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Practice Note

14

**THE AUDIT OF REGISTERED SOCIAL
LANDLORDS IN THE UNITED KINGDOM**

(Revised)

The Auditing Practices Board Limited, which is part of the Financial Reporting Council, prepares for use within the United Kingdom and Republic of Ireland:

- Standards and guidance for auditing;
- Standards and guidance for the work of reporting accountants in connection with investment circulars; and
- Standards and guidance for auditors' integrity, objectivity and independence

with the objective of enhancing public confidence in the audit process and the quality and relevance of audit services in the public interest.

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The purpose of Practice Notes issued by the APB is to assist auditors in applying Auditing Standards of general application to particular circumstances and industries. Practice Notes are persuasive rather than prescriptive. However, they are indicative of good practice, even though they may be developed without the full process of consultation and exposure used for Auditing Standards.

This Practice Note replaces Practice Note 14: The audit of Registered Social Landlords in the United Kingdom, which was issued in November 2003.

PRACTICE NOTE 14

THE AUDIT OF REGISTERED SOCIAL LANDLORDS IN THE UNITED KINGDOM (Revised)

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THE AUDIT OF REGISTERED SOCIAL LANDLORDS IN THE UNITED KINGDOM (Revised)

PREFACE

This Practice Note contains guidance on the application of auditing standards issued by the Auditing Practices Board (the APB) to the audit of Registered Social Landlords (RSLs) in the United Kingdom. The Practice Note is also indicative of good practice for the audit of other social landlords which are not subject to the regulatory regime applicable to RSLs.

The Practice Note is supplementary to, and should be read in conjunction with, International Standards on Auditing (ISAs) (UK and Ireland), which apply to all audits undertaken in the United Kingdom in respect of periods commencing on or after 15 December 2004.

This Practice Note supersedes the guidance included in Practice Note 14 'The audit of registered social landlords in the United Kingdom' issued by the APB in November 2003, and takes account of regulatory and other developments affecting RSLs since PN 14 was issued, principally the replacement of Statements of Auditing Standards (SASs) by ISAs (UK and Ireland).

Certain RSLs may be constituted as charities in which case auditors also refer to the APB's Practice Note 11 The Audit of Charities in the United Kingdom (Revised).

The Practice Note is based on legislation (including the Housing Act 2004) and regulations in effect at 31 December 2005. The regulatory framework of RSLs differs in the various jurisdictions of the United Kingdom and the Practice Note has been prepared with advice and assistance from staff of The Housing Corporation, the Department for Social Development in Northern Ireland, Communities Scotland and the National Assembly for Wales.

'Registered Social Landlords' (RSLs) in England and Wales include registered housing associations, registered housing charitable trusts and local housing companies. In this Practice Note, the term RSL is also used to apply to housing associations in Scotland and Northern Ireland. RSLs are registered with the relevant regulatory body, that is, the Housing Corporation in England, the Department for Social Development in Northern Ireland, Communities Scotland in Scotland and the National Assembly for Wales in Wales.

INTRODUCTION

1. This introduction summarises the key features of RSLs which require special consideration by auditors, and explains the environment within which auditors operate. More detailed information, specific to each UK jurisdiction, is provided in the appendices.

The nature of registered social landlords

2. RSLs provide social housing (accommodation usually made available at less than market rates and allocated to applicants in greatest housing need) and other related services. RSLs provide an alternative to local authority and private sector rented housing, either by acquiring existing dwellings, acquiring and rehabilitating existing dwellings or by undertaking new building, with the aim of providing rented accommodation in perpetuity or until purchased by the tenant.
3. RSLs vary in size and constitution but there are certain identifying factors which both unite them and make them unique in their method of operation. RSLs are not-for-profit organisations and are managed under the oversight of a board or committee of management ('the board'). RSLs operate independently of both central and local government, although they are frequently in receipt of substantial sums of public funds and local authorities may have nomination rights in relation to certain rented properties.

The Constitution of registered social landlords

4. RSLs may be constituted in various ways and can be highly complex as a result of the legal and regulatory frameworks under which they operate. It is important that auditors understand the statutory framework within which RSLs operate (Appendix 2 sets out the different types of legal entities - for example industrial and provident societies, limited companies, unincorporated organisations such as charities - and the applicable regulatory regimes).

Responsibilities and powers of the regulators

5. RSLs are registered with the relevant regulatory body, that is, the Housing Corporation in England, the Department for Social Development in Northern Ireland, Communities Scotland in Scotland and the National Assembly for Wales in Wales. RSLs are registered in the jurisdiction where their registered office is situated. Registration brings with it significant regulatory requirements with which RSLs must comply. Once an RSL is registered, the board must ensure that certain conditions, determined by the regulatory body, are observed. For example, the Housing Corporation's Regulatory Code and Communities Scotland's Performance Standards require the RSLs which they regulate to be viable, well governed and well managed.
6. The regulatory bodies presently have dual roles of regulating the RSLs which are registered with them and investing funds in social housing related activities. The regulatory bodies maintain a register of RSLs which is open to public inspection. The regulatory bodies have no direct powers over unregistered social landlords, but if they

operate within groups which include RSLs they will be able to influence how the group as a whole is run.

7. RSLs are eligible to apply for grant from the publicly funded social housing programme. They must provide documents and other information to the regulatory body as required. They also have to obtain the regulator's agreement before they can undertake certain courses of action, for example disposing of housing assets including land, entering into charges over such assets or land or changing their rules.
8. RSLs are governed by boards which are made up mainly of non-executive voluntary members (which may include tenants), but which may also include a limited number of paid and/or staff members.
9. Regulatory staff review information provided by RSLs and may request further information or make periodic visits or inspections to follow up any specific concerns. The regulatory bodies have a range of powers where serious concerns have been identified and the RSL is unable or unwilling to address those concerns. These include powers to make appointments to governing bodies, to direct an inquiry into the affairs of an RSL and to intervene where an RSL is threatened with insolvency.

Responsibilities of the board

10. Boards¹ have the legal responsibility for the running of an RSL. They retain ultimate control and responsibility over all aspects of the activities of the RSL and must ensure that the financial and legal responsibilities are fulfilled properly. The powers of boards are wide and, although particular functions may be delegated to sub-committees or to staff, boards retain the responsibility for seeing that those functions are carried out properly.
11. The roles and responsibilities of boards normally include:
 - defining and monitoring compliance with the governing documents, values and objectives of the RSL;
 - establishing plans to achieve those objectives;
 - approving each year's budget and financial statements prior to publication;
 - establishing and overseeing an appropriate framework of delegation and effective systems of control;
 - taking key decisions on matters that will, or might, create significant risks for the RSL;
 - monitoring the performance of the RSL in relation to these plans, budgets and decisions;

¹ Also referred to as Committees of Management.

- appointing and, if necessary, dismissing the chief executive and being represented in the appointment of key second tier managers;
- appointing and agreeing the remuneration of the auditors;
- satisfying themselves that the affairs of the RSL are conducted lawfully and in accordance with performance standards set by the regulators; and
- overseeing the RSL's relationship with its regulatory body.

In larger RSLs, the oversight of systems of control and liaison with the external auditors is usually delegated by the board to an audit committee.

12. Part III of Schedule 1 to the Housing Act 1996² has widened the responsibility for ensuring compliance with the accounting requirements set out in the schedule to include 'every responsible person who is concerned with the conduct and management of the affairs on an RSL, and is in that capacity responsible for the preparation of the accounts'.
13. The regulatory bodies in each of the UK jurisdictions have issued codes of audit practice (see Appendix 4) or good practice notes relating to external audit. The codes, good practice notes, circulars and other relevant documents provide guidance to boards on, and define their responsibilities for, amongst other things, the appointment of auditors and the nature of the RSL's working relationship with the auditors.
14. In 2001 the Housing Corporation issued Circular 25/01 'Internal controls assurance', which replaced a previous Circular 18/96 in England³. Circular 25/01 does not require external auditors to report on the board's published statement which will cover the complete internal control system rather than merely financial controls. The auditors' responsibilities for other information in documents containing audited financial statements, such as the internal control statement, are covered in the ISA (UK and Ireland) 720 section later in this Practice Note. In addition, the board is free to request their auditors to conduct further work on the statement on internal control if they wish to do so. Further guidance on external auditor responsibilities in such circumstances is covered below under 'Responsibilities and rights of auditors'.

2 In Scotland, part 3 of Schedule 7 to the Housing (Scotland) Act 2001.

3 In 1996 the Housing Corporation issued Circular 18/96 'Internal financial control and financial reporting' which tailored the 'Cadbury' guidance for directors of listed companies to RSLs in England, and provided guidance to boards consistent with that for directors of listed companies. Circular 18/96 required the RSL to publish a statement on its internal financial control system (if it has over 50 units) and the external auditors to report on that statement. Communities Scotland issued Guidance Note 97/02, and this guidance is now contained in chapter 10 of the SFHA's publication 'Raising Standards', and applies to RSLs with more than 150 units. HAC 10/96 and Circular 8/97 were issued in Northern Ireland and Wales respectively. All these publications contain the same requirements as Circular 18/96.

Responsibilities and rights of auditors

15. Every RSL is required under the various social housing legislation to have an annual independent audit. However, provisions in the Housing Act 2004 will enable the Housing Corporation and the National Assembly for Wales to exempt smaller RSLs from audit. Auditors of RSLs must be registered auditors.
16. The statutory duties of auditors in relation to the financial statements are to:
 - (a) express an opinion as to whether the financial statements give a 'true and fair view' and have been properly prepared in accordance with the appropriate statutory requirements; and
 - (b) state, in the auditors' report:
 - (i) where proper books of account have not been kept;
 - (ii) where a satisfactory system of control over transactions has not been maintained in accordance with the relevant legislation; and
 - (iii) if the financial statements are not in agreement with the books and records of the RSL.

Auditors may also be required to report on certain returns of RSLs to the relevant regulatory body.

17. Under Housing Corporation Circular 25/01, 'Internal Controls Assurance', the board of an RSL in England is required to include a statement in the annual financial statements in respect of internal control. RSLs are free to request their auditors to conduct further work on the statement of internal control if they wish to do so. In this instance, RSLs might require the external auditors to form an opinion on three questions:
 - does the statement reflect the process defined by the board for its review of the effectiveness of internal control?
 - does the documentation prepared by or for the board provide sound support for the statement?
 - is the statement made by the board in accordance with the auditors' knowledge of the RSL obtained during the audit of the financial statements?

The auditors' relationship with the regulators

18. Auditors have no formal requirement to report directly to the social housing regulators⁴. There is, however, an indirect relationship because the regulatory bodies provide

4 Those RSLs that are charities may have reporting responsibilities to charity regulators – see the section below on ISA (UK and Ireland) 250 B. In addition, a provision in the Housing Act 2004 permits disclosure of information to the regulator in certain circumstances.

guidance to RSLs on dealing with their auditors and require RSLs to forward to them copies of audited financial statements and management letters.

Principal special features of RSL audits

19. Regulations and guidance – The auditor may need to consider codes of audit practice or guidance notes issued by regulatory bodies⁵ which advise RSLs on their relationship with them and require RSLs to submit copies of auditors' management letters together with the RSL's response to the regulatory body. The auditor may be requested to report on certain returns to the regulatory body, for example in connection with grants, or to funders, for example in connection with covenant compliance.
20. Other guidance – The auditor considers as necessary other guidance issued by the three Housing Federations, for example guidance relating to corporate governance and accounting for Supported Housing.
21. Internal controls - Legislation requires auditors of most RSLs to state in their report on the financial statements if the RSL has failed to maintain a satisfactory system of internal control. This, together with the fact that RSLs are in receipt of substantial amounts of public funding in the form of social housing grant and other public sector grants, means that internal controls are particularly relevant.
22. The long-term nature of the business -The main source of income of most RSLs, rents, is generally predictable. As a result analytical procedures are often a useful audit tool.
23. Substantial debt financing - RSLs typically raise significant funds through borrowing, and must be able to demonstrate that future income will be sufficient to meet outgoings. Auditors consider this when reviewing the appropriateness of the use of the going concern assumption in the preparation of the financial statements.
24. Valuation of housing properties – A significant number of RSLs including those established by means of Large Scale Voluntary Transfers, carry their housing properties at an existing use valuation. This is obtained by means of a professional valuation and, as set out in ISA (UK and Ireland) 620: Using the work of an expert, auditors consider the proper inclusion of the valuation in the accounts, the information on which the valuer has relied and the reasons for any changes in the valuation from the previous period.

5 In Scotland SEDD Circular 5/2002 explains the Housing (Scotland) Act 2001 and, in particular, the Right to Buy legislation. Also in Scotland, guidance notes SHGN 2001/10 and CSGN 2002/05 cover financial reporting by RSLs, and requirements for providing information for the purposes of financial scrutiny by Communities Scotland.

25. The potentially complex direct tax, indirect tax and employee tax rules - The nature of RSL operations means that corporation tax and other tax computations for RSLs may be complex. Examples of complexities include:
- group structures which, because of the nature of the organisations involved, may not be capable of being grouped for tax purposes;
 - conflict between the accounting standards and recommended practice and the tax treatment, particularly in relation to enhancements to property;
 - partial exemption treatment for VAT purposes;
 - possible difficulties for Large Scale Voluntary Transfers in claiming input VAT on certain property refurbishment costs; and
 - the impact of employee tax for employees transferring from local authorities.
26. Supported housing - There are differing sources of funding for supported housing and care activities (such as, in England, 'Supporting people'). Auditors consider whether RSLs have systems in place to ensure compliance with contracts and quality standards. Failure to comply with contractual arrangements could result in a clawback of grant.

Application of this Practice Note

27. This Practice Note provides auditors of RSLs with guidance which is designed to ensure the consistent application of ISAs (UK and Ireland) across the sector. It is not in itself, however, sufficient to provide all the detailed knowledge required by auditors dealing with RSLs under all circumstances which may arise. Other relevant material includes the legislation governing the activities of individual RSLs and the audit of their financial statements and the Statement of Recommended Practice (SORP). Auditors may also consider relevant codes of governance, circulars and guidance on financial reporting issued by the regulatory bodies and housing federations from time to time.

Directors

28. The following sections of the Practice Note use the term 'directors' to describe the persons who are charged with governance of an RSL, including the preparation of its financial statements. For the purpose of this Practice Note, 'directors' should be taken to mean the members of the Board of an RSL.

SPECIAL CONSIDERATIONS ARISING FROM AUDITING STANDARDS

ISAs (UK and Ireland) apply to the conduct of all audits in respect of accounting periods commencing on or after 15 December 2004. This includes audits of the financial statements of RSLs. The purpose of the following paragraphs is to identify the special considerations arising from the application of certain 'bold letter' requirements (which are indicated by grey-shaded boxes below) to the audit of RSLs, and to suggest ways in which these can be addressed. This Practice Note does not contain commentary on all of the bold letter requirements included in the ISAs (UK and Ireland) and reading it should not be seen as an alternative to reading the relevant ISAs (UK and Ireland) in their entirety. In addition, where no special considerations arise from a particular ISA (UK and Ireland), no material is included.

ISA (UK AND IRELAND) 200: OBJECTIVE AND GENERAL PRINCIPLES GOVERNING AN AUDIT OF FINANCIAL STATEMENTS

Background note

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance on the objective and general principles governing an audit of financial statements.

29. Auditing standards include a requirement for auditors to comply with relevant ethical requirements relating to audit engagements. In the UK, the auditor should comply with the APB's Ethical Standards and relevant ethical guidance relating to the work of auditors issued by the auditor's professional body. A fundamental principle is that practitioners should not accept or perform work which they are not competent to undertake. The importance of technical competence is also underlined in the Auditors' Code, issued by the APB, which states that the necessary degree of professional skill demands an understanding of financial reporting and business. Practitioners should not undertake the audit of RSLs unless they are satisfied that they have, or can obtain, the necessary level of competence.

ISA (UK AND IRELAND) 210: TERMS OF AUDIT ENGAGEMENTS

Background note

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance on agreeing the terms of the engagement with the client.

The auditor and the client should agree on the terms of the engagement. (para 2)

30. The basic principles used in drafting engagement letters apply in relation to the audit of RSLs as to the audit of any entity.

The auditor should confirm that the engagement letter documents and confirms the auditor's acceptance of the appointment, and includes a summary of the responsibilities of those charged with governance and of the auditor, the scope of the engagement and the form of any reports. (para 5-1)

31. Auditors may accept additional responsibilities as part of the terms of their engagement. Such responsibilities are recorded in the audit engagement letter or in a separate engagement letter.
32. Additional responsibilities may arise:
- under statute;
 - from recommendations issued to RSLs within the various codes and other recommendations from the relevant regulatory body or relevant housing federation; or
 - by agreement with the RSL.
33. Under statute there may be additional statutory returns which are required to be reviewed or signed by auditors. For example, in England and Wales reports may be required under the Landlord and Tenant Act 1985⁶ (where variable service charges are registered and applied as part of, or in addition to, rent). Tenants may be entitled to request a summary of service costs on which an independent qualified accountant has issued a report.

6 Parts of this Act are being superseded by the Commonhold and Leasehold Reform Act 2002.

34. The recommendations made to all RSLs by their regulatory bodies are not themselves binding on auditors. However, RSLs are likely to want to comply with best practice and with recommendations made by their regulatory bodies or relevant housing federations. Accordingly, RSLs and their auditors take account of such recommendations when agreeing the work which the auditors will undertake and the form of report which the auditors will issue.
35. Reports may also be requested by RSLs as part of a commercial agreement with lenders or on an ad hoc basis, for example an investigation into a possible fraud or irregularity. The terms of engagement for such reports are not addressed by ISA (UK and Ireland) 210 nor by this Practice Note.
36. Considerations where regulators or boards require reporting on internal controls and other aspects of corporate governance are discussed in paragraphs 109–110 below.
37. There are various legislative and regulatory requirements to report on specific information. These requirements can be included either in the main engagement letter or in a separate one(s), to emphasise that they are separate engagements. Topics set out in an engagement letter normally include:
- the responsibilities of the board and the auditors;
 - the scope of the audit;
 - reliance on internal audit;
 - management representations;
 - the detection of fraud and error;
 - reports to management; and
 - other audit requirements.

Example paragraphs for a letter of engagement for an RSL that is an Industrial and Provident Society are set out in Appendix 5. This may be tailored for RSLs that are companies or charities.

On recurring audits, the auditor should consider whether circumstances require the terms of the engagement to be revised and whether there is a need to remind the client of the existing terms of the engagement. (para 10)

38. ISA (UK and Ireland) 210 sets out a number of reasons as to why an engagement letter should be revised on a recurring audit. In the case of RSLs, these reasons are also applicable. For example, changes in regulatory requirements or a new accounting determination, may indicate the need to reissue engagement letters.

ISA (UK AND IRELAND) 220: QUALITY CONTROL FOR AUDITS OF HISTORICAL FINANCIAL INFORMATION

Background note

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance on specific responsibilities of firm personnel regarding quality control procedures for audits of historical financial information, including audits of financial statements.

Reference should also be made to ISQC (UK and Ireland) 1 – Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and other Assurance and Related Services Engagements.

The engagement partner should be satisfied that the engagement team collectively has the appropriate capabilities, competence and time to perform the audit engagement in accordance with professional standards and regulatory and legal requirements, and to enable an auditor's report that is appropriate in the circumstances to be issued (para 19).

39. Before commencing the audit of an RSL a firm ensures that it has enough staff who have adequate knowledge and experience of such audits. Staff involved in an audit of an RSL will have a broad understanding, commensurate with the individual's role and responsibilities in the audit process, of:
- the scope and nature of the activities of the RSL;
 - the most significant parts of the relevant regulator's guidance; and
 - the relevant general principles of the Statement of Recommended Practice (SORP).

ISA (UK AND IRELAND) 240: THE AUDITOR'S RESPONSIBILITY TO CONSIDER FRAUD IN AN AUDIT OF FINANCIAL STATEMENTS

Background note

The purpose of this ISA(UK and Ireland) is to establish basic principles and essential procedures and to provide guidance on the auditor's responsibility to consider fraud in an audit of financial statements and expand on how the standards and guidance in ISA (UK and Ireland) 315 and ISA (UK and Ireland) 330 are to be applied in relation to the risks of material misstatement due to fraud. The standards and guidance in this ISA (UK and Ireland) are intended to be integrated into the overall audit process.

In planning and performing the audit to reduce audit risk to an acceptably low level, the auditor should consider the risks of material misstatements in the financial statements due to fraud (para 3).

The auditor should make inquiries of management, internal audit, and others within the entity as appropriate, to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity (para 38).

The auditor should make inquiries of those charged with governance to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity (para 46).

When obtaining an understanding of the entity and its environment, including its internal control, the auditor should consider whether the information obtained indicates that one or more fraud risk factors are present (para 48).

40. ISA (UK and Ireland) 240 states that two types of intentional misstatements are relevant to the auditor – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.
41. RSLs have been encouraged by their respective regulatory bodies to establish adequate internal controls. For example, the Housing Corporation's Circular 25/01 'Internal controls assurance' not only confirms that the board should maintain a sound system of internal control, but also requires all RSLs to maintain a register of all incidents of actual or attempted fraud and to advise it of all frauds in excess of £5,000 or equivalent in value (£1,000 for smaller RSLs) immediately on discovery and any fraud or corrupt act

perpetrated or attempted by a board member or member of the senior management team of the RSL. As part of the risk assessment, the auditor reviews this register and enquires as to whether the register has been commented upon by the regulatory body during a monitoring or compliance visit.

42. In the case of RSLs, fraudulent financial reporting involving intentional misstatements to deceive financial statement users by influencing their perceptions as to the entity's performance and profitability, is less likely than in commercial entities due to the absence of trading in shares or significant management bonus arrangements. However, areas where the board might, where relevant, be expected to introduce strong internal controls to avoid the occurrence of fraud or error include purchasing (for development and maintenance), the holding of cash for residents (for example in supported housing), the collection of rent in cash and the major fund flows (for example the draw down and repayment of loans and grants).
43. There are a number of external issues which are likely to influence an RSL's objectives and strategies. For example, in the current move in England towards consolidation within the sector, there is increased focus on efficiency and cost control, and the desire to become/stay a Housing Corporation development partner. The strategies being adopted by RSLs to manage these issues may result in an incentive for material misstatement of the financial statements. RSLs often also have significant borrowings with covenants attached (generally interest cover and gearing covenants). This may create pressures on the entity that, in turn, may motivate management to take action to improve the reported business performance or to misstate the financial statements.

The auditor should consider whether analytical procedures that are performed at or near the end of the audit when forming an overall conclusion as to whether the financial statements as a whole are consistent with the auditor's knowledge of the business indicate a previously unrecognised risk of material misstatement due to fraud (para 85).

44. Determining which particular trends and relationships may indicate risks of material misstatement due to fraud requires professional judgement. Unusual fluctuations in major works expenditures or excessive payments to contractors may indicate fraudulent activity.

If the auditor has identified a fraud or has obtained information that indicates that a fraud may exist, the auditor should communicate these matters as soon as practicable to the appropriate level of management (para 93).

The auditor should document communications about fraud made to management, those charged with governance, regulators and others (para 109).

45. When auditors become aware of, or suspect that there may be, any matter which might warrant inclusion within the register, they document their findings and, subject to any requirement to report them directly to a third party, discuss the matter with senior management or a board member as soon as is practicable. After discussing the matter to ensure that they are aware of the circumstances, auditors consider reporting the matter to the board and the audit committee, ensuring that such discussions and reporting are carried out without delay. Auditors take account of the management structure of the RSL in determining with whom to discuss a matter in the first instance and to whom such a report should be given. In certain circumstances, it may be appropriate not to report or discuss the matter with the management or officers of the RSL but to refer the matter directly to the board. Auditors document communications about fraud made to management or the board.
46. There is currently no requirement for auditors to report suspected instances of fraud to a regulatory body unless they consider it a matter of public interest or, in the case of an unincorporated, non-exempt charity, unless they consider it a matter of material significance for the exercise of the Charity Commission's functions under sections 8 or 18 of the Charities Act 1993⁷. Guidance is given in the APB's Practice Note 11 The Audit of Charities in the United Kingdom (Revised).

7 Further guidance on this matter is set out in the section below on ISA (UK and Ireland) 250 B. Footnote 8 refers to likely changes in legislation relating to charities.

ISA (UK AND IRELAND) 250: CONSIDERATION OF LAWS AND REGULATIONS IN AN AUDIT OF FINANCIAL STATEMENTS

Background note

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance on the auditor's responsibility to consider laws and regulations in the audit of financial statements.

Section A

In order to plan the audit, the auditor should obtain a general understanding of the legal and regulatory framework applicable to the entity and the industry and how the entity is complying with that framework. (para 15)

47. Laws and regulations which relate directly to the presentation of the financial statements of RSLs are contained in Accounting Orders or Determinations issued under the relevant statutes, and in Circulars and other guidance issued by regulators. The precise nature of those requirements is determined by two factors:
- (a) whether the RSL is constituted as a registered charity, a society registered under the Industrial and Provident Societies Act 1965 or as a non-profit making company; and
 - (b) which regulatory body has granted registration to the RSL (and the jurisdiction in which that body operates).
- Key requirements of applicable laws and regulations are set out in Appendix 3.
48. However, in general, all RSLs are required to prepare financial statements which give a true and fair view of the state of affairs at the end of the accounting period and the surplus or deficit at the end of that period, and hence are expected to meet the requirements of Financial Reporting Standards and Statements of Standard Accounting Practice issued by the Accounting Standards Board (ASB).
49. The SORP interprets for social landlords how present best accounting practice (as set out in the ASB Standards) applies to them. The development of a SORP in accordance with the ASB's code of practice provides authoritative guidance, at the time of issue, on the application of accounting standards (compliance with which is considered necessary, in all save exceptional cases to meet the requirement to give a true and fair view) in a manner which takes account of the particular circumstances of the sector concerned. Financial Reporting Standard (FRS) 18 'Accounting policies' requires the use of the most

appropriate accounting policies and provides that the inclusion of industry practice in a SORP will be persuasive (but not conclusive) evidence that practice represents the most appropriate policy. FRS 18 also requires entities whose financial statements fall within the scope of this SORP to state the title of the SORP and whether its financial statements have been prepared in accordance with those of the SORP's provisions currently in effect. In the event of a departure, the auditors check that the specific requirements of paragraph 58 of FRS 18 have been met.

50. The auditor also checks whether the governing documents of certain charitable RSLs contain any special provisions as to any additional disclosure of information in the financial statements or reporting requirements for auditors. The auditor considers whether transactions undertaken accord with the objects of the charity and are within the powers conferred by the governing document. In order to give a true and fair view, due regard needs to be given to disclosure of any non compliance with the governing document.

After obtaining the general understanding, the auditor should perform further audit procedures to help identify instances of non-compliance with those laws and regulations where non-compliance should be considered when preparing financial statements, specifically:

- (a) Inquiring of management as to whether the entity is in compliance with such laws and regulations;
- (b) Inspecting correspondence with the relevant licensing or regulatory authorities; and
- (c) Enquiring of those charged with governance as to whether they are on notice of any such possible instances of non-compliance with law or regulations. (para 18)

In the UK and Ireland, the auditor's procedures should be designed to help identify possible or actual instances of non-compliance with those laws and regulations which provide a legal framework within which the entity conducts its business and which are central to the entity's ability to conduct its business and hence to its financial statements. (para 18-1)

51. ISA (UK and Ireland) 250 requires auditors to carry out specified steps to help identify possible or actual instances of non-compliance with laws and regulations which are central to the entity's ability to conduct its business. Determination of laws and regulations which are central to a particular RSL requires consideration of its governing document, the activities it undertakes and any laws and regulations specifically applicable to those activities.

52. Laws and regulations are likely to be central to an RSL where breaches would have any of the following consequences:
- (a) intervention by the regulatory body to direct the affairs of the RSL, for example non-compliance with the various laws relating to fraud and corruption under which the regulatory body possesses various powers of intervention;
 - (b) loss of necessary licences to continue a major element of the RSL's work (primarily laws and regulations applicable to building and planning regulations or contaminated land, or health and safety regulations in relation to homes in multiple occupation); or
 - (c) financial effects resulting in liabilities which are likely to exceed the available resources of the RSL. For example, expenditure or activities outside grant conditions imposed by the regulatory body can lead to disallowance and repayment of grant.
53. Paragraph 18 of ISA (UK and Ireland) 250 requires auditors to perform certain procedures to help identify possible or actual instances of non-compliance with laws and regulations. In this respect, the auditor reviews correspondence with, and returns to, regulatory bodies which RSLs may be required to make to confirm their compliance with laws and regulations.
54. The social housing sector includes a number of diverse activities and hence the requirements of laws and regulations that are central to the RSL's ability to operate are likely to be derived from the activities undertaken as well as arising from registration with the regulatory body. For example, RSLs providing residential care in England and Wales will be subject to the requirements of the Care Standards Act 2000. Significant breaches can result in loss of registration and hence ability to undertake particular activities. Similar legislative requirements can affect social housing operations in different parts of the sector and in different parts of the United Kingdom.
55. RSLs which have charitable status have significant direct tax exemptions in relation to income and chargeable gains. Auditors need to have an understanding of these exemptions and concessions in order to determine if there are any activities which may be incompatible with charitable status. Similarly, auditors need to have an understanding of other tax legislation, such as VAT, as non-compliance or errors could have adverse financial consequences for the RSL.

Money laundering

In the UK and Ireland, when carrying out procedures for the purpose of forming an opinion on the financial statements, the auditor should be alert for those instances of possible or actual non-compliance with laws and regulations that might incur obligations for partners and staff in audit firms to report money laundering offences. (para 22-1)

56. Given the significant cash flows involved in the purchase and development of land, and in particular the fact that some land deals are undertaken at below market value, auditors need to be aware of the potential for money laundering to occur. Auditors therefore consider the guidance in Practice Note 12: Money Laundering – Interim guidance for auditors in the United Kingdom (Revised).

Reporting

The auditor should, as soon as practicable, either communicate with those charged with governance, or obtain audit evidence that they are appropriately informed, regarding non-compliance that comes to the auditor's attention. (para 32)

57. Auditors should communicate their findings to the appropriate level of management, unless the suspected or actual instance of non-compliance casts doubt on the integrity of the board. In those cases where the board is not involved in the day-to-day management of the RSL, having delegated this function to staff, and it is the latter who are suspected of involvement in the breach of law or regulations, the auditor may consider that it is appropriate to communicate with the board in the first instance.

Section B – Reports to Regulators

The auditor of a regulated entity should bring information of which the auditor has become aware in the ordinary course of performing work undertaken to fulfil the auditor's audit responsibilities to the attention of the appropriate regulator without delay when:

- (a) The auditor concludes that it is relevant to the regulator's functions having regard to such matters as may be specified in statute or any related regulations; and
 - (b) In the auditor's opinion there is reasonable cause to believe it is or may be of material significance to the regulator. (para 2)
58. There is a statutory duty for auditors of unincorporated charities in England and Wales to report suspected or actual instances of non-compliance with the law or regulations that are of material significance to the Charity Commission⁸. Guidance on this topic, for auditors of unincorporated charitable RSLs, is given in the APB's Practice Note 11: The Audit of Charities in the United Kingdom (Revised).

⁸ It is anticipated that during 2006 a similar statutory reporting requirement will become applicable both to auditors of corporate charities in England and Wales and, through the commencement of the Charity and Trustee Investment (Scotland) Act 2005, to auditors of all charities in Scotland.

59. Auditors of other RSLs, which are not unincorporated charities, do not have a statutory duty to report suspected or actual instances of non-compliance with the law or regulations to an appropriate authority. ISA (UK and Ireland) 250, however, requires auditors of all entities to consider whether a suspected instance of non-compliance with law and regulations should be reported to the appropriate authority in the public interest⁹. The auditor may need to take legal advice before making a decision on whether a matter should be reported in the public interest.

60. ISA (UK and Ireland) 250 gives examples of bodies which could constitute the proper and appropriate authorities. In the context of RSLs, the proper authority is ordinarily the relevant regulatory body (the Housing Corporation, the Department for Social Development (Northern Ireland), Communities Scotland and the National Assembly for Wales), and, in any part of the United Kingdom, the Police.

9 For example, a failure to report a significant fraud or misappropriation of grant monies.

ISA (UK AND IRELAND) 260: COMMUNICATION OF AUDIT MATTERS WITH THOSE CHARGED WITH GOVERNANCE

Background note

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance on communication of audit matters arising from the audit of financial statements between the auditor and those charged with governance of an entity. These communications relate to audit matters of governance interest as defined in this ISA (UK and Ireland). This ISA (UK and Ireland) does not provide guidance on communications by the auditor to parties outside the entity, for example, external regulatory or supervisory agencies.

The auditor should communicate audit matters of governance interest arising from the audit of financial statements with those charged with governance of an entity. (para 2)

61. The principal purposes of communication to those charged with governance are for the auditor to:
- ensure that there is a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and those charged with governance;
 - share information to assist both auditor and those charged with governance to fulfil their respective responsibilities; and
 - provide to those charged with governance observations arising from the audit process.
62. Relevant matters relating to the audit include: relationships that may bear on the auditors' independence and objectivity; audit planning information; and the findings from the audit, including the auditors' views on the qualitative aspects of the entity's accounting and reporting.

The auditor should determine the relevant persons who are charged with governance and with whom audit matters of governance interest are communicated. (para 5)

63. Because responsibilities in RSLs are delegated by the board to the management team, the auditor considers to whom it would be most appropriate to address reports. Whilst the management team may play a central role in the direction and management of RSLs,

its powers are delegated from the board. The auditor therefore usually addresses reports to the board, with a copy to the management team.

The auditor should communicate audit matters of governance interest on a timely basis. (para 13)

64. The auditor considers the requirement in ISA (UK and Ireland) 260 to communicate the following to those charged with governance at or near the completion of the audit:
- expected modifications to the auditor's report;
 - unadjusted misstatements;
 - material weaknesses in the accounting and internal control systems;
 - views about the qualitative aspects of the RSL's accounting practices and financial reporting;
 - matters specifically required by other auditing standards to be communicated to those charged with governance (such as fraud and error); and
 - any other relevant matters relating to the audit.
65. All four UK regulators require RSLs to send them copies of auditors' management letters, together with the RSL's response. It is recognised that the management letter addresses only those matters which have come to the attention of the auditors in the course of their audit. This should be filed within six months of the year end.
66. Submitting a management letter does not affect the auditor's responsibilities for giving an opinion on the financial statements or the statutory requirement to make reference within the auditor's report where a satisfactory system of internal control has not been maintained.

The auditor should plan with those charged with governance the form and timing of communications to them. (para 13-1)

67. ISA (UK and Ireland) 260 stresses that communication should be active two way communication between the auditor and those charged with governance and it notes that this is unlikely to be achieved if communication is only by way of written reports. It encourages dialogue.

ISA (UK AND IRELAND) 300: PLANNING AN AUDIT OF FINANCIAL STATEMENTS

Background note

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance on the considerations and activities applicable to planning an audit of financial statements. This ISA (UK and Ireland) is framed in the context of recurring audits. In addition, matters the auditor considers in initial audit engagements are included in paragraphs 28 and 29.

The auditor should plan the audit so that the engagement will be performed in an effective manner. (para 2)

68. In developing the audit plan, the auditor considers the responsibilities as set out in statute and the letter of engagement to ensure that the scope of the audit plan is sufficient and includes, where appropriate, reports required by statute or by the regulatory bodies.
69. The auditor obtains an understanding of the accounting principles under which the financial statements are prepared and their impact on the audit. Accounting principles for RSLs include those set out in:
- specific legislation;
 - accounting and other recommendations issued by the regulators;
 - accounting standards; and
 - the SORP.

The auditor should develop an audit plan for the audit in order to reduce audit risk to an acceptably low level. (para 13)

70. In designing the audit procedures the auditor seeks, as far as practicable, to make use of the internal controls, work of internal audit and financial reporting arrangements which are in place at the RSL.
71. It may be appropriate at the planning stage to identify any additional procedures or evidence which may be necessary for the work on other reports, for example on service

charges or reports under the Landlord and Tenant Act 1985, to assist in discharging such additional reporting responsibilities.

The auditor should document the overall audit strategy and the audit plan, including any significant changes made during the audit engagement (para 22).

72. The auditor may report to, and discuss elements of planning with, the audit committee or board and with management, including the overall strategy and timing of the audit together with any additional requirements which may be agreed. Notwithstanding these discussions, the overall strategy and audit plan remain the auditor's responsibility.

ISA (UK AND IRELAND) 315: OBTAINING AN UNDERSTANDING OF THE ENTITY AND ITS ENVIRONMENT AND ASSESSING THE RISKS OF MATERIAL MISSTATEMENT

Background note

The purpose of this ISA (UK and Ireland) is to establish standards and to provide guidance on obtaining an understanding of the entity and its environment, including its internal control, and on assessing the risks of material misstatement in a financial statement audit.

Understanding the Entity and Its Environment, Including Its Internal control

The auditor should obtain an understanding of relevant industry, regulatory, and other external factors including the applicable financial reporting framework (para 22).

The Constitution of registered social landlords

73. RSLs may be constituted in various ways. It is important that the auditor understands the legal framework within which the RSL operates. Appendix 2 provides information on the different types of legal entities - for example industrial and provident societies, charities and limited companies.

Regulation

74. Auditors understand the regulatory framework applicable to the RSL and consider relevant communications from the regulator, for example in England the Annual Viability Review, the HCA assessment and inspection reports from the Audit Commission.

Financial reporting requirements

75. RSLs are subject to accounting requirements through Determinations or Statutory Instruments and the Companies Act 1985, the Industrial and Provident Societies Acts 1965-2002, the Housing (Scotland) Act 2001 or the Charities Act 1993¹⁰. The precise application of those requirements is determined by whether the RSL is constituted as a registered charity, a society registered under the Industrial and Provident Societies Act 1965 or as a non-profit making company limited by guarantee under the Companies Act 1985.

10 In addition, from 2006, the Charities Act 2005 in England and Wales and the Charity and Trustee Investment (Scotland) Act 2005 in Scotland.

76. Details of applicable laws and regulations¹¹ are set out in Appendix 3. However, in general, all RSLs are required to prepare financial statements which give a true and fair view of the state of affairs at the end of the accounting period and the surplus or deficit at the end of that period, and hence are expected to meet the requirements of Financial Reporting Standards, Statements of Standard Accounting Practice and UITF Abstracts issued or adopted by the ASB.
77. The SORP 'Accounting by Registered Social Landlords'¹¹ interprets for social landlords how present best accounting practice (as set out in the ASB Standards) applies to them. While there is no specific legal requirement that RSLs should comply with accounting standards or with the SORP, legislation¹² requires the board of an RSL to state whether its financial statements have been prepared in accordance with applicable accounting standards and statements of recommended practice. In addition, the Accounting Determinations in England and Wales require disclosure to be made of compliance with the SORP where appropriate.

The auditor should obtain an understanding of the nature of the entity (para 25).

78. The auditor seeks to understand the overall structure, activities, finances and governance of the RSL. Examples of areas the auditor may wish to consider include:
- the structure /changes in structure of the RSL, including its group members and subsidiaries (e.g. charitable or non-charitable);
 - the main activities of the RSL and any significant developments since the previous audit, for example new development activity, acquisitions or disposals and organic growth areas;
 - the financing and funding structure which supports the RSL's activities and any significant internal or external developments which may impact on the entity;
 - the overall governance arrangements which support the systems of internal control including audit committee, risk management and internal audit arrangements;
 - the framework for business planning, financial and performance management: and

11 Issued originally in 1999, and updated in December 2002 and May 2005 jointly by the National Housing Federation, the Welsh Federation of Housing Associations and the Scottish Federation of Housing Associations (the Three Federations) in accordance with the ASB's code of practice for the development and issue of SORPs.

12 The 2000 Accounting Determination, the Registered Housing Associations (Accounting Requirements) (Scotland) Order 1999, the Accounting Requirements for RSLs registered in Wales – General Determination 2000 and the Registered Housing Associations (Accounting Requirements) (Northern Ireland) Order 1993.

- significant issues raised by external regulators and the entity's response.
79. RSLs may participate in complex projects, such as schemes developed under the Private Finance Initiative (PFI). Here the RSL may undertake the renovation and management of properties or provide other services, such as residential care, over a defined period without having ownership of the properties. Auditors consider the accounting for such schemes in accordance with Application Note F of FRS 5.
80. Some RSLs are involved in the development of both social housing and housing for outright sale, sometimes as part of the same overall scheme. Under such arrangements, surpluses generated on the sale of properties may be used to subsidise other social housing which may be developed without recourse to social housing grant or with lower levels of grant than would normally be the case. In such circumstances, auditors consider the appropriate carrying value of these social housing properties.

The auditor should obtain an understanding of the entity's selection and application of accounting policies and consider whether they are appropriate for its business and consistent with the applicable financial reporting framework and accounting policies used in the relevant industry (para 28).

81. Accounting policies that are especially relevant to RSLs include:
- depreciation;
 - capitalisation of building costs; and
 - impairment.
82. Under FRS 15 RSLs are required to depreciate their housing properties. As a result judgments need to be made on the useful economic lives of properties which depend on matters such as property type, method of construction and location. In addition, the depreciation to properties carried at a valuation, and the need to depreciate only the value of the buildings (as distinct from the land on which they are situated) results in additional complexity.
83. In respect of capitalisation of building costs, the revised SORP states that works which result in an increase in the net rental income, either as a result of an increase in rental income or a reduction in future maintenance costs or a significant extension of the life of the property are deemed to be improvements and should be capitalised. The SORP also requires disclosure of the total works to properties which have been both expensed and capitalised. In addition, under FRS 15, only costs which are directly attributable to bringing properties into working condition for intended use may be capitalised.

84. FRS 11 requires that impairments resulting from a major reduction in the service potential of a property which might, for example, result from a reduction in demand in the local community, should be recognised in the Income and Expenditure Account. As a result judgments need to be made regarding the likely future service potential of the property.

The auditor should obtain an understanding of the entity's objectives and strategies, and the related business risks that may result in material misstatement of the financial statements (para 30).

85. Each RSL will have its own objectives and strategies. The Housing Corporation's regulatory requirements have resulted in nearly all RSLs having well established risk management procedures that highlight the more significant risks faced by the RSL. The auditor gains an overview of the main risks identified and considers the implications for the audit.
86. There are also a number of external issues which are likely to influence the ability of the RSL to achieve its objectives and strategies. For example, with the current move towards consolidation within the sector, there is a pronounced focus by the regulator on efficiency and cost control. Many, particularly the larger, RSLs have strong desires to become/stay a Housing Corporation development partner, a key ingredient of which is the continuing demonstration of financial strength. RSLs face a number of pressures on the strength of their financial position. These include rising maintenance costs (resulting from a number of factors including health and safety issues, Government regulations, and deterioration through age of the housing stock), fluctuations in demand for housing in some locations, high salary inflation for some posts (including also rising pension costs) and cuts in Supporting People funding. Consequently, there may be pressures on the RSL to improve the reported business performance, and this could lead to an incentive to misstate the financial statements.

The auditor should obtain an understanding of the measurement and review of the entity's financial performance (para 35).

87. In addition to internal performance measures used by individual RSLs, RSLs are subject to considerable external benchmarking and performance review including, for example, participation in benchmarking clubs, other comparative information published by the Housing Corporation and various league tables in the housing press.

The auditor should obtain an understanding of internal control relevant to the audit (para 41).

88. The responsibility for the establishment and proper operation of a system of internal control lies with the board of each RSL. It is the board's responsibility to determine what is appropriate for the RSL.
89. Relevant factors for the auditor to consider when planning the work that will be performed on internal controls in the audit of a RSL include:
- the statutory requirement to report if the RSL has not maintained a satisfactory system of control¹³;
 - the expectation (in Wales, the requirement) that the management letter will be passed on to the regulatory body; and
 - any additional procedures that have been agreed with the client.

Requirements of auditors in relation to control systems

90. Legislation requires auditors of RSLs that are Industrial and Provident Societies and/or charities to state in their report on the financial statements if the RSL has failed to maintain a satisfactory system of internal control. In forming a view as to whether a system of internal control is satisfactory, the auditor obtains sufficient appropriate evidence that material weaknesses in control have not existed during the year. A material weakness is defined as 'a condition which may result in a material misstatement in the financial statements'.
91. The legislation does not establish the criteria by which auditors assess whether a system of control is satisfactory; this is a matter for the auditors' judgment. In forming a judgment, auditors consider:
- (a) evidence obtained in relation to compliance with ISAs (UK and Ireland);
 - (b) their knowledge of the control procedures adopted by the entity;

13 Requirements for registered social landlords to have control systems

RSLs that are subject to the requirements of the Friendly and Industrial and Provident Societies Act 1968 s.9(4)(b) or, in Northern Ireland, the Industrial and Provident Societies Act (Northern Ireland) 1969 are required to establish and maintain satisfactory systems of control of their books of account, their cash holdings and all their receipts and remittances. Auditors of such RSLs are required, under the same legislation, to carry out such investigations as will enable them to form an opinion as to whether the RSL has maintained a satisfactory system of control over its transactions and, if they are of the opinion that the RSL has failed in any respect to comply with this requirement, to state that fact in their report. In England and Wales the Housing Act 1996 Schedule 1 Part III s.18 (1) extends these requirements to RSLs which are not Industrial and Provident Societies but are registered charities. Similar provisions apply to registered charities in Northern Ireland and Scotland.

- (c) the board's latest published corporate governance statement as required by Housing Corporation Circular 25/01 'Internal controls assurance'¹⁴, together with the annual report of the chief executive (or executive team) to the board concerning the effectiveness of the systems of internal control. Circular 25/01 requires an RSL owning or managing more than 250 units to disclose in its published statement 'information on the process that the board has adopted in addressing material internal control aspects of any significant problems disclosed in the annual report and accounts'. In addition the Circular says that 'Reference to regulatory concerns should also be considered, where these have led [the Corporation] to intervene in the affairs of the association'; and
- (d) their knowledge of 'reportable weaknesses'. A reportable weakness is defined in the SFHA's publication - Raising Standards as 'a weakness that has resulted in material loss, contingencies or uncertainties which require disclosure in the audited accounts'.
92. The regulatory bodies in each of the UK jurisdictions have issued codes of audit practice or good practice notes relating to external audit. The codes, good practice notes, circulars and other relevant documents provide guidance to boards on, and define their responsibilities for, amongst other things, the appointment of auditors and the nature of the RSL's working relationship with the auditors.
93. In November 2001 the Housing Corporation issued Circular 25/01 'Internal controls assurance', which replaced Circular 18/96 in England. Circular 25/01 does not require external auditors to report on the board's published statement which will cover the complete internal control system rather than merely financial controls. The board is free to request their auditor to conduct further work on the statement on internal control if they wish to do so.

The auditor should obtain an understanding of the control environment (para 67).

Control environment

94. The role, attitude and actions of the board members are fundamental in shaping the control environment of a RSL. Factors to consider include:
- the amount of time committed by board members;

¹⁴ In Scotland, the requirement is established by Guidance Note 97/02-Code of Audit Practice for Registered Housing Associations. Information on the practical application of this Guidance Note is contained in chapter 10 of the SFHA's publication - Raising Standards. In Wales the requirement is established by Circular 8/97 and in Northern Ireland by Housing Association Guide Part 1-Appendix 12 Annex D-E as revised in 2005.

- the skills and qualifications of individual board members;
 - the frequency and regularity of board meetings;
 - the form and content of board meetings; and
 - the degree of involvement in, or supervision of, the RSL's transactions on the part of individual board members.
95. Other features of the control environment depend on the size, activity and organisation of the RSL but might include:
- segregation of duties, for example, other than in very small RSLs, it is usual for housing management activities to be separated from the finance department;
 - a recognised plan of the structure showing clearly the areas of responsibility and lines and levels of authority and accountability;
 - the existence of a medium term plan setting out financial projections;
 - evidence of a commitment to comply with the obligations agreed with the regulator in the RSL's Regulatory Plan;
 - the role of any internal audit function;
 - the competence, training and qualification of staff appropriate to the tasks they have to perform;
 - involvement of the board in the recruitment, appointment and supervision of senior executives;
 - access of board members to independent professional advice where necessary;
 - budgetary controls in the form of estimates of income and expenditure for each financial year and comparison of actual results with the estimates on a regular basis; and
 - communication of the results of such reviews to the board on a regular basis so as to facilitate their review of performance and to enable them to initiate action where necessary.

The auditor should obtain an understanding of the entity's process for identifying business risks relevant to financial reporting objectives and deciding about actions to address those risks, and the results thereof (para 76).

96. Since 2000, the Housing Corporation has issued guidance and a series of topic papers encouraging best practice on key elements for a risk management framework covering:

- identifying risk;
- linking risk assessment to business planning;
- review of business activities;
- ongoing risk identification and monitoring;
- managing risk;
- governance – the role of the Board, executive management, operational management and internal audit.

The auditor understands the entity's approach to risk management and assesses the effectiveness of the risk management process, including how management identifies risks relevant to the preparation of financial statements, estimates their significance, assesses the likelihood of their occurrence, and decides upon actions to manage them.

The auditor should obtain a sufficient understanding of control activities to assess the risks of material misstatement at the assertion level and to design further audit procedures responsive to assessed risks (para 90).

Control activities

97. The following paragraphs list some of the control activities which are of particular significance to RSLs. The list is not intended to be exhaustive as there may be other control procedures that are relevant to the activities of a particular RSL. Control procedures that are of general application, such as segregation of duties or physical security of tangible assets, are not included in the examples given below.
98. Rents:
- periodic checking (by an official other than a rent collector) of notifications of voids, of changes in rent and the housing stock to the rent ledger and to tenants' rent books or equivalent;
 - reconciliation of rents receivable to the number of units, rents and the incidence of voids;
 - review of housing benefits under/over payments;
 - controls to ensure that all housing accommodation is recorded and that all changes are reflected in the records;
 - arrears procedures performed by a person who is not responsible for collecting or handling rent moneys including aged analysis of rents outstanding; and
 - regular comparisons between the rent ledger and the banking records.

99. Service charges:

- reconciliation of service charges receivable with the number of units, the service charges and the incidence of voids;
- arrears procedures performed by a person who is not responsible for collecting or handling service charge monies.

100. Property development:

- project appraisal process;
- proper tendering procedures;
- list of approved suppliers;
- involvement of the board in the appointment of significant contractors, external advisers and consultants;
- ensuring approval of grant funding prior to accepting tender;
- liaison with appropriate planning and authorising bodies and, where appropriate, the regulatory body;
- authorisation procedures, involving the board, before material purchases of properties are made; and
- inspection and approval procedures before payment.

101. Fixed assets and depreciation:

- a register of fixed assets;
- a register of property title deeds;
- depreciation calculated and recorded as the accounting policy requires;
- authorisation procedures, involving the board, for material disposals; and
- procedures to ensure that, where appropriate, the consent of the regulatory body has been obtained for disposals and that proceeds have been received and accounted for properly.

102. Grants and loans:

- regular checks that all sources of income or funds are fully utilised and appropriate claims made;
- periodic review to ensure loan covenants are met;
- procedures to ensure that income or funds are applied correctly in accordance with

the terms of the grant or loan;

- development of an approved treasury and borrowing policy;
- register of properties to show location of title deed and security; and
- comprehensive records of applications made and follow-up procedures.

103. Repairs:

- procedures for obtaining tenders or quotations, particularly in respect of major repair work;
- inspection and approval procedures before payment to ensure adequate segregation of duties between responsible officials in the RSL; and
- comparison of repair costs against budgets.

104. Cash:

- controls over cash held on behalf of residents, for example in supported housing.

105. Treasury operations:

- controls over the authorisation of capital instruments;
- budgeting and monitoring of cash flow projections; and
- procedures to ensure investment risks on surplus funds are minimised.

Governance:

- recognition and application of good governance structures;
- consideration of risks and risk management;
- process for implementation and review of systems of internal control; and
- appropriate relationships with key stakeholders.

The auditor should obtain an understanding of how the entity has responded to risks arising from IT (para 93).

106. Auditors consider whether adequate IT controls exist over both financial systems and other systems relevant to the audit including in particular housing management systems which record rents charged and collected and housing properties.

Assessing the Risks of Material Misstatement

The auditor should identify and assess the risks of material misstatement at the financial statement level, and at the assertion level for classes of transactions, account balances, and disclosures (para 100).

107. Relevant risks may include:

- non-compliance with financial covenants;
- changes in government policy, for example, the level of government grants or the rules governing the payment of housing benefit;
- the large number of and changing sources of revenue funding which have different and often restricted application;
- deteriorating condition of housing stock combined with regulatory requirement to meet the decent homes standard;
- limited financial, personnel and other resources in a growing sector;
- the increased use of treasury management activities, for example derivatives;
- restrictions on certain funds which require special considerations as to use and accounting, for example the Disposal Proceeds Fund;
- the complexity of tax rules (corporation tax and VAT);
- the need to determine appropriate splits between land and buildings for the purposes of depreciation, particularly where properties were acquired rather than built or when carried at a valuation;
- the need to maintain adequate resources and the ability to raise finance for future expenditure on repairs and developments,
- instances of non compliance with regulations due to their complexity and extent; and
- falling property values due to increasing voids and 'hard to let' properties.

As part of the risk assessment, the auditor should determine which of the risks identified are, in the auditor's judgment, risks that require special audit consideration (such risks are defined as 'significant risks') (para 108).

For significant risks, to the extent the auditor has not already done so, the auditor should evaluate the design of the entity's related controls, including relevant control activities, and determine whether they have been implemented. (para 113)

108. Significant risks may include, for example:

- incorrect capitalisation of major works on properties;
- incorrect accounting for significant property development work; and
- complex transactions such as PFI, mixed developments and joint ventures.

Examples of substantive procedures to address these risks are described in the section on ISA (UK and Ireland) 330.

Reporting on internal controls

Scotland, Wales and Northern Ireland

109. As noted earlier, Communities Scotland has issued Guidance Note 97/02¹⁵ which contains the same requirements as Circular 18/96 'Internal financial control and financial reporting'. In Northern Ireland HAC 10/96, and in Wales Circular 8/97 provide similar guidance.

Guidance Note 97/02 requires RSLs with more than 150 units to include, within their annual reports, a statement about the RSL's system of internal financial control and for auditors to review the statement in order to enable them to conclude that:

- (a) the board has provided the disclosure required by the guidance; and
- (b) the board's comments are not inconsistent with the information of which they are aware from their audit of the financial statements.

110. In reporting on internal financial controls and other corporate governance disclosures, auditors follow the guidance set out in Bulletin 2004/3. Reports by auditors are addressed to the RSL and therefore are not normally included in the auditors' report on the financial statements. Auditors' letters of engagement normally include a reference to any review of the board's statements associated with corporate governance.

¹⁵ This guidance is now included in chapter 10 of the SFHA's publication - Raising Standards.

ISA (UK AND IRELAND) 320: AUDIT MATERIALITY

Background note

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance on the concept of materiality and its relationship with audit risk.

Materiality should be considered by the auditor when:

- (a) Determining the nature, timing and extent of audit procedures; and
- (b) Evaluating the effect of misstatements. (para 8)

111. ISA 320 makes a distinction between the auditor's consideration of materiality in planning the audit, and that in evaluating the results of audit procedures. The assessment of materiality at the planning stage influences the nature, timing and extent of audit tests. The materiality of matters found in the course of audit work is considered both in relation to their possible impact on the financial statements, and in relation to applicable regulations and other factors governing the conduct of individual RSLs. In the case of RSLs particular disclosures or expenditure categories may be sensitive and warrant extra attention, for example the Chief Executive's remuneration, restricted funds and bad debt provision. In view of RSLs' social objectives and the requirement not to distribute surplus, it will not normally be appropriate to base materiality on the surplus made by the RSL during the accounting period. More relevant bases for planning materiality are likely to be gross revenues or net assets.
112. The auditor considers materiality in assessing whether the accounts give a true and fair view from the point of view of the addressees of the report. The principles underlying this consideration of materiality are no different from those involved in the audit of other entities and are explained in ISA 320.

ISA (UK AND IRELAND) 330: THE AUDITOR'S PROCEDURES IN RESPONSE TO ASSESSED RISKS

Background note

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance on determining overall responses and designing and performing further audit procedures to respond to the assessed risks of material misstatement at the financial statement and assertion levels in a financial statement audit.

When the auditor has determined that it is not possible to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures, the auditor should perform tests of relevant controls to obtain audit evidence about their operating effectiveness (para 25)

113. A significant proportion of RSLs' activities involve a large number of small transactions such as rental income. Auditors seek evidence to determine the completeness and accuracy of rental income. Where auditors are satisfied, through evaluation and testing, that there are appropriate and effective controls including, for example, the effective reconciliation of housing management and finance systems, they can use the results of this internal control testing as a source of audit evidence about the completeness and accuracy of recorded transactions.

When the auditor has determined that an assessed risk of material misstatement at the assertion level is a significant risk, the auditor should perform substantive procedures that are specifically responsive to that risk (para 51).

114. Possible significant risks in the context of RSLs are listed in the section on ISA (UK and Ireland) 315. In respect of a significant risk arising from capitalisation, the auditor considers whether the RSL's policy, for example on the types of works to be capitalised, as well as the approach to the capitalisation of internal development costs and interest, is in compliance with FRS 15 and the detailed interpretation set out in the SORP. The auditor will then carry out detailed checks to ensure compliance with the policy.
115. For RSLs undertaking significant property development work, this presents particular audit risks, such as:
- incorrect allocation of costs to schemes

- cost overruns due to poor budgeting or unauthorised expenditure leading to costs in excess of the original project appraisal; here the auditor considers risk of impairment to the carrying value
- fraud risks arising from purchasing frauds, such as payment for services not supplied, or collusion.

Although controls are likely to exist over the authorisation and allocation of costs, if there is material expenditure on property development auditors perform substantive procedures such as the examination of invoices and post project appraisal reports.

116. Risks relating to complex transactions are also likely to be assessed as significant due to:

- lack of experience of RSL staff in carrying out such non core activities
- the complexity of the transactions eg: legal structures, tax, accounting and funding arrangements
- involvement of, and reliance on, third parties
- viability arising from cost over runs
- issues relating to the vires of the RSL.

The auditor reviews such arrangements and considers whether they are accounted for appropriately. In addition, if the auditor identifies that management is under pressure to decrease costs reported, such as in order to meet an interest cover covenant, the risk of management over capitalising maintenance and repairs expenditure may be assessed as significant. The auditor reviews the capitalisation policy for compliance with FRS 15 and the SORP and reviews the items capitalised to ensure compliance with the agreed policy.

ISA (UK AND IRELAND) 402: AUDIT CONSIDERATIONS RELATING TO ENTITIES USING SERVICE ORGANISATIONS

Background note

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance to an auditor where the entity uses a service organisation

In obtaining an understanding of the entity and its environment, the auditor should determine the significance of service organization activities to the entity and the relevance to the audit. (para 5)

117. The auditor identifies whether the reporting RSL uses service organisations and assesses the effect of any such use on the procedures necessary to obtain sufficient and appropriate audit evidence to determine with reasonable assurance whether the financial statements are free of material misstatement.
118. Use of a service organisation does not diminish the ultimate responsibility of the board or the audit committee for conducting its business in a manner which meets their legal responsibilities, including those of safeguarding the assets, maintaining proper accounting records and preparing financial statements.
119. Similarly, an entity's use of a service organisation does not alter the auditor's responsibilities when reporting on its financial statements, but may have a significant effect on the nature of procedures undertaken to obtain sufficient appropriate audit evidence to determine whether a user entity's financial statements are free from material misstatement.
120. Service organisations undertake a wide range of activities within the RSL sector. Many of these are capable of having a significant effect on the financial statements. Consequently the auditor of an RSL needs to consider the nature and extent of activity undertaken by service organisations to determine whether those activities are relevant to the audit, and what their effect is on audit risk.
121. Examples of potential activities undertaken by service organisations may include:
- maintenance of the RSL accounting records;
 - processing of the payroll;
 - management of assets, including outsourcing of repairs, maintenance and development work;
 - management of agency schemes.

Based on the auditor's understanding of the aspects of the entity's accounting system and control environment relating to relevant activities, the auditor should:

- (a) Assess whether sufficient appropriate audit evidence concerning the relevant financial statement assertions is available from records held at the entity; and if not,
- (b) Determine effective procedures to obtain evidence necessary for the audit, either by direct access to records kept by service organisations or through information obtained from the service organisations or their auditor. (9-18)

122. Some outsourced activities are the subject of regulation, notably investment management. However, regulation does not by itself eliminate the need for RSL auditors to obtain independent evidence because controls required by regulators, and inspection work undertaken by them in service organisations, may not be relevant to or sufficiently focussed on aspects of importance to the RSL organisations. Furthermore, reports from the service organisation's auditors required by its regulator are not ordinarily available to a RSL or its auditors.

ISA (UK AND IRELAND) 500: AUDIT EVIDENCE

Background note

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance on what constitutes audit evidence in an audit of financial statements, the quantity and quality of audit evidence to be obtained, and the audit procedures that auditors use for obtaining that audit evidence.

When information produced by the entity is used by the auditor to perform audit procedures, the auditor should obtain audit evidence about the accuracy and completeness of the information (para 11).

123. The audit of RSLs often involves reliance on non-financial systems, and testing controls over such systems may therefore be appropriate. For example, in auditing bad debt provisions, the auditor considers the accuracy of the ageing of rental debtors derived from the housing management system. In some situations the auditor may determine that additional audit procedures are needed, for example, using computer-assisted audit techniques (CAATs) to recalculate the information.

Inspection of Housing Properties

124. Given the large number of housing properties owned and managed by RSLs, physical inspection alone is unlikely to be an appropriate means of testing existence, and the auditor considers obtaining confirmation of title from the Land Registry. Such tests do not however establish that the valuation of properties is appropriate.

ISA (UK AND IRELAND) 505: EXTERNAL CONFIRMATIONS

Background note

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance on the auditor's use of external confirmations as a means of obtaining audit evidence.

The auditor should determine whether the use of external confirmations is necessary to obtain sufficient appropriate audit evidence at the assertion level. In making this determination, the auditor should consider the assessed risk of material misstatement at the assertion level and how the audit evidence from other planned audit procedures will reduce the risk of material misstatement at the assertion level to an acceptably low level (para 2).

125. Situations in which external confirmations may be used by RSL auditors normally include:

- Bank balances and other information from bankers;
- Loan balances and terms and conditions; and
- Ownership of properties.

Other situations where confirmations may be obtained by auditors include:

- Balances with local authorities, agencies and other partners; and
- Land Registry details confirmed by lawyers.

Confirmations are unlikely to be appropriate as a means of checking balances with tenants and leaseholders given the volume and size of individual balances.

ISA (UK AND IRELAND) 520: ANALYTICAL PROCEDURES

Background note

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance on the application of analytical procedures during an audit.

The auditor should apply analytical procedures as risk assessment procedures to obtain an understanding of the entity and its environment and in the overall review at the end of the audit. (para 2)

126. RSLs are required to submit returns to their regulator and many publish a comprehensive range of information and data which may assist auditors by providing an indication of trends and current ratios. In addition, there is typically financial information produced internally by RSLs, for management information and for use in compiling regulatory returns and published information, which may provide a valuable source of evidence. The auditor ascertains the most appropriate data for comparison and the most useful sources of such data (for example, in England the Housing Corporation's website benchmarking statistics and the Annual Viability Returns), depending on the tests and comparisons which are to be carried out and the nature of the client.
127. Parts of the income and expenditure of RSLs, and in particular interest payable and rental income, are predictable. Consequently, certain analytical procedures are capable of being used as substantive analytical procedures. This facilitates comparison with budgets, comparison with other developments within the sector, and proofs in total. The majority of RSLs produce cash flow projections and annual budgets and may also produce some or all of the following which the auditor may utilise in the course of the audit:
- business plan projections;
 - expenditure profiles for development programmes;
 - statistical data concerning the administration and operation of RSLs;
 - quarterly financial returns;
 - performance indicators; and
 - publicly available databases.

In the context of capital, major and routine repairs and maintenance expenditure, the auditor may wish to consider:

- movements and unexpected or unusual relationships between current and prior year capital programmes, allocations, budgeted amounts and cash planning targets for acquisitions and disposals;
- comparison of the level of development department activity and professional fees with recorded additions to housing properties;
- major repairs grants and repairs costs in comparison to budget and previous years' costs;
- the ratio of repairs and maintenance to the cost of housing land and buildings;
- comparison against prior year and expected amounts for construction costs per property;
- comparison of actual expenditure against costs in stock condition surveys;
- for special needs housing, comparison of the ratio of care staff to the number of bed spaces;
- review of amount of grant as a percentage of development cost;
- movements on any suspense or construction in progress accounts;
- comparison of interest and overheads capitalised with prior years; and
- comparison with external benchmark indicators.

In terms of rental income, the auditor may wish to consider:

- the relationship between the number of housing units available for occupation, the incidence of empty units and rents receivable;
- movements, and any unexpected or unusual relationships, between current and prior year budgets for rents received or service charges;
- movements, and unexpected or unusual relationships, between current year, prior year and budget for voids and bad debts as a percentage of rents; and
- rents and service charges for each month.

128. Much of the other income and administrative expenditure relates to the day to day operations of RSLs (as opposed to being part of programmed expenditure) and may have the following features:

- amounts are usually related to comparable information for prior periods;
- amounts are usually directly comparable to other RSLs of similar size and nature; and
- some amounts are closely related to non-financial information such as the number of units, the number of employees and the size of office buildings.

ISA (UK AND IRELAND) 540: AUDIT OF ACCOUNTING ESTIMATES

Background note

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance on the audit of accounting estimates contained within the financial statements.

The auditor should design and perform further audit procedures to obtain sufficient appropriate audit evidence as to whether the entity's accounting estimates are reasonable in the circumstances and, when required, appropriately disclosed. (para 8)

129. In common with most reporting entities, RSLs need to make a number of accounting estimates whilst preparing their financial statements. The main areas where estimates are likely to be required concern:

- (a) depreciation of housing properties, and especially the estimated useful economic life;
- (b) the level of bad and doubtful debt provisions against tenant arrears;
- (c) impairment provisions, including situations where existing use valuations are below net cost but the RSL assesses the net realisable value of the property, after deducting any grants that would need to be repaid or recycled, to be higher than net cost. Further judgments may be required in order to determine whether an alternative measure of service potential may be more appropriate where assets are held for social purposes.

The auditor should adopt one or a combination of the following approaches in the audit of an accounting estimate:

- (a) Review and test the process used by management to develop the estimate;
- (b) Use an independent estimate for comparison with that prepared by management;
or
- (c) Review of subsequent events which provide audit evidence of the reasonableness of the estimate made. (para 10)

The auditor should make a final assessment of the reasonableness of the entity's accounting estimates based on the auditor's understanding of the entity and its environment and whether the estimates are consistent with other audit evidence obtained during the audit. (para 24)

Depreciation

130. Depreciation charges are difficult to assess because of the length of the useful economic life of the property. Taking into account any special factors affecting the particular RSL, such as type, location and method of construction, the auditor compares the estimated useful economic lives adopted by the RSL with those prevalent in the sector. If the RSL is out of line, the auditor considers whether the reasons for the variance are plausible.

Bad and doubtful debt provisions

131. When evaluating whether adequate provision has been made for bad and doubtful debts, an effective approach is likely to involve consideration of applicable ratios and trends together with an evaluation of the effectiveness of the housing management system. Analytical procedures are likely to be an effective technique because of the large volume of relatively small amounts due to an RSL. Furthermore, complexities arising from housing benefit payments from local authorities may mean that an approach based on consideration of individual debtors is time consuming. When reliance is placed on analytical procedures the auditor considers whether past ratios and trends continue to be applicable in current economic circumstances.

132. The legal position of the RSL is often such that enforcement procedures in relation to the debt are more expensive to carry out than the amounts involved, are uncertain given the attitudes of the courts, and even if successful may only lead to payment over a prolonged period. In some cases, non-payment of a disputed balance may not be the cause, but external factors such as arrears stemming from delays in processing genuine housing benefit claims. In other cases the arrears may stem from rejected or invalid housing benefit claims.

Valuation

133. Existing use value-social housing (EUV-SH) and other bases of valuation usually involve an element of judgment. In both cases, the RSL may choose to use the services of an external specialist, such as a qualified surveyor, to arrive at the estimate. Where they do not, the auditor assesses whether the estimates have nevertheless been arrived at in a reasonable manner under the circumstances.

ISA (UK AND IRELAND) 545: AUDITING FAIR VALUE MEASUREMENTS AND DISCLOSURES

Background note

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance on auditing fair value measurements and disclosures contained in financial statements.

The auditor should obtain sufficient appropriate audit evidence that fair value measurements and disclosures are in accordance with the entity's applicable financial reporting framework. (para 3)

134. In RSLs, fair value measurements and disclosures are most likely to apply to those RSLs who hold fixed assets at valuation. Valuers are reliant on information provided to them by the RSL in order to perform the valuation, and this matter is discussed further in the section on ISA (UK and Ireland) 620 below.
135. Under acquisition accounting, the identifiable assets and liabilities of the RSL acquired should be included in the acquirer's balance sheet at their fair value at the date of acquisition. The auditor ensures that the valuation method and amount adopted is appropriately supported and properly reflected in the financial statements.
136. In principle the fair value of housing properties is the Existing Use Value Social Housing (EUV-SH) of these properties. The fair value of other assets and liabilities can be assessed in accordance with the requirements of FRS 7. The auditor considers whether the information provided is consistent with the financial records subject to audit.

As part of the understanding of the entity and its environment, including its internal control, the auditor should obtain an understanding of the entity's process for determining fair value measurements and disclosures and of the relevant control activities sufficient to identify and assess the risks of material misstatement at the assertion level and to design and perform further audit procedures. (para 10)

137. Fair values for all assets and liabilities of an acquired entity should be determined in accordance with FRS 7. Generally, RSLs obtain a valuation based on EUV-SH from a specialist valuer. RSLs should assess the recoverability of arrears in the acquired entity, taking into consideration their own provisions policy. Fixed rate loans should be revalued in the light of interest rates at the time of acquisition.

The auditor should evaluate whether the fair value measurements and disclosures in the financial statements are in accordance with the entity's applicable financial reporting framework. (para 17)

138. For RSLs the fair value measurements and disclosures in the financial statements should be in accordance with the SORP and the General Determination 2000¹⁶.

¹⁶ As at the date of publication of this Practice Note, the General Determination is in the process of being revised.

ISA (UK AND IRELAND) 550: RELATED PARTIES**Background note**

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance on the auditor's responsibilities and audit procedures regarding related parties and transactions with such parties regardless of whether International Accounting Standard (IAS) 24, 'Related Party Disclosures,' or similar requirement, is part of the applicable financial reporting framework.

139. ISA (UK and Ireland) 550 is split according to whether IAS 24 or FRS 8 applies.

The auditor should perform audit procedures designed to obtain sufficient appropriate audit evidence regarding the identification and disclosure by management ¹⁷of related parties and the effect of related party transactions that are material to the financial statements. (para 102)

140. The principles and procedures set out in ISA (UK and Ireland) 550 apply to the audit of RSLs as for other entities. In addition, those RSLs that are companies need to comply with relevant sections of the Companies Acts.

141. Subject to certain exemptions, members of the board and those associated with them, and those associated with senior managers, are not allowed to benefit financially from their connection with the RSL ¹⁸ If there is any evidence of the existence of such related party transactions, then both ISA (UK and Ireland) 550 and ISA (UK and Ireland) 250 Consideration of law and regulations applies.

Where there is any indication that such circumstances exist, the auditor should perform modified, extended or additional audit procedures as are appropriate in the circumstances. (para 103)

142. In England, auditors may take account of the results of any examination of related party transactions undertaken by the Housing Corporation's review teams. However, such

17 In the UK those charged with governance are responsible for the preparation of the financial statements.

18 Tenant representatives are an exception to this, because they enjoy below-market rents. However they should not obtain any benefits which are not available to other tenants.

examinations do not remove the requirement for auditors to obtain sufficient and appropriate audit evidence that material, identified related party transactions are properly recorded and disclosed.

When planning the audit the auditor should assess the risk that material undisclosed related party transactions, or undisclosed outstanding balances between an entity and its related parties may exist. (para 106-3)

143. The auditor considers in particular whether appropriate disclosure, as required by Financial Reporting Standard (FRS) 8 - Related Party Disclosures, is made in the financial statements of transactions between the RSL and board members.
144. The provisions of FRS 8 in the context of related parties and RSL management, are applied to all members of 'key management' not just members of the board. Key management may be taken to include those persons having authority and responsibility for planning, directing and controlling the activities of the RSL, directly or indirectly, including any director (whether executive or otherwise) or officer of that RSL.

ISA (UK AND IRELAND) 560: SUBSEQUENT EVENTS**Background note**

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance on the auditor's responsibility regarding subsequent events.

The auditor should perform audit procedures designed to obtain sufficient appropriate audit evidence that all events up to the date of the auditor's report that may require adjustment of, or disclosure in, the financial statements have been identified (para 4)

145. In most RSLs, the non-executive board plays a crucial role in approving the financial statements. This often takes place a number of weeks after the on-site audit work has been completed, and may in some cases (such as when an Audit Committee meeting occurs in between) be a significant time after the formal audit clearance meeting has taken place.
146. In addition to normal procedures, the auditor ensures that any information relating to the current period provided to the board meeting at which the financial statements for the previous year are due to be approved does not provide indications of any subsequent events which might require disclosure in or adjustment of the financial statements. If any indications exist, then the auditor clarifies the position, and considers whether adjustments or amendments need to be made. Examples of potential adjustments or disclosures include difficulties with the recoverability of material debtors.

ISA (UK AND IRELAND) 570: GOING CONCERN

Background note

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance on the auditor's responsibility on the audit of financial statements with respect to the going concern assumption used in the preparation of the financial statements, including management's assessment of the entity's ability to continue as a going concern.

When planning and performing audit procedures and in evaluating the results thereof, the auditor should consider the appropriateness of management's¹⁹ use of the going concern assumption in the preparation of the financial statements. (para 2)

The auditor should consider any relevant disclosures in the financial statements. (para 2-1)

147. Financial statements of RSLs are normally prepared on a going concern basis. For example, in England, the 2000 Accounting Determination requires disclosure where accounts are prepared other than on a going concern basis.
148. To obtain registration, a social landlord must be able to demonstrate that it is operating, or will operate, on a sound and proper financial basis and must be able to demonstrate that its capital commitments can be financed fully (whether by way of loans or from other resources) and that its income will be sufficient to meet its outgoings and to ensure its future financial stability.

In obtaining an understanding of the entity, the auditor should consider whether there are events or conditions and related business risks which may cast significant doubt on the entity's ability to continue as a going concern. (para 11)

The auditor should remain alert for audit evidence of events or conditions and related business risks which may cast significant doubt on the entity's ability to continue as a going concern in performing audit procedures throughout the audit. If such events or conditions are identified, the auditor should consider whether they affect the auditor's assessment of the risks of material misstatement. (para 12)

19 In the UK those charged with governance are responsible for the preparation of the financial statements and the assessment of the entity's ability to continue as a going concern.

149. To apply ISA (UK and Ireland) 570 to RSLs, auditors consider the circumstances in which RSLs may cease to continue in operational existence.
150. Growing RSLs may be a particular risk because of the necessity to finance developments which may have short term negative cash flows. This issue requires an understanding of:
- commitments and future development intentions;
 - the availability of finance through loan facilities etc;
 - the amount of available security to underpin a necessary loan facility;
 - the ability to repay the loans, which normally means consideration of a long term financial plan; and
 - covenant compliance.
151. Some of the particular factors which may indicate a potential going concern problem at an RSL are:
- transfers of the entire housing stock, or a significant proportion of it;
 - potential action from the regulatory body;
 - for a transferee RSL, transfers of housing stock where the acquisition cost or carrying value is not covered by the long-term projected net rental income;
 - onerous contract terms; this may be particularly relevant where the RSL has entered into Public Finance Initiative or Public Private Partnership contracts which may transfer significant risk to the RSL;
 - inability to service interest payments;
 - contracts under 'supporting people', joint ventures or outsourcing agreements becoming unsustainable;
 - a significant amount of variable interest rate borrowings at a time when interest rates are rising or are predicted to rise;
 - a significant short-term repair liability that the RSL will have difficulty in meeting from its own resources;
 - a fundamental change in the level of demand for the RSL's properties leading to significant void rates and a substantial fall in income;
 - loan repayments or refinancing which cannot be met from the RSL's own resources;
 - likely changes in long term revenues as a result of the need to reduce rents in line with government targets as part of rent restructuring;
 - breaches of loan covenants; and
 - significant loans to subsidiaries involved in activities such as shared ownership or developments for sale in a housing market where sales prices are falling.

The auditor should evaluate management's assessment of the entity's ability to continue as a going concern.

The auditor should assess the adequacy of the means by which those charged with governance have satisfied themselves that:

- (a) It is appropriate for them to adopt the going concern basis in preparing the financial statements; and
- (b) The financial statements include such disclosures, if any, relating to going concern as are necessary for them to give a true and fair view.

For this purpose:

- (i) The auditor should make enquiries of those charged with governance and examine appropriate available financial information; and
- (ii) Having regard to the future period to which those charged with governance have paid particular attention in assessing going concern (see paragraphs 18 and 18-1 in the ISA), the auditor should plan and perform procedures specifically designed to identify any material matters which could indicate concern about the entity's ability to continue as a going concern. (para 17-1)

152. In assessing going concern, the board considers the extent to which there may be adverse variations from anticipated funding or revenue, or additional unexpected costs, and any uncertainties as to whether or not the RSL can continue in operational existence for the foreseeable future.
153. Typically, RSLs acquire properties with the assistance of grants or long term borrowings. This method of financing leads to predictable cash flows in that loan repayments can be predicted and, accordingly, the RSL should be able to plan to meet its obligations from available resources. RSLs have a relatively long business cycle and, in preparing its medium term financial forecasts, the board may consider a longer period of time than for entities with a shorter business cycle.
154. If there are any indications that a particular source of funds or revenue may need to be renewed or renegotiated, the auditor may elect to request the RSL to contact the source of such funds for confirmation that the facility, or grant, will continue to be made available to the RSL. Where there continues to be uncertainty, it may be necessary for the board to disclose the circumstances in the financial statements and for the auditors to draw attention to the matter within their report.

ISA (UK AND IRELAND) 580: MANAGEMENT REPRESENTATIONS

Background note

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance on the use of management representations as audit evidence, the procedures to be applied in evaluating and documenting management representations and the action to be taken if management refuses to provide appropriate representations.

The auditor should obtain appropriate representations from management. (para 2)

155. An important principle underlying ISA (UK and Ireland) 580 is that representations by management cannot be a substitute for other audit evidence that the auditor expects to be available.

Written confirmation of appropriate representations from management, as required by paragraph 4 below, should be obtained before the audit report is issued. (para 2-1)

The auditor should obtain written representations from management on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist. (para 4)

The auditor should obtain written representations from management that:

- (a) It acknowledges its responsibility for the design and implementation of internal control to prevent and detect error; and
- (b) It believes the effects of those uncorrected financial statements misstatements aggregated by the auditor during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such items should be included in or attached to the written representations. (para 5a)

156. Examples of instances when the auditor of an RSL may require a representation letter (or other written confirmation such as a board minute) include cases where the auditor wishes to obtain evidence:

- about the board's acknowledgement of its responsibilities for the financial statements;
- in relation to ISA (UK and Ireland) 250, ISA (UK and Ireland) 570 and ISA (UK and Ireland) 550; and
- that all minutes and correspondence with the regulatory body have been made available to the auditor.

In the UK and Ireland, the auditor should obtain evidence that those charged with governance acknowledge their collective responsibility for the preparation of the financial statements and have approved the financial statements. (para 3-1)

157. The board of directors of an RSL as a whole is responsible for the contents and presentation of the financial statements. Consequently, discussion of the content of any written representation by the board of directors as a whole may be appropriate before it is signed on behalf of the directors, often by one of their members. In many RSLs day to day management may be delegated to a chief executive and other senior managers. Where representations are taken from such senior staff the auditor will ensure such staff have the necessary authority and that such representations are considered and approved by the directors. In larger RSLs approval may come from a finance or audit committee properly authorised by the directors and including director members with a reporting line back to the main board.
158. Communication with the directors on significant issues on which representations are required remains of particular relevance in a sector which relies primarily on voluntary directors who are not involved in the day-to-day running of the business.

ISA (UK AND IRELAND) 610: CONSIDERING THE WORK OF INTERNAL AUDIT

Background note

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance to external auditors in considering the work of internal auditing. This ISA (UK and Ireland) does not deal with instances when personnel from internal auditing assist the external auditor in carrying out external audit procedures. The audit procedures noted in this ISA (UK and Ireland) need only be applied to internal auditing activities which are relevant to the audit of the financial statements.

The external auditor should consider the activities of internal auditing and their effect, if any, on external audit procedures. (para 2)

The external auditor should obtain a sufficient understanding of internal audit activities to identify and assess the risks of material misstatement of the financial statements and to design and perform further audit procedures (para 9).

The external auditor should perform an assessment of the internal audit function when internal auditing is relevant to the external auditor's risk assessment (para 11).

159. It is common practice for larger RSLs to establish an internal audit function. Where this is the case it is for the board of each RSL to determine what is an appropriate internal audit function, taking account of the size of the RSL and the diversity, complexity and pace of change of its activities. In England the Housing Corporation's Circular 25/01 leaves the decision to have an internal audit function completely to the RSL, but does note that many RSLs will find it difficult, if not impossible, to meet the requirements on internal controls assurance without an internal audit function. The Housing Corporation therefore recommends that RSLs owning and/or managing more than 250 units consider annually the need for an internal audit function if they do not have one.
160. Audit committees of RSLs are often concerned to avoid duplication of work, and hence cost, between external and internal audit. However, although it is expected that liaison with any internal audit function, in certain circumstances, could reduce the extent of the procedures of the external auditor, this is a matter for the professional judgment of the external auditor, taking account of the particular circumstances of the individual RSL and the assessment of the internal audit function. There is normally, however, regular liaison between the internal audit function and the RSL's external auditor.

ISA (UK AND IRELAND) 620: USING THE WORK OF AN EXPERT

Background note

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance on using the work of an expert as audit evidence.

When using the work performed by an expert, the auditor should obtain sufficient appropriate audit evidence that such work is adequate for the purposes of the audit. (para 2)

161. There are two areas where it is likely that for some audits of RSL financial statements, use will be made of the work of an expert. The two areas are: valuations of housing and other properties and defined benefit pension schemes.

Valuations

162. Under FRS 15 and the SORP RSLs are permitted to carry housing properties at a valuation. Valuers are reliant on information provided to them by the RSL in order to perform the valuation. If management decide to include properties at a valuation, the auditors need to ensure that the final valuation is properly reflected in the financial statements²⁰. The auditor considers whether the information provided is consistent with the financial records subject to audit. The auditor also confirms that any accounting or other errors arising from the audit, and which may have a material bearing on the valuation, have been drawn to the attention of the valuer and reflected in the valuation. The auditor considers the reasons for any changes in valuation from the previous period and consider the conclusions in the light of the auditors' overall knowledge of the business and the results of other audit procedures.

163. The auditor considers overall whether the information provided to the valuer or other relevant professionals to enable them to perform their valuation is complete, accurate and appropriate for their purposes.

Pension schemes

164. A number of RSL financial statements reflect the position in respect of surpluses and deficits on defined benefit pension schemes. The information is usually provided directly by the actuary to the scheme. The auditor follows the guidance set out in PN 22 – The auditors' consideration of FRS 17 'Retirement benefits'-Defined benefit schemes.

20 The SORP requires that valuations should be on the 'Existing Use Value Social Housing' basis, as recognised by the Royal Institution of Chartered Surveyors, and that any departure from the existing use basis, the reasons for it and its effect should be disclosed in the financial statements.

ISA (UK AND IRELAND) 700: THE INDEPENDENT AUDITOR'S REPORT ON A COMPLETE SET OF GENERAL PURPOSE FINANCIAL STATEMENTS

Background note

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance on the form and content of the auditor's report issued as a result of an audit performed by an independent auditor of the financial statements of an entity. Much of the guidance provided can be adapted to auditor reports on financial information other than financial statements.

The auditor's report should contain a clear written expression of opinion on the financial statements taken as a whole. (para 4)

165. There are particular factors that the auditors of an RSL need to consider in reporting on their audits of the financial statements of RSLs concerning:

- the report - title and addressee;
- statements of responsibility;
- the basis of opinion;
- compliance with relevant accounting requirements; and
- further matters required by statute or other regulations.

166. An example of an auditor's report on the financial statements of an RSL which is an Industrial and Provident Society²¹, together with an example of a statement of responsibilities, are included as Appendices. Given the complexity of the legal and regulatory requirements for RSLs, auditors take care to ensure that the correct legislation governing the preparation of the financial statements is referred to.

The auditor's report should be appropriately addressed as required by the circumstances of the engagement and local regulations. (para 7)

²¹ The wording in the example can be tailored for RSLs that are companies or charities.

167. ISA (UK and Ireland) 700 requires the title of an auditor's report to identify the person or persons to whom it is addressed. These are the person or persons on whose behalf the audit is undertaken. In the RSL sector, audits are normally undertaken on behalf of the members, so auditor's reports are normally addressed to the members of RSLs, although paragraph 9 of the Friendly and Industrial and Provident Societies Act 1968 states that the auditors should report to the society. In the case of an RSL which is a non-exempt charity, other than a charitable company, the Regulations made under Part VI of the Charities Act 1993 require the auditors' report to be addressed to the charity trustees as the persons responsible under the Act for the appointment of the auditor.

In the UK and Ireland:

- (a) The auditor should distinguish between the auditor's responsibilities and the responsibilities of those charged with governance by including in their report a reference to a description of the relevant responsibilities of those charged with governance when that description is set out elsewhere in the financial statements or accompanying information; or
- (b) Where the financial statements or accompanying information do not include an adequate description of relevant responsibilities of those charged with governance, the auditor's report should include a description of those responsibilities. (para 9-1)

168. ISA (UK and Ireland) 700 requires the auditors to distinguish in their reports between their responsibilities and those of the directors or equivalent persons. For RSLs, the responsibilities equivalent to those of the directors of a limited company lie with the board. An example statement of responsibility is given in Appendix 6.

The auditor's report should describe the scope of the audit by stating that the audit was conducted in accordance with ISAs (UK and Ireland) or in accordance with relevant national standards or practices as appropriate. (para 12)

169. RSLs are required to prepare financial statements in accordance with statutory requirements, which include the requirement to give a true and fair view. Auditors of RSLs are required to state whether, in their opinion, the financial statements meet those requirements.

170. The specific statutory requirements for form and content of financial statements are determined in accordance with the laws and regulations applicable to the particular RSL, taking account of whether it is constituted as a registered charity, as a society registered under the Industrial and Provident Societies Act 1965 or as a non-profit making company; and whether it is registered in England, Scotland, Wales or Northern Ireland.

171. There is no specific legal requirement that RSLs should comply with accounting standards or with the SORP: however, the 2000 Accounting Determination, the Registered Housing Associations (Accounting Requirements) (Scotland) Order 1999, the Accounting Requirements for RSLs registered in Wales – General Determination 2000 and the Registered Housing Associations (Accounting Requirements) (Northern Ireland) Order 1993 all require the board of an RSL to state whether its financial statements have been prepared in accordance with applicable accounting standards and statements of recommended practice. In addition, the Accounting Determinations in England and Wales require disclosure to be made in accordance with the SORP where appropriate.
172. The SORP has been developed in accordance with the code of practice established by the ASB for the production and issue of SORPs. Consequently, it provides authoritative guidance, at the time of issue, on the application of accounting standards (compliance with which is considered necessary, in all save exceptional circumstances, to meet the requirement to give a true and fair view) in a manner which takes account of the particular circumstances of providers of social housing registered with one of the regulatory bodies in the UK.
173. Furthermore FRS 18 requires the use of the most appropriate accounting policies and provides that the inclusion of an industry practice in a SORP will be persuasive (but not conclusive) evidence that practice represents the most appropriate policy. Whilst the statutory requirements for disclosure do not refer specifically to the SORP, it may normally be assumed to be the applicable SORP in terms of the disclosure requirement referred to above. Consequently, in order to meet the statutory requirement to give a true and fair view, financial statements of RSLs will normally follow its provisions, taking into account any amendment judged to be necessary as a result of changes in accounting standards since its issue²².

Further matters required by statute or other regulations

The opinion paragraph of the auditor's report should clearly indicate the financial reporting framework used to prepare the financial statements (including identifying the country of origin of the financial reporting framework when the framework used is not International Accounting Standards) and state the auditor's opinion as to whether the financial statements give a true and fair view (or are presented fairly, in all material respects,) in accordance with that financial reporting framework and, where appropriate, whether the financial statements comply with statutory requirements. (para 17)

22 The financial statements of every RSL in Scotland are required to comply with Schedule 7, part 3, of the Housing (Scotland) Act 2001 and the auditors' report must state whether in the auditors' opinion the financial statements do so comply. SHGN 2001/10 also requires Scottish RSLs to comply with the Housing SORP.

174. The auditor's report should contain any further matters required by statute or other requirements applicable to the particular engagement. For any RSL, such further matters are set out in the Housing Act 1996²³, together with any relevant Statutory Instrument or Accounting Determination or Order issued under the Act. Other relevant statutes include the Industrial and Provident Societies Acts 1965 to 2002²⁴, the Companies Act 1985²⁵ and the Charities Act 1993²⁶, depending on the legal form and jurisdiction of the RSL. As well as referring to these statutes as appropriate, the auditors' report may also need to refer to a trust deed where the RSL is a charitable trust.
175. Depending on the legislation under which they are formed (Appendix 3), there are various requirements for RSLs to maintain adequate books and records and satisfactory systems of internal control and for auditors to report if this is not the case. For example, for RSLs formed under the Industrial and Provident Societies Act 1965, section 9 of the Friendly and Industrial Provident Societies Act 1968 (or, for RSLs that are registered charities, Schedule 1 to the Housing Act 1996) requires auditors to state in their report, where in their opinion:
- (a) proper books of account have not been kept in accordance with the requirements of section 1(1)(a) of that Act;
 - (b) a satisfactory system of control over transactions has not been maintained in accordance with the requirements of section 1(1)(b) of that Act;
 - (c) the revenue account or accounts, the other accounts (if any) to which the report relates, or the balance sheet are not in agreement with the books of account; or
 - (d) they have not obtained all the information and explanations they considered necessary.
176. If such references to inadequate records or systems of internal control under the relevant legislation are included in the auditors' report, consideration is given by the auditors to a qualification on the grounds of limitation of the scope of the work the auditors were able to perform.
177. The principles under which auditors report on the summarised or abridged accounts of RSLs are set out in the APB's Practice Note 8 - Reports by auditors under company legislation in the United Kingdom. Auditors of RSLs which are charities refer to the section

23 **Northern Ireland** - The Housing (Northern Ireland) Order 1992. **Scotland** - Part II of the Housing Associations Act 1985 and the Housing (Scotland) Act 2001.

24 Industrial and Provident Societies Act (Northern Ireland) 1969 to 1976. Applies only to RSLs that are industrial and provident societies.

25 Companies (Northern Ireland) Order 1986.

26 In addition, from 2006, the Charities Act 2005 in England and Wales and the Charity and Trustee Investment (Scotland) Act 2005 in Scotland.

on summary financial information and summarised financial statements in Practice Note 11 - The audit of charities in the United Kingdom (Revised).

178. Auditors of RSLs may be required to report on the service charge accounts of tenants or leaseholders, either by the terms of the lease or by the requirements of the Landlord and Tenant Act 1985.

Electronic publication of financial information

179. In January 2001, the APB published Bulletin 2001/1,²⁷ The Electronic Publication of Auditors' Reports in response to The Companies Act 1985 (Electronic Communications) Order 2000 ('the Order'). The Order enables companies, subject to certain conditions, both to meet their statutory reporting obligations to shareholders by distributing financial statements and certain other reports (including summary financial statements) electronically, and to post their financial statements on their website and advise shareholders of this.
180. Auditors of RSLs consider following the guidance in cases where the RSL publishes, or intends to publish, financial information electronically. The main aim of the guidance is to ensure that the auditors' duty of care is not extended solely as a result of their report being published in electronic rather than hard copy form. In addition, as information published on websites is available in many countries with different legal requirements, it must be clear which legislation governs the preparation and dissemination of the financial statements.

27 This is now set out in an Appendix to ISA (UK and Ireland) 720.

ISA (UK AND IRELAND) 720: OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

Background note

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance on the auditor's consideration of other information, on which the auditor has no obligation to report, in documents containing audited financial statements. This ISA (UK and Ireland) applies when an annual report is involved; however, it may also apply to other documents.

If, on reading the other information, the auditor identifies a material inconsistency, the auditor should determine whether the audited financial statements or the other information needs to be amended. (para 11)

181. For RSLs which are not companies, there may not be a statutory requirement for the auditors to consider the consistency or accuracy of a report by the board of management, or of any other information accompanying the audited financial statements. However, one of the fundamental principles set out in the APB's The Auditors' Code²⁸ is that auditors allow their reports to be included in documents containing other information only if they consider that the additional information is not in conflict with the matters covered by their report and they have no cause to believe it to be misleading.
182. Other information may be issued by RSLs in a combined publication with the audited financial statements. The auditor reviews the other information to ensure that there are no inconsistencies that cast doubt on the reliability of the audited information. Other information may include:
- statements by the patron, president, chairman or chief executive;
 - an operating and financial review;
 - a statement concerning arrangements for corporate governance;
 - the board's statement on internal control in accordance (in England) with Housing Corporation Circular 25/01, 'Internal Controls Assurance';

28 The Auditors' Code, which is included in the Scope and Authority of APB Pronouncements, contains nine fundamental principles of independent auditing.

- a treasurer's report;
 - financial summaries; and
 - projections of future expenditure based on planned activity.
183. The requirements of ISA (UK and Ireland) 720 do not apply where, for example, an annual report is prepared which is an entirely separate document from the financial statements and the related auditor's report, unless it contains abridged financial information.
184. Specific guidance relating to requirements in England and Scotland on Boards may also include information concerning corporate governance in an RSL's annual report and may request the auditor to review and report on that information. In such cases, the auditor has regard to the guidance set out in the APB's Bulletin 2004/3 Combined Code on Corporate Governance: Requirements of Auditors under the Listing Rules of the Financial Services Authority.
185. Many RSLs are industrial and provident societies. Paragraph 3(5) of the Friendly and Industrial and Provident Societies Act 1968 states that a society shall not publish any revenue account or balance sheet unless it incorporates an audit report. Notwithstanding this, where auditors are required to report separately on abridged financial statements (see the section of this Practice Note dealing with ISA (UK and Ireland) 700 Auditors' reports on financial statements), the requirements of Bulletin 1999/6 The Auditors' Statement on the Summary Financial Statement are complied with, to the extent that they are relevant.

If the auditor identifies a material inconsistency the auditor should seek to resolve the matter through discussion with those charged with governance. (para 11-1)

186. Where auditors identify an inconsistency between other information and corresponding or related amounts or disclosures in audited financial statements and determine that the other information should be amended, they discuss the matter with the management or the board of the RSL with a view to appropriate adjustments being made.

REPORTS ON SERVICE CHARGE STATEMENTS

Under the Commonhold and Leasehold Reform Act 2002 various amendments were made to the Landlord and Tenant Act 1985. These include provisions for the preparation of annual service charge statements, including making these mandatory rather than upon request by a tenant. As at the date of issue of this Practice Note, the provisions relating to annual service charge statements have yet to come into force.

187. The auditor may be required to report on tenants' or leaseholders' service charge statements, for example either as a requirement of the lease or by the Landlord and Tenant Act 1985 (LTA 1985)²⁹ or on request where the social landlord prepares such statements voluntarily.
188. As the landlord's obligation under LTA 1985 is only applicable where a request for a summary of costs is made by a tenant, in practice it is very rare that a service charge statement will be prepared by the landlord to fulfil obligations under LTA 1985. Accordingly, landlords generally prepare service charge statements either voluntarily or because they are required to contractually by the lease.
189. For service charge statements prepared under LTA 1985 or under the requirements of the relevant lease, the auditor considers whether all requirements of the lease and relevant legislation in respect of the service charge statement have been met. The form of the auditor's report will be determined by the format of the service charge statement itself.
190. If the service charge statement is prepared under LTA 1985 and covers service charges levied upon four or more leaseholders, the legislation requires that the summary shall be 'certified by a qualified accountant as in his opinion a fair summary complying with the requirements of the LTA 1985 s21 (5); and being sufficiently supported by the accounts, receipts and other documents which have been produced to him.'
191. Where a service charge statement is prepared as a result of a requirement within the lease or voluntarily, there are different possibilities for the audit report depending upon the contents of the service charge statement. Where the service charge statement includes all the disclosures required by LTA 1985, the report referred to in the paragraph above will be of relevance to the form of the actual report, though it will not be the same report. Alternatively, if the service charge statement does not provide these disclosures, the wording of the report will need to be further amended to that referred to below.

29 As amended by other legislation such as the LTA 1987 and the Commonhold and Leasehold Reform Act 2002.

192. The auditor's report is addressed to the landlord or managing agent and clarifies that it is the responsibility of RSLs to prepare the financial statements and the responsibility of the auditors to express an opinion on those statements. In addition to the opinion on whether the statements are a 'fair summary', the report states whether the statements are in agreement with the financial records of the RSL and whether the relevant statutory and lease requirements relating to the service charge have been complied with.
193. It is important that the auditors communicate clearly the basis and scope of the opinion which they are expressing, both in their report and in a separate engagement letter. Leaseholders and tenants should understand that they are not receiving any assurance regarding whether they are being charged a reasonable amount for services or whether those services have been provided effectively.
194. Below is an example of the auditor's report on tenants' and leaseholders' service charge statements prepared either in accordance with LTA 1985, or in accordance with the requirements of a lease or voluntarily.

INDEPENDENT AUDITORS' REPORT ON SERVICE CHARGE STATEMENT

Report of the auditors to the Landlord/Managing Agent of [property]

In accordance with our engagement letter dated [date] , we have examined the service charge statement set out on pages...to....in respect of [property] for the year ended [date] together with the books and records maintained by [Landlord/managing agent] in so far as they relate to [property].

Under the terms of this engagement, we were not required to, and did not, form any opinion as to either the reasonableness of the costs included within the service charge statement or the standard of the services or works provided.

Respective responsibilities of the Landlord and auditors

Under the Landlord and Tenant Act 1985/ Under clause [] of the tenancy agreement (or lease) dated [] between the Landlord and [*the tenant*], the Landlord is responsible for the preparation of this service charge statement in respect of the costs in respect of [property]. [The Managing Agent has undertaken responsibility for the preparation of the service charge statement on behalf of the Landlord.] It is our responsibility to form an independent opinion, based on our examination, on the service charge account and to report our opinion exclusively to the Landlord / Managing Agent.

Basis of opinion

Our work included examination, on a test basis, of evidence relevant to the amounts included in the statement and their disclosure. [It also included an assessment of the significant estimates and judgments made by the Landlord/Managing Agent in the preparation of the service charge statement.]

We planned and performed our examination so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the service charge statement is a fair summary of the costs relating to [property] and is sufficiently supported by accounts, receipts and other documents which have been made available to us. In view of the purpose for which this service charge statement has been prepared, however, we did not evaluate the overall adequacy of the presentation of the information which would have been required if we were to express an audit opinion under International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board.

Opinion

In our opinion the service charge statement presents a fair summary of the income and expenditure for the year ended [], is sufficiently supported by accounts, receipts and other documents and has been prepared in accordance with [section 21 (5) of the Landlord and Tenant Act 1985 and] clause [] of the tenancy agreement (or lease) dated [] between the tenant (leaseholders) and XYZ Registered Social Landlord.

APPENDIX 1

REGULATION OF REGISTERED SOCIAL LANDLORDS

1. RSLs are subject to monitoring and regulation by a regulatory body and need to meet various conditions concerning their objects and constitution. The regulatory bodies are the Housing Corporation (in England), the Department for Social Development (Northern Ireland), Communities Scotland and the National Assembly for Wales.
2. The regulatory bodies typically have objectives based around:
 - the viability, governance and management of RSLs;
 - social justice and inclusion;
 - sustainable communities;
 - value for money;
 - protection of public funds; and
 - service delivery to tenants.
3. The regulatory bodies set down their expectations in regulatory codes and circulars, supported by good practice notes and other publications.
4. The regulatory bodies take regulatory action where performance concerns are identified. In most cases the RSL will be able and willing to address those concerns. Where very serious concerns are identified however the regulatory bodies have a range of other powers at their disposal including:
 - power to make appointments to the RSL's Board;
 - power to direct an inquiry into the affairs of an RSL; and
 - power to intervene where an RSL is threatened with insolvency.

England

5. The Housing Act 1996 sets out the powers of the Housing Corporation which include powers to:
 - register and de-register social landlords;
 - consent to the disposal of land;
 - obtain information from an RSL;
 - intervene in the case of insolvency;

- direct the transfer of land; and
 - freeze an RSL's assets.
6. In *How We Regulate 2: Risk based regulation*, published in February 2005, the Housing Corporation introduced a new style of regulation, based on a risk assessment of all lead regulated associations, to determine the planning and delivery of regulatory engagement with each association.

Northern Ireland

7. The Housing (Northern Ireland) Order 1976 introduced a system of funding for RSLs through loans and housing association grant (HAG). In contrast to the situation in England and Wales, charities and not-for-profit companies cannot obtain HAG in Northern Ireland because the Housing (Northern Ireland) Order 1992 specifies that only Industrial and Provident Societies can be registered and HAG can only be paid to such RSLs.
8. The Department for Social Development is the regulator for all RSLs in Northern Ireland. It also acts as a paying agent for the government, making grants and subsidies to RSLs.

Scotland

9. The Housing (Scotland) Act 2001 replaced Scottish Homes with Communities Scotland, an agency of the Scottish Executive, as the regulator for all RSLs in Scotland. In addition to being the regulatory body, Communities Scotland also acts as a paying agent for the government, making grants and subsidies to RSLs. Communities Scotland can also pay grants to unregistered organisations, however, these payments are more limited and less generous than for RSLs. The Regulation and Inspection Division of Communities Scotland is responsible for inspecting RSLs.
10. All the social housing legislation up to 1985 was consolidated into the Housing Association Act 1985 and the Housing (Scotland) Acts 1987 and 1988. From July 2001 the Housing (Scotland) Act 2001 came into force, repealing certain sections of previous housing legislation.
11. The regulatory powers of Communities Scotland are similar to those outlined above under the England section.

Wales

12. The Housing Act 1988 established Housing for Wales as the regulator for RSLs in Wales. The legislation gives Housing for Wales powers identical to those of the Housing Corporation in England. These powers are now administered by the National Assembly for Wales.

13. The National Assembly for Wales (previously Housing for Wales) produces circulars for RSLs from time to time and issues publications and Accounting Determinations. Under a new Regulatory Code applying from April 2005 larger RSLs will be required to produce rolling thirty year financial projections in a prescribed format.

Eligibility to register

England and Wales

14. Section 2 of the Housing Act 1996 ('the 1996 Act') provides that a body is eligible for registration as a social landlord if it falls into one of the following categories:
- a registered charity³⁰ which is a housing association;
 - a society registered under the Industrial and Provident Societies Act 1965 which satisfies the conditions in section 2(2) of the 1996 Act; or
 - a company registered under the Companies Act 1985 which satisfies the conditions in section 2(2) of the 1996 Act.

Northern Ireland

15. In Northern Ireland, all RSLs must be industrial and provident societies and their objects must accord with the definitions given respectively in the Housing (Northern Ireland) Order 1992 and the Housing Associations Act 1985.

Scotland

16. Chapter 1 of Part 3 of the Housing (Scotland) Act 2001 (the 2001 Act) provides that a body is eligible for registration as a social landlord if it is –
- A society registered under the Industrial and Provident Societies Act 1965 which has its registered office in Scotland and satisfies the conditions in paragraph 58(2) of the 2001 Act, or
 - A company registered under the Companies Act 1985 which has its registered office in Scotland and satisfies those conditions.

30 Under the Housing Associations Act 1985 a housing association is eligible for registration if it is –
 – a registered charity; or
 – a society registered under the Industrial and Provident Societies Act 1965 which fulfils the conditions set out in section 4(2) of the Housing Associations Act 1985.

However the term 'a registered charity' has no application in Northern Ireland nor in Scotland as the Charities Act applies only to England and Wales. Scottish charities are only defined in terms of tax exemptions in the Law Reform (Miscellaneous Provisions) (Scotland) Act 1990. A Scottish industrial and provident society may, therefore, have charitable status although it will not be a 'registered charity'.

In addition to being eligible for admission to the register of Social Landlords, RSLs must also satisfy criteria set by Communities Scotland in accordance with Section 61 of the 2001 Act.

APPENDIX 2**CONSTITUTION OF REGISTERED SOCIAL LANDLORDS**

1. The constitution of every RSL (or the legal rules relating to it) must prohibit it from distributing any surplus funds or assets to either its members or board (for example the payment of dividends or a distribution on a winding up)³¹. Each RSL remains an independent and self governing body which is not a public body and does not exist to serve government.
2. All RSLs in Northern Ireland, and the majority of RSLs in England and Wales and Scotland, are industrial and provident societies. Many of these have charitable status.
3. RSLs may also be incorporated under the Companies Act 1985 as companies limited by guarantee with charitable status or as unincorporated charitable trusts.
4. The objects of an RSL which is a registered charity must satisfy the definition of a housing association given in the Housing Associations Act 1985 which is as follows:

'...a society, body of trustees or company:

- which is established for the purpose of, or amongst whose objects or powers are included those of, providing, constructing, improving or managing, or facilitating or encouraging the construction or improvement of housing accommodation, and
 - which does not trade for profit or whose constitution or rules prohibit the issue of capital with interest or dividend exceeding such rates as may be prescribed by the Treasury, whether with or without differentiation as between share and loan capital.'
5. RSLs that are industrial and provident societies or companies do not have to be housing associations and they do not have to satisfy the definition of a housing association contained in the Housing Associations Act 1985. They do, however, have to have amongst their objects those matters set out in Section 2(2) of the 1996 Act (which replicates the provisions of section 4(2) of the Housing Associations Act 1985):

the conditions are that the body is non-profit making and is established for the purpose of, or has among its objects or powers, the provision, construction, improvements or management of

31 Certain RSLs are able to make payments to their Board members in accordance with the rules of the regulatory bodies.

- houses to be kept available for letting;
- houses for occupation by members of the body, where the rules of the body restrict membership to persons entitled or prospectively entitled (as tenants or otherwise) to occupy a house provided or managed by the body; or
- hostels

and that any additional purposes or objects are among those specified in subsection (4), as follows:

the permissible additional purposes or objects are:

- providing land, amenities or services, or providing, constructing, repairing or improving buildings, for its residents, either exclusively or together with other persons;
- acquiring, or repairing and improving, or creating by the conversion of houses or other property, houses to be disposed of on sale, on lease or on shared ownership terms;
- constructing houses to be disposed of on shared ownership terms;
- managing houses held on leases or other lettings (not being houses within subsection (2)(a) or (b) or blocks of flats);
- providing services of any description for owners or occupiers of houses in arranging or carrying out works of maintenance, repair or improvement, or encouraging or facilitating the carrying out of such works; and
- encouraging and giving advice on the forming of housing associations or providing services for, and giving advice on the running of, such associations and other voluntary organisations concerned with housing, or matters connected with housing.

Industrial and provident societies

The United Kingdom

6. As stated above, all RSLs in Northern Ireland, and the majority of RSLs in England and Wales and Scotland, are industrial and provident societies. The most recent consolidating legislation is the Industrial and Provident Societies Act 1965 ('the 1965 Act'), and RSLs registered under previous Acts are deemed (under section 4 of the 1965 Act) to be registered under the 1965 Act without further formalities. They are therefore often referred to as '1965 Act' associations.
7. Industrial and Provident societies have a number of features in common, for example:

- they are subject to the administrative jurisdiction of the Financial Services Authority (FSA)³²;
 - their constitution comprises a book of rules which must be registered with the FSA;
 - they must comply with these rules;
 - they are governed by a board, which is elected by the members; and
 - the members of the board act in a voluntary capacity.
8. The FSA has a duty to ensure that the activities of RSLs continue to fall within the terms of the Industrial and Provident Societies Act 1965. Control is exercised chiefly by receiving an annual return, which must be filed with the FSA. This return deals primarily with the finances of the RSL. Any member of the RSL, or any member of the public, may apply for a free copy of the latest annual return, together with a copy of the auditor's report on the accounts and a copy of the balance sheet included in the return.
 9. RSLs must also keep registers of members and of the particulars noted in the rules which are open to inspection by the FSA and by any member of the public.
 10. As well as being responsible for initial registration, the FSA is responsible for registration of any subsequent changes, for example change of registered office, name or alteration of borrowing powers and limits. Similarly, the FSA must be involved in any dissolution or transfer of assets. All such rule changes must be registered. They take effect, not on application, but on approval and registration by the FSA.
 11. RSLs that are industrial and provident societies are subject to the audit requirements of the Industrial and Provident Societies Acts, and in Scotland they are also subject to the requirements of Housing (Scotland) Act 2001, Schedule 7, Part 3. As such they are required to keep proper books of account and submit their financial statements for audit at least once a year.
 12. Whilst there are exemptions available to certain small industrial and provident societies from the requirement to appoint auditors, RSLs are not entitled to take advantage of this exemption. RSLs are required to submit their audited financial statements to the Registrar with their annual return and present an audited revenue account and balance sheet at the annual general meeting for approval by the members.

32 Northern Ireland - The Registrar of Credit Unions

Companies

England, Scotland and Wales

Charitable companies limited by guarantee

13. Some RSLs are incorporated under the Companies Act 1985 as companies limited by guarantee but also have charitable status. As companies, their constitutions are their memorandum and articles of association. Companies are governed, on behalf of their members, by boards of directors and are required to submit annual returns and accounts, drawn up in accordance with the Companies Act 1985, to the Registrar of Companies.
14. RSLs which are charitable companies must operate in accordance with the Companies Acts and their memorandum and articles of association are filed with the Registrar of Companies. As charities, they are also subject to regulation by the Charity Commission. All such RSLs must comply with the relevant provisions of charities and companies legislation as well as of legislation relating to RSLs so that, for example, they are unable to take advantage of the exemptions from audit available to small charities and to small companies under the Companies Act 1985.

Non-charitable companies

15. Part I of the Housing Act 1996 enables non-charitable non-profit-making companies to register with the relevant regulatory body (the Housing Corporation in England or the National Assembly for Wales in Wales).
16. The 1996 Act makes no specific reference to local housing companies or the nature of their legal constitution. Local housing companies may, therefore, be incorporated or unincorporated and, if incorporated, limited by guarantee or by shares, or set up as an industrial and provident society. Local housing companies must be not-for-profit if they are to be eligible for registration with the relevant regulatory body as an RSL.

Charities

England and Wales

17. Many RSLs in England and Wales are charities and are often constituted by a trust deed, unless they have been established as charitable companies (see above) or charitable industrial and provident societies. The majority of charitable RSLs are industrial and provident societies and are therefore exempt charities which, although subject to the Charities Act, are not currently regulated by the Charity Commission. Charitable RSLs that are unincorporated bodies (in other words, not industrial and provident societies or companies) are subject to regulation and monitoring by the Charity Commission and are governed by boards who are responsible for ensuring that the charity operates within its objects. RSL charitable companies are regulated by both the Registrar of Companies and the Charity Commission.

18. The activities of certain non-charitable RSLs may be similar to those of charitable RSLs. However, in order to be 'charitable' RSLs, their constitutions must have objects that are wholly charitable and the wholly charitable constitution documents (see below) must have been registered at the appropriate registry.
19. The constitutions of charitable RSLs normally provide that they must act for the 'relief of the aged, impotent or poor people', but RSLs that act for the relief of such people are only 'charitable' if they also have charitable constitutions. Charitable status brings certain benefits:
- their status in the eyes of the general public may be different;
 - potential donors may be more inclined to help the RSL;
 - some charities make donations only to organisations with charitable status;
 - rate relief - or relief on the uniform business rate - may be obtainable on property occupied by a charity;
 - exemption is available from liability to Corporation Tax and Capital Gains Tax; and
 - exemption is available from stamp duty on purchases of land or property.
20. Because of the benefits of charitable status it is considered important that such organisations are subject to regulation and they are therefore required to register. The Charities Acts provide for a central register of charities in England and Wales to be maintained by the Charity Commission. For most charities registration with the Charity Commission is compulsory but, as stated above, Industrial and Provident Societies are exempt from registration, although still subject to charity law. RSLs which are charities but which are not industrial and provident societies are subject to the regulatory requirements of the Charity Commissioners and to charity law (and of company law if they are companies).
21. Charitable trusts must operate in accordance with their trust deeds, as approved by the Charity Commission. RSLs with charitable status which are limited companies must also comply with companies legislation. Charitable status does not remove the overriding requirement for an RSL to comply with relevant legislation, for example the requirement for an external audit irrespective of size.

Scotland

22. In Scotland, charitable status has historically been approved by the Inland Revenue. A new regulator, the Office of the Scottish Charity Regulator, is currently being set up and will assume this responsibility when the Charity and Trustee Investment (Scotland) Act 2005 comes into force. Right to Buy (RTB) is a major and complex issue. RSLs which were already charities when the Housing (Scotland) Act 2001 was implemented are exempt from RTB legislation, but those tenants with an existing RTB will not lose this right

(while they remain in the same property) in the event of their RSL converting to charitable status. Those tenants who are not currently entitled to RTB and any new tenants allocated properties after conversion will not be covered by RTB legislation. The Housing (Scotland) Act 2001 has granted a 10 year exemption from offering RTB to all RSLs, outwith any rights attaching to existing tenancies.

APPENDIX 3**LEGISLATIVE FRAMEWORK****Introduction**

1. This appendix refers to certain key requirements but does not constitute an exhaustive list of all enactments or legislative requirements which may have a bearing on RSLs.

Industrial and Provident Societies Acts 1965-2002 and the Friendly and Industrial and Provident Societies Act 1968*England, Scotland and Wales*

2. The Industrial and Provident Societies Act 1965 (the 1965 Act) sets out important matters related to Industrial and Provident Societies. Section 37 of the 1965 Act sets out some basic requirements in relation to the audit of the accounts of an Industrial and Provident Society. In particular it requires that auditors should satisfy themselves that proper records have been kept of all transactions, assets and liabilities. The Friendly and Industrial and Provident Societies Act 1968, which sets out the main accounting and audit requirements, requires proper financial records to be kept and that all financial statements agree with those records, that there is satisfactory internal control over transactions and that the financial statements show a true and fair view of the RSL's financial position.
3. The Industrial and Provident Societies Act 1978 simply altered Section 7(3) of the 1965 Act. More importantly, the 1978 Act sets out that the 1978 Act and the 1965 Act should be construed as one. It is for this reason that the audit reports make reference to the Industrial & Provident Societies Acts 1965 to 1978.
4. The Industrial and Provident Societies Act 2002 substantially amended the 1965 Act in relation to the conversion of a Registered Society into a Company. In addition, it gave power to the Treasury to modify the relevant statutory provisions in the 1965 Act for the purpose of assimilating the law relating to companies and the law relating to Industrial & Provident Societies. That power includes the power to change, by order, Section 37 of the 1965 Act. No such change has been made as at the date of issue of this Practice Note. Because of this power it is necessary when referring to the 1965 Act also to refer to the 2002 Act. As a consequence, the accounts of an Industrial and Provident Society must comply with the Industrial & Provident Societies Acts 1965 to 2002 and the audit report should cover those Acts.

The Housing Acts 1974, 1980 and 1985

England, Scotland and Wales

5. The Housing Acts provide a comprehensive system of grants for registered RSLs and set up the regulator's dual tasks of controlling and financing³³ RSLs.
6. The 1974 Act established the housing association grant regime; the 1980 Act was concerned mainly with the management of property and the legal position of tenants; whilst the 1985 Act was a consolidating Act.

The Housing Acts 1988, 1996 and 2004

England and Wales

7. The 1988 Act launched the Government's mixed funding initiative which has increasingly become the normal method of financing new housing schemes.
8. The Housing Act 1996 has amended, replaced or repealed various sections of the Housing Associations Act 1985 and Part II of the Housing Act 1988.
9. The Act introduces the definition of 'registered social landlords' which includes existing registered housing associations, but also includes local housing companies formed from local authority stock. It also introduces the term 'social housing grant' to replace the term 'housing association grant'. The 1996 Act has also made changes to the Housing Corporation's powers and responsibilities. In particular, it allows the Housing Corporation and the National Assembly for Wales to determine the accounting requirements for RSLs.
10. The requirements on registered social landlords to provide the Corporation and the National Assembly for Wales with general and performance information about their activities are now put on a statutory basis. The new regulatory regime gives the Housing Corporation and the National Assembly for Wales significant increases to their inquiry powers, as well as the power to intervene and seek to secure transfer of social housing stock in the event of threatened insolvency.
11. The Act also introduces a range of changes to houses in multiple occupancy, tenancy allocation and homelessness matters.
12. The 2004 Act extends the power of the Housing Corporation and the National Assembly for Wales to give social housing grant to organisations other than registered social landlords. It also paves the way for the removal of the requirement for smaller associations to have their accounts audited, and sets out circumstances in which the auditor may disclose information to the regulator without breaching the duty of

33 In Scotland the financing function is in certain cases being transferred to local authorities.

confidentiality to client associations³⁴. The Act also introduces a range of changes relating to health and safety, home information packs, the right to buy, tenancy deposit schemes and accommodation for gypsies and travellers.

The Housing (Northern Ireland) Order 1992

13. The Housing (Northern Ireland) Order 1992 provides the framework for the accounting practice of RSLs and every registered RSL is required, under the Order, to have an annual independent external audit.
14. Article 13 of the Order details the circumstances in which all RSLs must obtain consent from the regulator before disposing of land and property. RSLs must also meet the regulator's administrative rules on taxation and the rights of tenants.
15. Articles 19 and 20 provide for the accounting and auditing requirements for registered RSLs, together with enforcement measures.
16. Under Articles 23 and 24 of the Order, the regulators have specific powers to appoint a person to conduct an inquiry into the affairs of a registered RSL or to audit the RSL. Such action is only taken in extreme cases, normally where mismanagement or maladministration is suspected. The person appointed to carry out the audit must be a registered auditor.
17. Where mismanagement or maladministration is suspected, Articles 25 and 26 provide for the regulator to take appropriate remedial action, including removing and appointing board members or staff and directing that property be transferred to another RSL.
18. Article 31 of the Order prevents board members, and their related parties, from obtaining benefits from it except as determined by the Department.

34 The Housing Act 2004 section 19A states:

'Disclosure of information by auditors etc. to the Relevant Authority

(1) A person who is, or has been, an auditor of a registered social landlord does not contravene any duty to which he is subject merely because he gives to the Relevant Authority –

- (a) information on a matter of which he became aware in his capacity as auditor of the registered social landlord, or
- (b) his opinion on such a matter,

if he is acting in good faith and he reasonably believes that the information or opinion is relevant to any functions of the Relevant Authority.

(2) Sub-paragraph (1) applies whether or not the person is responding to a request from the Relevant Authority.'

Housing Associations Act 1985

England, Scotland and Wales

19. In England and Wales many of the provisions of this Act have been repealed or amended by the Housing Act 1996. In Scotland, the Housing (Scotland) Act 2001 has also modified or repealed certain parts of the 1985 legislation. Reference should be made to the Housing (Scotland) Act 2001, Schedule 10 paragraph 11.
20. The Housing Associations Act 1985 (HAA 1985), together with the Housing Act 1985 and the Landlord and Tenant Act 1985, consolidates all existing legislation up to 1985. No new principles are introduced but the previous legislation has been brought together in a more logical order.
21. The HAA 1985 provides the overall framework for the accounting practice of RSLs. It requires every RSL to have an annual independent external audit.
22. Section 9 details the circumstances in which all RSLs must obtain consent from the regulatory body before disposing of land, or when mortgages are given over, and property. RSLs are also required to meet the regulatory body's rules on taxation and the rights of tenants.
23. Section 15 prevents board members, and their related parties, from being employed by the RSL, or obtaining benefits from it.
24. Under sections 16, 17 and 30, where mismanagement or maladministration is suspected, there are provisions for appropriate remedial action to be taken by the regulatory body, if necessary including the removal and appointment of board members.
25. Section 19 requires RSLs to notify the regulator of any change in name or registered office and to obtain written consent to any other rule change.
26. Section 21 requires that an RSL obtains the consent of the regulator to any amalgamation or dissolution.
27. Under sections 28 and 29 of the Act, the regulatory body has specific powers to appoint a person to conduct an inquiry into the affairs of an RSL or to audit the RSL. Such action is only taken in extreme cases, normally where mismanagement or maladministration is suspected.

The Housing (Scotland) Acts 1987, 1988 and 2001

28. The Housing (Scotland) Act 2001 has made extensive amendments to both these earlier Acts. Reference should be made to Housing (Scotland) Act 2001, Schedule 10, para 13 for changes to the 1987 Act and para 14 for the changes to the 1988 Act.

29. The Housing (Scotland) Act 1988 set up Scottish Homes as, among other things, the funding and registration authority for RSLs in Scotland. The 2001 Act transferred all of its functions to Communities Scotland.
30. Under powers given to Communities Scotland to enable relaxation of Schedule 7 Part 1 of the Housing (Scotland) Act 2001, the following exceptions are permitted:
- granting of tenancies to committee members, staff or their close relatives, providing the RSL can provide evidence that the applicant meets the allocation criteria;
 - entering into a contract of employment with a close relative of an employee or former employee, subject to the RSL being able to demonstrate that selection criteria were fair; and
 - making a payment of RSL Grant under the Scottish Homes Tenants Incentive Scheme to a person covered by section 15, subject to specific criteria being met.

In all the above cases the full committee must authorise the decision, record it appropriately in the minutes and in a section 15 Register maintained by the RSL.

31. RSLs in Scotland must now comply with the all the relevant provisions of the Housing (Scotland) Act 2001 including–
- where a local authority requests an RSL which holds houses for housing purposes in its area to provide accommodation for a homeless person, the RSL must within a reasonable period comply with such a request unless it has a good reason for not doing so;
 - the Housing (Scotland) Act 2001 defines Scottish Secure Tenancy and governs restrictions on termination; proceedings for possession; succession to tenancy and variations to the tenancy;
 - chapter 2 of the Housing (Scotland) Act 2001 has modernised the Right to Buy legislation contained in the Housing (Scotland) Act 1987.

The Landlord and Tenant Act 1985

England and Wales

32. The Landlord and Tenant Act 1985 is a consolidated Act as amended by the Landlord and Tenant Act 1987. The Act details information RSLs are required to give to tenants, such as the landlord's identity and the provision of rent books (for weekly tenants), and contains provisions regarding the fitness of homes for human habitation, landlords repairing obligations and the levying of service charges.

Rent (Scotland) Act 1984

33. This Act provides the framework for the fair rent system and for registering rents with the rent officer. (This is not applicable to new RSL lettings after 2 January 1989). The Housing (Scotland) Act 2001 has made amendments to the Rent (Scotland) Act 1984. Reference should be made to the Housing (Scotland) Act, schedule 10, para 9.

The Charities Acts 1960 and 1993

England and Wales

34. The Charities Acts 1960 and 1993 provide for a central register of charities in England and Wales to be maintained by the Charity Commission. For most charities registration is compulsory, but certain classes of charity are 'exempt'. Charities registered under the Industrial and Provident Societies Acts, including social landlords registered under the NHF's charitable model rules, are 'exempt'.

Northern Ireland and Scotland

35. There is no charities' registry in Northern Ireland, although there is a proposal to establish a Northern Ireland Charity Commission. In Scotland, registration is being established by the new regulator, OSCR.

The Companies Acts 1985 and 1989

England, Scotland and Wales

36. The Companies Act 1985³⁵ Requires the auditors' report to state whether or not the financial statements show a true and fair view and comply with accounting standards. It must be attached to the published accounts.
37. Only persons who are eligible for appointment as auditors under the Companies Act 1989³⁶, and are registered with a supervisory body recognised under this Act, may be appointed as external auditors of registered RSLs.

35 The Companies (Northern Ireland) Order 1986 extends the true and fair view required of financial statements to the auditors' report which must be attached to the published accounts and it requires auditors to state that accounts comply with accounting standards.

36 The Companies (Northern Ireland) Order 1969 states that only persons who are eligible for appointment as auditors under the Companies (Northern Ireland) Order 1969, and are registered with a supervisory body recognised under this Order, may be appointed as external auditors of registered RSLs.

The Accounting Requirements for Registered Social Landlords General Determination 2000

38. The Accounting Requirements for Registered Social Landlords General Determination 2000³⁷, sets out the reporting requirements for publishing the financial statements of RSLs in England. The Determination details the required form of financial statements of RSLs. Similar requirements for Scotland are contained in the Registered Housing Associations (Accounting Requirements) (Scotland) Order 1999. The Accounting Requirements for social landlords registered in Wales – General Determination 2000, sets out similar requirements for Wales.

The Commonhold and Leasehold Reform Act

39. The Commonhold and Leasehold Reform Act 2002 is intended to strengthen residential leaseholders' rights in relation to their landlords, and to address some of the long-standing difficulties of the leasehold tenure. As at the time of publication of this revised Practice Note, many of the provisions of this Act have yet to come into force.

37 **Northern Ireland**

The Registered Housing Association Accounting Requirements (Northern Ireland) Order 1993.

Scotland

The Registered Housing Association (Accounting Requirements)(Scotland) Order 1999.

Wales

The Accounting Requirements for Social Landlords registered in Wales General Determination 2000.

CODES OF AUDIT PRACTICE AND GOOD PRACTICE NOTES

The United Kingdom

1. The regulatory bodies in each of the UK jurisdictions have issued codes of audit practice and good practice notes. The codes, good practice notes and other relevant circulars provide guidance to RSLs on, and define their responsibilities for, amongst other things, effective audit coverage, the appointment of auditors and the nature of the working relationship with the auditors. They also set out or give guidance on the audit framework, the roles and responsibilities of auditors and the re-tendering of audits.
2. The codes and other circulars state that it is the responsibility of boards of RSLs to ensure that management institutes an adequate system of controls, financial or otherwise, in order to carry out the activities of the RSL in an orderly and efficient manner, to ensure adherence to management policies, safeguard the assets and secure, as far as possible, the completeness and accuracy of records.
3. The codes recommend or provide guidance that larger RSLs establish an audit committee or ensure equivalent terms of reference are included within an existing committee. In England all boards of associations are required to undertake an annual review of the effectiveness of the association's system of internal control. To assist them in this task, the chief executive, or executive team, should present the board (or audit committee) with an annual report on the effectiveness of the system.

England

4. The Housing Corporation's Circular 25/01 'Internal controls assurance' confirms that 'The board should maintain a sound system of internal control which ... provides reasonable assurance of the safeguarding of assets'. The circular sets out actions to be taken on fraudulent activity, and also requires all RSLs to maintain a register of all incidents of actual or attempted fraud. The Board also has an obligation to advise the Housing Corporation of fraud in excess of £5,000 (£1000 for small RSLs), or equivalent in value, or of any fraud or attempted fraud involving a board member or a member of the senior management team, immediately on discovery. Circular 25/01 incorporates the Housing Corporation's current guidance on internal audit and audit committees.
5. The decision to have an internal audit function is left to the discretion of the RSL. However the Housing Corporation recommends that RSLs owning and/or managing more than 250 units consider annually the need for an internal audit function if they do not have one.
6. The Good Practice Note on the external audit of housing associations, issued in 2003 by the Housing Corporation, explains the respective responsibilities of RSLs and external auditors. This replaces the Housing Corporation's guidance on external audit which was originally included in a Code of Audit Practice. It points out that auditors are under a

statutory duty to include a statement in their report if the RSL has not maintained a satisfactory system of control over its transactions. The RSL is required to send the regulatory body a copy of the management letter and the RSL's response to it.

7. The Good Practice Note is directed at the directors and management of RSLs and focuses on the following areas:
- requirement to have an external audit;
 - eligibility to be external auditor;
 - selecting an external auditor;
 - engagement of external auditor;
 - respective responsibilities of the RSL and the external auditor;
 - the auditor's report;
 - the auditor's management letter;
 - other communication from the external auditor;
 - other services provided by the external auditor;
 - reviewing the external auditor's performance and changing the auditor;
 - tendering the audit service;
 - audit committees; and
 - groups.

Northern Ireland

8. The Department of the Environment (Northern Ireland) (regulators at that time) issued the Code of Audit Practice for Registered Housing Associations in February 1997. Following devolution the functions of the regulator transferred to the newly-set-up Department for Social Development.
9. The Code includes an additional requirement for the board to ensure that managers institute and maintain an adequate system of internal control in order to discharge the responsibilities for the prevention and detection of fraud and errors.

Scotland

10. Scottish Homes (now Communities Scotland) issued a revised code of audit practice in March 1997 (Guidance Note 97/06) which confirmed that it is the board's responsibility to ensure that management institutes an adequate system of controls. This Code is now incorporated within the Good Practice publication 'Raising Standards in Housing' issued by the Scottish Federation of Housing Associations. The revised code of audit practice requires all RSLs to maintain a register of all incidents of actual or attempted fraud.

Wales

11. Housing for Wales issued the Code of Audit Practice for Registered Housing Associations in Wales in February 1996. The Code reminds RSLs that, following Housing for Wales's Circular 17/94, they are obliged to obtain from their external auditors a report on the adequacy of the scope, nature and effectiveness of internal audit.

APPENDIX 5**EXAMPLE PARAGRAPHS FOR INCLUSION IN AN ENGAGEMENT LETTER FOR AN RSL THAT IS AN INDUSTRIAL AND PROVIDENT SOCIETY**

To the Board³⁸ of [name of registered social landlord]

The purpose of this letter is to set out the basis on which we are to act as auditors of the RSL and the respective areas of responsibility of the Board, comprising of those charged with governance of the RSL, and of ourselves.

1. Responsibilities of the Board and auditors

1.1 The Industrial and Provident Societies Acts and registered social housing legislation require the board to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the RSL and of the surplus or deficit for that period. In preparing these financial statements, the board is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the RSL will continue in business.

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the RSL and to enable it to ensure that the financial statements comply with the Industrial and Provident Societies Acts 1965 to 2002, Schedule 1 to the Housing Act 1996³⁹ and the Accounting Requirements for Registered Social Landlords General Determination 2000⁴⁰. It has general responsibility for taking reasonable steps to safeguard the assets of the RSL and to prevent and detect fraud and other irregularities.

1.2 As Board members, you are under a duty to prepare an annual report for each financial year complying in its form and content with regulations as made under the Accounting

38 The term 'the board' should be taken to mean the body charged with the overall responsibility of managing an RSL and includes the term 'committee of management'.

39 **Scotland** - Section 254(1) of the Housing Association Act 1985.

40 As relevant, insert equivalent requirements for Scotland, Wales and Northern Ireland.

Requirements for Registered Social Landlords General Determination 2000⁴¹. You are also required to have regard to the Statement of Recommended Practice, Accounting by Registered Social Landlords, (the SORP) issued in December 2002, and updated in May 2005, jointly by the National Housing Federation in England, the Scottish Federation of Housing Associations and the Welsh Federation of Housing Associations. RSL financial statements and accounting practices are expected to comply fully, where appropriate, with the SORP.

- 1.3 We have a statutory responsibility to report to the members whether in our opinion the financial statements give a true and fair view of the state of the RSL's affairs and of the surplus or deficit for the year, and whether they have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002, Schedule 1 to the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2000, as amended, (or other relevant legislation). In arriving at our opinion, we are required to consider the following matters, and to report on any in respect of which we are not satisfied:
- whether proper accounting records have been kept by the RSL;
 - whether the RSL's balance sheet and income and expenditure account are in agreement with the accounting records;
 - whether the RSL has maintained a satisfactory system of control over its transactions;
 - whether we have obtained all the information and explanations which we consider necessary for the purposes of our audit; and
 - whether the information in the Board's report is consistent with that in the audited financial statements⁴².
- 1.4 We have a professional responsibility to report if the financial statements do not comply in any material respect with applicable accounting standards, unless in our opinion the non-compliance is justified in the circumstances. In determining whether or not the departure is justified we consider:
- whether the departure is required in order for the financial statements to give a true and fair view; and
 - whether adequate disclosure has been made concerning the departure.
- 1.5 Our professional responsibilities include:
- providing in our report a description of the Committee of Management's

41 The 1992 Order in Northern Ireland requires accounts and an auditor's report.

42 Not applicable in Northern Ireland.

responsibilities for the financial statements where the financial statements or accompanying information do not include such a description; and

- considering whether other information in documents containing audited financial statements is consistent with the financial statements.

2. Scope of audit

- 2.1 Our audit will be conducted in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB) and will have particular regard to the APB's Practice Note 'The audit of registered social landlords in the United Kingdom (Revised)' and the Housing Corporation's Good Practice Note 'External audit of housing associations'. It will include such tests of transactions and of the existence, ownership and valuation of assets and liabilities as we consider necessary.
- 2.2 We shall obtain an understanding of the accounting and internal financial control systems in order to assess their adequacy as a basis for the preparation of the financial statements and to establish whether proper accounting records have been maintained by the RSL.
- 2.3 We shall expect to obtain such appropriate evidence as we consider sufficient to enable us to draw reasonable conclusions therefrom. The nature and extent of our tests will vary according to our assessment of the RSL's accounting system and where we wish to place reliance on it, the system of internal control, and may cover any aspect of the business operations.
- 2.4 Our work will be planned in advance and incorporated into an audit plan. This may be varied on the basis of our findings during the course of an audit and from year to year. Accordingly, we may modify our audit scope, rotate our audit emphasis and propose matters of special audit emphasis, as the circumstances dictate.
- 2.5 Our audit includes assessing the significant estimates and judgements made by the Board in the preparation of the financial statements and whether the accounting policies are appropriate to the RSL's circumstances, consistently applied and adequately disclosed.
- 2.6 The concept of materiality affects our audit planning and our consideration of matters arising from our audit. We take into account both qualitative and quantitative factors when assessing materiality.
- 2.7 In forming our opinion we will also evaluate the overall presentation of information in the financial statements.

3. Internal audit

3.1 In developing our audit plan, we will liaise with your internal auditors to ensure that our work is properly co-ordinated with theirs. It is our policy to rely upon internal audit work whenever possible, while ensuring that adequate audit coverage is achieved of all significant areas.

4. Management representations

4.1 The information used by the Board in preparing the financial statements will invariably include facts or judgements which are not themselves recorded in the accounting records. As part of our normal audit procedures, we shall request appropriate Board members, or senior officials/management to provide written confirmation each year of such facts or judgements and any other oral representations which we have received during the course of the audit on matters having a material effect on the financial statements. We will also ask you to confirm in that letter that all important and relevant information has been brought to our attention. In addition, we shall present to the Board a schedule of any unadjusted misstatements that have come to our attention in the course of our audit work, and if you decide not to adjust the financial statements for these misstatements we shall request you to explain in writing your reasons for not making the adjustments.

5. Detection of fraud, error and non-compliance with laws and regulations

5.1 The responsibility for safeguarding the assets of the RSL and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with yourselves. However, we shall endeavour to plan our audit so that we have a reasonable expectation of detecting material misstatements in the financial statements or accounting records (including any material misstatements resulting from fraud, error or non-compliance with law or regulations), but our examination should not be relied upon to disclose all such material misstatements or frauds, errors or instances of non-compliance as may exist.

6. Reports to management

6.1 At the conclusion of the audit, or sooner if appropriate, we shall prepare a report to The Board that will include comments on:

- any expected modification of the auditors' report,
- unadjusted misstatements,
- material weaknesses to the accounting and internal control systems identified during the audit,
- the qualitative aspects of the RSL's accounting practices and financial reporting,

- matters specifically required by other Auditing Standards, and
 - any other relevant matters relating to the audit.
- 6.2 Our audit is not designed to identify all significant weaknesses in the RSL's system of internal controls. Our review of internal control systems is only performed to the extent required to express an opinion on the RSL's financial statements and therefore our comments on these systems will not necessarily address all possible improvements which might be suggested as a result of a more extensive special examination.

7. Other requirements

- 7.1 In order to assist us with the examination of your financial statements, we shall request early sight of all documents or statements (including the Chairman's statement, operating and financial review and the Board report) which are due to be issued with the financial statements. We are also entitled to attend all general meetings of the RSL and to receive notice of all such meetings.
- 7.2 Once we have issued our report we have no further direct responsibility in relation to the financial statements for that financial year. However, we expect that you will inform us of any material event occurring between the date of our report and that of the Annual General Meeting which may affect the financial statements.

8. Summary Financial Statements

- 8.1 As Board members of the RSL, you are responsible for any summary financial statements. Our responsibility is to report to the members whether in our opinion the summary financial statement is consistent with the full financial statements and report of the RSL for the year. Our work will be conducted in accordance with Bulletin 1999/6 'The auditors' statement on the summary financial statement' issued by the Auditing Practices Board.

9. Adoption of Housing Corporation Circular R2-25/01

- 9.1 We are not required to report on your compliance with the requirements of Circular R2-25/01. Our responsibilities in respect of this statement on internal control are governed by ISA (UK and Ireland) 720 'Other information in documents containing audited financial statements' which requires that;
- We should read the other information. If as a result we become aware of any apparent misstatements therein, or identify any material inconsistencies with the audited financial statements, we should seek to resolve these with you;
 - If we identify an inconsistency between the financial statements and the other information, or a misstatement within the other information, we should consider

whether an amendment is required to the financial statements or to the other information and should seek to resolve the matter through discussion with the directors;

If, after discussion with the directors, we conclude that:

- The financial statements require amendment and no such amendment is made, we should consider the implications for our reports;
- The other information requires amendment and no such amendment is made, we should consider appropriate action including the implications for our report.

10. Electronic communications

10.1 We acknowledge that as the Board of the RSL you may wish to publish the RSL's financial statements and the auditors' report on the RSL's website or distribute them to shareholders by means such as e-mail. Your responsibilities concerning the preparation, dissemination and signing of the financial statements do not change simply because the financial statements are reproduced or distributed electronically; it is your responsibility to ensure that any such publication properly presents the financial information and any auditors' report. We request that you advise us of any intended electronic publication before it occurs.

10.2 As auditors, we will review the process by which the financial statements to be published electronically are derived from the financial information contained in the manually signed accounts, check that the proposed electronic version is identical in content with the manually signed accounts and check that the conversion of the manually signed accounts into an electronic format has not distorted the overall presentation of the financial information, for example by highlighting certain information so as to give it greater prominence.

10.3 In accordance with the guidance in 'the electronic publication of the auditor's report' issued by the Auditing Practices Board, we reserve the right to withhold consent to the electronic publication of our report if the audited financial statements or the auditors' report are to be published in an inappropriate manner or to request amendments to the electronic auditors' report if we are not satisfied with the proposed wording or its presentation in the context of the financial statements.

APPENDIX 6***A STATEMENT OF THE BOARD'S RESPONSIBILITIES FOR AN RSL THAT IS AN INDUSTRIAL AND PROVIDENT SOCIETY***

The Industrial and Provident Societies Acts and registered social housing legislation require the board to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the RSL and of the surplus or deficit for that period. In preparing these financial statements, the board is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the RSL will continue in business.

The board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the RSL and to enable it to ensure that the financial statements comply with the Industrial and Provident Societies Acts 1965 to 2002⁴³, Schedule 1 to the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords Determination 2000 as amended. It has general responsibility for taking reasonable steps to safeguard the assets of the RSL and to prevent and detect fraud and other irregularities.

43 These references should be amended as necessary for RSLs that are companies or charities.

APPENDIX 7

ILLUSTRATIVE EXAMPLE OF AUDITORS' REPORT ON THE FINANCIAL STATEMENTS OF AN RSL THAT IS AN INDUSTRIAL AND PROVIDENT SOCIETY

Example - unqualified opinion

Independent auditors' report to the members of [Registered Social Landlord]

We have audited the financial statements of [Registered Social Landlord] for the year endedwhich comprise (state the primary financial statements such as the Income and Expenditure Account, the Balance Sheet)⁴⁴ and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of the board and auditors

The board's responsibilities for preparing the financial statements in accordance with applicable law are set out in the Statement of Board's Responsibilities on page ...

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002, the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2000⁴⁵. We also report to you if, in our opinion, a satisfactory system of control over transactions has not been maintained, if the RSL has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read other information contained in the Report of the Board and consider whether it is consistent with the audited financial statements. This other information comprises only We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also

44 Auditors' reports on RSLs that do not publish their financial statements on a web site or publish them using 'PDF' format may continue to refer to the financial statements by reference to page numbers.

45 For RSLs in Scotland and Wales, the title of the relevant local Determination should be stated.

includes an assessment of the significant estimates and judgements made by the board in the preparation of the financial statements, and of whether the accounting policies are appropriate to [RSL]'s circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of [RSL]'s affairs as at [date] and of its surplus/deficit for the year then ended and have been properly prepared in accordance with the Industrial and Provident Societies Acts, 1965 to 2002, Schedule 1 to the Housing Act 1996 and The Accounting Requirements for Registered Social Landlords General Determination 2000.

Registered auditors

Address

Date

DEFINITIONS

Abbreviations and frequently used terms in this Practice Note are set out below:

| | |
|---------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Registered Social Landlord | <i>'Registered Social Landlords' (RSLs) in England and Wales include registered housing associations, registered housing charitable trusts and local housing companies. In this Practice Note, the term RSL is also used to apply to housing associations in Scotland and Northern Ireland. RSLs are registered with the relevant regulatory body, that is, the Housing Corporation in England, the Department for Social Development in Northern Ireland, Communities Scotland in Scotland and the National Assembly for Wales in Wales.</i> |
| The Housing Corporation | <i>The principal regulator of RSLs in England.</i> |
| Communities Scotland | <i>The principal regulator of RSLs in Scotland and an agency of the Scottish Executive. Replaced Scottish Homes as the regulator in 2001.</i> |
| The National Assembly for Wales | <i>The principal regulator of RSLs in Wales, replacing Housing for Wales in 1999.</i> |
| The Department for Social Development | <i>The principal regulator of RSLs in Northern Ireland.</i> |
| The FSA | <i>The Financial Services Authority, the regulator of all businesses in the financial services sector; carries out the registration function for certain RSLs.</i> |
| The three Federations | <i>The National Housing Federation, the Welsh Federation of Housing Associations and the Scottish Federation of Housing Associations.</i> |
| Boards | <i>RSLs are governed by boards which are made up mainly of non-executive voluntary members (which may include tenants), but which may also include a limited number of paid and/or staff members. Boards are also referred to as Committees of Management.</i> <i>Boards have the legal responsibility for the running of an RSL. They retain ultimate control and responsibility over all aspects of the activities of the RSL and must ensure that the financial and legal responsibilities are fulfilled properly. The powers of</i> |

| | |
|---------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | <i>boards are wide and, although particular functions may be delegated to sub-committees or to staff, boards retain the responsibility for seeing that those functions are carried out properly.</i> |
| SORP | <i>The Statement of Recommended Practice 'Accounting by Registered Social Landlords' (the SORP) was issued originally in 1999, and updated in December 2002 and May 2005 jointly by the National Housing Federation, the Welsh Federation of Housing Associations and the Scottish Federation of Housing Associations (the Three Federations) in accordance with the ASB's code of practice for the development and issue of SORPs. The SORP aims to interpret for social landlords how present best accounting practice (as defined by the ASB) can apply to them.</i> |
| Accounting Determinations | <i>The Accounting Requirements for Registered Social Landlords General Determination 2000, sets out the reporting requirements for publishing the financial statements of RSLs in England. The Determination details the required form of financial statements of RSLs. Similar requirements for Scotland are contained in the Registered Housing Associations (Accounting Requirements) (Scotland) Order 1999. The Accounting Requirements for social landlords registered in Wales – General Determination 2000, sets out similar requirements for Wales.</i> |
| Directors | <i>The term 'directors' is used to describe the persons who are charged with governance of an RSL, including the preparation of its financial statements. For the purpose of this Practice Note, 'directors' should be taken to mean the members of the board or committee of management of an RSL.</i> |
| Circulars, good practice notes and guidance notes | <i>The regulatory bodies in each of the UK jurisdictions have issued codes of audit practice and good practice notes. The codes, good practice notes and other relevant circulars provide guidance to RSLs on, and define their responsibilities for, amongst other things, effective audit coverage, the appointment of auditors and the nature of the working relationship with the auditors. They also set out or give guidance on the audit framework and the re-tendering of audits.</i> |

APPENDIX 9**SOME SIGNIFICANT TOPICS RELEVANT TO AUDITS OF RSLs**

| TOPIC | PARAGRAPH NUMBER | SECTION |
|----------------------------------------------|--------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
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