.

5.25. Overall, we are content with the Regulatory Review process, particularly the in-depth work undertaken around stakeholder engagement. This was an excellent piece of work from SHR with lessons and approaches that can be fed into future work of a similar nature.

## 6. Action Plan

No	Issue / Risk(s)	Recommendation	Priority (H/M/L)	Management Response / Action Owner	Action Due
1	<p><b>Issue</b> No formal record kept of SHR internal resource days/times/costs for the Programme.</p> <p><b>Risks</b> Insufficient recording of internal resource used for the Programme, presenting missed opportunity to evaluate, apply learnings, and make accurate projections for resourcing future Framework reviews and/or any work on a similar scale within SHR. Inability to demonstrate value for money.</p>	<p>Implement a system to formally specify resource allocation for internal staff for future Programmes, with a process in place for monitoring, review and recording learnings to inform future workstreams.</p>	M	<p><b>Management Response</b> We will consider whether to introduce a formal resource allocation process for future programmes (such as our next regulatory framework review) as part of the early planning phase of the programme. This will include a consideration of the costs, benefits and options</p>	<p>At outset of next Programme. Our next Regulatory Framework review is due around 2023/24. We will action this recommendation earlier if we initiate any other programme before this date</p>

	(Paragraph 5.23)			<b>Action Owner</b> Iain Muirhead, Director of Digital and Business Support	
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**Annex A: Definition of Assurance and Recommendation Categories**

**Assurance**

<p><b>Substantial Assurance</b> Controls are robust and well managed</p>	<p>Risk, governance and control procedures are effective in supporting the delivery of any related objectives. Any exposure to potential weakness is low and the materiality of any consequent risk is negligible.</p>
<p><b>Reasonable Assurance</b> Controls are adequate but require improvement</p>	<p>Some improvements are required to enhance the adequacy and effectiveness of procedures. There are weaknesses in the risk, governance and/or control procedures in place but not of a significant nature.</p>
<p><b>Limited Assurance</b> Controls are developing but weak</p>	<p>There are weaknesses in the current risk, governance and/or control procedures that either do, or could, affect the delivery of any related objectives. Exposure to the weaknesses identified is moderate and being mitigated.</p>
<p><b>High Assurance</b> Controls are not in place</p>	

**Recommendations**

<p><b>High</b></p>	
<p><b>Medium</b></p>	<p>Moderate risk exposure or weakness with need to improve related controls.</p>
<p><b>Low</b></p>	<p>Relatively minor or housekeeping issues.</p>

