Guidance

Audit and Assurance

FRC Financial Reporting Council

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Practice Note 14

The audit of housing associations in the United Kingdom

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PRACTICE NOTE 14 (REVISED JANUARY 2014) THE AUDIT OF HOUSING ASSOCIATIONS IN THE UNITED KINGDOM

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THE AUDIT OF HOUSING ASSOCIATIONS IN THE UNITED KINGDOM

PREFACE

This Practice Note contains guidance on the audit of Housing Associations. This is an economically important regulated sector of the UK economy having its own particular business and audit risks which auditors need to be aware of and, where appropriate, respond to when undertaking engagements in the sector.

Over recent years, the devolved regulatory regimes, particularly that of England, have been subject to change and it is important that auditors are familiar with how the regimes operate and, in particular, how the regulator and auditor interface. In this regard the Practice Note may be particularly useful to auditors who are new to the sector.

The Practice Note consists of the following four principal sections:

(a) Background information about the sector to provide context for the other three sections;

(b) A description of the four devolved regulatory regimes, focussing on the interface between the regulator and the auditor and the regulators' viability assessments. Four appendices summarise the regulatory background relating to each regulator;

(c) A description of generic business risks that could adversely affect a Housing Association to achieve its objectives or successfully execute its strategies and which may give rise to a risk of material misstatement in its financial statements; and

(d) A discussion of audit risks, primarily arising from the generic business risks, which the auditor is likely to need to pay particular attention to. This section is written in the context of special considerations relating to the audit of Housing Associations which arise from those ISAs (UK and Ireland) which are listed in the contents. As it is not the intention of the Practice Note to provide step-by step guidance to the audit of Housing Associations, no material is included where there are no special considerations arising from an ISA (UK and Ireland).

This Practice Note has been prepared with advice and assistance from staff of the:

(a) (English) Homes and Communities Agency;

(b) (Northern Ireland) Department for Social Development's Housing Division;

(c) Scottish Housing Regulator; and

(d) Welsh Government's Housing Division.

It is based on the legislation and regulations which were in effect at 31 December 2013. This Practice Note does not, however, constitute general guidance given by the above regulators or Industry Guidance, neither is it intended to be an exhaustive list of all the obligations that Housing Associations and their auditors may have with respect to the various regulators.

This Practice Note was written as at December 2013. Readers are cautioned that the information contained in the Practice Note may be superseded by developments over time, particularly if there is a change in Government or in Government policy. It is suggested that auditors are alert to changes in the environment within which Housing Associations operate and are particularly alert to new or changing regulation or Government policy.

BACKGROUND TO HOUSING ASSOCIATIONS[1]

What are Housing Associations?

1. Housing Associations, also known as Registered Social Landlords (RSLs) or Private Registered Providers of Social Housing[2], are independent private sector bodies that primarily:

   - Provide affordable ''general needs'' housing at sub-market rents; and
   - Offer those of modest means the opportunity to own their own homes.

   Until relatively recently Housing Associations were exclusively not for profit bodies. However, some Registered Providers of Social Housing are now permitted to operate on a for profit basis. The audit of ''For Profit Providers'' is outside the scope of this Practice Note.

2. Rental receipts from ''general needs'' housing make up approximately 80% of the aggregate income of Housing Associations. The stability of this income is underpinned by State Housing Benefit (Universal Credit) which contributes around 70% of rents from ''general needs'' housing.

3. A number of Government Schemes have been developed to encourage either full or part purchase (known as shared ownership) of homes for owner occupation. Shared ownership has been offered by Housing Associations for many years with over 80,000 such homes currently existing. Shared ownership involves a buyer purchasing 50% or less[3] of a property from a Housing Association with the Association retaining the residual share and renting it to the purchaser at a subsidised rent.

4. Housing Associations are regulated by the following regulators:

   - England: The Homes and Communities Agency.
   - Scotland: Scottish Housing Regulator.
   - Wales: Welsh Government's Housing Division.
   - Northern Ireland: Department for Social Development's Housing Division.

5. Housing Associations are independent organisations in the private sector which may be constituted in a number of ways:

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1 Information and statistics quoted as background information were current as at August 2013. Readers are cautioned that this information may have changed since publication of the Practice Note.
2 In this Practice Note the term ''Housing Association'' is used unless the context requires otherwise.
3 In Northern Ireland 50% or more must be purchased.

- The majority of them are Industrial and Provident Societies registered with the Financial Conduct Authority (FCA) under the Industrial and Provident Societies Act 1965;
- Some Housing Associations are established as companies limited by guarantee (this is common in the case of Housing Associations that were established to receive a transfer of former local authority housing stock); and
- Some Housing Associations are charities.

The magnitude and diversity of the Housing Association Sector

6. Since the late 1980's, local authorities have been restricted in their ability to build new homes and, since that time, the Housing Association Sector has grown steadily both through building new homes and through the transfer to Housing Associations of existing homes from local authorities. Appendix 5 provides details of a number of websites that may be a useful source of up-to-date information about the sector.

7. UK Housing Associations provide some 3 million homes and operate a number of different business models ranging from small local providers of social rented homes to large diversified organisations participating in both social and commercial activities. Examples of commercial activities undertaken by a number of Housing Associations are development of properties for private rental or sale and the operation of care homes for the sick and the elderly.

8. The largest UK Housing Association controls over 50,000 homes whereas the smallest controls less than 10. Fewer than 400 UK Housing Associations own more than 1,000 homes yet the largest 20 own approximately 30% of the housing stock in the sector.

Financing of Housing Associations

9. At the time of writing, Housing Associations had attracted in excess of £62 billion in bank and capital market finance. As Housing Association finance is outside the public income and expenditure regime its borrowings do not contribute to public debt and are regarded as private finance.

10. Much of the finance for Housing Associations has been provided by a relatively small number of UK banks and building societies. Historically, Housing Associations have frequently sought, and obtained, 30 year maturities on the monies they borrow. However, there is a concern in the sector that lenders are, and will continue to be, less able to offer such long maturities in the context of the more stringent prudential requirements that have been in force since the 2008 financial crisis.

11. In response to this concern, Housing Associations are using a wider range of funding sources including: the capital markets through the issuance of bonds; private placements; and direct investment by pension companies. Since 2008, 20 Housing

Associations have issued £5.4 billion in bonds which is more than the value of bonds issued by all Housing Associations in the previous 20 years.

12. Potential investors in bonds have historically placed strong reliance on the security that they derive from the fact that housing benefit is paid by the Government directly to the Housing Association. This reduces the risk of rent arrears and the cost of collection. The security has been facilitated by the tenant waiving their rights to receive benefit personally at the time they first claim it.

13. However, under the Welfare Reform Act 2012[4] the payment of Universal Credit replaces Housing Benefit and is intended to replicate, as far as possible, how people are paid if they are in work. The Act, therefore, enables housing costs within Universal Credit to be paid directly to the individual in the social rented sector, rather than directly to the landlord (e.g. Housing Association). The Government also recognises the importance of stable income from rent for social landlords to support the delivery of new homes. Universal Credit, therefore, contains some safeguards to help protect landlords' income.

Governance of Housing Associations

14. Housing Associations often have governance structures that do not involve the executive management being members of the main Board. Rather, the Board consists of a number of non-executives who are collectively ''those charged with governance''. However, in some cases they also co-opt members of their executive management team including the Chief Executive and Finance Director as board members. Many Housing Associations have tenant board members and Stock Transfer Associations[5] are typically required to have tenant board representation as well as board members drawn from local authorities whose stock has been acquired.

15. Although the proportion of Housing Associations paying their board members is increasing, particularly among the larger Associations, the majority of boards still do not pay their members.

Accounting by Housing Associations

16. A common element of the regulation of each of the Housing Regulators is the establishment of regulatory accounting requirements. Each of the four regulators has accounting requirements which require Housing Associations, among other things, to state in the notes to the accounts whether the accounts have been prepared in

4 Most provisions of this Act extend to England, Wales and Scotland, but not to Northern Ireland. Northern Ireland has its own social security legislation, but there is a long standing policy of parity in this area.

5 A Stock Transfer Housing Association is one that has received a transfer of housing stock from a local council. Stock Transfer was established in order to increase investment in social housing. This was possible because Housing Associations had greater resources than local councils to invest in housing, community improvements and services.

accordance with applicable Accounting Standards and Statements of Recommended Practice (SORPs). Further details of these requirements are not set out in this Practice Note; however information concerning these Regulations is set out with respect to each regulator in appendices 1 to 4.

17. The Financial Reporting Council (FRC) issues accounting standards that are primarily applicable to general purpose company financial statements. Further guidance that may be required to enable particular sectors to implement accounting standards effectively is issued in the form of SORPs, by bodies recognised for the purpose by the FRC. The SORP relating to Housing Associations is regarded as being the applicable statement referred to in the various regulatory accounting requirements.

18. The latest version of the SORP; ''Accounting by registered social housing providers'' was issued in 2010. The Recommended Practice and Explanation in Part 2 of the SORP aims to interpret for social landlords how present best accounting practice (as defined by the FRC) can apply to them. The purpose of the SORP is to provide guidance regarding the applicable accounting requirements but is not intended to be a substitute for them.

19. Housing Associations that follow the SORP are required to apply all extant accounting standards, Urgent Issues Task Force (UITF) Abstracts (within the provisions set out in the Foreword to Accounting Standards) and relevant legislation.

20. Auditors actively consider the effect of changing accounting requirements (e.g. Accounting Standards, the SORP and disclosures required by the relevant regulator) on their audit. A revised version of the SORP reflecting the requirements of FRS 102 ''The Financial Reporting Standard applicable in the UK and Republic of Ireland'' is expected to be published in 2014.

21. The SORP on ''Accounting by Charities'' is generally not to be regarded as an applicable statement where the Housing Association is a charity registered with one of the social housing regulatory bodies. This is because the Charities SORP states that where a more specialised SORP exists for a particular class of charity, the trustees of charities in that class should adhere to that SORP instead. However, where the SORP on ''Accounting by Registered Social Housing Providers'' is silent on a matter the Charities SORP is relevant.

Risks inherent in the typical business model of a Housing Association

22. The business model of a Housing Association typically envisages financing the cost of the properties they rent out through a combination of long term borrowings, property sales, capital grants and the Housing Association's own resources. In order to fund their growth, Housing Associations have, in the recent past, looked to borrow from banks and building societies for periods of up to 30 years.

23. In order for a Housing Association's current activities to be viable over the long run the Housing Association requires annual rental income that exceeds the aggregate of:

- Its annual interest costs;
- Its running costs including, for example;
  - Bad debts.
  - The cost of maintaining unoccupied properties that yield no rental income (voids).
  - The on-going costs of repairs.

However, if the Housing Association is planning to significantly expand its activities it will need to be able to generate additional income sufficient to meet any additional borrowing obligations that it enters into.

24. The fact that balance sheets of many Housing Associations are substantial may create an impression of financial strength. However, a Housing Association may not be as financially resilient as it initially appears because relatively small changes in either its income or expenditure may have a disproportionate effect on its liquidity and, in extreme cases, its going concern status. For example, over the last few years:

- The revenue of Housing Associations has, as a result of reduced housing benefits and the introduction of the Universal Credit, been stressed giving rise to an increased risk of bad debts and voids. In addition, income for Supporting People from local Councils has reduced as Council's budgets have also been reduced.
- Long term finance is becoming both harder to obtain and more expensive.
- The costs of maintaining properties are increasing as a result of greater societal expectations regarding the quality of accommodation that should be provided.
- Liquidity has been adversely affected by a need to increase the funding of pension liabilities.

25. Information about the credit ratings of Housing Associations and the reasons for any changes in such ratings are likely to be of relevance to the auditor's risk assessment. In 2013, for example, the credit ratings of all English Housing Associations were downgraded by a major credit rating agency on the grounds of uncertainty regarding the availability of central government support for Housing Associations in financial distress.

26. Some Housing Associations have become complex organisations undertaking diverse activities such as outright sales, student accommodation, PFI transactions and care and support activities, and also working in partnership with others. This has given rise to the risk of profitable segments of a Housing Association's business being used to subsidise non-profitable segments. The liquidity difficulties described above may expose the risks

associated with cross-subsidisation and ultimately threaten the viability of a Housing Association.

THE REGULATION OF HOUSING ASSOCIATIONS

General

27. As the regulation of Housing Associations is a devolved responsibility there are separate regulatory regimes relating to England, Northern Ireland, Scotland and Wales. Appendices 1 to 4 provide an overview of the four regulatory regimes. In the following paragraphs more detailed information about specific aspects of the regimes is provided. In particular, information is provided about:

   - The auditor's right and duty to report to the regulator; and
   - Regulatory viability assessments.

28. The detailed information about the auditor's relationship with the regulator is of particular relevance to the auditor's responsibilities under ISA (UK and Ireland) 250 B ''The Auditor's Right and Duty to Report to Regulators''. The detailed information about regulatory viability assessments is of relevance to the auditor's responsibilities under ISA (UK and Ireland) 570 ''Going Concern''.

England

29. The Homes and Communities Agency (HCA) became the regulator of social housing within England with effect from 1 April 2012. It follows ''The Regulatory Framework for Social Housing in England from April 2012'' (framework).

30. The framework includes three economic standards that are of relevance to auditors of Housing Associations:

   - Governance and financial viability;
   - Value for Money; and
   - Rent.

31. There are no requirements for routine reporting by the auditor to the HCA. However, as described below there are requirements for the auditor to report to the HCA in connection with an ''extraordinary audit''.

Auditor's right to report to HCA

32. Section 143 of the Housing and Regeneration Act 2008 provides that the auditor of a registered provider or a reporting accountant in relation to a registered provider may disclose information to the HCA for a purpose connected with the HCA's function;

- Despite any duty of confidentiality; and
- Whether or not the HCA requests the information.

(The reference to disclosing information includes expressing an opinion on it. ''Reporting Accountant'' means a person who is appointed to prepare a report which, by virtue of any enactment has to be prepared in respect of accounts that are not subject to audit.)

Auditor's duty to report to the HCA

33. The auditor has no duty in the normal course to report to the HCA. However, section 210 of the Housing and Regeneration Act 2008 allows, where an inquiry is being held, for the HCA to have an ''extraordinary audit'' which has to be undertaken by a qualified auditor appointed by the HCA.

34. Under sections 107 and 108 of the Housing and Regeneration Act 2008 an auditor may be required to provide documents to the HCA.

Regulatory governance and viability assessments

35. The HCA publishes a number of documents about the English housing sector. In particular, its assessment of individual providers with more than 1,000 homes regarding their compliance with the economic standards for all private registered providers.

36. Regulatory judgments are one of the key ways in which the HCA communicates its views about the sector and individual Housing Associations to the wider world. In particular, these judgments contain the HCA's view of whether the Association meets its governance and financial viability standards.

37. The HCA issues two types of report in which it expresses its judgments on viability and governance:

    - **Regulatory Judgments (RJ)** are public documents, which discuss the Housing Association's performance in the round and contain two judgments on its compliance with the governance and the viability parts of the Governance and Viability Standard. The HCA publishes graded assessments in relation to both viability and governance as these are key areas where lenders, boards and others value assessments. The HCA expects to refresh these every 2-3 years for all Housing Associations with more than 1,000 homes.
    - **Viability Reviews (VR)** are confidential documents, seen only by the Housing Association and (under the terms of loan covenants) their lenders. This document summarises the regulator's assessment of a Housing Association's viability and sets out key financial risk exposures mitigations adopted by the provider and any monitoring activity the HCA will undertake to gain further assurance on the management of the exposures.

38. The viability grades of English Housing Associations arising from the RJ are likely to be of particular relevance to the auditor's assessment of the going concern status of a Housing Association. They are as follows:

- V1 The provider (Housing Association) meets the requirements on viability set out in the Governance and Financial Viability Standard and has the capacity to mitigate its exposures effectively.
- V2 The provider (Housing Association) meets the requirements on viability set out in the Governance and Financial Viability Standard but needs to manage material financial exposures to support continued compliance.
- V3 The provider's (Housing Association's) financial viability is of concern and in agreement with the regulator it is working to improve its position.
- V4 The provider's (Housing Association's) financial viability is of serious concern and it is subject to regulatory intervention or enforcement action[6].

39. The first two of these grades confirm that the Housing Association is meeting the HCA's expectations, while the last two indicate a failure to meet its standards. A V2 viability grade is considered to meet the HCA standard because there is no immediate threat to the Association's financial viability, but there are business risks which need to be managed actively. The HCA does not seek to eliminate risk from the sector, but rather to concentrate its resources on identification and management of risk by Associations.

40. The most significant change in the grading of Housing Associations came in 2008 when the number of V2 gradings rose from around 20% of the sector to the current position of approximately 33%. This was not a reflection of a change in approach by the HCA but was a consequence of the more difficult trading environment that providers faced at that time. Receiving a V2 viability grade from the HCA does not mean that it regards the organisation as likely to fail. It means that there are a range of risks that, if not managed successfully, could have a negative impact on the Housing Association's viability.

41. The auditor is required to obtain sufficient appropriate audit evidence regarding the Housing Association's use of the going concern assumption in the preparation of its financial statements and to conclude whether a material uncertainty exists that may cast significant doubt on the Association's ability to continue as a going concern. The auditor of an English Housing Association is likely to find the HCA's viability grades a useful source of audit evidence.

42. The auditor also seeks access to viability reviews communicated by the HCA to the Housing Association as these will also be a source of evidence concerning the going concern status of the Housing Association.

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6 Prior to 2012 the ratings were referred to as J1 to J4.

43. The HCA's Governance grading may provide early warning of potential governance problems at a Housing Association. The gradings are as follows:

- G1 The provider (Housing Association) meets the requirements on governance set out in the Governance and Financial Viability standard.
- G2 The provider (Housing Association) meets the requirements on governance set out in the Governance and Financial Viability standards but needs to improve some aspects of its governance arrangements to support continued compliance.
- G3 The provider (Housing Association) does not meet all of the requirements on governance set out in the Governance and Financial Viability standard. There are issues of regulatory concern and in agreement with the regulator the provider is working to improve its position.
- G4 The provider (Housing Association) does not meet the requirements on governance set out in the Governance and Financial Viability standard. There are issues of serious regulatory concern and in agreement with the regulator the provider is subject to regulatory intervention or enforcement action.

44. The HCA maintains and publishes a list of those Housing Associations where its current published assessment of compliance is under review. These are Housing Associations with which the regulator is actively engaging as issues have arisen since the last published judgment that may impact adversely on the HCA's view of the Association's compliance with governance and/or viability regulatory requirements.

Northern Ireland

45. Registered Housing Associations in Northern Ireland first came into being in 1976 and at the date of publication there were 30 such Associations. The Northern Ireland Department for Social Development (DSD) is responsible for the funding, monitoring, regulation and issue of guidance and policy directives to Registered Housing Associations and has a statutory duty to consult with representatives of Housing Associations.

46. The two main external reports for Registered Housing Associations are the:

- Annual Report and Accounts; and
- Annual Regulatory Return (ARR).

47. These reports are required by the DSD to monitor the financial viability of Associations and ensure the proper management of public funds. There are no requirements for routine reporting by the auditor to the DSD. However, as described below there are requirements for the auditor to report to the DSD in connection with an ''extraordinary audit''

48. In addition to the requirements set out in legislation the DSD also requires the Board of a Registered Housing Association to carry out an annual review of its system of internal control. A statement relating to this review is to be included in the audited financial statements.

Auditor's right to report to the DSD

49. There are no rights specified in law or regulation whereby the auditor may report directly to the DSD.

Auditor's duty to report to the DSD

50. The auditor has no duty in the normal course to report to the DSD but Article 24 of the Housing (Northern Ireland) Order 1992 provides that when an inquiry under Article 23 (inquiries into affairs of registered housing associations) is being held, the DSD is allowed to have an ''extraordinary audit'' which has to be undertaken by a qualified auditor appointed by the DSD.

51. The auditor may be required to provide documents to the DSD and on completion of an extraordinary audit the appointed auditor is required to make a report to the DSD on such matters and in such form as the Department may specify.

Regulatory viability assessments

52. The DSD Inspection Team carry out inspections of Housing Associations on a cyclical basis to ensure compliance with procedures laid down in the ''Housing Association Guide''.

53. The Housing Association Guide is one of the key management tools employed by the DSD to deliver its regulatory responsibilities for Housing Associations. It sets out the DSD's guidelines for Registered Housing Associations requiring robust policy and procedural standards across all Associations and equitable quality service provision for social housing tenants. It also contains the rules and procedures that Associations must comply with in order to meet the conditions for receipt of capital grant from the Northern Ireland Housing Executive (Development Programme Group).

54. The DSD uses a four tier Inspection Grading System on which to base an overall rating and individual ratings for four areas of focus one of which is financial viability. The four tier grading system is as follows:

   - **Substantial Assurance**: Where there is a robust system of risk management, control and governance which ensure that objectives are fully achieved. These Housing Associations will have a well-run system of internal control and a risk management programme resulting in all identified risks being addressed and mitigated.
   - **Satisfactory Assurance**: Given to Housing Associations who have shown that they have an effective system of control which will ensure the achievement of objectives.

There may be some weaknesses but these would not be regarded as impacting significantly on the overall performance of the Association.

- **Limited Assurance**: Given to Housing Associations where there is a considerable risk that the Association will fail to meet its objectives or where an Association has previously received a ''No Assurance'' rating and it has shown progress in addressing previous shortcomings. Prompt action is required to improve the adequacy and effectiveness of risk management, control and governance.
- **No Assurance**: Given to Housing Associations where internal systems have failed or there is a real and substantial risk of the Association failing to meet its objectives and where they are also failing to provide any of the following: sound corporate and financial governance, quality housing or value for money. Such Housing Associations are considered a high risk to themselves and the public funds which they might receive.

55. The auditor is required to obtain sufficient appropriate audit evidence regarding the Housing Association's use of the going concern assumption in the preparation of its financial statements and to conclude whether a material uncertainty exists that may cast significant doubt on the Association's ability to continue as a going concern. The auditor of a Northern Ireland Association is likely to find the DSD's grading a useful source of audit evidence.

56. The DSD regularly collects and reviews information from the Housing Association including Board minutes and financial information (quarterly accounts).

57. The actions taken by the DSD is dictated by what is found in the inspection or monitoring process. Any queries identified through the latter are followed up with the Housing Association and may lead to an inspection visit where an acceptable response is not provided. If an Association fails the inspection the DSD can impose a series of tiered sanctions such as suspension from the Development Programme or ultimately consideration of de-registration.

58. Annual Regulatory Return – Registered Housing Associations are required to complete the returns annually. The information collected is used to assess key performance indicators in relation to Housing Management and Maintenance.

Scotland

59. The Scottish Housing Regulator (SHR) assumed its full regulatory powers on 1 April 2012 under the Housing (Scotland) Act 2010. The SHR is directly accountable to the Scottish Parliament. In Scotland Housing Associations are known as ''Registered Social Landlords'' or RSLs.

60. The SHR has a statutory objective to "safeguard and promote the interests of current and future tenants of social landlords, people who are or may become homeless and people who use housing services provided by registered social landlords and local authorities".

61. Part 3 of the 2010 Act requires the SHR to publish regulatory standards and guidance. The SHR has published a Regulatory Framework document (Regulation of Social Housing in Scotland – Our Framework) which includes the details of the regulatory standards for financial management and governance. All RSLs were required to comply with these standards from 1 April 2012.

62. The approach is risk based and proportionate which is intended to enable the SHR to:

- Prioritise resources;
- Plan how to engage with a Housing Association; and
- Use the appropriate level of scrutiny, engagement or intervention required to obtain the level of assurance the SHR needs.

63. To achieve these objectives the SHR will use financial information collected from RSLs such as 5 year financial projections audited accounts, auditor management letters and loan portfolio returns as well as information from the Annual Performance Statistical Return and other regulatory intelligence. There are three levels of regulatory engagement, which are:

- Low — have sufficient assurance via the regulatory returns.
- Medium — additional information is required to seek further assurance.
- High — Intensive or continuous relationship required.

The SHR publishes individual regulation plans for all registered social landlords with Medium and High engagement.

64. "Audit Guidance"[7] is provided for Housing Associations that the SHR identify as having systemic importance (see paragraph 73 for further discussion of the meaning of systemic importance). The guidance requires a tailored level of assurance which goes beyond that specified for the generality of Housing Associations. Housing Associations of systemic importance are required to have a clear focus on, and a defined approach to, the management of risk and to have an audit committee as part of its risk management and

7 The term "Audit Guidance" is a term used by the SHR in its Regulatory Framework Document in relation to the SHR's relationship with Housing Associations identified as having systemic importance. The term does not refer to guidance for Housing Association auditors.

internal control systems; to carry out internal scrutiny and give necessary assurance to the governing body.

65. The additional audit guidance is at Regulatory Standard 3 (3.8 to 3.12). Housing Associations of systemic importance are required to implement and comply with this additional guidance. Other Housing Associations may also be required to implement the audit guidance. In such cases this is noted in the published regulation plan for the Housing Association.

66. While compliance with the audit guidance is not mandatory for all Housing Associations, they are encouraged to consider its merits.

Auditor's right to report to the SHR

67. An auditor may disclose information to the SHR (and express an opinion on it) where it has reasonable cause to believe that the information is likely to be relevant to the performance of any of the SHR's functions.

Auditor's duty to report to the SHR

68. Section 72 of the Housing (Scotland) Act 2010 Act obliges auditors to disclose information to the SHR which they believe would have a material impact on the performance of the SHR's function to monitor, assess and report regularly on the registered social landlord's financial well-being and standards of governance.

69. The section 72 reporting obligations work in conjunction with the notifiable events requirements[8]. While it is the auditor's judgment that ultimately determines what information falls within section 72, the SHR considers, for example, that it may be materially significant if an auditor becomes aware that the notifiable events guidance has not been complied with. The SHR also expects an auditor to be aware of any published regulation plan for the audited body and to use this information to inform their judgment in determining whether something is likely to be of material significance or relevance.

Regulatory viability assessments

70. When SHR refers to risk, this means the risk to its statutory objective i.e. to protect the interests of tenants and other service users. The risks to this regulatory objective are likely to be:

- Poor outcomes for tenants and other service users;
- Poor stock quality and investment failures;
- Poor financial performance and management; and

8 The SHR issues guidance on ''notifiable events''. These are events that it requires a registered social landlord to notify it about. At the time of writing the latest guidance was dated April 2012.

- Poor governance.

71. Each year, SHR assesses and prioritises the risks each landlord represents to its statutory objective and determines what the appropriate response should be. The regulatory response is based on what level of assurance is needed and it can change in response to new information or events. The regulatory cycle consists of:

    - Risk identification;
    - Risk assessment and prioritisation;
    - Decision on regulatory response and resources; and
    - Regulatory engagement.

72. For Housing Associations (RSLs), SHR assesses for each risk:

    - Impact – assessing the scale and significance e.g. stock size, quality age and number of tenancies, level of private finance being serviced etc.;
    - Probability – likelihood of the risk materialising; and
    - Manageability – ability of the tools at the SHR's disposal to deal with the risk.

73. A small number of Housing Associations may have such a profile across several of the impact factors that they would present the greatest risk to SHR s objective should they experience business failure. These Housing Associations are considered to have systemic importance and, as discussed in paragraphs 64 and 65, the SHR may define additional assurance requirements as a result.

74. In addition, SHR considers the landlords organisational complexity (including its use of subsidiaries and dependence on them), number of employees, legal status and governance arrangements.

75. On completion of the risk assessment, the level of engagement is categorised as Low, Medium or High. Housing Associations in the Medium and High engagement categories will receive a regulation plan which details what action the Housing Association is to carry out, the engagement SHR plans to have with the Association and the timescale involved.

76. Higher levels of engagement cannot be assumed to equate to poor performance e.g. newly registered Housing Associations or those with large development programmes will have relatively high levels of engagement.

77. The auditor is required to obtain sufficient appropriate audit evidence regarding the Housing Association's use of the going concern assumption in the preparation of its financial statements and to conclude whether a material uncertainty exists that may cast

significant doubt on the Association's ability to continue as a going concern. The auditor of a Scottish Housing Association is likely to find the SHRs risk assessment categorisation and regulation plan a useful source of audit evidence.

Wales

78. In Wales the Housing Association Regulator is the Welsh Ministers. They have established a Housing Regulation Team to undertake regulation activity on their behalf. The team is part of the Welsh Government's Housing Division (WGHD).

79. The Review of Affordable Housing in Wales (June 2008) recommended the development of a new Regulatory Framework for Housing Associations. This has now been issued as ''The Regulatory Framework for Housing Associations Registered in Wales''.

80. The ultimate purpose of the Regulatory Framework is to ensure that Housing Associations provide good quality homes and services to tenants and others who use their services. It does this by ensuring that each Association is:

    - Well governed – led effectively and well managed by boards, executives, staff, tenants and partners, who work together to make and implement business decisions;
    - Financially viable – has the money to meet current and future business commitments and effectively manages its finances; and
    - Delivering high quality services.

Regulatory assessment

81. All Welsh Housing Associations are expected to carry out a regular self-assessment which evaluates their performance on service delivery, governance and finance and proposes improvement action. This self-assessment is the core evidence used by the Welsh Ministers in making their regulatory assessment of each Association.

82. The annual regulatory assessment is used to determine the level of regulatory contact. There are three levels, ''low'', ''medium'' and ''high''. Medium or high levels of contact are tailored to the needs of the Housing Association and can involve:

    - Enhanced regulatory contact.
    - Increased scrutiny and testing of the self-assessment.
    - Increased scrutiny of financial submissions.
    - Inspection of one or more elements of an Association's activities.
    - More formal responses or interventions.

    The assessment is required to be published on the Housing Association's web-site.

Auditor's right to report to the WGHD

83. There are no rights specified in law or regulation for an auditor to report to the WGHD.

Auditor's duty to report to the WGHD

84. There are no duties specified in law or regulation which require the auditor to report to the WGHD.

Financial viability judgments

85. A financial viability judgment is issued to each Housing Association at the end of March each year. This is based on monitoring information through the year, including management accounts, statutory accounts, private finance returns and 30 year forecasts. The judgment is required to be available on the Housing Association's web-site on the 10th working day from the date of receipt.

86. There are three categories of financial judgment:

    - Pass;
    - Pass with closer regulatory monitoring; or
    - Fail.

    Where a judgment of ''fail'' applies, the Welsh Ministers will have already been working closely with the Association to address the underlying issues. Where the judgment is ''pass with closer regulatory monitoring'', the Welsh Ministers are of the view that additional work and/or scrutiny is required to provide stronger assurance on financial viability.

87. The auditor is required to obtain sufficient appropriate audit evidence regarding the Housing Association's use of the going concern assumption in the preparation of its financial statements and to conclude whether a material uncertainty exists that may cast significant doubt on the Association's ability to continue as a going concern. The auditor of a Welsh Housing Association is likely to find the Welsh Ministers' Regulatory Assessments a useful source of audit evidence.

BUSINESS RISKS AFFECTING HOUSING ASSOCIATIONS

88. A business risk is a risk resulting either from significant conditions, events, circumstances, actions or inactions that could adversely affect a Housing Association's ability to achieve its objectives and execute its strategies, or from the setting of inappropriate objectives and strategies.

89. As all Housing Associations have business risks it is important that they have clear strategies for dealing with the risks and policies on how to manage the risks. There is a wide range of risk management strategies that Associations may adopt. It is important

that the auditor has an understanding of the way in which the Housing Association seeks to address the business risks that it confronts and in particular assesses whether there are on-going processes embedded within the Association's operations which monitor the effective application of the policies, processes and activities related to risk management.

90. The following discussion of business risks that may result in a risk of material misstatement at a Housing Association is, necessarily, written at a generic level and is intended only to guide auditors as to relevant business risks that they might consider with respect to the Housing Associations that they audit. As each Association is unique auditors consider whether there are other relevant business risks that may be applicable to the Association that they are auditing.

Business risks considered

91. The following list sets out some of the key business risks that may give rise to a risk of material misstatement:

- Housing Associations entering into increasingly complex and risky financing arrangements.
- Increasing motivations for the management of Housing Associations to present a biased financial picture.
- Decreasing receipts from Government housing benefit creating a greater risk of bad debts and property voids.
- As a result of reduction in Government support, diversifying into non-social housing activities that may give rise to increased and unforeseen risks.
- Increasing regulatory requirements for properties to be improved increasing the costs of Housing Associations in an environment where there is pressure on revenues.
- Risks surrounding working in partnerships, joint ventures and non-registered subsidiaries.
- Housing Associations may be unable to fund their pension liabilities.
- The Board may not have the requisite skills and experience.

Increasingly complex and risky financing arrangements

Increasing borrowings from the capital markets

92. Until the recent financial crisis banks had been willing to lend to Housing Associations for long terms and to charge relatively low rates of interest. A key factor in obtaining such lending was the ability of the Housing Association to receive its tenants' housing benefit directly from the Government (rather than via the tenant).

93. However, these traditional lenders are increasingly looking to lend shorter term than they have in the past and are also charging higher margins on new debt and on existing debt

where they have an opportunity to re-price. Banks typically are now looking to lend for 5 or 10 year terms rather than 30 year terms.

94. As described in paragraph 11 Housing Associations have increasingly been looking to the wholesale bond markets to satisfy their financing needs. Larger Housing Associations often access the capital markets directly using a particular arranger whereas smaller Housing Associations are able to access the capital markets through aggregating bodies such as The Housing Finance Corporation which is able to ''lend on'' funds to Housing Associations on the same terms as it is able to borrow.

95. Although wholesale bonds are usually relatively straightforward financial instruments, the terms and conditions associated with an issuance may be complicated and need to be well understood by management, the Board of the Housing Association and the auditor. Bonds, for example, may be issued in overseas markets in currencies other than Sterling and thus give rise to foreign currency risk.

96. Housing Associations have increasingly been entering into interest rate swaps, typically to convert variable rate loans into fixed rate loans to enable the Housing Association to build some certainty into its business plan. Although the swaps are usually undertaken with a financial institution there is a growing incidence of swaps being undertaken between Housing Associations. Such swaps are typically less costly than swaps involving a financial institution. However they may be much more risky to the extent that they rely on the counterparty Housing Association continuing in business during the period in which the swap is effective.

97. When a Housing Association issues a bond such bonds may be listed on the Official List thus giving rise to the obligations that arise from being listed.

Guarantees

98. Financings may involve complex guarantees and Housing Associations need to be aware of the implications of guarantees both that they enter into and also of guarantee obligations that they may have acquired when making a business acquisition. In the latter case the existence of guarantees against loans may not be apparent in the absence of appropriate due diligence activities at the time of the business acquisition. Risks associated with guarantees may be particularly acute where a Housing Association diversifies into non-social housing activities.

Increasing motivations for the management of Housing Associations to present a biased financial picture

99. Management of Housing Associations may be motivated by many factors to present a biased financial picture. A perceived risk of damage to the Association's reputation may give rise to motivations to inhibit disclosure of detrimental circumstances or events.

100. An example of a detrimental circumstance arises from the constraints that arise from the covenants specified in the funding agreements within which a Housing Association operates. As the impact of non-compliance with covenants could be significant for a Housing Association there is an incentive for the preparers of the financial statements, management of the Housing Association or the Board to alter the financial statements to disguise the fact that a breach has in fact occurred.

101. In addition, some activities of a Housing Association group (for example, its commercial activities or care and support services) may be subject to separate scrutiny by regulators, funders or tax authorities. Since there is some risk of issues arising should these business segments be either particularly profitable or loss making, there is an incentive for a Housing Association to present its financial statements in a manner that avoids such issues being identified by a reader of the financial statements.

102. SORP 2010 at paragraph 164 relating to mixed tenure development requires surpluses generated by an element of the development to be offset against elements having shortfalls. A consequence of this accounting cross-subsidisation of elements may be an incentive to manipulate the accounting for the various elements to enable surpluses to be inappropriately recorded.

Decreasing receipts from Housing Benefit creating a greater risk of bad debts and property voids.

103. The Welfare Reform Act 2012 is likely to have a significant impact on the revenues of Housing Associations. Among other things, the Act:

- Is intended to cut the amount of benefit being received by those tenants that have a spare bedroom; and
- Envisages many more social housing tenants receiving housing benefit (which will now be incorporated into the ''The Universal Credit'') directly. (Rather than the benefit being paid directly to their landlord.)

104. These changes could adversely affect the cash flows of Housing Associations through, for example:

- Increased arrears.
- New debt collection procedures (including the possible need for additional staff).
- Legal costs.

105. Rent increases are typically tied to the Retail Price Index (RPI). Low annual increases in retail prices affects Housing Associations to the extent that rent increases are lower than expected.

106. In determining the audit evidence that it wishes to obtain with respect to bad debts the auditor may wish to evaluate the Association's stress testing of its business model against these changes.

Diversifying into non-social housing activities

107. A number of Housing Associations have diversified into activities other than core social housing activities. An example of such a non-core activity is care and support activities. Such activities may expose the Housing Association to additional risks, with a key consideration being heightened reputational risk resulting from the vulnerability of the tenants being cared for.

108. Care and support activities can be contracted or subcontracted to or from partner organisations. This may increase the inherent risk as the Housing Association is dependent on the performance of others. If performance targets are not met in line with funding agreements, it can directly impact on the amounts of revenue that can be recognised and result in returns being less than expected. Ultimately this can affect the financial viability of the non-social housing activities and the Association.

Working in partnerships and joint ventures

109. Joint ventures and other arrangements are now more common in the sector bringing with it a number of additional risks (although in many cases the rationale behind the structures was intended to help in managing risk).

110. Care needs to be taken to ensure that the Housing Association's obligations are fully understood, including any contractual obligations and/or guarantees. Boards of Housing Associations need to be aware of the full range of risks involved in these arrangements, and whether they have the ability and resources to meet these obligations. Housing Associations also need to understand what returns they have a right to and ensure that any income due is received.

111. Working in partnership is underpinned by the terms of the agreement between the parties. Both sides need to understand their roles and responsibilities. The Association needs to ensure that it has effective oversight over all activities and the ability to act when concerns arise.

Increasing regulatory requirements for properties to be improved

112. From 2000 to 2010 the Government, in England, pursued a ''decent home for all'' policy goal (Beyond Decent Homes). When the policy was established the Government stated ''When the decent homes target was set in 2001, the aim was to eliminate a backlog of disrepair and ensure that no one was living in a home that was below a basic minimum level of decency.''

113. A primary issue facing Housing Associations is balancing their spending between the two objectives of building new homes and improving the existing stock. The future of grant

funding is uncertain and any reduction in grants for new build homes could result in Housing Associations reducing its investment in improving the existing stock. However, as Housing Associations are required by the Regulator to maintain the standard of their existing stock, the Regulator will take action if a Housing Association is considered to be investing in new homes at the expense of current tenants.

114. Housing Associations will have to balance these competing demands in the context of the future regulatory environment and in England in the context of any successor programme to ''Beyond Decent Homes''. In Northern Ireland, the Housing Association is required to have completed a stock condition survey and to have plans in place to deliver the required maintenance investment. In Scotland, the Scottish Housing Quality Standard was introduced in 2004 to be the Scottish Government's principal measure of housing quality in Scotland. The purpose of introducing a minimum housing standard in Scotland is essentially to provide a ''floor'' below which a property ideally should not fall. The Scottish Government has set a policy target for Housing Associations to bring their stock up to every element of the standard by April 2015. In Wales the Welsh Ministers have implemented the Welsh Housing Quality Standard which it expects all Welsh Housing Associations to adopt and have brought their properties up to date by the end of 2012, or later by agreement with the Ministers.

Inability to fund pension liabilities

115. Many Housing Associations are members of multi-employer defined benefit pension schemes such as the Social Housing Pension Scheme (SHPS) in England and the Scottish Housing Association Pension Scheme (SHAPS). The SORP 2010 requires Housing Associations to comply with the disclosure requirements for defined benefit schemes in FRS 17, unless:

- The employer has no obligation other than to pay a contribution which reflects the benefits earned in the current period (i.e. it is in effect a defined contribution pension scheme); or
- The employer's contributions are affected by a surplus or deficit in the scheme but the employer is unable to identify its share of the underlying assets and liabilities on a consistent and reasonable basis.

In which case the Association is required to comply with the disclosure requirements for defined contribution schemes

116. The Pension Trust which administers SHPS and SHAPS has indicated that it is unable to provide a breakdown of pension assets and liabilities by Housing Association on a consistent and reasonable basis. Therefore, it is not possible for an asset or liability relating to these pension schemes to be reflected in the financial statements of Housing Associations. Many Associations, therefore, have been unable to properly reflect the

defined benefit scheme in their accounts and as a result are only able to reflect pension contributions paid.

117. In recent years due to low asset growth, salary growth rates, a fall in government bond yields and increasing pension scheme liabilities amongst other factors, the funding position of many pension schemes has deteriorated. The Pension Trust has had to implement a recovery plan for the social housing pension schemes in order to reduce past funding deficits and require its members to pay towards the deficit by way of additional contributions.

118. The additional contributions in respect of the past deficit together with a likely rise in future service contributions means that pension contributions are an increasing cost for Housing Associations at a time when budgets are under pressure and funding is more limited.

Corporate governance and management structures challenged by lack of management representation on Boards and Board members having links with similar organisations

119. In line with many other types of ''not for profit'' organisations, Housing Associations often have governance structures that do not involve members of the executive management team (including the finance director) being members of the Board. Instead, there are a number of non-executive members who are collectively ''those charged with governance''. As a result there is a risk that the governance of the Housing Association may be divided between the Board and the executive management in a disconnected way. In particular, the Board and executive management may not communicate and share their thinking with each other effectively.

AUDIT RISKS AFFECTING HOUSING ASSOCIATIONS

120. Audit risk is the risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated. Audit risk is a function of the risks of material misstatement and the risk that the procedures performed by the auditor will not detect a misstatement. Examples of business risks that may result in a risk of material misstatement are discussed at paragraphs 91 to 119 above.

121. The discussion in the following paragraphs is to draw attention to aspects of International Standards on Auditing (UK and Ireland) that may be particularly applicable to audit risk in the context of Housing Associations. Where a specific ISA (UK and Ireland) is not discussed this is not because its requirements are not relevant to the audit of Housing Associations but because there are no significant additional considerations arising as a result of the entity being a Housing Association.

122. The ISAs (UK and Ireland) discussed in the following paragraphs are:

- 240 The Auditor's Responsibilities relating to Fraud in an Audit of Financial Statements.
- 250 Section A: Consideration of Laws and Regulations in an Audit of Financial Statements.
- 250 Section B: The Auditor's Right and Duty to Report to Regulators in the Financial Sector.
- 260 Communication with Those Charged with Governance.
- 315 Identifying and Assessing the Risk of Material Misstatement Through Understanding of the Entity and its Environment.
- 320 Materiality in Planning and Performing an Audit.
- 520 Analytical Procedures.
- 540 Auditing Accounting Estimates Including Fair Value Accounting Estimates and Related Disclosures.
- 550 Related Parties.
- 570 Going Concern.

The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements. ISA (UK and Ireland) 240

Applicable Business Risk – Motivations for Housing Association management to present a biased financial picture

123. Two types of intentional financial statement misstatement are likely to be particularly relevant to the auditor of a Housing Association:

- Misstatements arising from fraudulent financial reporting; and
- Misstatements resulting from misappropriation of assets.

124. Fraudulent financial reporting involving intentional misstatements to deceive financial statement users by influencing their perceptions as to the Housing Association’s performance and profitability may be less likely than in some commercial entities due to the absence of trading in shares or significant management bonus arrangements.

125. However, there are a number of other external issues which may motivate the management of Housing Associations to present a biased financial picture. Some of these business risks are discussed in paragraphs 99 to 102. The strategies being adopted by Housing Associations to manage these issues may result in incentives for material misstatement of the financial statements.

126. Housing Associations may have significant borrowings with covenant terms (generally interest cover and gearing covenants). This may create pressures on the Association that, in turn, may motivate management to take action to misstate the reported business performance in the financial statements.

127. With respect to misappropriation, areas where the board might, where relevant, be expected to introduce strong internal controls to avoid the occurrence of misappropriation or error include, where material:

- Purchasing (for development and maintenance).
- The collection of rent in cash.
- Major fund flows (for example the draw down and repayment of loans and grants).
- Recognition of development or maintenance expenditure in the correct period.

Consideration of Laws and Regulations in an Audit of Financial Statements: ISA (UK and Ireland) 250 Section A

128. ISA (UK and Ireland) 250 Section A requires the auditor, among other things, to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements. Determination of which laws and regulations have such a direct effect requires consideration of its governing document, the activities it undertakes and those laws and regulations specifically applicable to those activities.

129. Laws and regulations are likely to have a direct effect on the determination of material amounts and disclosures in the financial statements where breaches would have any of the following consequences:

    (a) Intervention by the regulatory body to direct the affairs of the Housing Association, 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 licenses to continue a major element of the Housing Association's work (primarily law 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 Housing Association. For example, expenditure or activities outside grant conditions imposed by the regulatory body can lead to disallowance and repayment of grant.

130. The social housing sector includes a number of diverse activities and hence the requirements of laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements are likely to be derived from the activities undertaken as well as arising from registration with the regulatory body. For example, Housing Associations 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.

131. Housing Associations 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 chartable 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 Housing Association.

Money laundering

132. 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 (Revised): ''Money Laundering – Guidance for auditors in UK legislation''.

Reporting

133. Auditors 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 Housing Association, 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.

The Auditor's Right and Duty to Report to Regulators in the Financial Sector: ISA (UK and Ireland) 250 Section B.

134. The auditor's right and duty to report to regulators of Housing Associations is set out in the section of this Practice Note entitled ''The Regulation of Housing Associations'' and summarised in Appendices 1 to 4.

135. 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 Commission. Guidance on this topic, for auditors of unincorporated charitable Housing Associations, is given in the FRC's Practice Note 11: The Audit of Charities in the United Kingdom (March 2012).

136. Other than as described in paragraph 134, auditors of Housing Associations, 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 interest. (For example, a failure to report a significant fraud or misappropriation of grant monies). The auditor may need to take legal advice before making a decision on whether a matter should be reported in the public interest.

137. In respect of Housing Associations the proper authority to which an auditor reports is ordinarily the relevant national regulatory body and, in any part of the United Kingdom, the Police.

Communication with Those Charged with Governance:- ISA (UK and Ireland) 260.

Applicable Business Risk – Corporate governance and management structures challenged by lack of management representation on Boards and Board members having links with similar organisations.

138. Those charged with the governance of a Housing Association typically include the members (executive and non-executive) of the Board of a Housing Association and the members of an audit committee where one exists.

139. They have responsibilities at least as onerous as those of full-time paid directors of commercial enterprises in relation to the security of an Association's income, assets and their proper application.

140. However, unlike many commercial organisations, Housing Associations often have governance structures that do not include members of the executive team (including the finance director) as members of the Board. Instead there are a number of non-executive members who are collectively ''those charged with governance''.

141. Auditors of Housing Associations, therefore, need to carefully consider how they determine who ''those charged with governance'' are and establish an appropriate communication process with both those individuals and members of the executive team.

142. The objectives of the auditor in communicating with those charged with governance are:

    (a) To communicate clearly with those charged with governance the responsibilities of the auditor in relation to the financial statement audit, and an overview of the planned scope and timing of the audit;

    (b) To obtain from those charged with governance information relevant to the audit;

    (c) To provide those charged with governance with timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process; and

    (d) To promote effective two-way communication between the auditor and those charged with governance.

143. The business risk that the governance of the Housing Association may be divided between the Board and the executive management in a disconnected way gives rise to a risk that the auditor of a Housing Association may not establish appropriate two-way communication channels with the Board, the audit committee (where there is one) and the members of the executive management team. In such circumstances, effective two-way communication is unlikely to be achieved when the auditor communicates with those

charged with governance solely by means of formal written reports. In such circumstances auditors seek to attend audit committee and board meetings to discuss their reports and where appropriate suggest that those charged with governance meet with the auditors without the executive management team being present.

Identifying and Assessing the Risk of Material Misstatement Through Understanding of the Entity and its Environment: ISA (UK and Ireland) 315.

Applicable Business Risks:

- **Entering into increasingly complex and risky financing arrangements**
- **Diversifying into non-social housing activities**
- **Risks surrounding working in partnerships and joint ventures**
- **Increasing regulatory requirements for properties to be improved.**
- **Motivations for Housing Association management to present a biased financial picture**

144. The auditor seeks to understand the overall structure, activities, finances and governance of the Housing Association. Areas the auditor consider include:

- The overall governance arrangements of the Housing Association which support the systems of internal control including the audit committee, risk management and internal audit arrangements.
- The main business activities of the Housing Association and any significant developments since the previous audit, for example new development activity, acquisitions or disposals and organic growth areas.
- Cross-subsidies between different business activities of the Housing Association.
- Component accounting and the need to determine useful economic lives for separate components of fixed assets.
- Policies on capitalisation of internal costs, interest incurred during development and the capital/revenue split of works to existing properties.
- The financing and funding structure which supports the Housing Association's activities and any significant internal or external developments which may impact on the Association.
- The framework for business planning, financial and performance management.
- The Annual Regulatory Assessment including published regulation plans and/or viability assessments. The nature of regulatory assessments varies between countries and details are set out in the Regulation of Housing Associations section of this Practice Note.

- Changes in accounting treatment of financial statement items following changes in accounting standards.[9]

145. Housing Associations may participate in complex projects such as schemes developed under the Private Finance Initiative (PFI). A Housing Association may, for example, 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 ''Private Finance Initiative and similar contracts'' of FRS 5 ''Reporting the Substance of Transactions''.

Accounting Policies

146. Accounting policies that are typically relevant to Housing Associations include:

- Valuation of properties;
- Depreciation;
- Capitalisation of building costs (including component costs);
- Allocation of overhead costs; and
- Impairment.

147. Under FRS 15 ''Tangible fixed assets'' Housing Associations 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 buildings (as distinct from the land on which they are situated) results in additional complexity. The complexity arises from splitting the property into its key components and determining the useful economic lives of these. Accounting for the grants given by Government for new social housing now needs to be split between the land, building structure and possibly components and impacts on the amount carried in the balance sheet.

148. Under the 2010 update of the SORP depreciation is required to be separately calculated on discrete components of housing. Roofs, windows and doors, kitchens and bathrooms are the most common components on which separate depreciation calculations are made. The adoption of component accounting/depreciation requires assumptions and estimates to be made by Associations.

9 In 2014, for example, the implementation of FRS 102 may give rise to significant changes in treatment of certain financial statement items.

149. FRS 11 ''Impairment of fixed assets and goodwill'' 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.

Internal control

150. The responsibility for the establishment and proper operation of a system of internal control lies with the board of each Housing Association. Relevant factors for the auditor to consider when planning the work that will be performed on internal controls in the audit of Housing Associations, include:

- The expectation (in Scotland and Wales, the requirement) that the auditor's management letter will be passed on to the regulator.
- Any additional procedures that have been agreed with those charged with governance.

151. Auditors of Housing Associations that are Industrial and Provident Societies are required to state in the auditor's report if in their opinion the Housing Association has failed to maintain a satisfactory system of control over transactions. ISA (UK and Ireland) 700 requires the auditor to describe such responsibilities to report by exception in the auditor's report and to incorporate a suitable conclusion in respect of such matters[10]. An illustrative example of an Auditor's Report on a Housing Association Registered in England that is an Industrial and Provident Society is provided by example 28 in Bulletin 2010/2.

10 ISA (UK and Ireland) 700 paragraph 22.

Materiality in Planning and Performing an Audit of Housing Associations: ISA (UK and Ireland) 320

Applicable Business Risks:
• **Motivations for Housing Association managements to present a biased financial picture.**

152. The principles of assessing materiality in the audit of a housing association are the same as those applying to the audit of any other entity. In particular, the auditor's consideration of materiality is a matter of professional judgment, and is affected by the auditor's perception of the common information needs of users of the financial statements.

153. A percentage is often applied to a chosen benchmark as a starting point in determining materiality for the financial statements as a whole. Examples of benchmarks that may be appropriate include categories of reported income, (such as net income, total revenue and total expenses), or net asset value. Determining a percentage to be applied to the chosen benchmark involves professional judgment based on the circumstances of the Housing Association. There is a relationship between the percentage and the chosen benchmark such that, for example, a percentage applied to net income will normally be higher than a percentage applied to total revenue or net assets. In view of Housing Associations' social objectives and their inability to distribute surpluses, the most relevant bases for materiality are usually gross revenues or net assets.

154. A key difference of a Housing Association from many other entities is that balance sheet balances tend to be much larger compared to the income statement, so that the application of materiality based on income may be too low when auditing some aspects of elements of the balance sheet.

155. To deal with this, the auditor typically uses materiality based on the income statement if a misstatement in a balance sheet item could affect the income statement or accumulated surplus. If, however, a misstatement in a balance sheet item is likely only to lead to a reclassification between line items within assets and liabilities, a higher materiality level can be applied for identifying and evaluating such misstatements only. Although paragraph 10 of ISA (UK and Ireland) 320 indicates that there can only be one overall measure of materiality for the accounts as a whole, paragraph A15 of ISA (UK and Ireland) 450 states that there may be circumstances involving the evaluation of qualitative considerations where the auditor concludes that a classification misstatement is not material in the context of the financial statements as a whole when the amount of the misclassification is small in relation to the size of the related balance sheet items and the misclassification does not affect the income statement.

156. A feature of the business of Housing Associations is uncertainty relating to the ultimate collectability of rents. As a result, whilst quantitative measures of materiality are of assistance in directing the focus of the auditor's work, qualitative factors relating to the extent and nature of disclosures in the financial statements will also be of importance. Where such uncertainty is considered to be significant, Housing Association auditors consider the disclosures made in the financial statements, and the effect upon the auditor's report.

Materiality in the context of tables of housing stock

157. Financial statements of Housing Associations often include, in the notes to the financial statements, numerical tables of housing stock. Such notes report in numbers of units rather than in monetary amounts. Because such notes form part of the financial statements the auditor is required to audit them in accordance with auditing standards.

158. The auditor's evaluation of materiality with respect to such numerical notes would not be based on the quantitative thresholds determined for the financial statements. However, the auditor would be aware in determining how to evaluate the materiality for tables of housing stock that such tables are unlikely to be subject to estimation uncertainty.

Analytical Procedures: ISA (UK and Ireland) 520

> ***Applicable Business Risks:***
>
> - **Decreasing receipts from Government housing benefit**

Analytical Procedures based on information available about the sector

159. The Housing Association Regulators publish extensive information and numerical data about Housing Associations[11]. The existence of such information and data can greatly assist auditors by providing an indication of trends and current ratios. In particular, consideration of such data will assist the auditor in developing expectations of plausible relationships among both financial and non-financial information.

160. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.

Analytical Procedures specific to a particular Housing Association

161. Because elements of the income and expenditure of a Housing Association, for example interest payable and rental income receivable are predictable, analytical procedures are suitable for use as substantive procedures.

162. In respect of rental income, for example, the auditor may perform analytical procedures with respect to:

    - The relationship between the number of housing units available for occupation, the incidence of empty units (sometimes referred to as voids) 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.

163. Analytical procedures with respect to interest expense might typically include:

    - Predicting interest expense for the period by category of borrowing by multiplying the average principal amounts outstanding during the period by the expected average interest rates. At the year-end differences from expectations are investigated; and

11 Examples of such information are described in Appendices 1 to 4.

- At the year-end calculating average effective interest rates for the period by category of borrowing or by type of debt instrument by dividing recorded interest expense by the average principal amounts outstanding during the period. The actual interest rates so determined are compared to expected interest rates based on debt agreements. Significant differences are investigated.

Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures: ISA (UK and Ireland) 540

Applicable Business Risks:
• **Housing Associations entering into increasingly complex and risky financing arrangements.**
• **Motivations for Housing Association managements to present a biased financial picture.**
• **Inability to fund pension liabilities**

164. Housing Associations need to make a number of accounting estimates when preparing their financial statements. The main areas where estimates are likely to be required in connection with the core business relate to:

(a) Fair value of housing properties;

(b) Depreciation of housing properties and separate components of fixed assets. Key to the making of these estimates is the determination of their estimated useful economic life;

(c) The level of bad and doubtful debt provisions against tenant rent arrears;

(d) Impairment provisions, including situations where existing use valuations are below net cost but the Housing Association 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;

(e) Pension liabilities (see paragraphs 115 to 118);

(f) Overhead allocation especially between different segments of the business; and

(g) Assets and liabilities associated with financing arrangements.

Fair value of housing properties

165. For Housing Associations, the fair value measurements and disclosures in the financial statements are derived using the methodologies outlined in the SORP. The auditor assesses:

- The suitability of the valuer selected by the Housing Association to perform the valuation; and
- The reasonableness of the assumptions used.

166. In practice, there are a relatively small number of valuers who regularly provide this service within the sector as the skills required to perform valuations of social housing property are quite distinct from those required to perform more generic residential property valuations.

167. An assumption that has particular significance for social housing valuations is the discount rate used. The auditor, therefore, considers whether the discount rate used is reasonable.

Depreciation of housing properties

168. Depreciation charges may be difficult to assess where the useful economic lives of properties are lengthy. In assessing the economic lives of properties the auditor takes into account any special factors affecting the housing stock of the particular Housing Association, such as type of house, location and method of construction. Where no particular special factors have been identified, the auditor may decide to assess the reasonableness of the lives adopted by the Housing Association by comparing them with those prevalent in the sector. If the Housing Association's lives are out of line with lives generally used in the sector the auditor establishes the reasons for the variance and considers whether the reasons are plausible.

Bad and doubtful debt provisions

169. 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 high volume of relatively small amounts due to a Housing Association. When reliance is placed on analytical procedures the auditor considers whether past ratios and trends continue to be applicable in current economic circumstances. The coming into force of the Welfare Reform Act, which is discussed in paragraphs 103-106, is expected to adversely affect the cash flows of Housing Associations. The use of ratios and trends relating to the period prior to the legislative change may not be relevant following the change. As noted in paragraph 106 the auditor may be able to obtain audit evidence about the adequacy of bad and doubtful debt provisions by evaluating the stress testing of its business model against these changes, that the Housing Association has undertaken.

Impairment provisions

170. The SORP includes a lengthy commentary on impairment judgments for Housing Associations. In particular, it observes that financial matters may not be the only aspects to consider in assessing whether a social housing property is impaired and similarly a social housing property may not be impaired even when its financial value and value in

use are both below its net carrying value. This is based on the premise that an intentional shortfall in value is not an impairment provided the social benefit is being delivered. The auditor, therefore, may need to consider the audit evidence supporting impairment judgments with particular care.[12]

Overhead allocation

171. Many Housing Associations undertake a number of diverse activities and the allocation of central overheads between such activities can be an important determinant as to whether such activities appear to be profitable or loss making. Management may be incentivised to bias the allocation of overheads to hide the true financial status of an activity or subsidiary.

172. On a consolidated basis, and assuming there is no intention to dispose of any activities or subsidiaries, inappropriate allocation of overhead may not, of itself, give rise to a misleading outcome in the financial statements. However, when an activity or subsidiary is disposed of the consequences of inappropriate overhead allocation may be to render the retained activities (which may have been considered profitable) as being unprofitable. It is important, therefore, that overhead allocation is based on objective criteria.

Assets and liabilities associated with financing arrangements

173. Arising from their traditional funding sources being less willing to advance funds, some Housing Associations have been entering into more sophisticated financing arrangements such as looking to the wholesale bond markets to satisfy their financing needs and entering into interest rate swaps.

174. The auditor evaluates whether the Association's treasury function operates within an appropriate framework of defined Board approved policies and procedures including establishing permissible funding and hedging instruments, exposure limits and a system of authorities for approval and execution of transactions.

175. Where applicable, the valuation techniques used to value or disclose such derivative financial instruments may be complex and rely heavily on accounting estimates made by the Housing Association itself, usually with the advice of external advisors.

12 As noted in paragraph 20 the SORP is likely to be revised in 2014. This revision is likely to have a significant effect on the guidance that is provided with respect to impairment provisions.

Related Parties: ISA (UK and Ireland) 550

> ***Applicable Business Risk:***
>
> - **Corporate governance and management structures challenged by lack of management representation on Boards and Board members having links with similar organisations**

176. Members of the Board of a Housing Association often have links with other Housing Associations or similar organisations. Consequently the audit of related parties and related party transactions can be particularly challenging to auditors.

177. The management of some Housing Associations maintain registers (or other forms of records) of related parties and may require Board members to declare related party transactions at each meeting including describing the nature of the transactions. Such registers and Board minutes are likely to provide audit evidence with respect to the existence of related parties and the occurrence of related party transactions.

Going Concern: ISA (UK and Ireland) 570

Applicable Business Risks:

- **Entering into increasingly complex and risky financing arrangements**
- **Motivations for Housing Association managements to present a biased financial picture**
- **Decreasing receipts from Government housing benefit creating a greater risk of bad debts and property voids**
- **Increasing regulatory requirements for properties to be improved**
- **Inability to fund pension liabilities**

Periodic regulatory viability assessments

178. The various national regulators make periodic regulatory viability assessments of individual Housing Associations and publish the findings of these assessments on their respective web-sites. The details of the various national regulatory approaches to viability assessments are summarised in ''The Regulation of Housing Associations'' section of this Practice Note (paragraphs 27 to 87). The latest viability assessment published by the regulator on a particular Housing Association is likely to be the logical starting point of the auditor's consideration of going concern.

Responsibility of the Board

179. The Board of a Housing Association is responsible for assessing the ability of the Housing Association to continue as a going concern. The Board's assessment should be documented and rigorous in nature. The Board's process supporting its assessment should be proportionate in nature and depth depending upon the size, level of financial risk and complexity of the Housing Association and its operations.

180. In assessing going concern, the Board considers the extent to which there may be adverse variations from expected funding or revenue, or additional unexpected costs, and any uncertainties as to whether or not the Housing Association can continue in operational existence for the foreseeable future.

Auditor's responsibility

181. Although the regulator's viability assessment and directors' going concern assessment may be helpful to the auditor, the auditor is still required to meet the requirements of ISA (UK and Ireland) 570. In particular, the auditor has to determine whether there are any material uncertainties that may cast significant doubt on the Housing Association's ability to continue as a going concern.

182. In applying ISA (UK and Ireland) 570 to Housing Associations, auditors consider the circumstances in which Housing Associations may cease to continue in operational existence. Growing Housing Associations may have particular going concern risks arising from any necessity they may have to finance housing developments which may have short term negative cash flows. This issue requires an understanding of

(a) Commitments and future development intentions;

(b) The availability of finance through loan facilities etc;

(c) The amount of available security to underpin a necessary loan facility;

(d) The ability to repay the loans, which normally means consideration of a long term financial plan; and

(e) Covenant compliance.

183. Useful information concerning the assessment of going concern in the current period may be derived from considering the assessment made in the previous period in relation to the actual out-turn.

184. Some of the particular factors which may indicate a potential going concern problem at a Housing Association are:

(a) Threatened or actual regulatory intervention by the regulatory body;

(b) For a transferee Housing Association, transfers of housing stock where the acquisition cost or carrying value is not covered by the long-term projected net rental income;

(c) Onerous contractual terms; this may be particularly relevant where the Housing Association has entered into Public Finance Initiative or Public Private Partnership contracts which may transfer significant risk to the Housing Association;

(d) Inability to service interest payments;

(e) Contracts under ''supporting people'', joint ventures or outsourcing agreements becoming unsustainable;

(f) A significant amount of variable interest rate borrowings at a time when interest rates are predicted to rise. From 2008 until the time of writing interest rates were very low and Housing Associations with variable interest rate borrowings would become vulnerable in the event that interest rates increased;

(g) A significant short-term repair obligation that the Housing Association will have difficulty in meeting from its own resources. Such an obligation might arise from government policy such as the ''decent homes for all'' policy;

(h) A fundamental decrease in demand to rent the Housing Association's properties, leading to significant void rates and a substantial fall in income;

(i) An increase in bad debts because tenant housing benefit is no longer paid directly to the Housing Association (see paragraphs 103 to 106);

(j) Loan repayments or refinancing (for example balloon payments) which cannot be met from the Housing Association's own resources;

(k) A deteriorating funding position of its pension scheme (see paragraphs 115 to 118);

(l) Breaches of loan covenants; and

(m) Significant loans or guarantees provided to subsidiaries involved in activities such as shared ownership or developments for sale in a housing market where sales prices are falling.

185. Historically, Housing Associations acquired properties with the assistance of grants or long term financing. This method of financing typically led to predictable cash flows in that loan repayments could be predicted and, the Housing Association was able to plan to meet its obligations from available resources.

186. As discussed in paragraphs 92 to 94 the availability of long term bank financing has been reducing and its cost increasing. Consequently, some Housing Associations have been raising funds through the issuance of bonds which may be quite complex financial instruments. It is particularly important that the funding (cash flow) complexities of such financial instruments are fully understood by the Housing Association management and the auditor.

187. Housing Associations have a relatively long business cycle and, in preparing its financial forecasts, the board may consider a longer period of time than for entities with a shorter business cycle. Indeed regulatory viability assessments frequently call for cash flow forecasts 30 years into the future.

188. If there are any indications that a particular source of funds or revenue may need to be renewed or renegotiated, the auditor considers requesting the Housing Association to contact the source of such funds for confirmation that the facility, or grant, will continue to be made available to the Housing Association. Where there continues to be uncertainty, it may be necessary for the Board to disclose the circumstances in the financial statements and for the auditor to draw attention to the matter in an emphasis of matter paragraph in the auditor's report.

OVERVIEW OF THE REGULATION OF ENGLISH HOUSING ASSOCIATIONS

SUBJECT	ENGLAND	PARAS
Regulator	The Homes and Communities Agency (HCA) http://www.homesandcommunities.co.uk/	
Governing Legislation	• Housing and Regeneration Act 2008 • The Localism Act 2011	
Regulatory Framework	• The Regulatory Framework for Social Housing in England from April 2012. See also the publication ''Regulating the Standards''. • The HCA's regulatory responsibility is discharged through a Regulation Committee. It publishes a Regulatory Committee Protocol.	
Regulatory accounting requirements	• Accounting Direction for Social Housing in England from April 2012 • SORP 2010	
Regulatory viability judgments	Regulatory Governance and Viability Assessments. These can be accessed via a web page on the Homes and Communities Agency web-site.	35 to 44
Auditor's right to report to HCA	Section 143 of the Housing and Regeneration Act 2008	32
Auditor's duty to report to HCA	• Section 210 of the Housing and Regeneration Act 2008 in relation to an inquiry being held by the HCA. • Sections 107 and 108 of the Housing and Regeneration Act 2008	
Auditor's routine periodic reporting to HCA	No requirements	
Auditor's reporting on internal control	No requirements	

SUBJECT	ENGLAND	PARAS
Periodic reports by Housing Association to HCA	There are no specific requirements but a general power on the collection of information and documents in sections 107 and 108 of the Housing and Regeneration Act 2008. This may include information produced by providers for public reporting or for internal management purposes.	
Useful information/data published by HCA	• Register of Social Housing Providers • Sector Risk Profile • Global accounts of housing providers • Quarterly Survey of Private Registered Providers	

OVERVIEW OF THE REGULATION OF NORTHERN IRELAND HOUSING ASSOCIATIONS

SUBJECT	NORTHERN IRELAND	PARAS
Regulator	Department for Social Development's Housing Division (DSD) http://www.dsdni.gov.uk/index/hsdiv-housing-link	
Governing Legislation	• Industrial and Provident Societies Act (Northern Ireland) 1969 • The Housing (Northern Ireland) Order 1992 • The Housing (Amendment) (Northern Ireland) Order 2006	
Regulatory Framework	Housing Association Guide • Development Guide • Finance Guide • Governance Guide • Housing Management Guide • Procurement	52-53
Regulatory accounting requirements	• The Registered Housing Associations (Accounting Requirements) Order Northern Ireland 1993 • SORP 2010	
Regulatory viability judgments	Inspection Reports on Housing Associations. These can be accessed via the Department of Social Developments website www.dsdni.gov.uk/index/hsdiv-housing/registered_housing_associations/housing-rha_inspection_programme/rha_inspection_reports.htm	52-58
Auditor's right to report to DSD	No rights specified in law or regulation	49
Auditor's duty to report to DSD	Articles 23 and 24 of the Housing (Northern Ireland) Order 1992	50-51
Auditor's routine periodic reporting to DSD	No requirements	

SUBJECT	NORTHERN IRELAND	PARAS
Auditor's reporting on internal control	• Board is required to carry out an annual review of their system of internal control and a statement relating to this review is to be included in the audited financial statements • No direct requirements but Housing Association required to provide auditor's management letter to Regulator. Also ISA (UK and Ireland) 720 applies to the statement included in the audited financial statements.	
Periodic reports by Housing Association to DSD	• Annual Report and Accounts • Annual Regulatory Return (ARR) • Board Minutes • Quarterly Accounts • Auditor's report and management letter	
Useful information/data published by DSD or Housing Association	• Performance Indicators • Consultations • Social Housing Development Register • Inspection Team Summary Reports • Housing Association Contact Details	

OVERVIEW OF THE REGULATION OF SCOTTISH HOUSING ASSOCIATIONS

SUBJECT	SCOTLAND	PARAS
Regulator	Scottish Housing Regulator (SHR) http://www.scottishhousingregulator.gov.uk/	59 – 60
Governing Legislation	Housing (Scotland) Act 2010	
Regulatory Framework	Regulation of Social Housing in Scotland – Our Framework	61 – 66
Regulatory accounting requirements	• The Determination of Accounting Requirements 2012 • SORP 2010 • Financial Statements should make clear disclosures and document a thorough assessment of whether the RSL is a going concern. (Going concern issues are notifiable events)	
Regulatory viability judgments	• Annual information requirements on financial viability • Publish annual Regulation Plans for those RSLs with High or Medium Engagement. • List of Low Engagement RSL's published.	70-77
Auditor's right to report to SHR	An auditor of an RSL may disclose information to SHR.	67
Auditor's duty to report to SHR	Section 72 of the Housing Scotland Act	68-69
Auditor's routine periodic reporting to SHR	No requirements	
Auditor's reporting on internal control	No direct requirements but Housing Association required to provide auditor's management letter and the Board's response to that letter to the SHR.	

SUBJECT	SCOTLAND	PARAS
Periodic reports by Housing Association to SHR	• Five Year Financial Projections • Annual accounts • Auditor's Management Letter • Loan Portfolio Information • Annual Performance and Statistical Return	
Useful information/data published by SHR or Housing Association	• Register of Social Landlords • Benchmarking Tables • Financial Tables • Performance Tables • Regulatory Guidance • Regulatory Recommended Practice • Regulatory Advisory Notes • Regulatory Analysis Reports • Regulation Plans for specific RSLs	

OVERVIEW OF THE REGULATION OF WELSH HOUSING ASSOCIATIONS

SUBJECT	WALES	PARAS
Regulator	Welsh Government's Housing Division (WGHD) http://wales.gov.uk/topics/housingandcommunity/housing/?lang=en	78
Governing Legislation	• Housing Associations Act 1985 • Part 1 of the Housing Act 1996 • Housing (Wales) Measure 2011	
Regulatory Framework	Regulatory Framework for Housing Associations Registered in Wales. Annual Regulatory Assessment • The assessment is required to be published on the HA's web-site.	79-82
Regulatory accounting requirements	• SORP 2010	
Regulatory viability judgments	Financial Viability Judgment • Required to be published on HA's web-site	85-87
Auditor's right to report to WGHD	No rights specified in law or regulation	
Auditor's duty to report to WGHD	No requirements specified in law or regulation	
Auditor's routine periodic reporting to WGHD	No requirements	
Auditor's reporting on internal control	No direct requirements but Housing Association required to provide auditor's management letter to Housing Division	
Periodic reports by Housing Association to WGHD	• 30 year financial forecasts • Annual data including audited accounts and auditor's management letter. • Loan portfolio information • Half yearly management accounts	

SUBJECT	WALES	PARAS
Useful information/data published by WGHD or Housing Association	• Review of 30 year Financial Forecasts of Housing Associations • Self-assessments on governance and finance for each HA to be published	

USEFUL WEBSITES

Regulators	
The Homes and Communities Agency (England)	http://www.homesandcommunities.co.uk
Department for Social Development's Housing Division (Northern Ireland)	http://www.dsdni.gov.uk/index/hsdiv-housing-link
Scottish Housing Regulator	http://www.scottishhousingregulator.gov.uk
Welsh Government's Housing Division	http://wales.gov.uk/topics/housingandcommunity/housing/?lang=en http://wales.gov.uk/topics/housingandcommunity/housing/?skip=1&lang=cy (Welsh)
Trade Body	
National Housing Federation	http://www.housing.org.uk
Publications	
Inside Housing	http://www.insidehousing.co.uk
24dash	http://www.24dash.com
Social Housing Magazine	http://www.socialhousing.co.uk

Details of the above websites are provided for the benefit of users of this Practice Note. However, the Financial Reporting Council does not necessarily endorse the content of these websites.

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