



Homes &
Communities
Agency

CONSULTATION ON CHANGES TO THE ACCOUNTING DIRECTION

Responses received

September 2015

Plymouth Community Homes - Response to the consultation on changes to the Accounting Direction from April 2015

Question 1 - Does the proposed direction adequately reflect the requirements of the new regulatory framework and standards?

Yes please see 4. below

Question 2 - Is the direction consistent with FRS 102 and the social housing SORP? If not, please indicate where it is not.

Yes

Question 3 - Do the narrative reporting requirements adequately allow risks to be explored and the performance of the PRP to be explained to stakeholders in meaningful ways, consistent with the size and complexity of the provider?

Yes

Question 4 - Are there any further sections in the direction that that should be clarified, expanded or removed?

1. We would like confirmation of our understanding of the requirement in Para 9 *Draft Accounting Direction for Private Registered Providers of Social Housing*:

“PRPs should undertake an assessment of the PRP’s compliance with the Governance and Financial Viability Standard at least once a year and the PRP must certify compliance with the standard within the narrative report or explain if not. Any non-compliance identified since the previous report should be explained.”

In the interests of keeping the financial statement concise, relevant and understandable we have interpreted this paragraph as follows:

- We will carry out a compliance assessment which will not then be required to be published. AND
- In the narrative we will only state that we comply with the Governance & Financial Viability Standard (or if we don’t / did not then to provide additional information to explain). It will then be for the auditors to check and confirm.
- Ideally we would like to be provided with the wording or alternatively would the following suffice? “This year the Board has undertaken an assessment of Plymouth Community Homes’ compliance with the Governance & Financial Viability Standard and can certify that it does comply.” Or alternatively if Plymouth Community Homes does not comply then ‘.....does not comply for the following reasons.....’.

Question 5

Does the proposed implementation date provide an adequate timescale for PRPs to introduce the requirements of the direction?

Yes

Question 6

Do you have any other comments regarding the proposed direction?

No

BDO

11 June 2015

Dear Sir

The proposed accounting direction for private registered providers of social housing from April 2015

BDO LLP welcomes the opportunity to respond to the above Statutory Consultation and as requested, we set out our response under the questions contained in the consultation request.

BDO LLP is a leading firm of Chartered Accountants that has acted as statutory auditors in the social housing sector for over 30 years. Our responses below reflect our considerable experience of year end accounting and audit processes in connection with the preparation of annual statutory financial statements of Registered Providers of Social Housing (RPs).

Question 1

Does the proposed direction adequately reflect the requirements of the new regulatory framework and standards?

Yes.

Question 2

Is the direction consistent with FRS 102 and the social housing SORP? If not, please indicate where it is not.

Yes

Question 3

Do the narrative reporting requirements adequately allow risks to be explored and the performance of the PRP to be explained to stakeholders in meaningful ways, consistent with the size and complexity of the provider?

We do not believe that the financial reporting disclosures should be used to explain compliance with regulatory standards; the value for money assessment should be provided to the regulator outside the financial statements. The current requirements have resulted in lengthy reports, which can be confusing for users of the financial statements.

Question 4

Are there any further sections in the direction that that should be clarified, expanded or removed?

Part 2 Narrative reporting section does not cover all the requirements of the Companies Act, such as financial and non financial performance indicators, and could therefore lead to inconsistency between the reports of RPs incorporated as Companies or Cooperative and Community Benefit Societies.

Part 2 Paragraph 7 on narrative reporting refers to larger associations as being those with greater than 1,000 units whereas the glossary defines larger as greater than 5,000 units. We recommend that a consistent number of units is used and that clarity is provided as to whether this refers to units owned or units managed.

Part 2 Paragraphs 11 to 20: the director's remuneration disclosures could be clearer and cross reference to other guidance so as not to create further definitions.

Part 2 Paragraph 22 should make it clear that financial assistance and other government grant received or receivable at the date of the balance sheet should be based on properties owned at that date.

Part 2 Paragraph 30 requires disclosure of NPV adjustments; in some instances there may be no adjustment to be made or the adjustment will not be processed due to being immaterial so this paragraph should make it clear that the disclosure is only required if an adjustment has been made and is material to the understanding of the information.

Question 5

Does the proposed implementation date provide an adequate timescale for PRPs to introduce the requirements of the direction?

Yes.

Question 6

Do you have any other comments regarding the proposed direction?

No.

Yours faithfully
BDO LLP

Beever & Struthers

Dear Philip

Response to the Consultation on Changes to the Accounting Direction

I write in response to your invitation to provide a response to the HCA's consultation document on changes to the accounting direction.

I had the following specific comments:

With regard to value for money, the ability to signpost the accounts to separate VFM assessments is welcome and will be helpful in reducing the sometimes excessive length of board reports.

Does the HCA have expectations of external auditors in certifying the statement of compliance with the Governance and Financial Viability Standard? If so what are these?

The definition of 'remuneration' in the glossary does not match that in para 15, or paragraphs 23 and 24.

A definition of materiality to be applied to disclosures in the turnover and operating costs notes would be helpful. A 5% threshold has been applied previously.

Definitions of operating expenditure headings would be helpful and would aid comparability between PRPs. We have noted instances where salaries and wages are disclosed as a separate heading within this note rather than being allocated to the named headings.

I hope you find these comments helpful and please do not hesitate to contact me if you would like to discuss any of them further

Yours sincerely

Head Office:
ST. GEORGE'S HOUSE

Grant Thornton UK LLP

Response to consultation on changes to the accounting direction for social housing in England

Grant Thornton UK LLP is a leading financial and business adviser with a strong presence in the social housing sector with over 100 external and internal audit clients. We are pleased to respond to the consultation on changes to the accounting direction for social housing in England.

Our responses to the questions are attached below. In addition, we suggest that in a future review of the accounting direction, a full review is undertaken, so that areas already covered by existing guidance in the Housing SORP and FRS 102 are not repeated.

Our comments are made on the basis, that where additional guidance or disclosure are made on areas which are already covered by either the Housing SORP or FRS 102, the purpose of this is purely to aid the sector on topical issues or areas where in our experience, the sector has previously struggled to demonstrate best practice.

Please accept this letter as our full response.

I would be happy to amplify our thoughts and discuss them with you if that would be helpful.

Yours faithfully

KPMG response to Accounts Direction Consultation

We have reviewed the Accounts Direction Consultation and have the following comments in response to the questions raised.

Does the proposed direction adequately reflect the requirements of the new regulatory framework and standards?

Yes.

Is the direction consistent with FRS 102 and the social housing SORP? If not, please indicate where it is not.

Under FRS 102 and the SORP, registered providers have the option to hold their housing and other properties at fair value, deemed cost or cost. We therefore consider that it would be appropriate to refer to valuation or cost of housing properties within the accounting policies in section 3.

Do the narrative reporting requirements adequately allow risks to be explored and the performance of the PRP to be explained to stakeholders in meaningful ways, consistent with the size and complexity of the provider?

In our view the narrative requirements of the strategic report are appropriate, particularly when considered alongside the more detailed requirements set out in the SORP.

The consistency of value for money reporting across the sector has varied considerably, not just between registered providers but also between the reporting prepared in 2013 compared to that in 2014. Whilst the Value for Money standard sets out required outcomes and specific expectations for registered providers, the lack of detailed reporting guidance generates a variety of responses in both the format and length of reports generated. Providing a more detailed framework for the report would, we believe, be well received by the sector and reduce some of the inconsistencies in reporting.

Consideration could be given to providing greater clarity on the expectations of reporting in the financial statements as opposed to separate VFM reports.

The comply or explain approach to certifying compliance with the Governance and Financial Viability Standard is consistent with that taken under the UK Corporate Governance Code. The Accounts Direction does not appear to require details of the self-assessment to be disclosed unless any areas of non-compliance are identified. Consideration could be given to providing further clarity on this requirement.

Are there any further sections in the direction that should be clarified, expanded or removed?

We consider that the section on accounting policies is a duplication of information included in both FRS 102 (paragraph 8.5) and the SORP (section 3.12 – 3.16). Within the Accounts Direction this requirement could be reduced to include the first sentence only.

Does the proposed implementation date provide an adequate timescale for PRPs to introduce the requirements of the direction?

As stated in the consultation document, the changes are largely driven by changes within the regulatory and accounting environments which have been previously announced and consulted upon.

Do you have any other comments regarding the proposed direction?

Consideration could be given to including the current requirement under the NHF Code of Governance that ‘any payments to non-executives are fully disclosed on a named basis’ within

Part 2 paragraph 11 of the Accounts Direction.

Yours sincerely

HCA Accounting Direction Consultation – PwC Response

We welcome the opportunity to respond to the HCA's consultation on 'The accounting direction for private registered providers of social housing' published on the 18 March 2015. We understand that there was a need to update the Accounting Direction following the significant changes brought about with the new accounting framework that will apply for the first time to the majority of the social housing providers from 1 April 2015. We believe this provided an opportunity to revisit the requirements in the Direction and give thought to the disclosures and information that is needed in the accounts from a regulatory point of view, rather than simply updating what was already issued to reflect the new accounting requirements. We suggest that future reviews of the Accounting Direction follow this suggestion and look to start with a blank piece of paper.

Our responses to the questions asked in the consultation are set out below.

Question 1: Does the proposed direction adequately reflect the requirements of the new regulatory framework and standards?

Yes.

Questions 2: Is the direction consistent with FRS 102 and the social housing SORP? If not, please indicate where it is not.

Yes – see comments below on narrative reporting.

On key management personnel it would be helpful to elaborate on the FRS 102 definition to explain who this may include typically within a housing association.

Question 3: Do the narrative reporting requirements adequately allow risks to be explored and the performance of the PRP to be explained to stakeholders in meaningful ways, consistent with the size and complexity of the provider?

It would be helpful to link these requirements to those set out in the SORP to confirm they are in addition to the SORP.

There is reference to the code of governance adopted by the PRP – consideration should be given to whether the HCA wish to see a Statement of Internal Control included within the financial statements as this is no longer a mandatory requirement but suggested as best practice in the SORP.

In the narrative reporting section, paragraph 7 refers to larger PRPs being expected to produce a strategic report and in brackets defines this as 5,000 homes, however the glossary defines larger homes as 1,000 units – this needs to be amended for consistency. The 5,000 homes is consistent with the requirements of the SORP. It should also be made clearer what is included in the homes being counted.

Question 4: Are there any further sections in the direction that should be clarified, expanded or removed?

The requirement to include Value for Money ('VFM') in the financial statements continues to cause concern as the sections on VFM over the last 2 years have been extensive and don't necessarily fit that well with narrative reporting on performance that is included in the financial statements. We welcome the clarification that the disclosures on VFM do not have to be made in the financial statements and that a fuller VFM document can be included in a separate document however we think that the requirement to include VFM disclosures in the financial statements should be reconsidered.

Question 5: Does the proposed implementation date provide an adequate timescale for PRPs to introduce the requirements of the direction?

Yes.

Question 6: Do you have any other comments regarding the proposed direction?

It is not clear in the Direction how this applies to housing associations who adopt International Financial Reporting Standards (IFRS) and an explicit statement providing guidance on how the

Direction requirements should be considered where a housing association chooses to adopt IFRS would be helpful.

Within Part 2 there is reference to accounting policies – we note that the policies highlighted are those which are likely to have the greatest change under FRS 102, however we suggest either it is clarified and confirmed that this list is not meant to be a complete list and accounting policies are required for all material areas or additional examples of accounting policies are included to cover areas such as income, expenditure, supported housing, impairment etc.

In paragraph 21 where guidance is set out for PRPs that are not large it would be helpful to include separately a disclosure on government grant and confirmation of what amount of government grant has been recognised in the period (via the accrual or performance model).

Paragraph 23 refers to external auditors and disclosure of remuneration for them – we recommend that the disclosure requirements are made consistent with those of the Companies Act which requires disclosure of audit and non audit services.

The reference to the SORP in the glossary of terms should also refer to the Northern Ireland Federation of Housing Associations as they are one of the Four Federations who issue the SORP.

Yours sincerely

ICAEW REPRESENTATION 90/15

Changes to the HCA Accounting Direction

ICAEW welcomes the opportunity to comment on the consultation on *Changes to the Accounting Direction* published by Homes and Communities Agency on 18 March 2015 and on the consultation draft Direction, a copy of which is available from this link.

This response of 15 June reflects consultation with the ICAEW Social Housing sub-Committee which includes representatives from public practice and registered housing providers. The Social Housing sub-committee is responsible for ICAEW's policy on social housing issues and related submissions to regulators and other external bodies.

ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 144,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.

ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.

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MAJOR POINTS

1. The Direction continues to require RPs to include an assessment of 'value for money' in delivering their purpose and objectives in accordance with the regulator's standard (Paragraph 8 of Part 2). This assessment is to be included as a part of the strategic report or Director's report or equivalent. We have commented on this in the past.

2. By way of summary, we do not believe that financial reporting disclosures should be used to explain compliance with an isolated regulatory standard. Instead, this information could be requested outside of the statutory accounts if it is needed by the regulator. The current requirements have resulted either in unduly lengthy disclosures to no great purpose or in summaries of the full disclosures which can be time consuming and difficult to prepare (and therefore add to disclosure costs). Furthermore since it will be part of the narrative reporting by the relevant body noted above it will normally not be separately audited, but subject only to checks on consistency and this could be misunderstood by users.

3. Our members have suggested that the extensive narrative requirements resulted in additional costs for PRPs, possibly running into hundreds of thousands of pounds over the sector, which should be a matter of concern for the HCA.

4. While we understand that the Direction needs to be updated to reflect the new regulatory framework and standards, it is disappointing that the opportunity was not taken to 'go back to basics' with a view, in particular, to removing 'clutter' from accounts. We would urge HCA to do so when the Direction is next subject to extensive review.

RESPONSES TO SPECIFIC QUESTIONS Q1: Does the proposed direction adequately reflect the requirements of the new regulatory framework and standards?

5. Yes.

Q2: Is the direction consistent with FRS 102 and the social housing SORP? If not, please indicate where it is not.

6. Yes

Q3: Do the narrative reporting requirements adequately allow risks to be explored and the performance of the PRP to be explained to stakeholders in meaningful ways, consistent with the size and complexity of the provider?

7. Please see our general comments above regarding value for money narrative reporting and the need for a 'back to basics' review of the Direction.

8. The narrative reporting section does not currently make mention of an assessment of the association's business model and it also does not mention analysis using financial and non-financial KPIs both of which are requirements of the FRC guidance. We suggest that greater value and consistency would be achieved by requiring the RP to comment on both of these points.

Q4: Are there any further sections in the direction that that should be clarified, expanded or removed?

9. See also our general comments above.

SORP Working Party Response to the Accounting direction consultation

Following on from the SORP Working Party meeting on the 16th June 2015, I have summarised the points raised during the SORP Working Party's discussions on the HCA's 'Consultation on changes to the accounting direction'.

The key point the members of the SORP Working Party wish to raise with the HCA is the requirement set out in the current Accounting Direction and this consultation on changes to the accounting direction in respect of value for money reporting. The importance of value for money and transparent reporting of value for money in the social housing sector is recognised, members of the SORP Working Party unanimously raised concern over the requirement to include value for money within the annual financial statements.

It is felt that the continuing requirement that value for money reporting be included as part of the annual accounts, without any clear guidance on what is required, has resulted in financial statements for all sizes of registered providers becoming significantly longer than would be expected. This is contrary to the Financial Reporting Council's ('FRC') aim of streamlining information in the accounts, which was the subject of a recent FRC publication entitled 'Cutting clutter: Combating clutter in annual reports' and is also contrary to the aims of value for money. The primary stakeholders for financial statements are investors and funders and therefore the SORP Working Party members believe a separate value for money statement outside of the financial statements would be more appropriate. SORP Working Party members felt that stronger direction and guidance from the HCA on this area would be beneficial to the social housing sector, in particular we would welcome a clear statement from the HCA that it would be acceptable for the financial statements to simply refer the reader of the accounts to the value for money strategy and supporting information on a website. This would have the benefit of still meeting the HCA's requirements in value for money reporting within the same timescales currently applied, whilst ensuring that the financial statements do not become overshadowed by excessive narrative on value for money which has little direct relevance to the reported financial results. Guidance on this point as soon as possible would be welcomed by the sector and advisors to the sector alike.

The final point highlighted from the SORP Working Party's discussion was early guidance on the final requirements of the new accounting direction and clarity in this document on how the requirements of the accounting direction are applied if a registered provider applies International Financial Reporting Standards or indeed if a registered provider decides to early adopt FRS 102 and the Housing SORP 2014.

I hope you find this letter an accurate summary of the discussions held at the SORP Working Party meeting. Please do not hesitate to contact me if you require any further information or wish to discuss the points raised.

Yours sincerely

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