THE NATIONAL AFFORDABLE HOMES AGENCY

HOUSING CORPORATION

GOOD PRACTICE NOTE

Demonstrating internal controls assurance in housing associations

January 2008

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Introduction

Purpose of the guidance

Housing Corporation Circular 07/07, published in July 2007, sets out our requirements regarding board assurance on internal control. It updates and replaces Circular 25/01, which adapted principles from the Combined Code, and Internal Control: Guidance for Directors on the Combined Code (known as Turnbull) issued by the Financial Reporting Council (FRC) for listed companies for use in this sector. The FRC has revised both documents, making few changes, and the new Circular takes these into account.

Circular 07/07 emphasises that "the board [of an association] is ultimately responsible for the system of internal control and the management of risk, including reviewing the effectiveness of internal control". The Circular requires association boards to maintain a sound system of internal control, to monitor and obtain assurance on the effectiveness of its system throughout the year, and also to undertake an annual assessment of its effectiveness. It requires the board to have a clear and well communicated strategy and policy which defines fraud and covers prevention, detection and reporting, both internally and externally to the Housing Corporation.

The Circular, available on the Housing Corporation website at www.housingcorp.gov.uk, gives full details of the Corporation's requirements and its expectations of boards of associations. Where an association owns or manages more than 1,000 units at the start of a financial period the **board is required to issue a formal internal controls statement within the annual report and accounts**. This presents the results of the board's annual review of the effectiveness of the association's system of internal control. It will comprise, in summary:

- disclosures about the board's approach, its understanding and appreciation of internal control, and its management of fraud;
- confirmation that there has been a review of the effectiveness of the internal control system;
- confirmation that necessary action has been or is being taken to remedy any significant failings or weaknesses identified from that review; and
- a summary of the process and key sources of evidence utilised by the board in reviewing the effectiveness of the association's system of internal controls.

If the board has not conducted such a review or cannot comply with any of the requirements given in the Circular, it should make a statement to that effect and give an explanation.

The board needs to decide how much assurance it needs and then determine how to obtain it, appropriate to its individual circumstances. In line with good business practice, the board's documented methodology for undertaking the annual assessment will draw on types of evidence from a suitably broad range of sources, measures and activities. Each association will obtain assurance over different elements of the system of internal control through different means.

The provision and relevance of the evidence considered should be reviewed regularly, and the board's choice will reflect a number of factors, including:

- legal status;
- organisational size (stock) and turnover;
- position within a group structure;
- complexity;
- age and history;
- profile of services offered;
- objectives, especially where these include growth or consolidation strategies, or a change in the range of provision offered; and
- risk profile in general and corporate risk strategy.

Boards have the legal responsibility for running the association, and their role extends across these main areas:

- corporate governance;
- corporate mission;
- corporate strategy, plans and objectives;
- overall financial control;
- framework of delegation;
- key decision making;
- risk management;
- performance monitoring;
- appointment and remuneration of the Chief Executive; and
- proper conduct.

Circular 07/07 stresses that risk management and control processes should be continuous, and embedded across all of an association's activities. Obtaining assurance on the effectiveness of internal controls therefore will not be a separate exercise, but a fundamental and ongoing aspect of running an effective organisation. On an annual basis, there needs to be a formal assessment of the effectiveness of these systems, which will result in the preparation and subsequent agreement of the required Statement of Internal Controls Assurance. To help the board review the internal controls systems and come to an assessment, the Chief Executive or executive team should present an annual report based upon criteria and processes established by the board. However, the discussion of a draft statement on its own does not constitute a review and assessment exercise by the board.

These guidance notes expand upon various considerations relating to internal controls assurance that a board might consider in establishing its internal controls strategy and in choosing appropriate sources of evidence to be included within its annual assessment. **They are neither prescriptive nor fully comprehensive. However, they are intended to illustrate the range and types of evidence available, and their aim is to stimulate ideas and debate within associations**. As such, they represent what we consider to be best practice, based upon examples that have come to our attention and other documentation examined.

Extracts are included from published annual accounts, which demonstrate how associations have previously used and presented similar evidence.

Obtaining assurance in a group and other relationships

Circular 07/07 makes provision for internal assurance reporting to be appropriate to the 'association', whether this is an individual association or a group parent of a formally constituted group.

An association with more than 1,000 units must publish a formal statement on internal control to comply with the Circular. However, in a formalised group arrangement, the group parent has a responsibility for the internal control system for that group in its entirety, including registered and unregistered subsidiaries irrespective of their size, and that responsibility should be reflected in the scope and content of the statement of internal controls published by the parent.

In publishing the review and assessment of the internal controls systems the group board has ultimate responsibility for internal control systems. Even though the boards of individual subsidiaries have the liability and responsibility for operational decisions and those systems in practice, the parent must ensure that the processes and procedures in place in the subsidiary associations are sufficiently robust to allow it to obtain the requisite level of assurance. Although it may be difficult for group board members to have adequate knowledge of the operational systems and related information in the subsidiary associations, they have a duty to do so, and also to challenge, appropriately, the evidence presented to them. Many associations are also involved in increasingly diverse and complex arrangements between associations – and possibly other unregistered parties – for development and other purposes. These may commit the association to higher risk financial arrangements than it would be able to negotiate on its own – arrangements which rely on the business decisions and ongoing viability of other parties over which the association has no direct control. Where partnerships or other special arrangements are in place, it is possible that these might be excluded from the consideration of internal control systems. This is highly undesirable and may lead associations to unacceptable degrees of exposure to risk. We expect boards to extend their internal control arrangements to these relationships and consider the extent to which they need to share key risk information with other parties and the extent to which they need to receive information from other partners in exercising appropriate due diligence.

Internal controls and risk

A board needs to understand its own approach to risk and control issues, and the relationship between the two in that association.

An association's objectives, structures and its operating environment are continually evolving and inevitably so are the risks it faces. Risks may be regarded as uncertain future events that could influence the achievement of a housing association's strategic, operational and financial objectives. Housing associations must have management arrangements, resources, skills and systems appropriate to their circumstances and ensure that their activities are backed by suitable internal controls. A sound system of internal control therefore depends on thorough and regular evaluation of the nature and extent of the risks to which the association is exposed. The purpose of internal control is to help manage and control risk appropriately rather than to eliminate it, so this too should be an evolutionary activity.

A control culture

A board which is proactive in its management of risk and control issues, and which sets strong policies and strategies and displays high standards of governance, will send positive messages to all its management and employees. An association demonstrates a sound control culture by embodying risk and control considerations in its normal operations, and by having processes for responding on an ongoing basis to changes in the risks faced by it. This in turn will positively influence other organisations with which the association has a relationship.

A board which considers internal controls only at the time of the annual assessment, and draws upon a narrow range of evidence, is unlikely to communicate and inspire its stakeholders so effectively.

Circular 07/07 discourages associations from compiling formulaic internal control reports. A 'standardised' report might be construed as indicating a board's lack of a control culture and a limited commitment to and/or command of the internal control agenda. It is unlikely to reveal the individual approach of the association, and will typically focus on statements of high level policy – what the association says it will do – rather than factual disclosures of what was undertaken, and what evidence was considered.

"In response to the challenges of the contract culture initiated by the Supporting People funding regime, we implemented a new operational structure from 1 April 2006. This focuses on local accountability for contracts and new business on a borough by borough basis. There is a renewed emphasis on customer relationship management throughout the business from front line staff and contract managers, senior contract managers through to heads of operations. The structure also provides support for the ongoing development of specialist expertise across the full range of client groups with whom we work."

"The Standards and Ethics Committee ensures that the group upholds high standards of conduct and probity, oversees the recruitment of members and board self-appraisal, approves personnel issues and deals with urgent matters."

Location of the internal control statement

The internal control statement and the broader Operating and Financial Review (OFR), where one is included, provide an opportunity for the board to communicate with stakeholders and other interested parties about the risk and internal control issues facing the association. An OFR should include discussion of:

- its objectives and strategies;
- recent performance;
- key influences and trends;
- potential effect of risks facing it; and
- its financial position, including factors affecting, and likely to affect, that position.

The board may choose to include the internal controls statement within its published accounts in either its main report, or within the OFR. Given that a strong element within the OFR relates to risk considerations, many boards prefer to include their internal control statement within it. In either location, it is important that the internal control statement is clearly identifiable.

Sources of assurance for assessment of control systems

Strong management structures and clear accountability

The National Housing Federation's Code of Governance for its members establishes that:

"The board's central role is to direct and control, to determine strategic direction and policies, to establish and oversee risk and control management frameworks and to ensure that the organisation achieves its aims and objectives. Management is responsible for implementation."

Given this, a board will need to exercise clear control over the association by establishing, approving and keeping under regular review:

- a clear statement of its own role and responsibilities;
- a job description for the Chief Executive and other senior managers;
- financial regulations and standing orders covering the authorisation of expenditure, accounts management, procurement and other financial decision making;
- delegations and regulations for the letting of contracts, acquisition of schemes, employment of consultants, and decisions relating to other major transactions;
- key policies and procedures and the respective roles of the board, managers and staff;
- scope of delegations for decision making on business plans, budgets and other related issues;
- the overall organisational/staff structure and agreements for changing it; and
- clear lines of management and delegation of authority.

The board itself must operate within the terms of the legal rules and structures under which it was established (e.g. rules, memorandum and articles of association, trust deed) which will cover many of its procedural arrangements. There may be additional terms to cover its role within a group structure.

Clear statements setting the standards for conduct and probity expected of all board members and all staff should cover issues such as anti-fraud, gifts and hospitality, conflicts and declarations of interest, ethics, and whistle blowing. These should be formally recorded and available for inspection. (A number of guidance and advisory publications are available from the National Housing Federation on governance, accountability and probity.)

Gaining assurance from management structures

Evidence available to a board in its assessment of the association's internal control systems might include:

- scheduled and regular review of the board's role and structure;
- scheduled review by the board of appropriate policies, delegations and statements of responsibility;

- internal audit reports and proceedings where roles and accountabilities and the exercising of delegated powers have been reviewed;
- confirmation that appropriate policies have been communicated to staff on a regular basis;
- confirmation that induction activities for new staff and board members convey appropriate information; and
- confirmation that management communicates with staff on their respective levels of delegation and authority.

Management reports on operational and financial matters

Typically, an association's board will routinely have access to operational and performance reports from management on various issues. These may be one of the main sources of assurance about internal control systems for the board as well as a vital and major source of reference.

Management reports may be formally part of board proceedings and/or of those of a board's sub-committee and/or of other association review activities (such as best value or preparation for Audit Commission inspections). Through these and over time, board members will become more familiar with issues facing the association, and more able to debate with and question management on significant operational matters.

"During 2004 the board has implemented the outcomes of a thorough governance review conducted in 2003. This has led to new rules, standing orders and terms of reference being approved where appropriate."

"The group recognises the importance of a formal communication policy in order to secure the involvement and commitment of staff and the group consults and discusses with employees matters likely to affect their interests through a group staff liaison committee. As well as this formal mechanism, employees are encouraged to contribute to the group's business through team briefings, an annual staff conference, staff newsletters, a suggestion scheme and surveys."

"Both the finance and housing management departments have seen changes in staffing. In finance there has been an increase in staff partly as a result of the increase in activity and partly in preparation for the Finance Manager's retirement. The loss of this key person will be managed through a transitional year of her working part time to ensure the satisfactory handover of skills and experience."

"In the housing department, the change has been in job roles. Existing staff members have seen their job descriptions changed to give each responsibility for specific areas of work."

It is also important for the board to ensure the appointment of suitably skilled, qualified and competent staff to senior operational and financial positions. At the same time, where a board does not have the experience and/or skills to understand or challenge information provided, it must rely more extensively on external and peer assessments for validation. This might involve benchmarking, external reviews or other forms of certification.

Development is a key area for many associations and associated with significant risk. Decisions about development programmes should be informed by thorough documentation for each scheme, to include financial and non-financial appraisals of individual schemes and their viability, investment and funding plans, and adequate management information. Decisions may be made by a development committee or by the board. It is vital that members have appropriate knowledge and experience to be able to assess the suitability and viability of the proposals and challenge the assumptions made.

Gaining assurance from management and operational reports

Evidence available to a board in its assessment of the association's internal control systems might include:

- routine and annual management, operational and performance reports;
- internal audit reports covering operational and management information;
- reports of performance, accreditation or other operational reviews (e.g. best value), especially where these involve an appraisal by peers, service users and other parties; and
- a recognised organisational structure, with clear assignment of responsibility, accountability and authority, which the board can see is applied consistently.

Management reports on operational and financial controls

In an association with a well-established risk and control culture, operational and performance reports from management will also provide a primary source of assurance about internal control systems. In addition to operational information, such reports will evidence management's approaches to and attitudes towards: risk management and control strategies; planning for risk and control; implementation and compliance; and how management records and responds to control failures.

An association seeking to rely on management certification of its controls should ensure there is a proper basis for that certification. For example, when professional auditors test the operation of controls, they usually take a sample, using scientific techniques to extrapolate their findings. If management adopts such an approach, it needs an adequate understanding of the techniques.

Objectivity may be an issue. In Risk Management and the Value Added by Internal Audit, the Institute of Chartered Accountants in England and Wales questions whether "those who are responsible for managing risks and operating controls always take a wholly objective and systematic view of their own performance". Presuming that there will be some loss of objectivity, it strengthens the case for additional independent assurance, which might be provided by an internal audit function independent of management responsibility for those controls.

"The Senior Executive Team recognises their responsibility to take internal control seriously. Staff are encouraged to discuss ways in which procedures can be improved with their manager in an open way. Senior managers are required to report to the Chief Executive on the effectiveness of the controls. The Chief Executive reports to the board on the appropriateness and effectiveness of the system of internal controls."

"The group's system of Control Self-Assessment (CSA) plays a key part in checking the reliance the group is able to place on internal controls. The group managers report on their CSAs quarterly to the Resources Director, and the internal auditors review this annually and make a report to the Group Audit Committee on any changes to controls and systems where necessary."

Gaining assurance from management and operational reports

Evidence available to boards in their assessment of internal control systems might include:

- bespoke reports for the board from senior managers providing financial and operational information on significant risk areas identified;
- documentation on future risk and controls envisaged, compiled to aid formulation of the OFR;
- management assessments of the internal controls systems in their operational areas;
- reports summarising findings, recommendations and action plans arising from internal control reviews; and
- internal audit reports covering operational controls.

Risk management activities

The board is concerned with the long-term direction of the association and it is responsible, among other things, for ensuring that the association operates effectively and achieves the objectives which it has set. Risk management activities can contribute to this, both from the perspective of undesirable events occurring and desirable things not happening. Therefore the board must review, assess and manage the significant risks the association is facing and put actions and controls in place to deal with them. This makes the internal control system significant to the achievement of business objectives.

Risk has the potential to make a large impact on the board's strategy, as well as day-to-day performance. A risk-based approach can make an association more flexible and responsive to tenants' and residents' changing needs in a continually evolving business environment. In Implementing Turnbull: A Boardroom Briefing, the Institute of Chartered Accountants in England and Wales' Centre for Business Performance notes that:

"Effective risk management and internal control can be used to manage change, to involve all levels of people in the company in meeting its business objectives, and to improve a company's credit rating and ability to raise funds in the future..."

The Regulatory Code requires associations to demonstrate that their organisations are viable, properly governed and properly managed. The identification, consideration and management of risk touch on all three areas. Properly governed associations:

"... must operate a framework that effectively identifies and manages risks: identifying all major risks that might prevent them achieving their objectives; with the necessary arrangements to manage risks and mitigate their effects".

Properly managed associations must have:

"... management arrangements, resources, skills, and systems appropriate to their circumstances, scale and scope of operation, and ensure that their activities: are adequately monitored; are undertaken efficiently and effectively; and are backed by proper systems of assurance for internal control".

Once the board has established its risk management strategy, management becomes responsible for evaluating and monitoring the effectiveness of the controls which it has identified as being necessary and has implemented.

Implementing Turnbull: A Boardroom Briefing suggests that 'risk and control issues' could be a standard agenda item for the board and that reports from committees (e.g. the audit committee) provide an opportunity to discuss risk and control at board level. Board members must be involved in the risk identification and assessment processes, and must take ownership of and approve the association's risk management framework. Unless there is a demonstrable commitment to governance and risk management among both board members and the senior management team, it is unlikely that a flourishing control culture will exist in the association.

A board might want to reassure itself for the association's key risks that:

- the risks and their associated controls are kept under regular review;
- management has defined appropriate key controls for each of the key risks to business objectives;
- that these are in place, and are working properly; or
- if not, that there are processes in place to ensure that any failings would be established and action taken.

An internal control system aims to manage the risk and therefore must minimise the occurrence of significant control failings and weaknesses. Everyone in the organisation needs to understand the internal control and risk implications of the tasks they perform, and act accordingly. They must also understand the importance of assurance and internal control in achieving the organisation's objectives. By implication, an association's system of internal control must be embedded in its operations and culture. Some or all of the following may help to achieve this:

- appropriate communication of the board's risk management policy at all levels;
- a clear statement of the importance placed on risk management by the board and senior management;
- a common risk language adopted throughout the association;
- consultation at all levels on the definition of risk, risks faced by the organisation and how these should be addressed;
- clear guidelines setting out individuals' responsibilities for risk;
- corporate objectives linked to individual staff targets, reward mechanisms and training opportunities;
- strategies to encourage a climate of openness and honesty; and
- measures to ensure that board members and staff have the knowledge and skills to address risk.

An association could establish a risk panel to hold roundtable debates on key risks, involving members of the board, staff from all levels and sections of the association, and possibly other stakeholders from time to time. This might generate evidence for the board's internal controls assurance including:

- minutes and reports from risk panel meetings;
- results of control and risk self-assessment procedures; and
- regularly reviewed and updated strategic and operational risk maps.

An association should also expect that its internal audit function will carry out a periodic audit of the corporate risk management processes in place as a means of ensuring sufficient internal audit work is performed across the association. This will also provide direct assurance on the robustness of the process, and on the valuation of risks.

Gaining assurance from risk management activities

Evidence available to a board in its assessment of the association's internal control systems might include:

- minutes and reports from risk management committees and/or other operational committees where key risks are discussed;
- copies of control and risk assessment documentation;
- internal audit reports and proceedings;

- periodic internal audit of the corporate risk management processes;
- confirmation of the strategies being employed by management to communicate with staff on risk issues; and
- reports and activities arising from risk panel meetings.

A board should look additionally for evidence that changes to the association's risk profile are detected and responded to within these arrangements.

"A group-wide Health and Safety Committee meets quarterly and the board receives monitoring reports on health and safety matters annually. There is a system of regular inspections and audits of health and safety."

"The association uses a risk and competency-based approach to its recruitment processes to ensure that the chances of a wrong appointment are significantly reduced. This has helped reduce staff turnover for a number of years to below the industry level."

"Each business stream and subsidiary held at least one risk workshop in the year. A comprehensive review of the risk management system was completed in 2005-06 which resulted in a revised risk management system. A risk steering group was established which will champion the new system and ensure that it is embedded in 2006-07."

"The main risks that may prevent the group achieving its objectives are considered and reviewed annually by the senior management team and board as part of the corporate planning processes. The risks are recorded and assessed in terms of their impact and probability."

"Major risks, presenting the greatest threats to the group, are reported to the Audit and Risk Committee quarterly together with action taken to manage the risks and the outcome of the actions. These risk reports include assessments of key controls to manage the risks."

Assignment of responsibility for oversight of audit activities

Larger associations will have committees to oversee certain areas of work, established on a consultative basis or with delegated responsibilities. (Housing Corporation publications include a good practice guide on the effective operation of audit committees.) Committee structures should be clear and add value to board decision making and self-scrutiny without duplication of effort. Individual committees must have clear terms of reference approved and regularly reviewed by the board.

The NHF's Code of Governance highlights that audit is essential to good governance, and extends beyond traditional financial audit and into the audit of systems across all areas of the organisation's work. In larger associations and organisations this can therefore require substantial time and resources. The NHF's Code also suggests that larger and medium-sized organisations should have a separate audit committee or ensure that the finance committee can discharge the functions of an audit committee adequately. Where there is an audit committee, it should meet a sufficient number of times a year and on occasion should meet without officers being present.

An effective audit committee will raise the profile of internal and external audit, and of any other review processes that report to it. Generally an audit committee will have an overview of:

- internal control;
- financial reporting;
- internal audit; and
- external audit.

Given that the board is responsible for risks and their management, and the audit committee is responsible for reviewing the adequacy and effectiveness of the processes through its audit function, the audit committee will need to understand the association's risk management framework and ensure that the key risks are controlled and minimised.

Care should be taken, where risk and audit responsibilities are shared by a single committee or by the board itself, to ensure that there is a clear distinction drawn and maintained between the establishment of the risk management systems, and the review and audit of their effectiveness.

An audit committee whose terms of reference refer to audit but not to internal controls will not be adequately prepared to undertake a review of the full internal control system on behalf of the board.

Gaining assurance from the overall audit management arrangements

Evidence available to a board in its assessment of the association's internal control systems might include:

- scheduled review and (re)approval of the terms of reference of the board and its committees, including the audit committee (or similar) and the extent to which authority is delegated;
- stated criteria for the selection of appropriately skilled board members to serve on the audit committee, with policies for the induction and training of these members;
- scheduled periodic reviews of the effectiveness of the board and its committees;
- arrangements for the board to appraise the performance of individual members;
- audit committee minutes; and
- annual report of the audit committee to the board.

"The Audit and Risk Committee has received the Chief Executive's annual review of the effectiveness of the system of internal control for the association and its subsidiaries and the annual report of the internal auditor, and has reported its findings to the board."

"The Audit Committee is chaired by a member of the board, appointed by the board to this role and not being the Group Chairman or Vice Chairman or the Chairman of a business stream or subsidiary. The Committee oversees financial reporting and the group's high-level risk control framework, internal and external audit arrangements and internal control systems. The committee's role includes an overview of the work undertaken throughout the group by the Group Business Assurance Services department, and reviewing and recommending the report and financial statements to the board for approval."

"A group-wide management assurance function, incorporating audit, structured to deliver the Group Audit Committee's three-year risk-based strategic audit plan, quality assurance and risk management."

As well as having an in house team, the group uses the services of professional firms of auditors and other specialists as necessary. All audit reports are reviewed by the Group Audit Committee, which also receives updates on the implementation of agreed external and internal audit recommendations. Detailed reports on the association's activities are also presented to senior managers so that recommendations for strengthened controls and improvement can be implemented."

Control and risk self assessment

Control and risk self assessment (CRSA)[1] is one management technique designed to provide assurance that systems of control are adequate and effective. It covers a wide variety of approaches. CRSA is a systematic process designed to meet the needs of the individual association, which requires risks and controls to be identified, classified, measured and evaluated. Staff and line managers review their own risks and controls, often using facilitators (who may be from internal audit) but also by building their own control assessment and design skills. Importantly, managers and staff are given clear responsibility and accountability for risk and control in those operational processes in which they participate and cannot assume that 'risk management' and other monitoring functions will look after it.

[1] Known also by similar acronyms, including self assessment programme (SAP), control self appraisal or control self assessment (CSA), management self assessment (MSA) or self review (SR).

Implementing CRSA will require considerable support from management for the objectives and potential benefits, together with a commitment to invest significant resources in planning and implementation. Unless the culture is supportive of an approach centring on control and risk, it will struggle to make a significant impact, but where it does, the benefits of CRSA can include:

- attention focused on corporate objectives, providing managers and staff with a better awareness of what they and the association are trying to achieve and the associated risks;
- identification of previously unidentified risks, or risks not brought to the attention of management;
- an insight from the process into 'soft controls' (ethics, competence, morale, leadership, motivation etc);
- more frequent reviews of the internal control system through continual reassessment of controls by management;
- instilling in line managers a greater understanding of risk, more accountability for the controls and risk management in their areas of responsibility and a stronger commitment to action;
- teambuilding and management development; and
- support for internal audit by raising the awareness and importance of internal control.

The relationship between internal audit and CRSA will vary between organisations. As the experts in internal control, internal audit can provide advice and support to help management to introduce CRSA, facilitate workshops to identify risks and controls, and review its outcomes, effectiveness and quality. However, it must remain line management's responsibility to own and operate the process.

Gaining assurance from control and risk self assessment

Evidence available to a board in its assessment of the association's internal control systems might include:

- reports from internal audit on the operation and effectiveness of the CRSA process;
- evidence of control and risk being included in induction and training opportunities for all staff and for the board;
- evidence of CRSA approaches contributing to routine and annual management, operational and performance reports; and
- internal reports which evidence change and/or improvements arising from the implementation of a CRSA system.

"The group is implementing a programme of control risk self-assessment which will be monitored by the risk panel and which will further strengthen control arrangements."

Internal audit

Internal audit differs from the other sources of assurance in that it can provide independent and objective assurance across the whole range of an association's activities. Other functions may be able to provide assurance in specialist areas. However, internal audit has the advantage of being positioned so that it can take an overview and retain a degree of independence that other functions cannot.

The role of internal audit is to provide independent assurance on management's treatment of risk. Internal auditors can ensure a robust risk management approach is adopted and applied across the organisation to reduce risks to a level acceptable to the board. The Institute of Internal Auditors— UK and Ireland's Position Statement - The Role of Internal Audit in Enterprise-wide Risk Management 27 September 2004 lists appropriate and inappropriate roles for internal audit in risk management processes as follows:

Core risk-based internal audit roles with regard to risk management

- Giving assurance on risk management processes;
- Giving assurance that risks are correctly evaluated;
- Evaluating risk management processes;
- Evaluating the reporting of key risks; and
- Reviewing the management of key risks.

Legitimate internal audit roles with safeguards to ensure independence

- Facilitating identification and evaluation of risks;
- Coaching management in responding to risks;
- Co-ordinating enterprise risk management activities;
- Consolidated reporting on risks;
- Maintaining and developing the risk management framework;
- Championing the establishment of enterprise risk management; and
- Developing risk management strategy for board approval.

Roles internal audit should not undertake

- Setting the risk appetite;
- Imposing risk management processes;
- Management assurance on risks;
- Taking decisions on risk responses;
- Implementing risk responses on management's behalf; and
- Accountability for risk management.

Internal audit must not be responsible for the design and construction of control systems. Even when advising management on system development, internal audit should be careful to ensure that it can objectively review those systems, and the overall risk management process, at a later date.

There are several options for sourcing an internal audit service:

- employment of in-house staff;
- setting up a consortium arrangement;
- a contract with an external provider; and
- a partnering arrangement.

However sourced, it must be appropriately resourced. The board needs to be assured that the internal auditors have sufficient resources to ensure diversity of qualifications, expertise and skills to undertake specialist audits of the entire range of systems and activities although not all those skills need to be directly employed. An association offering more specialist services to tenants, and/or facing specific risks which lie outside the traditional remit of housing associations, may need to consider whether to supplement its internal audit provision by procuring specialist audit services from other providers to conduct periodic audits of, for example, more complex financing and treasury management arrangements, development activities, or computer and communications-based systems.

On the other hand, it may take the view that auditors need not know as much about a system or process under review as the competent and experienced person responsible for delivering it. A competent auditor is able to undertake an audit of specialist areas and add value by challenging the auditee to demonstrate how he or she knows that a control is working, and how this is demonstrated to the board. An association's decision is likely to reflect the availability and competence of its resources, its internal audit policies and the levels of risk associated with these specialist areas.

The line manager of an internally employed head of internal audit should be the Chief Executive rather than a functional director. This helps to maintain the independence, objectivity and status of the internal audit service. However, the head of internal audit, whether employed or otherwise contracted, is primarily accountable to the board (or audit committee) to whom he or she should have full and free access, and to ensure continuity between meetings the head of internal audit should be in regular communication with the chairman of the audit committee as well as the Chief Executive.

The audit committee should approve the programme of work, monitor delivery of the programme and receive reports – either on an assignment-by-assignment basis or at pre-defined periods during an audit. The receipt of progress reports on the implementation of action plans gives assurance that agreed actions have been carried out. The internal auditor might also provide regular updates to the board (or audit committee) on general matters of professional audit interest relating to internal audit, internal controls, and risk management.

Effective internal audit requires compliance with appropriate professional standards – such as the International Standards for the Professional

Practice of Internal Audit of the Institute of Internal Auditors (IIA) – and there should be an internal audit charter or a service level agreement. Agreed post-audit procedures will establish routines for circulating draft reports to management, finalising reports, managing formal management responses to them and the follow up by management and internal audit of progress on the implementation of agreed actions.

The internal auditor should make an annual report to the board (or audit committee) stating an overall opinion on the adequacy of design and effective operation of the systems of risk management and internal control(s) reviewed supported by:

- a restatement of terms of reference and standards;
- audit work conducted in the year together with comparison to approved programme;
- other areas of work during the year; and
- main findings arising from internal audit work, together with a status report on management action to improve the treatment of risks, and weaknesses in internal control and assurance systems.

In addition to ensuring that the internal audit function covers the quantity of work needed to form this opinion, the audit committee should evaluate the quality of the internal audit function's work each year. An internal audit function should be subject to an external quality assessment periodically.

The internal auditor should aim to have an effective relationship with the external auditor, with the aim of facilitating co-ordination of related audit work, avoiding duplication of work and ensuring that aspects of internal control are not left 'un-audited'. If either the internal or external auditor wishes to rely on the work of the other, they should ensure it is appropriate to do so. It may be helpful for the internal auditor to meet the external auditor after the latter has completed his or her work, to discuss findings and recommendations, and then to monitor and report progress on implementing recommendations.

Gaining assurance from internal audit

Evidence available to a board in its assessment of the association's internal control systems might include:

- the internal audit programme cross-referenced to the association's corporate risk assessment;
- reports on progress towards the annual audit programme;
- the internal auditor's annual report;
- internal audit reports;
- management's documented progress towards implementing control and assurance improvement actions agreed with internal audit;
- reviews of the performance of the internal audit service, which might include an assessment of its processes, outputs, efficiency, effectiveness, staff qualifications and professional

development including external quality assessments where available; and
- evidence of changes to the programme and resourcing of the internal audit provision in response to changes in business risk, and/or to new or evolving services, operations and strategies.

"Regular management reporting on control issues provides assurance to successive layers of management and to the board. It is supplemented by regular internal audit reviews providing independent assurance to the board via the audit committee. The arrangements include rigorous procedures, monitored by the audit committee, for ensuring that corrective action is taken in relation to any significant control issues."

"The internal audit function is externally resourced and reports directly to the audit committee, The internal audit programme is linked to the risk identification process. Departmental risk maps are used as a reference point for audit work."

External audit

Housing associations are required to have an annual financial audit by an independent qualified person or firm of auditors. However, under the provisions of the Housing Act 2004, small associations may, if their rules permit, opt to receive an accountant's report upon their accounts rather than a full audit. Throughout an audit, the auditor will seek to understand the overall structure, activities, finances and governance of the association, and including arrangements supporting the systems of internal control – the audit committee, risk management and internal audit arrangements. The auditor will want to understand the association's objectives and strategies, and the related business risks.

The formal management letter states whether the audit has identified any weakness in the accounting systems, financial controls, or accounting policies, and any non-compliance with legislation, regulations and standards. Therefore, external audit provides assurance on the accuracy of the financial statements and the operation of internal controls. However, a board and/or its audit committees should recognise its limitations:

- the management letter will refer only to matters identified in audit work, so it will not necessarily cover all significant risks to the organisation;
- it will usually refer only to weaknesses, so will not provide positive assurance; and
- the level of assurance required by the external auditor will not necessarily tally with the level of assurance required by the board.

The Accounting Practices Board publishes bulletins covering specific issues for auditors of listed companies. Bulletin 2006/5 includes example Terms of Engagement for the external audit of internal controls system disclosures. These require the auditor to review the board's

internal control statement (specifically about significant weaknesses or failings identified from the review) and assess whether this reflects the supporting documentation prepared by or for the board, and discussions held with the auditor. An association may gain additional levels of assurance if it formally includes these or similar Terms of Engagement when next reviewing contractual terms with its external auditor.
In addition, the association may request its auditor to conduct further additional assurance work relating to the statement of internal control. This might require the auditor to form an opinion on two more specific questions:

- Do the documents provided by and for the board support the association's summary of the board's process for reviewing the effectiveness of the system of internal control?
- Does the summary appropriately reflect that process?

The Corporation's Good Practice Note 7 (GPN7) External Audit of Housing Associations, revised 2007, contains information and guidance indicative of best practice. The board should formally consider its reasons for not following aspects of it, and how these might affect the level of assurance which can be placed on external audit activity.

Gaining assurance from external audit

Evidence available to a board in its assessment of the association's internal control systems might include:

- the audit management letter and any supplementary reports produced;
- the outcome of additional work undertaken by the external auditor on internal control systems;
- clear separation between the providers of internal and external audit;
- regular assessments of association external audit arrangements against GPN7.

Internal financial control

Internal financial control **must be mainstreamed into the processes of an organisation.** The principal financial internal controls are the segregation of duties, employment of qualified staff and advisors, and operating sound and well-documented budgetary controls which should be documented and approved by the board. Segregation significantly reduces the scope for errors and oversights, as well as deliberate manipulation or abuse, and is important to income, expenditure, and capital transactions.

There are likely to be procedures and controls operating over:

- assets
- investments;
- banking and custodial arrangements;
- incoming funds;
- expenditure and payments (including authorisation levels, proper record-keeping, and

the safe-keeping of instruments of payment such as cheque books);
- wages and salaries; and
- expenditure records.

Approval of budgets and accounts can only be given following discussion at board meetings, and it is important that board members understand the financial information given to them. At least some board members must have appropriate financial expertise, and full training should be provided for those who are not as familiar with financial terms to acquire a reasonable level of understanding.

Ineffective budget control can be reflected in the poor allocation of funds, which are then inadequate to support achievement of organisational objectives, or the failure to control their use by managers. This can be compounded by a culture where expenditure against budget is poorly monitored and/or caps on expenditure are not enforced.

Gaining assurance from internal financial controls

Evidence available to a board in its assessment of the association's internal control systems might include:

- audit management letter and any supplementary reports produced;
- internal audit reports covering aspects of key financial control activities;
- training of board members to increase board scrutiny over financial reports provided to them;
- recruitment policies for board members which ensure a degree of financial knowledge and experience;
- ensuring appropriate segregation of key financial activities;
- a documented budget allocation and monitoring process which provides control but allows flexibility in changing circumstances;
- managers across the association are accountable for their expenditure and trained in budgetary control and management techniques; and
- confirmation that senior management regularly reviews budgetary management information and key variances alongside progress towards the achievement of objectives.

"Treasury management activities are provided by a special purpose borrowing vehicle within the group, responsible for refinancing borrowings for the group, where it is prudent to do so. The group follows risk-averse policies to shield it from adverse movements in interest rates."

"… A comprehensive business plan and budgetary control arrangements with a monthly reporting cycle that identifies variances."

Quality management systems

Quality assurance aims to ensure that the final product or service always meets or exceeds the required technical and performance standards. Although more commonly associated with manufacturing, it can be applied to service-providing activities, especially those where significant elements of the process are standardised. There needs to be a clear understanding of what 'quality' means for the activity, and how the service user perceives it.

Developing quality standards and quality assurance systems demands a considerable investment in time and resources, with support and commitment from management. Typically it involves a range of staff as it encompasses aspects of service provision from information to training and development needs, supporting IT systems, and the design and operation of the service itself. Scheme operation requires a supportive culture which places quality high on its agenda.

Formal schemes can be adopted for certain activities involving external accreditation or certification. These test systems producing a product or service – without prescribing the actual service standards or procedures to be employed. The organisation must demonstrate to representatives of the assessing body that it has the systems and management procedures in place to ensure quality.

Frequently adopted accreditation systems include:

- Investors in People (IiP) – a national standard which sets a level of good practice for improving an organisation's performance through better planning, implementation and evaluation of learning and development programmes for its workforce;
- the Excellence Model – developed by the European Foundation for Quality Management (EFQM), it is widely used as a framework for continuous improvement activity and provides a means for assessing and improving an organisation using a broadly based range of quality criteria;
- ISO 9001:2000 – the International Organisation for Standardisation's standard for quality management systems establishes standards for systems and processes surrounding the design, development and delivery of a general product or service; and
- Charter Mark – a Government initiative awarded to UK public sector organisations to demonstrate achievement of a national standard for excellence in customer service.

Approaches to quality may be developed across an entire organisation or significant operational units within it. For the services covered, there can be a number of benefits:

- by focusing on service users, the association is better placed to provide a good service consistently;
- cutting costs by eliminating error, reducing risk (from undesirable outcomes) and improving controls over processes;
- staff agree and understand 'quality' and 'standards', and their individual roles in delivering them;

- greater clarity of purpose; and
- enhanced reputation and credibility when externally accredited/certified schemes are achieved.

A quality approach can extend to wider considerations across the association of:

- organisational structures (which can enhance or inhibit quality);
- operational aspects, such as controls, task management, and records management, for example:
  - o formal, documented processes and procedures which promote reliability and consistency;
  - o established performance criteria, with statistical measures and controls to detect and measure compliance with standards; and
  - o formal testing of the final product/service/documentation;
- improved staff competences, such as knowledge, skills, experience, qualifications and more targeted induction and training.

Gaining assurance from quality management systems

Evidence available to a board in its assessment of the association's internal control systems might include:

- (re)accreditation and (re)certification from external bodies;
- reports and comments from external certification and accreditation bodies about the association and its quality systems;
- internal reports which evidence change and/or improvements arising from the implementation of a quality assurance system; and
- feedback from tenants, residents, suppliers, partners and other 'users' of quality-based systems on their experiences.

"… An annual review of property services accreditation to Charter Mark for its responsive repairs service by an independent assessor provided evidence of continuous improvement in service provision. Awarded a Certificate of Accreditation in respect of older people and homeless support contracts. Compliance with requirements for NICEIC."

Other quality schemes and standards

Not all quality-related schemes, standards and awards have the formality or national recognition of the major quality management schemes. However, achieving the requisite standards and/or complying with Codes of Practice may still present a significant challenge, and require evidence to be provided of a high level of quality and control as judged by their peers.

Not all of these will provide direct evidence of the association's internal controls, as the scheme requirements may not cover this aspect of management/operation. However, they may provide a basis for reviewing, maintaining and improving standards of service.

A failure to achieve intended levels of quality and standards can be demonstrated through complaints received from tenants, leaseholders, contractors and other stakeholders. All associations must have published procedures to deal with complaints from residents fairly and effectively, and the process is likely to involve escalation to board level in its later stages. The Housing Ombudsman expects complainants to go through their landlord's internal complaints procedure first but will also deal with queries which lie outside the association's procedure. The effective monitoring of complaints can point to systematic problems rather than one-off situations.

Gaining assurance from other quality schemes and standards

Evidence available to a board in its assessment of the association's internal control systems might include:

- achievement of awards and/or memberships and/or achievement of standards from relevant external bodies;
- evidence of compliance with codes of practice and national standards;
- complaint monitoring reports; and
- Housing Ombudsman reports.

"We have adopted the Code of Practice on Race Equality arising from the Race and Housing Inquiry Challenge Report 2000."

"In continuing our strategic aim to differentiate and recognise excellent performance we extended our performance-related pay scheme to include our middle management population…"

"This year we also launched a new quarterly staff recognition scheme which complements our annual staff awards event in recognising achievement during the year."

"Our new Quality and Compliance Team was recruited in 2005-06 to lead our focus on making sure that clients receive good standards of service. This includes improving the ways in which we monitor how well we are doing and gather information."

"(We) took part in an independent employee opinion survey in October 2005 as part of a group of other providers. This survey helped us to identify areas where we are doing well and where we need to improve and to set our priorities and action for next year."

"The association has a strong commitment to its employees that is demonstrated though the continuous accreditation to Investors in People, a commitment to the Positive about the Disabled initiative, and an Employee Charter…"

The association has an on-going training programme, sponsored professional qualifications courses and NVQs."

"Additionally, the group was highly recommended in the Best Charitable Sector Work Experience Providers category at the recent National Council for Work Experience awards."

"Our sheltered housing service was awarded the national Code of Practice, which is a reflection of the high quality service we provide and the excellent staff we employ."

"We won a regional property award for partnership work in Halton for (this) development. This is a scheme built using modern methods of construction."

Performance information (including Performance Indicators)

Timely and high quality performance information is important for effective business management. The board should receive regular reports on all areas of the association's performance, and aim to deliver continuous improvement and value for money. Meaningful and useful performance data will relate to organisational objectives, the operating context, and to stated standards of service and delivery. Controlling the accuracy of performance information is central to aspects of control across the association.

The Housing Corporation collects data annually from associations through the Regulatory and Statistical Returns (RSR), COntinuous REcording (CORE) and financial returns. Much of this relates to associations' performance in various activities, and a selection of figures is published by the Corporation as top-level performance indicators (PIs). There is a regulatory requirement on the larger associations to have certain data collection systems externally validated, which ensures consistency of data across all associations and provides assurance to associations on the robustness of their systems.

Top-level PI data will generally be supplemented by management with a suite of additional measures monitored throughout the year addressing different aspects of the systems and processes. This allows managers to contextualise and/or 'unpick' the underpinning elements of performance and factors affecting them. Boards and senior managers need to look at information in different ways.

Some board-level data will fulfil more than one purpose. For example, there may be an overlap between regulatory reports and operational monitoring data. However, data derived for different external and/or internal purposes may differ in their specification and purpose. Performance data about the same operation or service can therefore appear contradictory and convey different messages. It is essential that the board challenges apparent inconsistencies, and ensures that management and staff are aware of and understand the different bases of their data and, where appropriate, seek assurance that regular reconciliations are carried out.

The board has the advantage of access to data from many operational areas, and should be alert to ‘blind spots’ in the data which might indicate an area of performance lacking controls. For example, departments performing sequential activities in delivery of a service may not bring information together effectively. Individual managers focusing on their areas of immediate control will fail to recognise interrelationships across the entire task. A drive for improved performance in one area can impact negatively on other areas – achieving one outcome can be at the expense of another. For example, offering appointments to tenants for repair work may improve satisfaction levels but increase the average time to repair.

A board must be selective about its data requirements. Its specific needs might include sufficient data to:

- inform business planning, strategy development, and corporate decision making;
- monitor delivery of its strategies and plans, on time/budget and to standard;
- undertake performance comparisons to challenge performance and stimulate continuous improvement;
- ensure management of corporate risk; and
- supply information and demonstrate accountability to a range of external stakeholders including regulators, local and regional authorities, funding agencies, tenants and local residents.

Board committees with the delegated oversight of particular aspects of the association’s work should receive more detailed information than the board itself on these matters.

It is the board’s responsibility to ensure that the association has a properly focused performance information strategy and maintains an effective system to deliver it. A board might gain assurance on the quality and consistency of its data where there is a clear performance measurement culture with features such as:

- staff accountability for data and processes within their responsibility;
- appropriate timeliness and frequency of reporting;
- reliability of the data and good evidence base; and
- value/relevance of data to the service/system/policy it relates to.

Peer comparisons and benchmarking can provide valuable insights for the board into the relative efficiency and effectiveness of the association’s operational and financial performance, help to set realistic and challenging targets, and provide an opportunity to learn from good practice and better performing associations. Internal benchmarking can be invaluable and engender healthy competition within a larger association and/or between associations in group structures, especially where activities are carried out in a number of regional locations.

The ‘Balanced Scorecard’ is a management approach which gives a view of corporate performance focused on financial outcomes and on the human issues that drive them. It provides feedback around both internal business processes and external outcomes in order to continuously improve strategic performance and results. It requires managers to view their organisation from four perspectives: learning and growth, business processes, customers, and finances.

Metrics are developed based on strategic priorities and key business drivers. Processes are designed to collect information relevant to these metrics and convert it into an appropriate form for display and analysis. Results can be tracked to guide the board and provide feedback. Scorecards tend to present the data on ‘dashboard’ displays – visual and easily interpreted snapshots of business conditions and performance – which allow users to drill down into lower-level data. Measures selected need to be appropriate and for an association should focus on critical aspects of its work, e.g. tenant satisfaction, property maintenance.

Gaining assurance from performance data

Evidence available to a board in its assessment of the association’s internal control systems might include:

- internal audits of data and information systems for operational and financial areas fundamental to achievement of the association’s business objectives;
- compliant data collection systems validated by external providers and by internal audit (for annual self-assessment compliance statements);
- evidence of a performance management culture led and supported by senior managers;
- committee minutes demonstrating that data is regularly challenged and justified, especially where it evidences consistency of data from different sources, for different purposes and different uses;
- monitoring top level performance and PI data provided to regulators and other external bodies;
- evidence of and reports from benchmarking activities undertaken; and
- reports from Balanced Scorecard or similar performance schemes.

"The board also regularly reviews key performance indictors to assess the progress towards the achievement of key business objectives, targets and outcomes. The external validation of the association's PIs highlighted a few areas for improvement. These are currently being addressed."

"Other initiatives include the setting up of a (corporate) wide consultative service user group, the board advisory panel, that has helped to provide a strategic steer on key policy and performance issues with a direct link to the board."

"A Performance Monitoring Unit oversees the production of a monthly reporting suite which covers key performance indicators used to monitor the business plan. Performance outcomes are given a traffic light assessment and management responses are formally recorded for required control action… Balance scorecard methodology is used to link the association's business plan with the risk management system."

Reports from regulatory and other external bodies

Associations are required to comply with corporate legislation affecting all organisations (including employment, health and safety, and equal opportunities), and those more specific to organisations involved in general housing matters and construction. Depending on their legal status, size and services offered, associations are also subject to regulation and inspection by various bodies.

Communication and contact between the association and the various organisations may be:

- regular and routine, e.g. annual returns to the Housing Corporation, reports from credit agencies;
- required in response to a positive or (more usually) negative event, e.g. to bid for grant or IGP funding, to report an accident at work or report a fraud;
- initiated by the association in order to formalise new/changed arrangements, e.g. changed group status; and
- initiated by the organisation in response to other parties/issues, e.g. a complaint made to the Housing Ombudsman.

A board can use some of this as evidence in their assessments of internal control, although the level of assurance from correspondence with external organisations may be limited by:

- a focus on negative findings which does not give positive assurance;
- that organisation's scope – the absence of comment by an external party is not assurance that there are no issues;
- being confined to issue(s) specifically examined at that time, and possibly in a prescribed format; and

- the level of assurance required by the external body for its purposes – it is likely to differ from that required by the board.

The instigation of supervisory activity by the Housing Corporation is likely to require an immediate assessment by the board of the adequacy and appropriateness of its system of internal control.

Gaining assurance from the reports of regulatory and other external bodies

Evidence available to a board in its assessment of the association's internal control systems might include:

- regulatory and inspection reports received;
- specific correspondence with regulators and other external organisations;
- supervisory action by the Housing Corporation during part or all of the year;
- reports on the frequency and nature of returns made to regulatory bodies reporting on or responding to undesirable events; and
- an assessment of board members' understanding and knowledge of legislative and regulatory expectations, and its impact on board member induction and training.

"Most of (our) services have now been reviewed by our funders (local authorities), with good results. However, in some areas we have had to adapt services, reduce costs or even close projects if they do not meet the local needs identified by our funders… Earlier in the year our action plan following the inspection of our services (2003) was signed off as satisfactorily completed."

"In 2003, (the association) was placed under supervision enforcement by the Housing Corporation. This followed the publication of the results of an inspection by the Audit Commission… Following this report the board, executive directors and staff in all parts of the group (with the support of external advisors) have been working to address the operational, management and governance weaknesses identified."

Fraud

Introduction

Fraud is just one risk an association faces, but the deliberate nature of fraud can make it difficult to detect and deter, and there are potentially regulatory, supervisory and legal implications should it occur. Strong internal controls can have a significant impact on the incidence of fraud, but are unlikely to eliminate it and may not lead to it being discovered.

Levels of reported fraud in the UK are generally accepted to be increasing. Figures published by the Institute of Chartered Accountants in England and Wales' Fraud Advisory Panel show, for example:

- an estimated fraud cost of £13.9 billion in 2005, excluding income tax and EU fraud – equivalent to £330 for each person in the UK;
- in the second half of 2006, 40% of fraud by value was committed by managers; and
- 55% of organisations have reported being the victim of economic crime in the last two years.

The Treasury reports annually upon fraud reported to it by government departments, and observed in 2005-06 that most losses were due to theft of assets and personnel-management related frauds. In value terms, the main losses were due to payment fraud (nearly £1.8 million) and exploiting assets and information. Control issues identified by the Treasury included:

- staff with too many key responsibilities;
- insufficient monitoring by supervisors of staff with key responsibilities;
- weak or no security over assets or information including assets in transit;
- inadequate vetting of potential new staff, consultants, contractors and agency staff; and
- insufficient attention given to the 'fraud proofing' of new policies and programmes.

In its 2004-05 National Fraud Initiative, the Audit Commission reported frauds uncovered in the social housing sector including:

- tenancy fraud (e.g. illegal sub-letting of properties and multiple tenancies);
- abuse of Right to Buy (83 cases investigated);
- former tenants' arrears (935 cases found totalling over £1.4 million); and
- housing benefit fraud (totalling over £22 million).

What is fraud?

The Fraud Act 2006 consolidates the law concerning fraud (previously in the Theft Acts 1968-1996) by creating a specific offence of fraud, which is split into three principal categories:

- fraud by false representation;
- fraud by failure to disclose information; and
- fraud by abuse of position.

All three forms of the offence require proof of dishonesty and an intention to make a gain or to cause loss to another or to expose another to a risk of loss. 'Gain' and 'loss' are limited to gains or losses in terms of money or other property. The Act focuses on what the perpetrator intended rather than what necessarily resulted, which is a major change of emphasis in the law. In addition, the Act creates new offences of possession (or supply) of articles (including data and computer software) which can be used in committing frauds, and obtaining services dishonestly. The new offences are significant in relation to advances in technology and greater use of the internet and online resources.

Policies will be specific to each association and the board may choose to set out categories of fraud to supplement or replace the Fraud Act definitions. For example, in its 2005-06 review, the Treasury identified frauds in the following business areas: travel, subsistence and other allowances; pay or allowances paid via the payroll; theft of assets; exploiting assets and information; procurement fraud; use of credit card fraud; personnel management related fraud; payment fraud; and receipt fraud.

The Fraud Advisory Panel suggests that key aspects of fraud management include:

- prevention – implement a strong anti-fraud culture, supported by policies and procedures and robust controls over operational and employment systems;
- detection – implement systems and procedures to detect evidence of fraud, to facilitate and encourage reporting of fraud;
- investigation – appropriate and up-to-date fraud response plans; and
- insurance.

In a similar vein, the Chartered Institute of Public Finance and Accountancy's step-by-step guidance for developing an approach to counter fraud and corruption in public sector organisations looks at the key elements of an anti-fraud framework:

- accurately identifying and assessing the risks;
- developing and maintaining the expertise and structures to prevent and detect fraud;
- taking action through prevention, deterrence, detection, investigation, sanctions and redress; and
- defining success.

Requirements for housing associations

Circular 07/07 sets out requirements for associations to report losses to the Housing Corporation, to take action to recover assets, and maintain a register of all incidents of fraud and attempted fraud. In addition, associations are required to report upon their arrangements for managing the risk of fraud in their annual statement on internal control.

For fraud to occur, a number of organisational conditions will normally exist, such as:

- a lack of internal controls;
- failure of management information systems;
- undocumented procedures; and
- a generally lax attitude by management and employees towards security in its widest sense.

An association must have a simple, focused and easily understood anti-fraud policy statement and (included or in a separate document) a fraud response plan. Contents may vary from association to association, but the policy statement is likely to include:

- a clear definition of fraud and theft;
- responsibilities for the overall management of anti-fraud measures, and the key roles of board members and individual senior managers;
- key measures to be taken to deter fraud; and
- the means by which employees can report any suspicion of fraud and who they should report it to, recognising that the perpetrators may be the individuals' line managers.

It will also make a clear reference to the board's:

- attitude towards fraud (e.g. zero tolerance);
- expectations of and standards for all staff, linking to other stated policies and codes – for example, ethics and whistle blowing;
- encouragement to employees to report any suspicions of fraud;
- commitment to investigate all instances of suspected fraud and where appropriate to report all suspected fraud to the appropriate authorities;
- intention to involve the police and others where appropriate in the investigation and prosecution of suspected fraudsters; and
- intention to recover wrongfully obtained assets.

A fraud policy statement should make it clear that all employees have a responsibility for fraud prevention and detection. It is important that the statement is actively and regularly promoted throughout the organisation to all employees, irrespective of grade, position or length of service.

The association's fraud response plan is likely to focus on the means of conducting an investigation, which needs to prove or disprove the original suspicions of fraud. It should cover guidance on the following areas:

- action required at the point of discovery and reporting it;
- how to investigate the fraud and who will lead the investigation;
- how to secure and protect effective evidence, possibly without alerting suspects, and in a legally admissible form;
- dealing with employees under suspicion;
- interviewing to seek more information;
- interviewing suspects under caution (e.g. to ensure that any statement taken and subsequently used as evidence in a court case will not be rejected as inadmissible; and complying with PACE);
- when and how to contact the police;
- recovery of assets;

- experts to inform and to contact for advice (e.g. insurers, regulatory body, solicitors, accountants);
- advice on handling possible media involvement;
- mitigating the threat of future fraud by taking appropriate action to improve controls;
- lessons learned and implications for the organisation as a whole; and
- reporting back to staff on the outcome(s).

An effective fraud response plan should be closely tailored to each association's circumstances and reflect the likely nature and scale of losses. It needs to make provision for situations where senior managers who would normally be involved in the investigation are themselves under suspicion.

Recovery of monies and assets can be achieved in a variety of ways, from the raising of an invoice to requests for payment at disciplinary hearings, securing an attachment to earnings, or seizing assets in conjunction with bailiffs.

Associations can be particularly vulnerable to fraud during a period of rapid expansion when the focus is on growth and not on establishing what may be seen as hindering control mechanisms. Similarly, when there is a major change away from 'traditional' operating methods to those where the controls are less familiar and/or more technical – operating on the internet and by email, for example.

Fraud considerations may require a board to assess risks which cut across operational areas and services which underpin the association as a whole, such as IT. Different levels of risk may apply to different parts of the association. For example, controls over systems containing personal employee information might include additional access restrictions for all but human resources staff, and only certain employees may be able to enter data into specified finance systems. Corporate-wide IT policies might include IT systems able to track who is accessing what and when; computers without the ability to copy information to an external device; or barring individuals from emailing large files of sensitive information outside the association.

An anti-fraud culture

Managers must ensure that opportunities for fraud are minimised. The vast majority of people would never contemplate perpetrating a fraud; others might **if** they thought they could get away with it. Fraud awareness is therefore a key component of successful fraud prevention and detection. A weak culture can contribute to staff accepting bribes to award business to specific contractors, or to divert or misappropriate cash before it has been recorded in the receipts or payments system.

Most fraud is committed by an organisation's own staff, many of whom will be trusted and hard-working employees. The Fraud Advisory Panel's guide for SMEs on fighting fraud notes that the most prevalent types of employee fraud seem to result from overstating expenses or understating income. Individually these may be relatively small amounts and difficult to spot, but over time can amount to huge losses. Staff members may commit the crime alone, in collusion with colleagues or with others in organisations with which the association contracts, employs or otherwise does business.

A board must remain aware of the risk its senior managers are implicated in fraud. Too little segregation of duties at senior management level will make it more difficult to prevent or detect such situations.

Many of the internal controls discussed elsewhere in this guidance will contribute towards reducing the opportunity for fraud. Robust and reliable management information, accurate and secure financial records, well-documented and sound tendering arrangements are all good examples.

A strong control environment and culture will include a clear code of ethics and conduct, which the board and senior management can be seen to endorse and practice. This must be properly communicated throughout the business and any breaches dealt with clearly and equitably, regardless of who has broken the rules. Good conduct can be directed by board policies communicated to all staff covering:

- (actual and potential) conflicts and declarations of interest;
- gifts and hospitality;
- codes of conduct and probity; and
- whistle blowing.

Employees are often the first to realise that something is wrong. Confidential reporting mechanisms or whistle-blowing arrangements are established ways of encouraging and allowing staff to voice suspicions rather than ignoring the problem or making it known outside the organisation. These are often reported to be a factor in the discovery of senior management frauds because they provide an opportunity for staff to circumvent the normal line management arrangements. Care needs to be taken when designing such systems to ensure that staff can feel secure in using these mechanisms and in knowing that their personal details will not be unnecessarily disclosed or leave them open to victimisation, while at the same time deterring vindictive or frivolous allegations. These and other complaints procedures should be periodically reviewed by the board.

The Regulatory Code expressly requires an association to maintain the highest standards of probity in all its dealings, and proposes that this extends to sound procurement practices and well-documented contractual arrangements. There is a risk to the association when outsourcing or other contracting places an over-reliance on the third party's controls to protect its interests.

An effective recruitment process can be designed to deter and prevent fraudulent applications, and a system of personnel management designed to deter existing staff from committing fraud. This may include the use of clauses contained within contracts of employment and clearly stated obligations, and should extend to temporary and agency staff.

Associations must maintain a register of all incidents of fraud and attempted fraud detected. The board should regularly review the register, and management must report to the board all cases of fraud and attempted fraud, detailing the nature and extent of the fraud and any implications for the association's internal control system.

"It is inherently recognised that the group does not tolerate fraud and action is taken to reduce the risk of fraud through control systems. A fraud statement and response policy is incorporated in the governance framework. During the year there has been a notable increase in the number of frauds reported and detected particularly within the care and support business streams. The value of the frauds is very low and not material. However, fraud is not tolerated and a full management review of the control environment is under way to reduce the risk going forward. The situation is under the close scrutiny of the audit committee."

"In addition, in order to ensure a proper level of control and assurance in respect of the letting of maintenance contracts, a scrutiny panel consisting of board members was established. This work has been completed and a final report issued."

The auditor's role

An external auditor's role includes consideration of the accounting systems, financial controls, accounting policies and compliance with legislation, regulations and standards. An internal auditor considers the internal controls in place over financial and non-financial systems and ensures that management has reviewed its risk exposures and identified the possibility of fraud as a business risk. As such, auditors may identify potential areas for fraud, and might detect an existing fraud either through their audit tests, from information received or concerns expressed in the course of an audit, or from 'tip offs'. However, they do not have a legal responsibility for fraud detection.

Although audit work will provide some assurance against fraud, it extends only to those systems examined and the evidence considered. Further, the internal controls in place may be sound under normal circumstances, but open to subversion by managers and staff responsible for their operation. An auditor who is aware of the signs, circumstances and organisational conditions that can point to fraud will be more alert to those issues that require more detailed examination.

Management has responsibility for conducting fraud investigations but internal audit may be asked to assist, and in some associations may have delegated responsibility for conducting investigations. Fraud investigation requires specialist knowledge and where internal audit has this responsibility they need to develop and maintain appropriate levels of expertise. The IIA's Fraud Position Statement (2003) states that the roles that internal audit should undertake include:

- investigate the causes of fraud;
- review fraud prevention controls and detection processes put in place by management;
- make recommendations to improve those processes;
- advise the audit committee on what, if any, legal advice should be sought in the event of a criminal investigation;
- bring in any specialist knowledge and skills to assist in fraud investigations, or leading investigations where appropriate and requested by management;
- liaise with the investigation team;
- respond to whistle blowers;
- consider fraud risk in every audit;
- have sufficient knowledge to identify the indicators of fraud; and
- facilitate corporate learning.

Insurance

The Corporation expects associations to be aware of relevant legalisation and to take all reasonable action to recover the loss of assets arising from fraudulent action, and to ensure that their insurance arrangements cover the consequences of fraudulent activity. A board should consider taking out:

- Fidelity Guarantee Insurance – indemnifying and protecting employers against financial loss resulting from acts of dishonesty by employees. Various types of cover can be sought including:
  - o collective policies – covering named employees for set amounts;
  - o floating policies – covering all employees up to a set limit;
  - o blanket policies – covering all employees in general; and
  - o positions policies – provides cover for nominated positions rather than the employee by name;
- Directors' and Officers' Liability Insurance – indemnifies directors and officers for losses arising from claims made against them by reason of a wrongful act related to their duties.

Other anti-fraud activities

Fraud may be undertaken by organised groups, and an association may need to work in partnership with other agencies and associations, including the police, external auditors and other internal auditors. Associations are encouraged to engage in cross-sector and cross-agency initiatives which seek to identify fraudulent behaviours and activities, such as the Audit Commission's National Fraud Initiative – which in 2004-05 identified, for example, a number of tenancy frauds. Participation can also bring both financial and developmental benefits to an association, as well as helping to build new relationships with other agencies as data is exchanged.

Gaining assurance from fraud management activities

A board could include in its assessment of the association's internal control systems evidence that:

- an up-to-date anti-fraud policy is communicated to all staff and to suppliers and contractors;
- fraud prevention and detection information is included in induction programmes and in ongoing training;
- board policies on ethical conduct, gifts, hospitability, conflicts of interest and other related disclosures are routinely updated, and are communicated to all staff;
- conflict of interest, hospitality, and other required disclosures are regularly completed and/or updated by both new and existing staff;
- the fraud register is routinely reviewed and reports made to the board;
- within the risk management arrangements, or as a discrete activity, there is a comprehensive fraud risk assessment to identify areas most vulnerable to fraud, establish what processes are in place already, and identify additional or alternative controls needed to reduce the risk;
- fraud risk is reviewed regularly, and in response to changing circumstances, for example where there are personnel changes, changes in location of activities, varying levels of supervision, increased reliance on external parties, and/or higher asset values at risk;
- robust recruitment policies are applied to permanent and temporary appointments (and including use of agency staff) with levels of screening and validation appropriate to the seniority of the post, and thorough appraisal throughout the probationary period;
- robust checks are carried out on new suppliers to confirm they are bona fide;
- reports are made to staff on the outcomes of investigations and disciplinary action against employees who perpetrated theft or fraud;
- a comprehensive internal audit programme takes into account fraud risk considerations;
- appropriate and regular training is provided for internal auditors, including fraud investigations;
- external audit reports and management letters cover internal financial controls; and
- deviations from budget, from plans and from other performance targets are challenged and investigated.

The changing context

Although Circular 07/07 focuses upon the undertaking of an annual assessment, the board has a responsibility to continuously monitor and keep its systems of internal control up to date. In an association with strong internal controls, there should be provision within the system for ensuring that it can respond proactively to changes in the risks faced by the association, to significant control failings or weaknesses detected or suspected, and to changes in the operating environment.

The board will establish key points at which it should review its risk and internal control arrangements, but these should not constrain the association. For example, decisions about risk might need to be taken at various stages of a new project which do not fit the normal 'risk schedule'.

New ventures may be inherently riskier for an association, as there is no previous experience to draw on. They might involve wider strategic issues and financial judgements which potentially affect – and put at risk – existing services, previously approved (but not yet implemented) projects/developments, and at its most extreme, the viability of the entire association. An association might need to put in place discrete high level risk appraisal procedures specifically for new, larger and more diversified investment proposals.

Board members need to recognise that situations will arise in the course of everyday business which require an appropriate response to be made. Such events should also lead to the board assessing whether to reappraise its risk management and control systems, with the aim of ensuring that these remain valid, appropriate and in accordance with the levels of risk that the board has previously agreed to take. Changes might require decisions to be taken which affect projects planned and/or already under way, or require changes to the implementation of those plans. Changes might have a positive effect on the level of risk faced by the association, and not always a negative one.

It is possible that it is not one, but an accumulation of events which triggers the board to act – for example, rather than one major failure, the emergence of a pattern of smaller failures concentrated in a single functional area. The loss of a senior manager, for example, might cause concern only if there were already key vacancies at the next level down.

The urgency with which the board should consider the situation will be affected by the scale, impact, duration and speed of the event or action.

Typically, situations requiring the board to actively consider the risks it faces, and to assess whether these involve material changes to its level of risk and the internal controls required, will include examples such as:

- (planned or actual) changes in constitution;
  - o mergers;
  - o formation of a group structure;
  - o incorporation of new organisations into an existing group structure;

- changes in organisational structure and/or culture and/or implementation of a major change programme;
  - o changes in size of stock levels, especially those representing a significant change to the number and/or diversity of stock (age, condition, rural/urban) and/or its geographical distribution;
  - o re-organisation of functions and/or operations;
  - o reduction in the level of service provision (e.g. withdrawal from supported housing provision);
  - o extending the range of service provision (e.g. transfer to the association of a significant number of homes in a new locality);
  - o completion of a major change programme, such as the introduction of a quality management system, achievement of ISO9000 accreditation;
- failure of plans to materialise;
  - o failure to win a transfer ballot;
  - o declining performance and/or performance reaching pre-determined 'warning' levels
  - o a development fails to achieve the required level of grant funding;
  - o large internal projects running over budget, over time, and/or requiring additional and significant levels of resource;
  - o projects or contracts cancelled or withdrawn after board approval but before implementation/completion;
  - o major contracts running over-budget and/or failing to deliver the standards required;
- issues relating to other parties with which the association has contractual or other partnership arrangements;
  - o major contractor had financial difficulties and is put into receivership;
  - o a contractor is found to have been involved in a major fraud involving its tendering for work with a local company;
  - o partner association is placed into supervision and there are concerns over its viability, governance and management;
- evidence of changes in the external environment which have potentially material effects on the association and/or its liabilities;
  - o changes in pension funding arrangements;
  - o government policy changes, for example if these were to affect the payment of housing benefit;
  - o changes to funding arrangements (e.g. changes to the management of Supporting People income);
  - o significant changes in the inflation rate;
  - o rises in interest rates;
- changes in board membership and/or staffing which might affect the balance of skills, knowledge and competence available to the organisation;
  - o coincident changes in senior personnel and/or personnel concentrated in a particular operational area;
  - o changes in board membership;
  - o a new chief executive and/or new finance director (and/or the departure of the existing post-holders);

- occurrences which indicate a (potential) failure of the existing internal control systems;
  - o the cost and/or demand assumptions for a development are found to be flawed;
  - o serious negative feedback from a regulator or inspector or external auditor (potentially the placing of the association under supervision by the Housing Corporation);
  - o failure to meet the requirements of a regulator, funder or other statutory body;
  - o discovery of a major misrepresentation of financial or other data;
  - o discovery of fraud or potential fraud;
  - o significant number of accidents in the workplace.

"All significant new initiatives, major commitment and investment projects are subject to formal review and authorisation, through the business investment groups, a Corporate Investment Group and sub-committees of the board."

"The Group Action Committee meets as required. It acts in relation to matters requiring an express authorisation of the board which are not otherwise covered by delegated authority and which are necessary to safeguard the business interests of the association and the group and where it is not possible or practicable to convene a meeting of the full board. The quorum for the committee is three members of the board and all decisions are reported to the next meeting of the board and to boards of divisions and subsidiaries where relevant."

Acknowledgement to the following associations and groups for extracts from their annual reports:

Affinity Sutton Group, Birmingham Co-operative Services, CDS HA, Cosmopolitan Housing Group, English Churches Housing Group, East Dorset HA, First Step Housing, Home Group, John Grooms HA, Look Ahead Housing and Care, People First HA, Prime Focus Group, Raglan HA, Severn Vale HS, Shaftesbury HA, Southdown HA, Southern Housing Group, Windsor and District HA, Wyre Forest Community Housing.

Appendix 1: References and publications

Many publications are available for download from websites, and some to purchase direct from the organisation or on-line.

Housing Corporation publications

Available from the Housing Corporation website, www.housingcorp.gov.uk

Regulation

The Regulatory Code and Guidance
How We Regulate series

Internal controls

Demonstrating Control: Good Practice in Obtaining and Reporting Internal Controls Assurance
Good practice publication setting out the results of an analysis of a selection of housing associations' published statements of internal control based on previous Circular 25/01. It goes on to draw out good practice lessons identified through discussions and meetings held with association representatives.

Risk management

Effective Risk and Business Management (2001)
A review of risk management practices in housing associations

Managing Risk: Six Papers to Help You do it (2004)
The Quantification of Risk
Embedding Risk Management – Some Tips and Tactics
Monte Carlo Simulation and the Art of Aviation
Risk Mapping - Dilemmas and Solutions
A Practical Approach to Identifying Risk
Reputation, Risk and Governance

Risk Management Toolkit for Supported Housing (2005)
A toolkit developed to help housing association providers of support or social care services to identify and manage their risks.

Managing Risk for Smaller Housing Associations (March 2006)
A good practice guide on risk management aimed at smaller housing associations aimed at board members, directors and managers.

Governance

Good Practice Note 3: Maintaining Standards Of Probity (Revised May 2007)
Good practice note and supplementary guidance relating to boards' obligation to "maintain the highest standards of probity in all their dealings" and conduct their business in a way which will "maintain the good reputation of the sector and not [bring] it into disrepute".

Audit

Improving the Effectiveness of Audit Committees: A Good Practice Guide (2004)

Good Practice Note 7: External Audit of Housing Associations (May 2007)

Other organisations and publications

National Housing Federation

Lion Court
25 Procter Street
London WC1V 6NY
www.housing.org.uk

Competence and Accountability 2004: Code of Governance for Members of the National Housing Federation
Updated Code promoting the highest standards of governance, accountability and probity in an environment of change and risk. It anticipates changes in the wider not-for-profit sector, enabling housing associations to stay at the forefront of best practice.

Integrity at Work: Model Code of Conduct for Employees of Registered Social Landlords (1996)
Complementary to the Federation's Code of Governance, drawing on the seven principles adopted by the Nolan Committee and explains the responsibilities of employers and employees.
ISBN: 978 0 86297 322 3

In Control: The Board Members' Manual (2005)
Manual for board members and those new to social housing organisations providing an overview of the role of board members. Also a practical guide to core areas of work including general management; housing services; development; supported housing and care; and contains a checklist of key board decisions and useful sources of further information.

Governance... The Small Print: A Range of Model Governance Documents Covering Key Policy Areas (+CD-ROM)
Collection of model documents covering key policy areas to help boards establish a clear framework for delegation.

Financial Reporting Council (FRC)

5th floor, Aldwych House
71-91 Aldwych
London WC2B 4HN
www.frc.org.uk

The Financial Reporting Council (FRC) is the UK's independent regulator for corporate reporting and governance, whose aim is to promote confidence in corporate reporting and governance through the promotion of high quality corporate reporting, auditing, actuarial practice, and corporate governance. It has six operating bodies, of which one is the Auditing Practices Board (APB). The APB sets standards and guidance for listed and other entities on external audit and other activities undertaken by accountants and upon the independence, objectivity and integrity of these external auditors and the providers of assurance services.

The Combined Code on Corporate Governance (June 2006)
Internal Control: Revised Guidance for Directors on the Combined Code (October 2005)

Guidance on implementing the Code and Turnbull
Auditing Practice Board Ltd (APB) Bulletins:

2006/5 (September 2006)
The Combined Code on Corporate Governance: Requirements of Auditors under the Listing Rules of the Financial Services Authority and the Irish Stock Exchange

2006/6 (September 2006)
Auditor's Reports on Financial Statements in the United Kingdom

Audit

Auditing Practices Board Practice Note 14: The Audit of Registered Social Landlords in the United Kingdom (Revised)
Guidance on the application of auditing standards.

The Institute of Chartered Accountants in England & Wales (ICAEW)

Chartered Accountants' Hall
PO Box 433
Moorgate Place
London EC2P 2BJ
www.icaew.co.uk

The largest professional accountancy body in Europe. Topics covered on its website include Audit and Assurance. There is also a Centre for Business Performance which promotes high quality research of relevance to the accountancy profession and the wider business community. Members can join faculties of the ICAEW, which provide support and technical expertise, including one for Audit and Assurance.

Obtaining Value from Internal Audit (£5.00) July 2006
Guidance to boards, audit committees and executive management on how to ensure they gain and optimise the value from their internal audit function.

Evaluating the Effectiveness of Internal Audit (£7.50) October 2004
Guidance to audit committees to help them satisfy themselves as to the effectiveness of the internal audit function and based on key principles so that it can be applied not only to listed companies, but also to other types of organisation.

Risk Management and the Value Added by Internal Audit (free – available on line) (September 2000)
Booklet written primarily for directors and senior executives of listed companies implementing the Turnbull Report, using principles relevant to unlisted companies, and to the public and not-for-profit sectors.

Fraud Advisory Panel

Chartered Accountants' Hall
PO Box 433
Moorgate Place
London EC2P 2BJ
www.fraudadvisorypanel.org

The Fraud Advisory Panel aims to raise awareness of the social and economic damage caused by fraud and to help the fight it. The Panel was established in 1998 through an initiative by the ICAEW and aims to develop proposals to enhance the investigation and prosecution of fraud, advise business on fraud prevention, detection and reporting, and assist in improving fraud-related education and training in business and the professions, and amongst the general public. The Panel works to encourage a multi-disciplinary perspective on fraud. Publications from the Fraud Advisory Panel include a range of advisory papers and advice on establishing a fraud policy. Most are available to download from:

The Chartered Institute of Public Finance and Accountancy (CIPFA)

CIPFA

3 Robert Street
London WC2N 6RL
www.cipfa.org.uk

CIPFA is one of the leading professional accountancy bodies in the UK and the only one which specialises in the public sector. It is responsible for the education and training of professional accountants and for their regulation through the setting and monitoring of professional standards. Uniquely among the professional accountancy bodies in the UK, CIPFA has responsibility for setting accounting standards for local government. One of its interests is accounting and auditing.
One of its subscription services is on-line (www.tisonline.net): TISonline is an information resource consisting of 32 information streams covering public service financial management. TISonline provides a comprehensive summary of the financial, legislative, administrative and strategic background to the public services.

Fraud

Managing the Risk of Fraud: Actions to Counter Fraud and Corruption
CIPFA Better Governance Forum

Governance

The Good Governance Standard for Public Services - The Independent Commission on Good Governance in Public Services (2004)
The Standard will help governing bodies to review their own effectiveness; the public and regulators can use it to review, challenge and question how services are governed, and seek improvements. The Good Governance Standard for Public Services presents six core principles of governance that are common to all public service organisations.

The Institute of Internal Auditors - UK and Ireland

13 Abbeville Mews
88 Clapham Park Road
London SW4 7BX
www.iia.org.uk

Professional body in the UK and Ireland dedicated to the professional practice of internal auditing. It is part of the global Institute of Internal Auditors, which sets the International Standards for the

Professional Practice of Internal Auditing, and the Code of Ethics, which all members agree to follow. The IIA represents, promotes and develops the professional practice of internal auditing. The IIA provides the only professional qualifications, specifically designed for internal auditors in the UK and Ireland, and provides a range of training courses and seminars, technical guidance, networking opportunities, publications and other services for the ongoing development of internal auditors.

Risk and Control

Risk-Based Auditing (2005), Author: Phil Griffiths
Concepts and practice behind a risk-based approach to auditing set against changing environments and legislation in both private and public sectors. It sets out a blueprint for re-focussing the internal audit role to embrace risk and establishing a risk-based audit.
ISBN 0-566-08652-2

Position Statement - The Role of Internal Audit in Enterprise-wide Risk Management (27 September 2004)

The Housing Association Internal Audit Forum

www.haiaf.org

The Housing Association Internal Audit Forum promotes internal audit best practice in risk management, internal controls assurance and governance within the housing association sector. It provides a centre of excellence in social housing internal audit matters, a platform for consultation and liaison and promotes the role of internal audit and influencing assurance related policy in social housing. Current membership stands at over 200 organisations with members in England, Scotland, Wales and Northern Ireland.

Other government publications

National Fraud Initiative 2004-05
Report from the Audit Commission's National Fraud Initiative (NFI) for 2004-05.
www.audit-commission.gov.uk
National Fraud Initiative 2006-07 Handbook: Local Government
Handbook designed to help local government bodies to plan for the National Fraud Initiative in 2006-07. Includes aims, key legal requirements including fair processing notices, the data that needs to be submitted and the key actions that local government bodies need to take.
www.audit-commission.gov.uk

Managing the Risk of Fraud: A Guide for Managers (May 2003)
HM Treasury
Sets out how the principles of sound risk management, governance and control apply to fraud and other irregular activities that might lead to fraud. It concentrates on the management of fraud risks rather than risk management overall and provides guidance on options for controlling identified fraud risk to acceptable levels of exposure.
www.hm-treasury.gov.uk

The Department for Business Enterprise and Regulatory Reform (BERR) gives advice on information security management on its website. BERR's Information Security Policy Team focuses on policy to embed good security practice within the UK business community. This includes dedicated information security business guidance and advice for SMEs about a variety of information security issues and an online Health Check tool. There is a range of information security publications and CD ROMs which include details about the international standards on information security which are available to download or order.
www.berr.gov.uk

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