Report to the Audit Committee

1 July 2015

Title: KPMG Management Report – Year Ended 31 March 2015

Report of: Managing Director

Purpose of Report

1. To seek approval of the external auditor's management report on the financial statements for the year ended 31 March 2015.

Background

2. The company's external auditors KPMG carried out an audit of the report and financial statements for 2014/15 during May 2015.

3. A report presenting their findings is attached at Appendix 1 to this report.

4. A report with the financial statements as agreed with the auditors, KPMG, is included as a separate item on the agenda for this meeting.

Management Report

5. KPMG produced a management report following the audit they have carried out.

6. There were no significant issues raised in the report and all of the recommendations have been responded to by the company.

Management Representation Letter

7. As part of the audit, KPMG require the letter to be signed by the Chair and the Company Secretary on behalf of the Board. The letter is Appendix 4 of the management report that is attached at the Appendix to this report.

Link to values

8. This report is in line with the following values of the company :-

- Fair
- Customer Focused
- Open and Honest

- Accountable

Impact on tenants

9. Appropriate financial monitoring and control will ensure efficiencies are maximised and redirected to services that directly impact on tenants.

Risk Management Implications

10. The external audit carried out by KPMG is one element of the controls in place to ensure that the strategic risk within the business plan (insufficient available financial resources) is effectively controlled.

Financial Implications

11. The financial implications are contained within the report and appendices.

Equality and Diversity Implications

12. There are no equality or diversity implications arising from this report.

Value for Money implications

13. There are no value for money implications arising from this report.

Health Implications

14. There are no direct health implications arising from this report.

Environmental Implications

15. There are no direct environmental implications arising from this report.

Consultation carried out

16. None directly for this report.

Recommendation

17. It is recommended that the committee: -

    (i) approve the management report for the year ended 31 March 2015;
    (ii) recommend to the Board that they authorise the Chair and the Company Secretary to sign the management representation letter on behalf of the Board

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Contact: Jon Mallen-Beadle, Managing Director Tel No: (0191) 433 5306

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cutting through complexity™

The Gateshead Housing Company

Audit Highlights Memo

Year ended 31 March 2015

1 July 2015

Contents

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Executive summary – audit progress and key audit issues

Our audit has addressed the issues and risks identified at the planning stage. The key judgements and significant impacts are summarised here. Aside from the outstanding items identified, all matters have been satisfactorily addressed.

Issue	Summary	Page
Audit progress and status	Our audit is now substantially complete and we anticipate issuing an unqualified audit opinion for the year on the financial statements, following the approval of the financial statements by the Audit Committee and Board. The following matters are currently outstanding: ■ Receipt of the management representation letters; ■ Post balance sheet events review up to the date of signing the audit opinion; and ■ Final review of all financial statements.	5
Pensions	We have reviewed the actuary's FRS 17 report and assessed the assumptions used with reference to central benchmarks and national averages. Further details about our testing over pensions are given on page 7. The assumptions applied by the actuary are considered to be reasonable.	7

Acknowledgements

We would like to take this opportunity to thank Jon Mallen-Beadle, Managing Director; Natalie Hewitt, Head of Corporate Services; Mark Banks, Finance Manager; and all other staff who have assisted us during our audit.

This section of our report highlights the main features of the Company's financial performance during year, providing a 'profit bridge' from the reported surplus to the underlying operating performance.

Underlying financial performance

A reconciliation from the reported surplus to the underlying result is shown below:

Underlying financial performance		
£000	**31 March 2015**	**31 March 2014**
Surplus/(deficit) for the year	**546**	**(621)**
Which includes:		
FRS 17 operating costs *(in excess of contributions)*	190	580
FRS 17 finance income	(500)	(50)
Redundancy costs	-	48
Underlying surplus/(deficit)	**236**	**(43)**

Source: Draft financial statements.

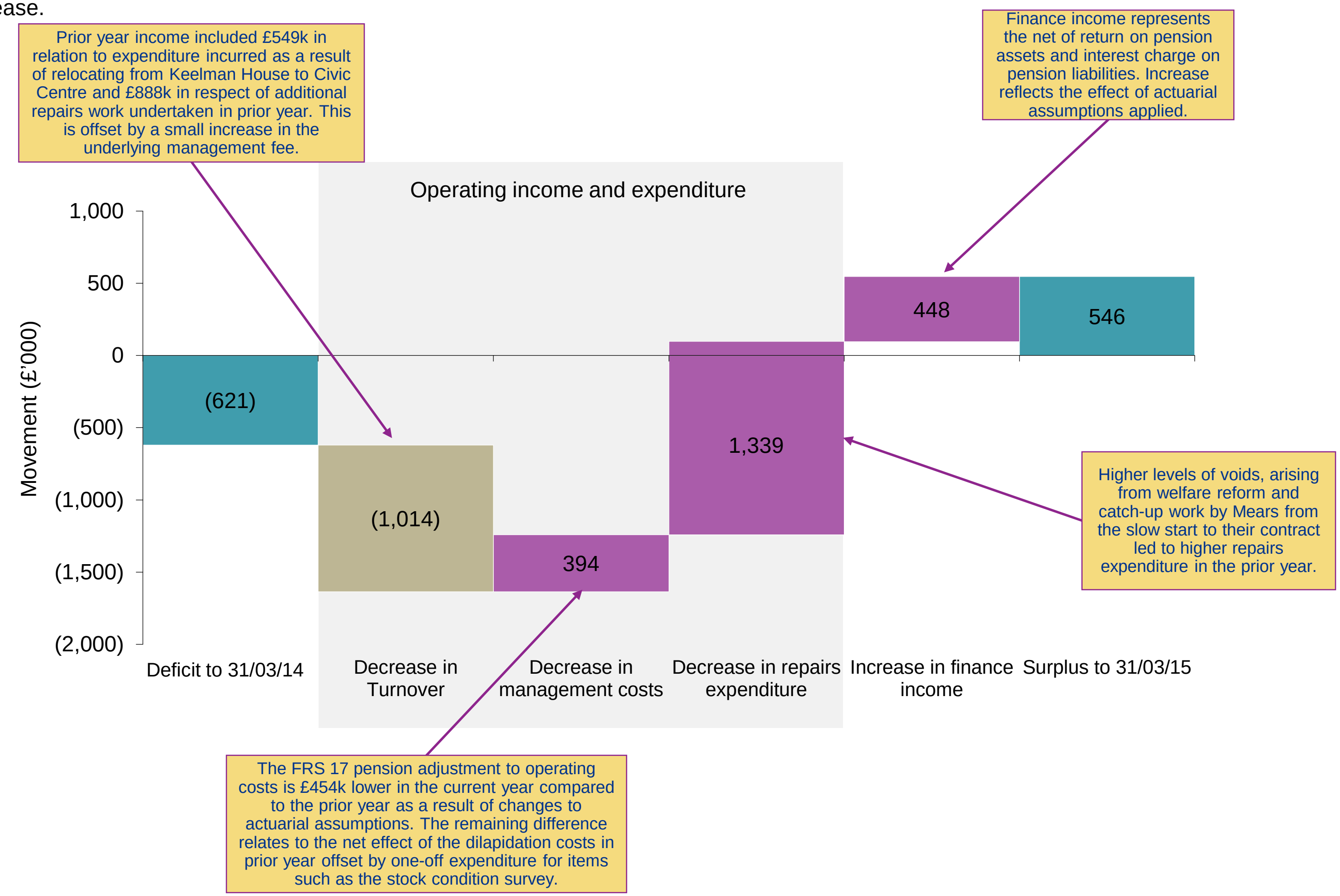
During both 2013/14 and 2014/15 there are a small number of significant items to highlight that impact on the reported surplus for the year. The individual items above (primarily income and costs associated with the Local Government Pension Scheme) are discussed in detail in section three of this document.

Section two
Financial performance

This section of our report highlights the main features of the Company's financial performance during year, providing a surplus bridge from prior year to the current year.

Bridge of the surplus for the year ended 31 March 2015 to prior period

Overall the surplus has increased by £1,167k from the prior period. The bridge below highlights the significant factors contributing to this decrease.



Key audit matters

The main audit focus areas are discussed on pages 6 to 7.

The Audit Strategy and Planning Memorandum presented to the Audit Committee in April 2015 included management override of controls as a significant risk.

This also included the defined benefit pension scheme as an other area of audit focus.

These were agreed with the Finance Department as part of our planning procedures and audit work has been completed to satisfy the requirements of ISA 330 'The auditor's procedures in response to assessed risks', including tests of key financial controls. Further details are given on pages 6 to 7.

Key audit matters – management override of controls and fraudulent revenue recognition

Significant risks that ISAs require us to raise in all cases

Professional standards require us to consider two standard risks for all organisations:

- Management override of controls
- Fraudulent revenue recognition

Our audit approach to address these was set out in our Audit Planning and Strategy Memorandum. We do not consider fraudulent revenue recognition to be a significant risk for the Gateshead Housing Company 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 work to address these matters we performed the following tests:

- Testing of journals at the year end, and during the year
- Review of unusual transactions in the year
- Review of income recognised in the year to ensure income is being recorded in the correct accounting period; and
- Controls testing, including higher level controls

We do not have any findings to bring to your attention in relation to these matters.

We have not identified any thing through our work that would indicate fraudulent revenue recognition or management override of controls.

Key audit matters – pensions

With a number of changes to the Local Government Pension Schemes (see section six of this document), there is potential for volatility and increased liabilities on the balance sheet.

It is therefore important that The Gateshead Housing Company has appropriately assessed the assumptions used to value the defined benefit pension obligation.

Defined benefit net pension liability

The pension liability has fluctuated over recent years as the table below shows:

The Gateshead Housing Company's pension schemes			
Net liability	**31 Mar 2015** £000	**31 Mar 2014** £000	**31 Mar 2013** £000
Tyne & Wear Pension Fund	(11,710)	(7,750)	(14,590)
Total liabilities	**(11,710)**	**(7,750)**	**(14,590)**

Source: Draft financial statements

Assumptions

We have benchmarked the key assumptions used by the actuaries against KPMG's standard assumptions. KPMG have compared the assumptions to the central estimates derived by our pension specialists and to the results of our survey of market practice.

The methodology used for setting assumptions was considered reasonable.

All assumptions were found to be within our tolerable ranges with the exception of CPI which at 1.9% fell outside of our central range of 2.28% +/- 0.25%. However our central ranges exclude the inclusion of an Inflation Risk Premium (IRP). In calculating RPI/CPI Aon Hewitt have reduced the rate by an IRP of 0.3%. Although our methodology does not allow for an IRP, we acknowledge that these are commonly seen in the market.

Movement

The fair value of plan assets have increased from £35,310k to £40,170k whilst the present value of the obligation has increased from £43,060k to £51,880k. This has resulted in an increase in the net pension liability of £3,960k.

This is primarily a result of the actuarial loss in the year arising as a result of changes to the pension assumptions, principally the fall in gilt yields and consequent reduction in discount rate.

The pension assumptions used are detailed in note 16 to the financial statements.

We have not identified any assumptions that are outside our expected ranges. The net pension liability is fairly stated.

Other items

Audit progress and status

Our audit is now substantially complete and we anticipate issuing an unqualified audit opinion for the year on the financial statements, following the approval of the financial statements by the Audit Committee and Board. Outstanding matters are listed on page 2.

Audit differences

Under the requirements of ISA 260 ‘Communication of audit matters with those charged with governance’, we are required to report any unadjusted audit differences other than those that are ‘clearly trivial’ (if there are any) to the Audit Committee. These can be seen at Appendix 3.

We are also required to report any adjusted audit differences arising from our work. These can also be seen at Appendix 3.

Audit recommendations

Audit recommendations for 2015 and a follow up on prior year matters are set out in Appendices 1-2.

Internal audit

In accordance with ISA 610 ‘Considering the work of Internal Audit’ we have reviewed work carried out by the internal auditors during the year, including a review of:

- the overall scope of their work as set out in their strategic and annual plan;
- the detailed work they have carried out in the areas identified within the annual plan.

We have reviewed internal audit reports during the audit process and have relied on their work only to the extent that it gives us comfort over the Company’s high level control environment.

Taxation

We have considered tax risks during the course of our audit work and have no significant matters to raise.

Other items (cont.)

Independence

KPMG conforms to the highest governance standards at all times and ensures that any additional services are approved to ensure transparency in our relationship.

ISA 260 'Communication of audit matters with those charged with governance' requires us to communicate at least once a year regarding all relationships between KPMG and the Company that may be reasonably thought to have bearing on our independence.

We have provided the following non-audit service in the year to 31 March 2015:

- iXBRL tagging – £1k

We have made enquiries and there are no other matters in relation to our independence that have occurred during the financial year on which we are to report.

Other matters

ISA 260 requires us to communicate 'audit matters of governance interest that arise from the audit of the financial statements' to you which includes:

- material weaknesses in internal control identified during the audit;
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. issues relating to fraud, compliance with laws and regulations, subsequent events etc.);
- other audit matters of governance interest.

There are no others matters which we wish to draw to your attention.

Appendices

Appendix 1
Audit recommendations

Our objective is to use our knowledge of The Gateshead Housing Company gained during our routine audit work to make useful comments and suggestions for you to consider. However, you will appreciate that our routine audit work is designed to enable us to form an audit opinion on the financial statements of the Companyand it should not be relied upon to disclose all irregularities that may exist nor to disclose errors that are not material in relation to those financial statements.

- This report is provided on the basis that it is for your information only and that it will not be quoted or referred to, in whole or in part, without our prior written consent.
- Our report is designed to include useful recommendations that may help improve performance and avoid weaknesses that could lead to material loss or misstatement. However, it is your obligation to take the actions needed to remedy those weaknesses and should you fail to do so we shall not be held responsible if loss or misstatement occurs as a result.

We have identified below each of the observations arising from our work where further action is required. Each of our recommendations has been graded:

- **High** – recommendations which are fundamental to the system of internal control or have a potential material effect on the financial statements and should be addressed immediately by management;
- **Medium** – recommendations which will significantly enhance internal controls and should be addressed promptly by management;
- **Low** – recommendations which will improve performance but are not vital for internal control performance.

Observation and risk	Recommendation	Management response
Approval of overtime by an individual not on authorised approvers list (grade: Low)		
We identified certain instances where overtime was approved by an individual who was not listed on the authorised approvers list. There is a risk that if overtime is not approved by the appropriate individual that overtime may be paid where the individual is not entitled.	The identity of authorised approvers should be communicated to all relevant individuals to ensure that approval requests are only sought from the appropriate individuals. Checks should be implemented during the processing stage to ensure that overtime claims are approved only be authorised individuals.	Employees involved in the processing of overtime have been reminded that they must ensure that the overtime claim form is signed by the relevant manager, and if the relevant manager is not available then an alternative manager within the section signs the form. Employees who enter the information on to the payroll system have also been reminded to check that the payroll forms have been signed by a manager before the details are entered on to the system.

Update on prior year audit recommendations

We set out below the issues we raised in 2013/14 and comment on progress toward the recommendation in 2014/15.

Observation and risk	Recommendation and 2013/14 management response	KPMG update and updated management response
Supplier Statements (grade: low) Supplier statements for the main contractor, Mears, were not being regularly reconciled and reviewed. This gives rise to a risk that discrepancies could arise between Mears and The Gateshead Housing Company which may not be identified.	**Recommendation** We recommend that a supplier statement is reconciled to the Company's accounting records on a monthly basis. **Response** Agreed – a proactive approach will taken to requesting statements to ensure they are reconciled at the period end dates.	**Implemented** Statements were received from Mears before commencement of our audit. These were reconciled to the trial balance by the Finance Manager.

Appendix 3
Audit differences

This appendix sets out the audit differences identified for the year ended 31 March 2015.

There was **one uncorrected audit difference** identified during our audit which is detailed below:

The Gateshead Housing Company				
	Income and expenditure account		Balance sheet	
Uncorrected audit differences (£000)	**Debit**	**Credit**	**Debit**	**Credit**
Purchase cut-off error				
Dr Amounts Due to Parent Undertaking			65,270	
Cr Expenditure (Management of Housing Stock)		65,270		
The Company placed an order during March 2015 but the goods were not received until after the year end, therefore expenditure should not be recognised in 2014/15 financial statements.				
Total	**-**	**65,270**	**-**	**-**
Overall net I&E effect		*65,270*		

We identified **one corrected audit difference** which is detailed below:

The Gateshead Housing Company				
	Income and expenditure account		Balance sheet	
Uncorrected audit differences (£000)	**Debit**	**Credit**	**Debit**	**Credit**
Presentation of Income and Expenditure				
Dr Income (Management Fees)	158,021			
Cr Expenditure (Repairs and Maintenance of Housing Stock)		158,021		
At the year end the Company held discussions with the Council regarding underspend against budget and whether the Company would retain all of the current year surplus. It was agreed that the Company would return £158k underspend on the repairs income. This had originally been presented as an additional expense within the accounts rather than a reduction to income.				
Total	**158,021**	**158,021**	**-**	**-**
Overall net I&E effect	*Nil*			

Letter of management representations

KPMG LLP

Quayside House

110 Quayside

Newcastle upon Tyne

NE1 3DX

9 July 2015

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of The Gateshead Housing Company ("the Company"), for the year ended 31 March 2015, for the purpose of expressing an opinion:

i. as to whether these financial statements give a true and fair view of the state of the Company's affairs as at year end and of the Company's profit or loss for the financial year then ended;

ii. whether the financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and

iii. whether the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

These financial statements comprise the Balance Sheet, the Income and Expenditure Account, the Cash Flow Statement, the Statement of Total Recognised Surpluses and Deficits, and notes, comprising a summary of significant accounting policies and other explanatory notes.

The Board confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Board confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Board has fulfilled its responsibilities, as set out in the terms of the audit engagement letter dated 16 June 2015, for the preparation of financial statements that:

   i. give a true and fair view of the state of the Company's affairs as at the end of its financial year and of its profit or loss for that financial year;

   ii. have been properly prepared in accordance with UK Generally Accepted Accounting Practice ("UK GAAP"); and

   iii. have been prepared in accordance with the requirements of the Companies Act 2006.

   iv. The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Board in making accounting estimates, including those measured at fair value, are reasonable.

3. All events subsequent to the date of the financial statements and for which FRS 21 *Events after the balance sheet date* requires adjustment or disclosure, have been adjusted or disclosed.

4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this representation letter.

Information provided

5. The Board has provided you with:

   - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
   - additional information that you have requested from the Board for the purpose of the audit; and
   - unrestricted access to persons within the Company from whom you determined it necessary to obtain audit evidence

6. All transactions have been recorded in the accounting records and are reflected in the financial statements.

Letter of management representations (cont.)

7. The Board confirms the following:

   i) The Board has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

   Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

   ii) The Board has disclosed to you all information in relation to:

      a) Fraud or suspected fraud that it is aware of and that affects the Company and involves:

         - management;
         - employees who have significant roles in internal control; or
         - others where the fraud could have a material effect on the financial statements; and

      b) allegations of fraud, or suspected fraud, affecting the Company's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Board acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Board acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

8. The Board has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

9. The Board has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with FRS 12 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

10. The Board has disclosed to you the identity of the Company's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with FRS 8 *Related Party Disclosures*._

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as we understand them and as defined in FRS 8.

11. The Board confirms that:

    a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Company's ability to continue as a going concern as required to provide a true and fair view.

    b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Company to continue as a going concern.

12. On the basis of the process established by the Board and having made appropriate enquiries, the Board is satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with its knowledge of the business and in accordance with FRS 17 *Retirement Benefits*.

    The Board further confirms that:

    a) all significant retirement benefits, including any arrangements that are:

       - statutory, contractual or implicit in the employer's actions;
       - arise in the UK and the Republic of Ireland or overseas;
       - funded or unfunded; and
       - approved or unapproved,

       have been identified and accounted for; and

    b) all settlements and curtailments have been identified and properly accounted for. This letter was tabled and agreed at the meeting of the Board of Directors on 9 July 2015.

Yours faithfully,

Director (cc: Audit Committee)

Appendix to the Board Representation Letter of The Gateshead Housing Company Definitions

Financial Statements

A complete set of financial statements comprises:

- a Balance Sheet as at the end of the period;
- a Income and Expenditure account for the period;
- a Statement of Total Recognised Surpluses and Deficits for the period;
- a Cash Flow Statement for the period; and
- notes, comprising a summary of significant accounting policies and other explanatory information.

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

The ASB's *Statement of Principles for Financial Reporting* states that:

> "An item of information is material to the financial statements if its misstatement or omission might reasonably be expected to influence the economic decisions of users of those financial statements, including their assessments of management's stewardship."

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

a) was available when financial statements for those periods were authorised for issue; and

b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

Related Party and Related Party Transaction

Related party:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in FRS 8 *Related Party Disclosures* as the "reporting entity").

a) A person or a close member of that person's family is related to a reporting entity if that person:

   i. has control or joint control over the reporting entity;

   ii. has significant influence over the reporting entity; or

   iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

Related party (continued):

b) An entity is related to a reporting entity if any of the following conditions applies:

   i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

   ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

   iii. Both entities are joint ventures of the same third party.

   iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

   v. The entity is a retirement benefit scheme for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a scheme, the sponsoring employers are also related to the reporting entity.

   vi. The entity is controlled or jointly controlled by a person identified in (a).

   vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Related party transaction:

The transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a price is charged.

Appendix 5
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.

The Gateshead Housing Company Audit Committee
Civic Centre
Regent Street
Gateshead
NE8 1JN

1 July 2015

To: Audit Committee members

Professional ethical standards require us to communicate to you 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 Nick Plumb 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 on our independence which need to be disclosed to the Audit Committee.

Confirmation of audit independence

We confirm that as of ***1 July 2015***, 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

KPMG LLP

Fraud: would you know if you were experiencing it?

Other articles are provided in this report for information.

If you would like to discuss any of these matters further with us please contact us.

Fraud: would you know if you were experiencing it?

With the introduction of the new Prevention of Social Housing Fraud Act towards the end of 2013, social housing fraud is expected to hit the headlines as there is now a much greater focus on cutting down on fraud committed by tenants. Housing associations and ALMOs can also be susceptible to other types of fraud which may not have yet received such extensive press attention including outsourced contract fraud and various types of payment diversion fraud.

Common triggers to enable your organisation to spot fraud include:

- Higher than expected reported costs;
- Unexplained supplier payments;
- Lack of transparency in the procurement function;
- Missing stocks;
- False suppliers;
- Disputes or disagreement with suppliers or subcontractors; and
- A general lack of fraud awareness amongst managers and senior staff.

Appendix 6

Reporting Developments – FRS 102 (‘new UK GAAP’)

The Company will be required to present its financial statements under FRS 102 (‘new UK GAAP’) or IFRS for the year ended 31 March 2016.

Overall Summary

FRS 102 is a single set of accounting standards developed by the Financial Reporting Council (FRC) and replaces current UK GAAP.

As part of the conversion, entities will need to restate both its opening Balance Sheet as at 1 April 2014 and comparative Balance Sheet as at 31 March 2015 as if FRS 102 had always been in place.

Based upon our experience of assisting both private and public sector bodies deal with the impact of new accounting frameworks, including IFRS, there are clear benefits to starting the conversion process early to ensure the project is properly planned and information requirements are readily available.

Overall impact

The concepts and basic principles included within FRS102 are not significantly different to UK GAAP. Four primary statements are to be presented:

- Statement of Comprehensive Income (SOCI);
- Statement of Movement in Reserves;
- Balance Sheet; and
- Cash Flow Statement.

In addition the formats and naming conventions are slightly different. In general, the notes to the financial statements are more extensive under FRS 102 which follows the lead set by IFRS.

The Company will need to decided whether to apply IFRS, the reduced disclosure version of IFRS (FRS 101) or FRS 102 in its next set of financial statements. This decision will be subject to considerations as to which framework would be most suitable for consolidation with the Council’s accounts.

Appendix 6
Reporting Developments – FRS 102 ('new UK GAAP')

The Company will be required to present their financial statements under FRS 102 ('new UK GAAP') or IFRS for the year ended 31 March 2016.

Key Changes

- **Financial Instruments –** For an entity applying current UK GAAP but not FRS 26, financial assets are not usually held at market value and derivatives are not accounted for, as they are 'off-balance sheet'. However under FRS102 financial instruments must now be classified as either "basic" or "other". This applies to any external loans and stand alone swaps that maybe held.
  - "Basic instruments are held at amortised cost;
  - "Other" instruments are held at fair value through profit and loss
- **Employment benefits** - A new provision will need to be recognised for short-term employee benefits (holiday accrual). This is recognised through reserves on first time adoption. Companies will need to calculate an initial provision and then develop a robust but pragmatic process for calculating and updating the accrual on an annual basis.
- **Retirement benefits** – The Company will need to consider the valuation change required to the local government defined benefit schemes in which they participate. This will be accounted for under IAS19 rather than FRS17, therefore the appropriate reports will need to be obtained from the actuaries.
- **Business combinations and goodwill** – FRS102 has revised the treatment of acquisitions, combinations and mergers, with particular attention being paid to the recognition and amortisation of goodwill.
- **Joint ventures**– There have been some changes to the accounting of Joint Ventures under FRS102. Joint ventures are now classified as Jointly Controlled Entities (JCEs), Jointly Controlled Assets (JCAs) or Jointly Controlled Operations (JCOs) with differing accounting treatments. Where groups include JCEs these will be accounted for as follows:.
  - In the consolidated financial statements they will continue to be accounted for under the equity method.
  - In the individual financial statements a policy choice is available to account for interests in JCEs either at cost less impairment, at fair value with movements above cost recognised through other comprehensive income or at fair value with changes in fair value recognised in the I&E.
- **Intercompany balances–** Under FRS102 interest must be charged at market rate on long term intercompany loans.
- **Leases** – There is unlikely to be a significant impact upon the classification of leases as either finance or operating under FRS 102. In terms of disclosures, FRS102 requires lessees to disclose future minimum lease commitments, analysed by when the leases expire.

Sector Update - Pensions

Other articles are provided in this report for information.

Further reductions in the pensions Lifetime Allowance

From April 2016, the pensions Lifetime Allowance, which restricts the value of tax-relieved pension savings an individual can make in his or her lifetime, will reduce from £1.25m to £1m. As was the case when the Lifetime Allowance was last reduced from £1.5m to £1.25m from April 2014, two forms of transitional protection will be put in place to protect those who have already exceeded the new limit. The details of these protections are yet to be confirmed, but will likely include:

• Individual protection: giving individuals their own personal Lifetime Allowance (above the prevailing standard Lifetime Allowance of £1m) – these individuals can continue to build up further benefits but any benefits that are built up in excess of the personal Lifetime Allowance will incur a Lifetime Allowance tax charge which results in these benefits being taxed at 55%.

• Fixed protection: allowing individuals to retain a £1.25m Lifetime Allowance, but this is immediately lost if new benefits are built up.

There is some small consolation for this reduction in the Lifetime Allowance, with the announcement that it will start to increase in line with CPI from 2018 onwards. The Annual Allowance, restricting the tax-relieved savings an individual can make each year, is to remain unchanged at £40,000.

Freedom and Choice policy

April 2015 was a big date for pensions as many of us gained more flexibility in relation to our retirement. The changes should prompt employers to consider the “at retirement” process for their employees, not only as part of being an employer of choice, but also to manage the risks to the business. You can find out more here: http://bit.ly/1AmLUZm

LGPS

KPMG analysis suggests that, despite significant contributions paid into the LGPS aimed at reducing the £47bn deficit uncovered at the last triennial valuation in 2013, the position has unfortunately not improved over the period. There was optimism up to the start of 2014, with the deficit reducing to somewhere in the region of £15bn, but dramatic falls in gilt yields have since reversed the trend and the deficit is now back around the £50bn mark.

If current conditions remain stable over the period to the next valuation in 2016, this could again lead to a significant increase to contributions. If this happens, employers will need to start looking more closely at how they fund the escalating costs and might need to be more imaginative in their approach, for example by using asset-backed type funding arrangements.

Appendix 6
Sector Update - Welfare Reform

Other articles are provided in this report for information.

While these issues are not new, the timing and magnitude of their impacts remains uncertain.

Direct payment demonstration projects

In January 2015, DWP published the final reports of the evaluation of the Direct Payment Demonstration Projects (http://bit.ly/1Ck3vTF). The evaluation recommends a phased introduction of direct payment so that financial risk can be spread over time. It was found that overall, direct payments resulted in 5.5 percentage points less rent paid. This means that on average tenants paid 5.5 percentage points less rent than they would have done had their housing benefit been paid direct to their landlord. The bulk of the financial impact occurred during the first few months after tenants migrated to direct payments. There was a distinct and significant drop in rent payments when tenants first migrated, which then improved dramatically over time. The evaluation suggests that this pattern is likely to be repeated for Universal Credit unless mitigating action is taken. Improving payment rates during the first three months of direct payment would significantly reduce the negative impact on tenants' and landlords' income.

Welfare reform impact assessment

In January 2015, the National Housing Federation published the final report (http://bit.ly/1FNkLD5) from its major research project looking at the effects of welfare reform on housing associations and tenants. The impact on landlords and tenants of the bedroom tax was reported, but the research also examined the introduction of Universal Credit, and found that:

- 98% of housing associations are concerned about their tenants' capability to cope with monthly budgeting and 94% about their tenants' capability to access online systems; and
- 92% of tenants say they would prefer their housing benefit to be paid directly to their landlord.

The transfer to Universal Credit

In September 2014, it was announced that Universal Credit will be rolled out to all Jobcentres and local authorities from early 2015, for new claims for single jobseekers. This process should be completed by March 2016. Roll out to date has initially been to claimants with the simplest claims, but Universal Credit is now being rolled out to claimants with families. Six Jobcentres in Merseyside commenced this in November 2014, with 96 more from March 2015, mainly in the North West. This role out should be completed so that all new claimants can receive Universal Credit some time in 2016, although DWP acknowledge that at least 700,000 existing benefit claimants will not have transferred to Universal Credit by the end of 2017.

Not all of the earliest adopters are in social housing, but we understand some housing associations are finding that alternative payment arrangements are not working correctly, which is affecting the most vulnerable. New regulations have been proposed which would allow the Department for Work and Pensions (DWP) to notify landlords when a tenant has made a claim for Universal Credit; these have been broadly welcomed by the sector and the NHF as it allows landlords to contact tenants and offer support to encourage tenants to commence paying their rent directly.

For those tenants that remain on housing benefit, landlords are reporting increasing levels of arrears as DWP are being more robust in imposing sanctions on claimants who they believe may no longer be eligible for some or all of the benefit currently being claimed.

Post-election outlook

We would expect welfare reforms to continue under the new Conservative government.

Sector Update – Employment 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

Throughout 2014 there have been a number of Government consultations and Office of Tax Simplification (OTS) recommendations on employment taxes which will lead to fundamental changes to the UK's Employment Tax landscape. Of the changes proposed, most will impact on the sector however several are likely to have significant impact:

Expenses & Benefits consultations

Several key changes are being implemented including the abolition of the £8,500 threshold for P11D reporting which is likely to impact on paid board members, the implementation of a business expenses exemption which will lead to the abolition of the P11D dispensation and a new voluntary system for the payrolling of benefits.

In addition to the above, the Government are looking to overhaul the existing travel and subsistence rules to make them simpler for companies to apply. This is currently under further consultation but is likely to have a significant impact on the sector, especially providers who operate out of multiple locations.

Accommodation benefits, termination payments and the relocation expenses exemption

The OTS have also made a set of proposals for changes to the way in which termination payments and accommodation benefits are taxed, together with a recommendation to remove the £8,000 limit for qualifying relocation expenses.

The changes to accommodation benefit are likely to have a significant impact for the sector and could either lead to a removal of the reportable benefit or alternatively, a significant increase in the reportable value of the benefit for residential wardens and caretakers. There is a need for all RPs to monitor this closely as the consultation continues to assess the potential implications of any change and where possible, ensure they are participating in the process.

Construction Industry Scheme

A simplification of the CIS regime is being proposed to reduce the administration required by contractors. Whilst many Housing associations and RP's fall outside of CIS due to their charitable status, the increased use of development companies, which are unlikely to be exempt, has led to an increased application of the scheme in the sector and therefore a greater need for awareness of the issues surrounding CIS.

Overall, the above is a limited selection of the wider changes currently taking place and with HMRC increasing activity in connection with employment taxes it is important all housing associations and RP's remain aware of their current obligations and the potential implications of any future changes.

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