

Validation of the Performance Reporting Systems of Housing Associations: Framework and Guidance

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Part 1: Introducing the validation requirement

Our objectives

We collect performance information from housing associations to check that the sector is viable, well governed and well managed, is delivering the government's policy objectives and is eligible for further investment. The quality and accuracy of that performance information is therefore vital.

We wish to increase the level of confidence in the integrity of reported information. It is important that associations should produce reliable data. This is vital if individual associations are to establish consistent indicators to provide themselves with a basis for comparison benchmarking and similar performance activities.

We publish national indicators to help stakeholders make assessments about the performance of a housing association in several key service areas and to enable comparisons to be made with others. It also provides evidence of the sector's progress in working toward continuous improvement.

We are conscious that there are inconsistencies between associations in the way they collect data for the performance indicators this adds to the difficulties of making any useful comparisons. By introducing our new regulatory requirement we expect to be able to minimize the inconsistencies between associations in the way they collect data for the performance indicators making comparisons more meaningful.

Comparative performance indicator information provides associations with better management information internally and externally more robust benchmarking information. Hence allowing more effective and significant comparisons to be made, and for decisions to be taken that are based on reliable data.

Furthermore, for associations systems, validation assesses risks and operational controls in the areas covered by the selected performance indicators and also provide assurance from an independent body.

The new regulatory requirement

The Housing Corporation has introduced a new regulatory requirement that all housing associations should provide evidence of external validation of their performance reporting systems. The purpose of the new requirement is to assist associations in ensuring that their performance reporting systems are capable of generating accurate and high quality output data.

The framework has been developed on the basis of the following objectives for external validation of performance reporting systems:

- To ensure the validation process is consistent with our regulatory approach
- To ensure that housing associations produce high quality, accurate management information for us
- To ensure that the validation framework is sufficiently robust and cognisant of the varied nature and size of associations
- To ensure that the approach is cost effective and avoids placing unnecessary burden on the housing association sector – by placing appropriate reliance on the work of internal audit; and
- To ensure that a risk based approach is adopted which takes account of the effectiveness of systems and management controls of associations who are able to demonstrate robust systems for performance reporting and active management of risk, leading to appropriate and proportionate validation.

Validation focuses on those systems and processes used to collect and produce performance indicator data for the Regulatory and Statistical Return (RSR) and COntinuous REcording of Lettings and Sales (CORE) returns. It provides associations with an external assessment of those systems that classifies each reported performance indicator as 'compliant', 'compliant but' or 'non-compliant'.

In practice the framework:

- Considers whether an association has put in place reasonable arrangements for collecting and recording performance information by reviewing and examining evidence that is relevant to such arrangements.
- Will have regard to the concept of materiality, taking into account the circumstances of the association and the actual impact on overall data integrity of any performance reporting systems deficiency.

The purpose of external validation is to assist associations in ensuring that their performance reporting systems are capable of generating accurate and high quality output data. The aim of the external validator is to ensure wherever possible that each association receives a validation report. This report expresses an opinion on all applicable performance indicators and new systems. Therefore, the framework provides for a staged process to ensure that where any association's systems do not meet the validation standard they are allowed a reasonable period within which to rectify material system deficiencies before any final decision on whether or not to issue a validation report is made by the external validator. Given effective communication between validator and association and active commitment by the association to remedy material deficiencies, it is assumed that a validation report will be issued to each association.

Associations are required to validate their reporting systems on a regular basis and to identify any material issues arising from the validation in their annual self assessment compliance statement with the Regulatory Code. They are not expected to routinely provide the validation report to their lead regulator, but the lead regulator may request it. Where serious issues are identified as a result of the external validation, associations should bring these to the attention of their lead regulator without delay.

Application to the sector

The Housing Corporation introduced the new regulatory requirement progressively, starting with a pilot exercise for the largest associations. Our timetable was as follows:

- All associations with 10,000 dwellings or more (plus other volunteers) participated in a pilot programme from August 2003 to March 2004.
- All associations (excluding those participating in the pilot programme) with 2,500 dwellings or more are required to undergo validation of their performance reporting systems by March 2005.
- All associations (excluding those participating in the pilot programme) with 250 dwellings or more are required to undergo validation of their performance reporting systems by March 2006.
- The Housing Corporation reflected on the lessons from the pilot programme and announced its requirement for all other associations in April 2004.
- The collective results of the 2004/05 validations will be fed back to the sector without identifying the results for individual associations.

How the Framework was developed

In February 2003, the Housing Corporation consulted the sector on how to develop a set of practical and realistic propositions and put this new requirement into practice. In response to the feedback we received, we established a pilot programme, set up an Advisory Group to oversee the pilots and produced a draft framework with the assistance of HouseMark.

The pilot programme included housing associations of varying sizes, structures and geographical spread. Members of the Advisory Group were drawn from the Housing Corporation, National Housing Federation, Chartered Institute of Housing, Audit Commission, Institute of Chartered Accountants of England and Wales, three service providers (HouseMark, PricewaterhouseCoopers and Robson Rhodes), and our consultants (Skills & Projects).

The Advisory Group considered the lessons of the first round of pilots and this document reflects those lessons.

Service providers and pilot associations provided feedback on:

- The time spent on validation and details of the financial costs of validation
- Any difficulties or inconsistencies associated with the interpretation and reporting of performance indicators
- The application of the framework within group structures
- Its application to associations involved in mergers, take-overs and other major change processes
- The need to validate external systems
- The need to specify the tests and controls required in the validation process
- The terms of engagement between association and service provider

This document that sets out the new regulatory requirement and provides the sector with detailed guidance on the validation framework and related good practice.

Part 2: The need for external validation of performance reporting systems

Introduction

All organisations require timely and high quality performance information to manage their business effectively and it is in the interests of all organisations that performance reporting systems produce information that accurately reflects actual performance. However, performance data will be flawed if it is not produced from robust systems, hence the need for those systems to be regularly checked and validated. Organisations are likely to maximise the benefits of validation if it is carried out by an external and independent third party. A key part of improving service delivery is to provide assurance by reviewing performance reporting systems and the systems used to track and manage the attainment of targets.

The Housing Corporation perspective

The Housing Corporation needs performance information so that it can be confident that the sector as a whole is:

- Viable
- Well managed
- Delivering on Government objectives
- Worthy of further investment
- Working towards continuous improvement.

This information is collected through the RSR (Regulatory and Statistical Return), CORE (Continuous Recording of Letting and Sales).

The Office of the Deputy Prime Minister (ODPM) is supplied with the full raw data set from the RSR and CORE at the same time as the Corporation. These data are the main source of ministers' information about the sector and, as such, have a critical role in influencing Government investment decisions.

The objective of the validation framework is to provide assurance about the accuracy of regulatory performance indicators by ensuring that the underlying performance reporting systems are capable of generating accurate and high quality data. In developing the framework, the Housing Corporation has sought to ensure that it:

- Is consistent with the Housing Corporation's regulatory approach
- Reflects the varied nature and size of associations
- Avoids placing an unnecessary burden on the housing association sector by seeking to place appropriate reliance on the work of internal audit
- Takes into account the effectiveness of systems and management controls through a risk-based approach
- Reduces the burden on associations who are able to demonstrate robust systems for performance reporting and active management of risk.

The new validation requirement complements the Housing Corporation's requirements set out in Circular 25/01 'Internal Controls Assurance' in that it requires the Boards of each association to conduct an annual review of their association's system of internal control that brings together the results of the forms of assurance that the Board has identified as appropriate. Validation will serve as a source of assurance within the Board's annual internal controls review and assist with other aspects of their organisational control function.

The benefits to housing associations

There are a number of benefits to be gained by associations from the validation process. They include:

- The assurance that performance data are produced by dependable systems
- Increased confidence in the data used to manage their businesses
- Increased confidence amongst stakeholders
- Help with the identification of areas requiring improvement

Other organisations and service users

A range of other organisations have access to full CORE and RSR data and use them for a variety of purposes. These include:

- The Audit Commission (uses the data in the context of its inspection of social housing providers and in undertaking cross-sector studies with the Housing Corporation, will also look to access validation reports and action plans during inspections).
- The National Housing Federation (uses the data for the development of policy at a national and regional level, standard and *ad hoc* reports examining subsets of the data, responding to government proposals and informing internal and external research)
- Funders (require regular reports from associations on a mutually agreed set of financial indicators and other performance indicators that demonstrate the association is well managed)
- Local authorities (use RSR and CORE data to monitor housing association performance and viability)
- Residents (require periodic and tailored reports on their landlord's performance).

The new regulatory requirement will ensure that the data supplied by associations are generated by robust systems. This, in turn, will help to increase confidence in the sector.

Systems validation and regulation

The outcomes of the external validation of performance reporting systems will need to be reported to the Board of each association to enable it to monitor any remedial action required.

The association's Board will need to consider if any action needs to be taken. If action is required the Board will need to incorporate the validator's recommendations where appropriate, implement and monitor the action plan.

Housing associations will be required to have an external validation every three years with spot checks being carried out in intervening years.

We will expect associations to provide evidence on the annual self-assessment compliance statement that external performance reporting systems validation has taken place during the year.

In meeting the Housing Corporation's Regulatory Code requirement for continuous improvement, associations will need to assess their performance, compare it with that of their peers and use the comparison to scrutinise their own working methods and achievements. The validation of performance reporting systems will assist Boards in meeting their responsibilities to assess compliance with the Regulatory Code through the associated increase in confidence in reported performance information.

Part 3: The Framework

Objective

The objective of the framework is to support the reporting of reliable regulatory performance indicators by providing assurance that the underlying performance reporting systems are designed to comply with Housing Corporation requirements and guidance for reporting those indicators.

Scope

Associations will be required to validate the performance reporting systems that are responsible for the information used for the reported performance indicators on an individual basis. The exception is data for the financial performance indicators; we are currently considering other options for gathering these particular performance indicators, such as extracting them from audited accounts. The Housing Corporation's performance indicators requiring systems validation are detailed below:

Rent

- Average weekly gross rent (including service charges eligible for Housing Benefit) for all dwellings owned

Vacant Dwellings and Lettings

- Percentage of dwellings vacant and available for let
- Percentage of dwellings vacant and not available for let
- Average re-let time for dwellings
- Percentage of lettings due to households leaving the housing association sector
- Percentage of lettings to BME households

Stock Condition

- Average SAP (energy efficiency) of dwellings
- Percentage of dwellings failing to meet Decent Homes Standard

Repairs Performance

- Percentage of emergency repairs completed within target
- Percentage of urgent repairs completed within target
- Percentage of routine repairs completed within target
- Percentage of repairs where an appointment was made and kept (where an appointments system exists)

Service to Tenants

- | |
|--|
| <ul style="list-style-type: none">• Percentage of tenants satisfied with the overall service provided by their landlord• Percentage of tenants satisfied with opportunities to participate in management and decision-making in relation to housing services provided by their landlord |
|--|

Validation of these indicators includes both an assessment of the extent to which systems are robust (including an identification of the causes of variation to reported information) and an assessment of the potential impact of system variances. The assessment will consider the systems and processes used to produce reported performance and subsequent changes to those systems and processes.

It has been decided that there will be no overall assessment of associations' systems and processes.

Validation services

Validation should be delivered by external validators (referred to as 'service providers'), who can demonstrate:

- Knowledge of housing association performance reporting systems
- Knowledge of Housing Corporation general needs published performance indicators
- Appropriate capacity, including an understanding of the validation framework, to be able to deliver the service
- Adequate systems for quality control validation work

The validation service could be delivered by:

- External auditors
- Independent assessors/consultants specialising in performance reporting systems and continuous improvement

The Housing Corporation is currently considering opening up the market for the provision of validation services. However, at the present time only the following three firms can provide external validation services:

HouseMark
Unit 8, Mercia Business Village
Torwood Close, Westwood Business Park
Coventry CV4 8HX
Tel: 020 8525 0192 or 024 7646 0500
E-mail: mandy.warner@housemark.co.uk

PriceWaterhousecooper
32 London Bridge St
London SE1
Tel: 020 7804 2369
E-mail: david.braithwaite@uk.pwc.com

RSM Robson Rhodes
Bryanstone Court
Seldon Hill
Hemel Hempstead
HP2 7TN
Tel: 0207 865 2472
E-mail: Arthur.merchant@rsmi.co.uk

The validation review

Validation is based on three elements:

- Analytical review
- Systems review
- Reliance on relevant internal audit evidence

Further details of each of these elements are set out below.

Analytical review

The purpose of the analytical review is to identify and assess the extent to which relevant financial and operational performance information is consistent with and can support reported performance levels and trends.

It will consider:

- Prior years published performance indicator data
- Comparison of performance indicator data with other indicators from various sources (e.g. annual accounts, internal management reports)
- Assessment of internal consistency amongst the data sources listed above

Internal audit review

Providers will seek to place reliance on evidence from internal audit work or other similar work, which relates specifically to the calculation and reporting of the regulatory performance indicators where it represents a cost-effective approach to forming conclusions on the adequacy of the association's systems for producing those indicators. This will comprise an assessment of the adequacy of internal audit arrangements, audit coverage, audit conclusions and recommendations and management action.

Systems review

Based, on the results of analytical review and evidence from internal audit reviews the service provider will assess the scope and extent of systems review required to form a view on the adequacy of the association's systems. This will involve a mixture of document review, interviews and on-site checks, required to understand the system being used and to identify and evaluate the controls in the system that are designed to collect the data required for the specified indicators. In particular the validator will consider:

- Understanding of performance indicator definitions by key personnel within the housing association (e.g. are definitions clearly understood and is this reflected in the systems for data capture and manipulation?)
- Methods of data collection and reconciliation (e.g. are checks undertaken to ensure that related performance data is consistent?)
- Management of the data collection process including data and systems ownership (e.g. are responsibilities clearly defined, understood and appropriate?)
- Quality of the source data (e.g. are there adequate controls over the capture of source data sufficient to provide assurance about data accuracy?)
- The level of awareness amongst staff regarding the use of data collected and the importance of data integrity.

Validation reports

The principal output of validation is a report that provides an assessment of the current systems for producing indicators and identifies

recommendations (where applicable) for improvements in reporting systems.

The report will provide an assessment that classifies *each* performance indicator as one of the following:

- Compliant
- Compliant but
- Non-compliant

In doing so, the service provider will express an opinion on the materiality of their assessment by reference to a level of 'reasonable reliability and accuracy' rather than statistical confidence. Further guidance on the compliance assessment is provided in Part 4 (Technical guidance).

Reports will be generated in dialogue with associations to ensure that, wherever possible, conclusions are agreed between both parties prior to their issue.

We would expect it to be normal practice for:

- Associations' senior management teams to discuss all validation reports and agree an appropriate response to their findings, and;
- Senior management to share validation reports with their Boards to enable the Board to monitor any remedial action required.

It is not intended that compliance assessments should be routinely reported to each association's lead regulator. However, 'non-compliant' ratings should be brought to the attention of the lead regulator without delay, and both 'non-compliant' and 'compliant but' ratings should be reported in the association's annual self assessment compliance statement.

Action plans

Associations assessed as having 'compliant but' and 'non-compliant' systems will need to draw-up an action plan to address the deficiencies identified. Their Boards will need to consider the action plan and monitor

its implementation. Associations with 'non-compliant' systems will need to agree the action plan with their lead regulator.

All associations are obliged to share their action plans, along with the validation report, with the Housing Corporation, if the Corporation requests them to do.

Service providers are permitted to be involved in the implementation of action plans but should be aware that involvement in such work may preclude them from undertaking any subsequent validation work because of the potential impairment of their independence.

Revalidation and spot checks

Associations which receive a fully 'compliant' opinions will undergo revalidation of all performance indicators every three years, with discretion to bring this deadline forward if they prefer to.

The Housing Corporation is currently considering its guidance in this area for associations receiving 'compliant but' ratings and will advise on the circumstances under which such associations may be required to undergo revalidation earlier than the three year interval.

Associations with 'non-compliant' systems will need undertake validation again within 12 months. Only performance indicators assessed as 'non-compliant' will be reassessed.

Under some circumstances, the results of validation assessments will become null and void. Such circumstances will include:

- Mergers and acquisitions
- Introduction of new IT systems
- Implementation of other major change programmes

Under such circumstances, all associations need to consider whether they need to undergo revalidation at an earlier date and agree an appropriate course of action with their lead regulator.

When making changes to the Performance Indicator framework, the Housing Corporation will at the same time issue advice on its revalidation requirements.

The Corporation reserves the right to carry out 'spot checks' of performance reporting systems at any time and work is in progress to define the circumstances in which the Corporation may exercise this right.

Reporting to the sector

In Round 2 of the pilots, the compliance assessments were reported to the Housing Corporation in order to inform the development of the framework and guidance. The results will be collated and analysed with a view to them being reported to the sector in an anonymised form.

It is envisaged that the collective results of the 2004/05 validations will also be fed back to the sector without revealing the identity of the associations.

The responsibilities of the service provider

The service provider is responsible for the following:

- Determining whether the housing association has put in place reasonable arrangements for collecting, recording and publishing specified performance information
- Planning their work based on an assessment of risk, taking account of the size, organisational structure and other characteristics of the association, including experience of previous validation exercises and should obtain and document information as they consider necessary to provide sufficient evidence to meet their responsibilities and express an opinion. The proposed action plan should be discussed with the housing association at an early stage.
- Commenting on the state of the performance reporting systems, highlight areas for improvement and signpost the housing association to examples of good practice

- Ensuring they are not subject to undue commercial influence in reaching their assessment nor undertake additional work for the association which might impact on the objectivity of their opinion. The service provider should make a declaration of any existing business relationship with the association or any personal relationship between its staff and any member of the association's staff or Board
- Establishing effective communication with internal audit and ensuring appropriate co-ordination work
- Putting in place adequate arrangements for follow up work to determine whether any matters of concern raised with the association have been adequately addressed

Due professional care by the service provider

The service provider should:

- Take reasonable steps to obtain all relevant information
- Keep up to date with developments in relevant matters (e.g. performance indicator definitions, Housing Corporation guidance to validators)
- Document validation work carried out and conclusions drawn
- Ensure that validation work is carried out by suitably qualified and experienced staff and that work is properly controlled and are reviewed.
- Ensure that conclusions are supported by adequate evidence. The evidence should be sufficient for another service provider to understand the work carried out and the basis for the conclusions drawn
- Should maintain their independence but provide advice to the association where appropriate
- Maintain client confidentiality where appropriate

The responsibilities of the housing association

The housing association is responsible for:

- Providing adequate notice to the service provider of the timetable for the Board to consider the outcome of the validation process

Work in Progress (Version 2A Web)

- Making available, in a timely manner, any information requested by the service provider which is required in furtherance of its responsibilities
- Ensuring that housing associations which are subsidiaries in a group structure make available any relevant information to the parent association's service provider
- Formally reviewing their arrangements for procuring the validation service on a periodic basis and at least once every six years (i.e. two validation cycles)
- Putting in place appropriate arrangements to ensure the accuracy of published performance information, including the implementation of adequate systems of internal control

Example Validation Report (Work in progress: likely to change significantly)

Introduction

We have been appointed by XYZ Housing Association to review the systems in place to produce performance indicator information required by the Housing Corporation in accordance with the Validation Framework.

Respective responsibilities

The Board of the association is responsible for maintaining a sound system of internal control, including systems for the collection, recording, calculation and publication of performance indicator information as appropriate.

Our responsibility is to carry out the tests specified in the Validation Framework, and to report on any matters which have come to our attention, that could lead us to believe that the specified published performance indicator information is other than fairly stated. It is not our responsibility to give an opinion on the accuracy of the published performance indicator information itself.

Basis of opinion

We have reviewed the systems used by XYZ Housing Association in collecting, recording, calculation and publication of the specified performance indicators required by the Housing Corporation *insert date*. In undertaking our review we have applied the three elements specified in the Validation Framework.

Opinion

Set out below is our assessment of the reporting system to generate each performance indicator, together with any matters that have come to our attention and, where applicable, our outline recommendations for improvement.

Part 4: The Guidance (Work in progress: likely to be enhanced)

Selecting a service provider

Choice of provider

During the pilot period the Housing Corporation is working with only three service providers (HouseMark, PricewaterhouseCoopers and Robson Rhodes) and, subject to capacity, pilot associations have been able to choose which of these they have worked with.

Experience to date suggests that associations will consider validation as a role for their external auditors. However, the provision of validation services is an emergent market and, in selecting their service providers, associations should also consider the added value that might be obtained through use of other independent assessors, notably housing specialists and specialists in performance reporting systems and continuous improvement.

Associations are not permitted to use their internal auditors as 'service providers', even where the internal audit service has been outsourced. The methodology allows for service providers to place appropriate reliance on relevant work carried out by associations' internal auditors.

The reappointment of service providers is a matter for the association and the professional practice requirements of service providers.

Scoping the review

Service providers will scope their work based on an assessment of audit risk, taking account of the size, organisational structure and other characteristics of the association, including experience of previous validation exercises. It is this initial risk assessment that will primarily determine the time required to undertake a validation and the cost of that validation.

Associations need to plan and programme validations in discussion with their service provider to ensure that they are properly focused and the association should allow for sufficient lead-in time to the validation exercise to allow for a preliminary meeting and effective planning of the fieldwork. Based on the results of pilot work to date, associations should allow for an overall elapsed time of five weeks from the preliminary meeting until completion and reporting.

Feedback from the pilots has highlighted the difficulties faced by group structures in scoping their validation reviews. Clearly, such associations will need to engage in more complex work that will require a greater time commitment on the part of the service provider and validation will apply differently to different types of group structure (e.g. centralised, federal, dominant member). Work is in progress to consider whether it may be possible to exclude some parts of group structures on the grounds of materiality.

Associations with group structures are advised to assess the scope of the validation review in dialogue with service providers by reference to the specific characteristics of the group structure and the commonality of the reporting systems arrangements. Work is in progress to develop further guidance relating to group structures. This guidance will seek to comment on the application of the framework within group structures in terms of its cost effectiveness for unified and separate performance information reporting systems.

The scope of validation may also be affected where associations rely on data generated by external reporting systems (e.g. those of a maintenance contractor). Service providers will form a view on associations' arrangement for the quality assurance and validation of information from external sources but will not currently carry out direct testing of those external sources of information as this will significantly add to the scope, contractual requirements and costs of validation. Work is in progress to provide further guidance on this issue.

During Round 2 of the pilots, the Housing Corporation's consultants have been discussing with the three providers the need to establish a common criteria for assessment (for each performance indicator) and for the final framework and guidance document to provide advice on the nature and level of tests and controls that may be included within the scope of validation.

Associations can choose to commission a more detailed review of systems than that required by the Housing Corporation (e.g. wider systems mapping and testing, good practice, continuous improvement) and they are able to choose the extent to which they purchase services over and above the regulatory requirement.

Quality assurance

There is a need to ensure that service providers engaged in the delivery of validation services are able to demonstrate satisfactory quality assurance, and it is essential that a high level of consistency is achieved in the validation assessments.

At one level, quality assurance must be addressed through individual agreements between the two professional parties (i.e. the association and the potential service provider). Such agreements will clearly need to have due regard to service providers' ability to demonstrate:

- Specific understanding of the validation framework and understanding of information and performance reporting systems in general
- Knowledge of housing association performance reporting systems, Housing Corporation general needs published performance indicators and the social housing performance management environment
- Skills, experience and qualifications of staff carrying out validation work
- Project management and supervisory arrangements
- Arrangements for internal quality control
- Capacity to be able to deliver the service
- Independence

In the longer term, it is expected that associations' benchmarking activities will play an increasingly important role in quality assurance.

Work is currently in progress to provide further guidance on quality assurance and some significant changes should be expected.

Appointing and working with a service provider

Engagement

Associations and service providers will need to agree the terms of the engagement. Work is in progress on the detail of the terms.

The current draft provides the full text of the terms of engagement in some sections and headings for a number of 'required' sections. Service providers and associations should note that they are able to add non-standard content provided that this does not make material changes to the conditions set out in the standard text.

Service providers and associations are required to establish whether there are any existing or recent business or personal relationships, which may impair the independence of the service provider, when considering the appointment of a service provider.

Housing associations should formally review their arrangements for procuring the external validation service on a periodic basis and at least once every six years (i.e. two validation cycles).

Project management and communications

Associations need to establish clear arrangements for managing the validation process. The experience of the pilot validations is that there is significant benefit to the identification of a single member of staff, with the necessary level of authority, to co-ordinate the validation exercise and initiate the validation process. This person will be responsible for ensuring that the service provider has appropriate access to other staff, and that information requested by the service provider is made available as

required. This includes ensuring that adequate arrangements are in place for liaison with subsidiary organisations in a group structure. In choosing the co-ordinator, associations may wish to consider allocating this role to a member of staff with an overview of the association's reporting systems but without designated responsibility for specific performance indicators. Associations may wish to discuss this matter with their service provider.

Experience to date, suggests that staff availability can be a cause of delay and inefficiency in the validation process, hence the importance of the co-ordinator's role. Experience to date also suggests that there are added benefits for associations in involving staff in the validation processes, notably an increased awareness of each other's roles and responsibilities, and understanding of how the organisation works as a whole. For these reasons, some pilots have chosen to involve all staff concerned with the production of RSR and CORE data.

Service providers are required to be pro-active in agreeing the detail of the review process. This includes taking the lead role in defining:

- Start date
- Timescale
- Information requirements
- Communications arrangements
- Close-out arrangements

Service providers must take reasonable steps to obtain all relevant information and ensure that they have sufficient access to enable them to provide an assessment supported by evidence. It is recommended that they make arrangements to provide the association's co-ordinator with progress reports at regular agreed intervals. Service providers must also ensure that their work is properly controlled and reviewed with due regard to client confidentiality.

More generally, they must ensure that validation work is carried out by suitably qualified and experienced staff, and that their staff keep up to

date with developments in relevant matters (e.g. performance indicator definitions, Housing Corporation guidance on validation).

Role of internal audit

Relevant internal audit work will support validation and it is anticipated that service providers will seek to place reliance on internal audit services where possible, thereby limiting the scope of work required to undertake the external validation. It is, therefore, essential that there is appropriate liaison between service provider and internal audit in order to minimise the duplication of work.

Associations may also wish to consider the remit of internal audit in terms of preparing for validation, and it is anticipated that internal audit will play an increasingly important role in providing service providers with information at the start-up and during the review process.

Validation reports

Service providers are expected to take a 'no surprises' approach to reporting. This requires them to discuss their emergent findings and conclusions with the association prior to reporting. In doing this, they will need to be in a position to provide documentary evidence of all work carried out and to support their conclusions with firm evidence. That evidence should be sufficient for another service provider to understand the work carried out and the basis for the conclusions drawn.

It is envisaged that this consultative approach to reporting will ensure that few, if any, validation reports will be issued where there are significant areas of disagreement between the provider and association regarding contents and conclusions.

Draft letter of engagement (Work in progress: likely to change)

Re: Validation review of systems relating to performance indicator information

Purpose

The purpose of this letter is to set out the basis on which we ('the Service Provider') are to undertake the work ('the Contract') for XYZ Housing Association ('the Association') in order to provide a report on the adequacy of the systems that the association has in place to produce the performance indicators ('the specified indicators') specified by the Housing Corporation for the year ended 31 March 20XX.

The Housing Corporation requires associations to submit specified performance indicator information. The objective of the review is to provide assurance about the accuracy of regulatory performance indicators by ensuring that the underlying performance reporting systems are capable of generating accurate and high quality data.

Scope of the review

The review will look at the systems used by the Association in the collecting, recording, calculation and publication of the specified indicators (Appendix I).

We will apply the methodology specified in the Housing Corporation's published Validation Framework and Guidance. Where appropriate, we will make use of work conducted by officers or other agents of the Association.

We will require you to provide us with sufficient evidence to allow us to form a view on the adequacy of systems used to produce the specified indicators. The review does not constitute an examination in accordance with generally accepted auditing standards (i.e. no expression of an opinion on the truth and fairness of the information) and there can be no guarantee that error or fraud will be detected.

The Association's responsibilities

You are required to make effective arrangements to co-ordinate and initiate the validation process in line with the Housing Corporation's Validation Framework and Guidance. All records relating to the specified performance indicators and all other supporting systems and information and related information must be made available and you are required to demonstrate an audit trail from the specified indicators to the underlying systems and source data for the year to 31 March 200XX.

The Service Provider's responsibilities

We are responsible for devising and agreeing a formal review plan for undertaking the validation by reference to the good practice guidelines provided by the Housing Corporation.

We will apply the elements specified in the Housing Corporation's Validation Framework and report on any matters that come to light, which suggest that the specified published performance indicator information is other than fairly stated.

Our report will provide an assessment of each performance indicator. The report will also include outline recommendations that identify remedial measures required to address any inadequacies identified.

We are not responsible for providing detailed recommendations for continuous improvement.

We undertake not to share any information or knowledge relating to the Association's reporting systems with a third party unless agreed by the Association.

Reporting

All written communications will be addressed to the Board, and the report will be in the form set out in Appendix II.

Ownership of paperwork

Ownership of the report rests with the Association. It is noted, however, that the Housing Corporation has third party rights of access to the report and there is an obligation on the Association to share the report with its lead regulator, if requested to do so. Ownership of working papers rests with the originator.

Electronic communications

Required section (Service Providers to insert non-standard text).

Client services and quality assurance

Required section (Service Providers to insert non-standard text).

Fees

We will provide an estimate of fees (referred to as 'validation fees') in advance of work commencing. Fees are computed on the basis of the time spent on providing the services by our partners and staff and on the levels of skill and responsibility involved. The fee level is based on the assumption that we will be able to place reliance on management controls within the Association. We will provide a breakdown of the final fee calculation on completion of the review.

Service provider liabilities

Required section (Service Providers to insert non-standard text).

Contracts (Rights of Third Parties) Act 1999

Notwithstanding any rights conferred on third parties by the Contract under the Contracts (Rights of Third Parties) Act 1999, the Association and (name of the Service Provider) retain the right by agreement to rescind or vary the terms of the Contract without the consent of any such third party.

Entire contract

This letter comprises the entire contract for the provision of the services to the exclusion of any other expressed or implied term, whether expressed orally or in writing, including any conditions, warranties and representations and shall supersede all previous contracts, letters of engagement, undertakings, agreements and correspondence regarding the services.

Governing law and jurisdiction

The contract formed by this engagement letter when accepted by the Association shall be governed by, and construed in accordance with, English law and it is hereby irrevocably agreed and accepted that the Courts of England and Wales shall have exclusive jurisdiction to settle any claim, difference or dispute (including without limitation claims for set-off or counterclaims) which may arise out of or in connection with such contract.

Acknowledgement and acceptance

Once it has been agreed, the terms of this letter will remain effective until it is replaced. We shall be obliged if you will confirm in writing your agreement to the terms of this letter by signing and returning the enclosed copy. If you wish to discuss the terms of our appointment further before replying, please let us know.

Yours faithfully

I have read the above letter and accept the terms and conditions set out therein.

Signed:

.....
(Name and position)

.....
(Date)

for and on behalf of

.....
(Name of client)

Making the most of the findings

Action plans

The principal output of validation is a report that identifies recommendations (where applicable) for improvements in reporting systems. As well as commenting on the adequacy of the performance reporting systems, the service provider will highlight areas for improvement and signpost the housing association to examples of good practice.

Associations will respond to any recommendations for improvement contained in their validation report by preparing an action plan to address any deficiencies identified. The plan should set out the objectives; how and when these will be achieved; the resources that will be needed. The association's Board will consider the action plan and monitor its implementation.

Associations should aim to achieve compliance through the successful implementation of the action plans arising from validation.

Although the validation will primarily focus on those systems used to collect and produce performance indicator data, associations should be able to use the findings as a platform for wider action planning and continuous improvement.

Benchmarking

Associations are encouraged to include validation within their benchmarking activities and to share the compliance assessment and service provider reports with other associations and stakeholders for the purposes of benchmarking and continuous improvement. The comparison of service provider performance among associations is perceived as playing a significant role in developing the future market for validation services.

Revalidation and spot checks

Associations assessed as having compliant systems will be required to undertake full validation again in a further three years.

Associations receiving 'compliant but' ratings may be required to undertake validation earlier than the three year interval depending on the extent to which their systems are not fully compliant. As indicated early, further advice on this will be provided by the Housing Corporation.

Associations assessed as having 'non-compliant' systems will be required to undertake validation again within 12 months. Revalidation in this instance will only apply to the areas assessed as non-compliant.

The Corporation will take a pro-active approach to the monitoring of the validation process and it reserves the right to carry out 'spot checks' at any time. Work is in progress to define how and why spot checks should take place and the Housing Corporation will consider the need to develop transparent processes for managing such checks.

Managing the impact of major internal or external changes

The Corporation acknowledges that an association may undergo significant changes in the way its business is structured and organised and that these changes will have an impact on the validation of performance reporting systems. The most common changes are likely to be brought about by Housing Inspectorate findings, restructuring, merger, take-over, transfer or replacing I.T. systems. Work is in progress on the application of the framework to associations going through such changes.

Associations are expected to be pro-active in deciding whether revalidation is required during the three-year cycle. In the intervening years between full external validation processes, it is recommended that associations discuss with service providers any significant changes in their circumstances that would affect the systems for producing the specified performance indicators. This will alert associations to situations where a full external revalidation process is required.

Reporting to the sector

The Corporation sees reporting validation results as another way in which the sector can demonstrate openness, reliability and accountability.

To these ends, the results of Round 2 pilots will be collated, analysed and reported back to the participating associations in an anonymised form.

It is also envisaged that the Audit Commission will have access to validation reports and action plans and may use them in selecting organisations for inspection, performing inspections and reporting the results.

Technical guidance

Validation assessments

The validation assessment is based on a professional opinion on the level of 'reasonable reliability and accuracy' of systems and processes rather than an expression of 'statistical confidence' in those systems and processes. Thus, an issue will be considered material where it is felt it could significantly impact on the accuracy of the published performance indicator in such a way as to present a misleading impression of performance. Minor issues, which may have a negligible impact on the accuracy of performance data, will not be considered material.

It is essential that consistency in the assessment of associations' reporting systems is achieved and, to this end, the Housing Corporation wishes to provide associations and service providers with consistent and objective guidance on the validation assessment (i.e. compliant, compliant but or non-compliant). The Corporation is currently considering its advice on what constitutes a material deficiency in reported indicators and the systems used to report them (i.e. the thresholds or boundaries between the three opinions). Work is in progress to develop guidance in this area and on issues relating to performance indicator definitions as they stand.

In forming their opinion, service providers will focus on performance indicator definitions and whether systems produce reliable information in accordance with the commitments made to customers. Service providers are not seeking to make a judgement on the relative merits of different levels of sophistication or service standards associated with a system. For example, the assessment of a system for monitoring the operation of repairs appointments will be based on whether that system produces accurate information on the appointment arrangements offered to tenants, rather than good practice associated with those arrangements.

Where a performance indicator has been reported using more than one system, service providers will assess each system. If one or more of those

systems are found to be materially deficient, that indicator will be deemed to be 'non-compliant'.

An association may find that deficiencies are identified in its reporting of a specific performance indicator but still receive a 'compliant' rating (i.e. subsequent improvements permit the reporting system to be assessed as 'compliant').

An overview of the compliance opinion is provided below.

Compliant

Current system(s) used to produce that indicator is/are designed to comply with Housing Corporation guidance and performance indicator definitions

Action: No action required

Compliant but

Current system(s) used to produce that indicator is/are not designed to comply with Housing Corporation guidance and performance indicator definitions, but deficiencies are not so inadequate as to materially misrepresent performance.

Action: Action plan to address deficiencies

Non-compliant

Current system(s) used to produce that indicator is/are not designed to comply with Housing Corporation guidance and performance indicator definitions

Action: Action plan to address deficiencies and preparation for revalidation with 12 months

Note: Work in progress

Performance indicators

As indicated above, service providers will be looking at whether systems are robust (including causes of variations to reported information) and making an assessment as to whether the system is capable of reporting performance accurately (including the materiality of any deficiency). The Housing Corporation will be providing substantial guidance on compliance assessments as they relate to individual performance indicators.

Performance data in general

To help associations prepare for external validation of their performance reporting systems, the Housing Corporation, together with HouseMark, has produced 'Performance data collection: good practice guide'. The guide considers information systems in their entirety and provides associations with good practice guidance that will help them to ensure that the data they collect for use in measuring their performance on service delivery and management efficiency are consistent and accurate. All pilot associations are encouraged to make use of the good practice guide in conjunction with the framework and advice contained in this document.