ITEM 5

Report to Audit Committee

16 April 2014

Title: External Audit Strategy and Planning Memorandum

Report of: Head of Support Services

Purpose of Report

1. To approve the external audit strategy and planning memorandum for the financial year ending 31 March 2014.

Summary

2. KPMG, our external auditors, have produced their external audit strategy and planning memorandum for the financial year ending 31 March 2014, which is attached as an Appendix to this report.

Link to values

3. This report links to Company value of being motivated, trained, and committed across the company.

Impact on tenants

4. No impact directly from this report.

Risk Management Implications

5. As part of the plan, KPMG have already reviewed the company's risk profile to identify the potential impact on our financial statements (see page 5 of the Appendix).

Financial Implications

6. The cost of the work is fully provided for in the 2013/14 budget.

Equality and Diversity Implications

7. There are no equality and diversity implications associated with this report.

Value for Money implications

8. The company's external audit requirements were subject to a full tender process based on cost and quality.

Consultation carried out

9. The plan has been developed in consultation with all relevant staff within the company.

Recommendation

10. The committee is asked to approve the plan.

Contact: Natalie Hewitt, Head of Support Services Tel No: (0191) 433 5350

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The Gateshead Housing Company Limited

Audit Strategy and Planning Memorandum

Year ended 31 March 2014

To be presented to the Audit Committee on
16 April 2014

Contents

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Introduction

Our Audit Strategy and Planning Memorandum sets out our approach to the audit of the Company for the year ended 31 March 2014.

Introduction

The purpose of this document is to brief the Audit Committee on our proposed approach to the audit of The Gateshead Housing Company Limited ('the Company') for the year ending 31 March 2014, including:

The purpose of our audit

The main purpose of our audit, which is carried out in accordance with International Standards on Auditing (ISAs) issued by the Auditing Practices Board, is to issue a report to the Company which expresses our opinion on whether the financial statements:

- Give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2014 and of the results for the year then ended; and
- have been properly prepared in accordance with the Companies Act 2006.

Our responsibilities as auditor

In relation to the statutory audit we will provide an independent audit opinion in accordance with ISAs (UK and Ireland) on the Company's financial statements for the year ending 31 March 2014. Our procedures are not designed to detect or disclose errors or irregularities which are not material in relation to the Company's financial statements.

To a certain extent, the contents of this report include general information which has been prepared by, or is based on discussions with, management. Except to the extent necessary for the purposes of our engagement, this information has not been independently verified.

Independence and transparency

In accordance with ISA 260 'Communication of audit matters with those charged with governance' and the APB Ethical Standards, we are required to communicate to you all relationships between KPMG and the Company that may be reasonably thought to have bearing on our independence both:

- At the planning stage; and
- Whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.

Page 16 contains our confirmation of independence and any other matters relevant to our independence.

KPMG conforms to the highest governance standards at all times and we will ensure that any additional services are approved by the Board as part of agreeing any engagement to ensure transparency in our relationship.

Executive Summary

We bring together a number of key elements to ensure our audit is risk focused, efficient and tailored to the Company. The following diagram sets out the key components of our audit for the year ending 31 March 2014, which are discussed in more detail in the subsequent pages of this document.

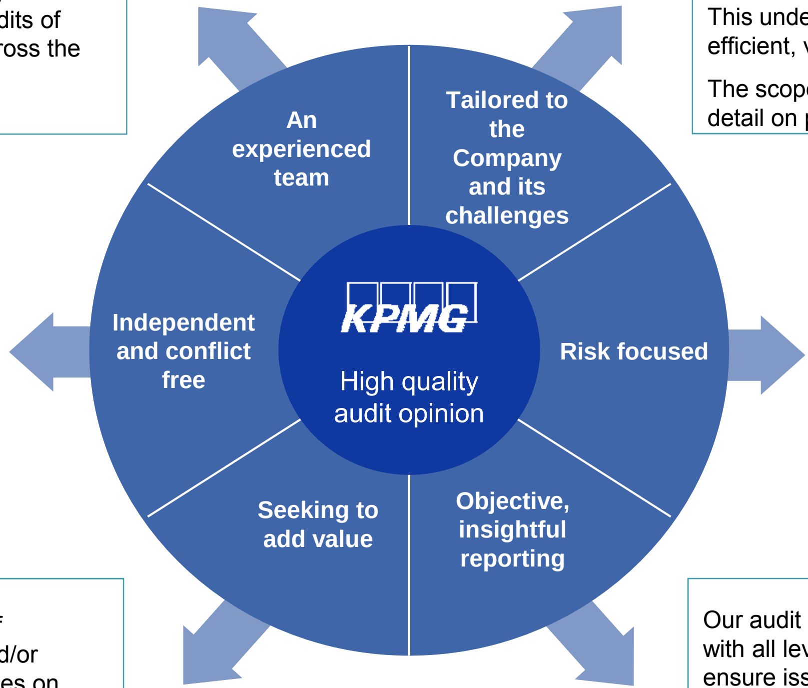
Our team will provide specialist experience enabling us to offer insights into issues facing the sector and their relevance to the Company.

The team has a combined experience of over 15 years working with the Company and working on the audits of several other ALMOs and registered providers across the region.

In developing our Audit Strategy for the year ending 31 March 2014 we consider the Company's operating model, its objectives and strategies, and challenges in 2013/14 and beyond.

This understanding provides the platform to plan an efficient, value added audit tailored to the Company.

The scope and timing of our audit is discussed in more detail on page 5.



Independence and quality is at the foundation of our approach. We use KPMG's global systems and processes to ensure our ongoing independence as auditor.

We work closely with management to understand the business and its challenges to ensure our audit responds accordingly.

Our approach to the key risks faced by the Company is detailed on pages 7 – 9.

We seek to add value through the delivery of responsive advice regarding transactions and/or accounting issues and through regular updates on technical developments or thought leadership material.

Our audit approach involves continuous interaction with all levels of management throughout the year to ensure issues are identified and resolved efficiently.

The timing of our key deliverables to the Audit Committee is outlined on page 5.

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Audit approach

We use a risk based audit approach to identify the key risks affecting the Company. This will be based on our sector experience and our planning meetings with the Company's staff. Our audit work will therefore focus on your key risk areas. We set out the areas we have already identified on pages 7-9.

Overview

Our approach to the audit is based on understanding and assessing the Company's structures and processes; areas we consider include decision-making, accountability, control and behaviours. We then carry out audit procedures to address any identified risks and weaknesses. We assess where the greatest risk of misstatement exists and how effective internal controls are at mitigating these risks.

Audit planning process

As part of the planning process we have met with the Managing Director and his team to discuss a number of the key issues in advance of our fieldwork.

In conjunction with the Finance Department we have identified those issues which will be the main focus of our audit (see pages 7-9). This will minimise the amount of work required in the final audit phase and includes work to satisfy the requirements of ISA 330 'The auditor's procedures in response to assessed risks', including tests of key financial controls.

Working with internal audit

During our audit we will seek to place reliance on the Company's high level controls, and as part of our assessment of the overall control environment we will review and discuss the work carried out by internal audit.

Where any internal audit findings suggest weaknesses in key controls that could affect significant account balances, we will adjust our approach to reflect these findings and where necessary perform additional testing to ensure that we can gain sufficient, appropriate audit evidence over those significant associated balances.

Specialists

Our specialists will benefit the Company by providing broader assurance on systems and controls and the application of KPMG's wider experience of the sector. We will consult with the following specialists:

Use of specialists	
Taxation	■ Assist the audit team to understand and address the corporate tax risk as it affects the audit. ■ Support the team and deliver value through the provision of wider commercial VAT expertise.
Pensions	■ Assessment of pension assumptions for the Local Government Pension Schemes.

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Audit timeline and deliverables

We use a risk based audit approach to identify the key risks affecting the Company. This will be based on our sector experience and our planning meetings with Company staff. Our audit work will therefore focus on your key risk areas.

Overview

Our approach to the audit is based on understanding and assessing the Company's structures and processes for decision-making, accountability, control and behaviours and weaknesses and identifying those risks that can affect the financial statements. We then carry out audit procedures to address any identified risks and weaknesses. We assess where the greatest risk of misstatement exists and how effective internal controls are at mitigating these risks.

Audit approach

- Understand the business.
- Identify business risks.
- Identify significant transactions.
- Assess impact on statutory accounts.
- Assess impact on statutory accounts.
- Core business processes.
- Test systems and control.
- Assessment of residual risk.
- Substantive and analytical procedures on reported figures.
- Internal and external debrief.

When

- Audit planning February/March
- Interim audit March
- Audit strategy April
- Year end audit May
- Reporting June
- Debrief July

What we do

- Planning meeting and agree detailed logistics.
- Interim issues reporting to management.
- Audit strategy presented to the Audit Committee.
- Detailed audit work and clearance meeting with management.
- Presentation of highlights memo.
- Audit report.

Benefit to The Gateshead Housing Company

- Business risk focus.
- Industry specific focus.
- Robust assurance on operation of controls.
- Issues monitored and cleared throughout the year.
- Ongoing liaison with Internal Audit.
- Continuous two way communication.

Materiality

International Standards on Auditing (UK and Ireland) require that we plan our audit to determine with reasonable confidence whether or not the financial statements being reported on are free from material misstatement.

- An omission or misstatement is regarded as material if it could reasonably influence the user of financial statements; this therefore involves an assessment of both the qualitative and quantitative nature of omissions and misstatements. Our quantitative measure for materiality is *2%* of the Company's total income. Materiality has been adjusted to allow for the fact that the organisations operations have remained in a steady state year on year and based on our prior year experience of the strength of systems and controls within the Company.
- Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee misstatements of lesser amounts to the extent these are identified by our audit work.
- Under ISA 260 (UK and Ireland) Communication of Audit Matters With Those Charged With Governance, we are obliged to report omissions or misstatements other than those which fall below the audit difference reporting threshold to those charged with governance.
- In the context of the current year audit for the Company financial statements, we propose that:
  - any omissions or misstatements below £36,000 will fall below the threshold for reporting to the Audit Committee;

Reporting to the Audit Committee

In this context we propose to report the following to the Audit Committee:

- Individual errors which exceed the audit difference reporting threshold.
- In aggregate, all smaller errors which exceed the audit difference reporting threshold.
- Matters involving a significant level of judgement.

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Significant risks and other areas of audit focus

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our *highlights memorandum*.

- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- Fraudulent revenue recognition – We do not consider this to be a significant risk for housing associations as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

As part of our planning we have not identified any significant risks that the ISAs would require us to raise with you, therefore the areas highlighted below are other areas we consider to be of interest to the Audit Committee.

Other areas of audit focus	Why	Our approach	Key Business data we will consider
Going Concern	The Gateshead Housing Company 's current contract with the Council expires on 01/04/2015. It is currently expected that the contract will continue in place beyond this date, however this is not certain, as the Council are currently considering the options available for the future of housing provision and maintenance in Gateshead. In addition to this, cost efficiencies and value for money are key focus areas , with the management fee having been reduced in recent years.	■ Review any contract extensions with the Council. ■ Review Council documentation concerning their review of The Gateshead Housing Company. ■ Review the 2015 budget and 2016 forecasts.	■ Management contracts ■ 2015 budget ■ 2016 forecast
Internal Audit	Weaknesses in key controls could impact on significant account balances.	During our audit we will ■ Review the reports prepared by internal audit. ■ Adjust our audit approach to reflect the key findings	■ Internal audit reports.

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Significant risks and other areas of audit focus (cont.)

Other areas of audit focus	Why	Our approach	Key Business data we will consider
Pensions	During the year, Local Government Pension Funds have undergone a triennial valuation with an effective date of 31 March 2013 in line with the Local Government Pension Scheme (Administration) Regulations 2008. The FRS17 numbers to be included in the financial statements for 2013/14 will be based on the output of the triennial valuation rolled forward to 31 March 2014. There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. The different actuarial firms involved in valuing pension liabilities for FRS 17 purposes in the sector adopt a range of assumptions. From recent experience we have found that the discount rate and inflation assumptions can be problematic and have in some instances led to an overly prudent valuation figure. It is therefore critical that the assumptions reflect the profile of the Company's employees, and are based on most recent actuarial valuation. It is also important that assumptions are derived on a consistent basis year to year.	During our audit we will ■ Circulate a questionnaire to the actuary to confirm their qualifications and the basis for their calculations. ■ As part of our audit, we will need to agree the data provided to the actuary back to the systems and reports from which it was derived, and test the accuracy of this data. ■ Review the actuarial valuation and consider the disclosure implications. ■ Review the assumptions made by your actuaries with benchmarks, which are collated by our KPMG actuaries, and to the assumptions used for 2012/13 for consistency. ■ Consider the value of the assets held in the scheme at the year end.	■ Year end FRS17 reports. ■ Response from actuary questionnaire. ■ Data provided to the actuary.
Onerous leases, asset impairment and dilapidations	The Gateshead Housing Company has recently relocated to the Civic Centre, Gateshead. The lease on the old premises that is no longer being occupied expires in July 2014 and therefore an onerous lease provision would be expected. Substantial changes to the building were made by the Company and under the terms of the lease agreement the Company must restore the property to its original condition. As a result a dilapidations provision may be required at the year end. A number of assets will be scrapped as a result of the relocation and therefore an impairment of fixed assets may be required.	During our audit we will ■ Review the terms of the lease agreements ■ Review managements estimate of the dilapidations provision. ■ Review managements estimate of the fixed asset impairment. ■ Consider any confirmations from the council to fund any such costs incurred.	■ Lease agreements. ■ Management calculations. ■ Council correspondence.

Responsibility in relation to fraud

We are required to consider fraud and the impact that this has on our audit approach.

We will update our risk assessment throughout the audit process and adapt our approach accordingly.

Management responsibilities

- Adopt sound accounting policies.
- With oversight from those charged with governance, establish and maintain internal control, including controls to prevent, deter and detect fraud.
- Establish proper tone/culture/ethics.
- Require periodic confirmation by employees of their responsibilities.
- Take appropriate action in response to actual, suspected or alleged fraud.
- Disclose to Audit Committee and auditors:
  - any significant deficiencies in internal controls.
  - any fraud involving those with a significant role in internal controls.

KPMG's identification of fraud risk factors

- Review of accounting policies.
- Results of analytical procedures.
- Procedures to identify fraud risk factors.
- Discussion amongst engagement personnel.
- Enquiries of management, Audit Committee, and others.
- Evaluate broad programmes and controls that prevent, deter, and detect fraud.

KPMG's response to identified fraud risk factors

- Accounting policy assessment.
- Evaluate design of mitigating controls.
- Test effectiveness of controls.
- Address management override of controls.
- Perform substantive audit procedures.
- Evaluate all audit evidence.
- Communicate to Audit Committee and management.

KPMG's identified fraud risk factors

- Whilst we consider the risk of fraud to be low around the Company, we will monitor the following areas throughout the year and adapt our audit approach accordingly.
  - Revenue recognition
  - Purchasing
  - Management control override
  - Manipulation of results to achieve targets and expectations of stakeholders

Audit management

In our view the most important thing is that the team consists of the right people.

Your team has the relevant housing sector experience, commitment, knowledge, time and personality to continue working with you in a proactive and positive way.

Your audit team

Selecting the right team with relevant expertise and experience is crucial to a successful working partnership.

Our audit team has the required skills and experience and combines:

- extensive experience in the housing sector and the local marketplace;
- a genuine commitment to continuity of service; and
- a desire to respond quickly and proactively to requests for information and advice.

The key members of the audit team are:

Mick Thompson will continue to lead our audit service to the Company. He will be responsible for ensuring that we provide the highest quality of audit and that your needs and expectations are met. He will be the key point of contact for the Audit Committee. 2014 will be Mick's tenth year as partner responsible for the Company's audit and according to auditing standards he will be required to rotate off the engagement next year. In order to manage the transition smoothly, we will introduce **Nick Plumb** to the audit in the current year, who will succeed Mick as engagement partner.

James Morgan will continue to be responsible for the overall management of the audit with a particular focus on the key risk areas and communication with Audit Committee and management. He will be responsible for directing and reviewing the fieldwork, supervising the audit team on a day-to-day basis and raising key issues on the audit with Company management as they arise.

Andrew Fleming will lead the team on site during our interim and final audit visits. He will liaise primarily with the finance team and will be the single point of contact for audit queries.

Contact details are provided on page 1.

Audit fee

Our proposed audit fee for 2013/14 is £17,000 exclusive of VAT) This fee is based upon the 2012/13 fee with an inflationary fee increase.

In addition the fee is also based on the following standard assumptions:

- The Company's audit evidence files are completed to an appropriate standard (we will liaise with management separately on this); and
- There are no significant changes in the Company's activities which affect the scope of our audit work other than those listed in this document.

Our billing schedule:

- 40% during interim site visit.
- 60% during final site visit.

The Company will also receive the following services, which are included in this fee:

- Membership of the KPMG sponsored Audit Committee Institute;
- Invitations to attend our housing seminars;
- The provision of informal advice; and
- Briefing documents on technical, tax and governance issues.

Reporting developments and sector update – revised UK GAAP

UK GAAP is being replaced with a new accounting framework.

This will apply to the accounting period ending 31 March 2016.

The Company has a choice of which set of standards to apply under the new framework.

UK GAAP

UK GAAP, the accounting framework under which the Company's accounts are prepared will be withdrawn from 31 March 2016 and has been replaced with a new framework. Under this framework, UK companies have to choose which set of standards they will apply. For The Gateshead Housing Company Limited, there are three options available. These are:

- FRS 101 – this framework applies the principles of International accounting standards (EU-IFRS) but with reduced disclosures, which simplifies the accounts in comparison to full IFRS;
- FRS 102 - this is largely based on the IASB's IFRS for Small and Medium Sized Entities and is the most similar format to the current UK GAAP, and
- EU-IFRS – this framework is applied by listed entities, and a version of it is applied by the Council. Whilst the Company could apply this framework, the disclosures required can be somewhat onerous to prepare in comparison to the frameworks above.

Given that the new standards are to be applied for the year ending 31 March 2016, the transition date (the opening balance sheet for the comparative period) is 31 March 2014. Therefore it is worth considering the options available to the company at the present time, in order to gather any data which may be required to prepare the transition date balance sheet following the current year end process.

Implications

The key changes that may affect the Company's accounts as a result of the change in accounting standards are likely to be:

Housing property tenure types – a principles based approach will be taken to determining the classification of housing stock as either property plant and equipment or investment property.

Grant accounting – the Company currently account for capital grants by applying the accruals method (deferral of grant and amortisation over life of the structure). However, FRS 102 allows for a choice between the accruals method or the performance method. The performance method allows for recognition as income once performance conditions have been met. The conditions for recognising social housing grants are deemed to have been met when the property has been built.

Presentation

The new standards are likely to lead to a number of presentational changes to the financial statements including the format of the primary statements.

Strategic Report

A new disclosure requirement has been introduced for this year's accounts. Effective from August 2013 amendments to the 2006 Companies Act were introduced "Strategic Report and Directors' Report Regulations 2013". These apply to all medium and large companies, and requires the introduction of a Strategic Report which must be separately approved by the board and signed by a member of the board. The new report must sufficiently explain:

•The principal activities of the company

•The "business model" and how it generates value

•A review of the year's performance

•Key Performance Indicators for the year – explaining why selected; and also explaining performance/variances in the year

•Key risk disclosures

•Future developments and how these might impact the position and performance of the company

This then reduces the content required in the currently included Directors' Report.

In practice, these disclosures were previously included in the Directors' Report, so this does not significantly affect the narrative information disclosed in the accounts, but alters the presentation of that information.

Sector update – future of regulation

The HCA have considered the responses received to its consultation paper on regulatory changes and conducted a consultation process in early 2014.

The HCA also published details in December 2013 of its experience of its revised consumer regulation role, which changed with effect from 1 April 2012.

HCA discussion paper on the future of regulation

In October 2013 the HCA published its analysis of the sector's initial response to a discussion document on potential changes to its core Regulatory Framework.

The original discussion document, published in April 2013, proposed three broad areas of change: 'ring-fencing' social housing assets, 'living wills' for RPs, and changes to the consents regime around the sale of grant-funded assets.

Based on feedback received, the HCA Regulation Committee announced the following conclusions:

- The substantial diversity of organisations in the sector makes a 'one size fits all' approach to protecting social housing assets impractical;
- Recovery planning offers a starting point for not-for-profit providers with a parent on the register, but this needs to be supplemented by other steps to improve risk management by those providers:
- A broader understanding of risk and contingent liabilities;
- Better scenario testing; and
- A plan for protecting social housing assets in a failure situation;
- The position on for-profit providers differs, where the regulator's remit only relates to social housing and not the whole entity. These providers will be subject to some form of ring fencing;
- All sales proceeds made by for-profit providers on stock acquired from not-for-profit providers will be required to be invested in social housing. These providers will be free to generate and distribute profits based on stock they buy from outside the sector or build themselves.

HCA key messages from consumer regulation role

In December 2013, the HCA published an overview of the consumer regulation work carried out by the Regulator in the financial year 2012/13. As well as detailing specific findings from the investigations the Regulator has undertaken, the report identifies three broader lessons from the Regulator's work in the sector:

- 'Providers need to ensure that they make use of the legal mechanisms available to them to provide for tenants' health and safety in a timely way. We recognise that, for good reason, providers prefer to work with tenants in seeking to resolve such issues. However, the welfare of both tenants and their neighbours can be put at risk by such matters not being resolved quickly.
- Where providers are aware of specific circumstances, it may be appropriate to share this information with relevant partners. This is to mitigate the risk to others such as staff or members of the emergency services who may have to access the property quickly.
- The standards apply for the benefit of every tenant. Whilst we will always look to be proportionate in our judgements and will consider the materiality of the failure in determining both whether the test has been met and what our response should be, it is not a pre-requisite that there must be a systemic failure to meet the serious detriment test.'

Sector update – tax

There have been a number of recent changes to taxation rates and compliance rules.

Please feel free to talk to your audit team about any tax concerns you may have, and where appropriate they can put you in touch with one of our housing tax specialists.

Employee Tax - Engagement of Senior Employees and Board Members

Many housing organisations engage individuals to provide personal services without subjecting payments to PAYE and NIC. Where such individuals provide their services via an intermediary that is a personal service Company (essentially one that is controlled by the individual), it is the personal service Company that is responsible for operating PAYE and NIC on deemed salary payments. HMRC have issued guidance stating that this applies to office holders (including board members). It will be important that RPs review contracts and payments to ensure they are set up correctly so that the RP is not exposed to the risk of accounting for PAYE and NIC. Many organisations have been criticised in the press for engaging senior individuals in this way and a number of organisations are reconsidering the appropriateness of such arrangements (refer also to Tax Transparency below).

The RTI penalty regime will take effect from April 2014 and a number of Finance Directors have no visibility of the payroll processes being operated to ensure compliance. It will be important that payroll processes are reviewed prior to April 2014 to identify improvements to reduce the risk of penalties.

Corporation Tax

The standard rate of corporation tax from 1 April 2013 is *23%*, from 1 April 2014 the main rate of corporation tax in the UK will be reduced to 21 per cent, and from 1 April 2015 this will fall to 20 per cent. These reductions may cause charitable Registered Providers to consider whether it is still cost effective to carry out taxable activities in separate non-charitable vehicles if from a charity law perspective they can actually be undertaken in the charity.

Diversification and new initiatives mean that housing organisations need to consider the corporation tax implications of new income streams such as Feed in Tariffs, Green Deal income, cross subsidy from open market sales, new Government initiatives to kick start the property market (e.g. Help to Buy etc.), shared equity, private rental income, etc. In particular it will be important to consider upfront how the arrangements in respect of these activities can be structured in the most tax efficient way.

The sector is seeing more mergers and Company reorganisations as part of the efficiency agenda. There can be unexpected corporation tax implications of such activity which need to be considered in advance.

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Sector update – tax (cont.)

There have been a number of recent changes to taxation rates and compliance rules.

Please feel free to talk to your audit team about any tax concerns you may have, and where appropriate they can put you in touch with one of our housing tax specialists.

Cost Sharing Exemption

The Cost Sharing Exemption was introduced into the UK legislation with effect from 17 July 2012. The exemption applies when two or more organisations (whether businesses or otherwise) with exempt and/or non-business activities join together to form a cost sharing Company, to supply themselves with certain services (e.g. repairs, finance, HR, IT functions) at cost and exempt from VAT. KPMG have advised on the implementation of several cost sharing Companies in the social housing sector, run a series of workshops and met with HMRC Policy on behalf of the National Housing Federation to discuss the application of the Cost Sharing Exemption and common questions arising.

VAT Framework

The National Housing Federation, assisted by its tax adviser KPMG, has recently agreed an updated VAT Framework for the social housing sector with HMRC, which was released in January 2014. The VAT Framework extends the guidance in connection with agreeing partial exemption methods, including providing worked examples. In addition, the updated VAT Framework also provides extended guidance in connection with other activities, including rechargeable repairs and developments. Both the partial exemption and other guidance are already proving helpful in discussions with HMRC.

Energy Company payments

Energy companies have had and continue to have obligations to improve the energy efficiency of houses and are involved with various initiatives with Housing Associations including the Green Deal, ECO, CERT and CESP. It is important that the structure and operation of these initiatives are reviewed at an early stage to ensure that there are treated correctly from a VAT perspective and that the right amount of VAT is recovered on the cost of the associated works. The receipt of money by housing organisations from these arrangements can result in significant VAT opportunities.

VAT registration and deregistration limits

With effect from 1 April 2013, the taxable turnover limit which determines whether a business has to be registered for VAT was increased from £77,000 to £79,000. The taxable turnover limit which determines whether a business may apply for deregistration was increased from £75,000 to £77,000.

Sector update – tax (cont.)

There have been a number of recent changes to taxation rates and compliance rules.

Please feel free to talk to your audit team about any tax concerns you may have, and where appropriate they can put you in touch with one of our housing tax specialists.

Stamp Duty Land Tax

Housing providers are increasingly involved in joint venture arrangements with private sector organisations to help fund and deliver housing regeneration projects.

New rules were introduced in Finance Bill 2014 which will benefit charitable housing associations buying land with a non-charity. These changes were made as a result of the Court of Appeal judgement. The Court ruled that where a charity is buying land jointly with a non-charity **as tenants-in-common** then relief from SDLT may be claimed by the charity on its share of the property interest.

Going forward it should be possible for charities buying land with non-charities to benefit from a partial relief.

There have also been other anti-avoidance provisions introduced recently, although these are aimed at complex transactions involving sub-sales and historic SDLT mitigation techniques. It is unlikely that this will impact social housing providers.

The Scottish and Welsh Assembly Governments are taking steps towards developing their own tax regimes for property transactions. The Land and Buildings Transaction Tax will replace SDLT in Scotland from April 2015 while in Wales, consultation on a potential new tax is ongoing.

All Taxes

Tax transparency

The tax environment continues to generate increasing levels of public interest, particularly with respect to how organisations manage their tax affairs, including their relationships with stakeholders. Organisations are coming under pressure to be open and transparent regarding their tax affairs, and to provide sufficient disclosure in their financial statements regarding tax. We have seen with large corporates that the debate is often narrowly focussed and ill informed. Organisations may feel they face trial by media rather than being part of a fair discussion about appropriate business and tax planning strategies.

This debate is getting closer to the social housing sector. Tax governance is therefore likely to become an increasingly important feature of assurance for Boards of housing organisations; they will need to satisfy themselves that the business is operating within a spirit of tax openness and compliance. Importantly, tax governance assures Boards that their overall tax arrangements are robust, efficient and capable of withstanding scrutiny.

Government procurement

Housing organisations will also need to be mindful of the new Government procurement rules which came into effect from 1 April 2013. These new rules enable Government to take into account the tax compliance profile of potential suppliers as part of the procurement process for contracts issued by Central Government and Non-Departmental Public Bodies.

Confirmation of Independence

In line with ISA 260 and the APB Ethical Standards, we communicate to the Audit Committee our independence and any other relevant factors.

To Audit and Risk Committee members

Professional ethical standards require us to communicate to you as part of planning all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of Partner and the audit team. This letter is intended to comply with this requirement although we will communicate any significant judgements made about threats to objectivity and independence and the appropriateness of safeguards put in place.

We are satisfied that our general procedures support our independence and objectivity.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Partners and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the APB Ethical Standards. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values;
- Communications;
- Internal accountability;
- Risk management;
- Independent reviews.

Please inform me if you would like to discuss any of these aspects of our procedures in more detail.

There are no other matters that, in our professional judgement, bear upon our independence which need to be disclosed to the Audit Committee.

Confirmation of audit independence

We confirm that as of 16 April 2014, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Partner and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee and should not be used for any other purposes.

Yours faithfully

KPMG LLP

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