ITEM 4

Report to Audit Committee

26 April 2016

Title:	External Audit Strategy and Planning Memorandum
Report of:	Head of Corporate Services

Purpose of Report

1. To approve the external audit strategy and planning memorandum for the financial year ending 31 March 2016.

Summary

2. KPMG, our external auditors, have produced their external audit strategy and planning memorandum for the financial year ending 31 March 2016, which is attached as an Appendix to this report.

Link to values

3. This report links to Company values of being open and honest and accountable across the Company.

Impact on tenants

4. There is no direct impact on tenants arising 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 7 of the Appendix).

Financial Implications

6. The cost of the work is fully provided for in the 2015/16 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: Jon Mallen-Beadle, Managing Director Tel No: (0191) 433 5300

The Gateshead Housing Company

Report to the audit committee – Audit plan and strategy

26 April 2016

Contents

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Audit summary

This is an overview page of the key aspects of our audit approach.

Question	Position	Page
Has there been a change in timeline and approach?	— The timeline and approach is broadly in line with prior year. — We have performed an interim audit visit in March and will carry out our final audit in May, with reporting expected in June.	5
Has there been a change in materiality?	— We have maintained the level of materiality at £750,000 as the scale of operations of the business has not changed significantly. — KPMG will continue to report all individual differences greater than £37,500 to the audit committee.	6
Have there been any changes to our risk assessment and other areas of audit focus?	— We continue to use a risk based audit approach to identify the key risks affecting the Company. — It is anticipated that the risks that will have the greatest effect on our audit, and other areas of audit focus, will be similar to prior year. — We set out our planned approach to pensions balances and our responsibilities in respect of fraud.	7-9
What are the new financial reporting requirements affecting the Company?	— New UK GAAP becomes mandatory for 2015/16. — FRS 102 is a single set of accounting standards developed by the Financial Reporting Council (FRC) and replaces the current UK GAAP. — As part of the conversion, the company will potentially need to restate both their opening Balance Sheets as at 1 April 2014 and comparative Balance Sheets as at 31 March 2015 as if FRS 102 had always been in place.	10

Introduction

Our Audit Strategy and Planning Memorandum sets out our approach to the audit of the Company for the year ending 31 March 2016.

Purpose

This document has been prepared for presentation to the audit committee of The Gateshead Housing Company.

It sets out our proposed approach to the audit of The Gateshead Housing Company for the year ending 31 March 2016 and includes brief information on key members of our core audit team.

In particular this paper:

- Describes our overall strategy and scoping (page 7);
- Sets out our approach to materiality (page 6);
- Identifies the risks and other areas of focus to be addressed by our audit (pages 8-9).

The document has been prepared in an environment where there is considerable focus on governance, and in particular, on accounting and reporting (full and fair disclosure, appropriateness of accounting policies, etc.) and auditing (audit committee responsibility for audit and auditor oversight; auditor independence, etc.)

In this context we welcome input to our strategy and its subsequent approval by the audit committee.

Our responsibilities as auditor

As auditor to The Gateshead Housing Company we are required to provide an audit opinion in accordance with UK law and regulations.

Under UK company law, our responsibility is to the shareholders of The Gateshead Housing Company. In addition, we have professional responsibilities to report certain matters, if they come to our attention, to regulatory bodies.

Our audit of The Gateshead Housing Company is conducted in accordance with the relevant provisions of International auditing standards (UK and Ireland) (ISAs) and our formal terms of reference are set out in our engagement letter. The Audit Additional Terms attached to that letter set out the relevant duties and responsibilities of directors and auditors respectively.

Intended audience

This paper is provided on the basis that it is for the information of the audit committee, other directors and management of the company; that it will not be quoted or referred to, in whole or in part, without our prior written consent; and that we accept no responsibility to any third party in relation to it.

Planned audit timeline

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	When	What we do	Benefit to The Gateshead Housing Company
Understand the business.	Audit planning March	Planning meeting and agree detailed logistics.	Business risk focus.
Identify business risks. / Identify significant transactions.			Industry specific focus.
Assess impact on statutory accounts. / Assess impact on statutory accounts.	Interim audit March	Interim issues reporting to management.	Robust assurance on operation of controls.
Core business processes.	Audit strategy April	Audit strategy presented to the Audit Committee.	Issues monitored and cleared throughout the year.
Test systems and control.	Year end audit May	Detailed audit work and clearance meeting with management.	Ongoing liaison with Internal Audit.
Assessment of residual risk.	Reporting June	Presentation of highlights memo.	Continuous two way communication.
Substantive and analytical procedures on reported figures.			
Internal and external debrief.	Debrief July	Audit report.	

Materiality and reporting of audit differences

We have maintained our materiality at £750,000 as the scale of operations has not changed significantly from the prior year.

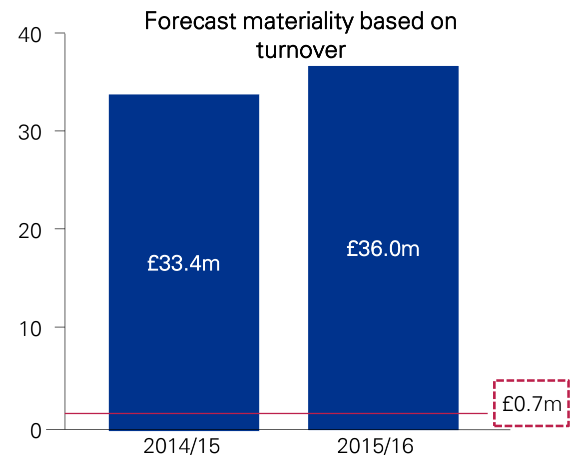
We propose to report all individual differences greater than £37,500 to the audit committee.

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 would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.



Materiality has been set at £750,000 which is 2% of total forecast turnover.

We design our procedures to detect errors at a lower level of precision, set at £562,500, and we have some flexibility to adjust this level downwards.

Reporting to the audit committee

Whilst our audit procedures are designed to identify misstatements (including disclosure misstatements) which are material to our opinion on the financial statements as a whole, we nevertheless report to the audit committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements (including disclosure misstatements) other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In line with ISA 450 we will request you to correct uncorrected misstatements.

In the context of The Gateshead Housing Company we propose that an individual difference could normally be considered to be clearly trivial if it is less than £37,500.

- We propose to report all individual adjusted and unadjusted differences (including disclosure misstatements) greater than £37,500 to the audit committee.
- We will also have regard to other errors below this amount if evidence of systematic error or if material by nature.

Audit overview

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 Gateshead Housing Company staff.

Our audit work will therefore focus on your key risk areas which are set out on the following slides.

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 management 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 8-9). 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 higher 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 impact on 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.

Use of specialists

Our tailored use of 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 use the following 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 actuarial assumptions for the Local Government Pension Schemes.

Risks, including risks that ISAs require us to raise in all cases, other areas of audit focus and our approach to them

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In the context of the Gateshead Housing Company's audit, we do not consider this to be a significant risk of fraud as there are limited incentives and opportunities to manipulate the way income is recognised, as revenue is governed by the management agreement with the Council.

We are also required to consider the fraud risk from management override of controls.

During our planning we have not identified any additional significant risks that the ISAs would require us to raise with you, therefore we have highlighted the area we consider to be of special interest to the Audit Committee.

Identified risks	Why	Our audit approach
Pensions	The valuation of Local Government Pension Schemes relies on a number of assumptions, most notably around the actuarial assumptions. 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 let 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	We will: Circulate a questionnaire to the actuaries to confirm their qualifications and the basis for their calculations; 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; and Review the assumptions made by your actuaries with benchmarks, which are collated by our KPMG actuaries, and to the assumptions used for 2015/16 for consistency.

Significant risks that ISAs require us to assess	Why	Our audit approach
Fraud risk from management override of controls	Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We have not identified any specific additional risks of management override relating to this audit.	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 otherwise unusual.

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 actors

- 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 for The Gateshead Housing Company to be low, we will monitor the following areas throughout the year and adapt our audit approach accordingly:
  - Revenue recognition.
  - Purchasing income.
  - Management control override.
  - Manipulation of results to achieve targets and expectations of stakeholders

New UK GAAP - FRS 102

The Company is applying FRS 102 for the first time for 2015/16.

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

We have provided management with detailed guidance on transitioning to FRS 102.

New UK GAAP

In late 2012 and early 2013 the Financial Reporting Council issued a suite of standards that replace existing UK accounting standards.

There is a choice, subject to eligibility, of multiple sets of standards under which entities can choose to prepare their accounts. The Gateshead Housing Company is eligible to prepare accounts in accordance with either EU-IFRS or FRS 102.

As FRS 102 requires less extensive disclosures than EU-IFRS and is more closely aligned to the previous UK GAAP standards, management have determined that FRS 102 is the most appropriate choice.

FRS 102

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

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

We have helped both private and public sector bodies to deal with the impact of new accounting frameworks, including IFRS. We have seen clear benefits to starting the conversion process early to ensure the project is properly planned and information requirements are readily available and have already begun discussions with management as to how they will approach conversion.

Overall impact

The concepts and basic principles included within FRS 102 are not significantly different to UK GAAP. Four primary statements are to be presented:

- Statement of Comprehensive Income;
- Statement of Changes in Equity;
- Balance Sheet; and
- Cash Flow Statement.

The Statement of Changes in Equity s is a new primary statement and there is no longer a requirement for a statement of historical cost surpluses and deficits. The formats and naming conventions are also slightly different. Following the lead set by IFRS, the notes to the financial statements are generally more extensive under FRS 102.

Differences on transition

For The Gateshead Housing Company there are likely to be relatively few differences in the measurement and recognition of the amounts in the financial statements and the differences are likely to be largely in the way in which the accounts are presented.

Management will, however, need to carry out a detailed analysis of the differences between previous UK GAAP and FRS 102 for all material financial statement items. We have provided management with guidance on how to carry out this analysis and will be available to assist and advise on the process.

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:

Nick Plumb will continue to lead the audit service to the Company. Nick 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.

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 the 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.

Contact details are provided on page 1.

Audit fee

Our proposed audit fee for 2015/16 is £17,500 exclusive of VAT and outlays (2014/15 £17,500).

In addition the also based on the following standard assumptions:

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

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.

Appendices

Mandated communications with the audit committee

In addition to matters discussed elsewhere in this presentation, Auditing Standards require us to discuss certain matters with the Audit Committee including the following.

Communication	Section reference
— Relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement partner and audit staff (ISA 260 and Corporate Governance Code). We must also establish with you a timetable for reporting any insignificant breaches of the IESBA Code of Ethics and UK Ethical Standards (significant breaches are required to be reported as soon as possible). (IESBA Code of Ethics).	— See appendix 2.
— The general approach and overall scope of the audit, including levels of materiality, fraud risks and audit responses, engagement letter and expected general content of communications (ISA 260).	— This paper, including responses to fraud on page 9 and audit materiality on page 6. Our engagement letter is unchanged since 2015.
— Disagreement with management about matters that, individually or in aggregate, could be significant to the entity's financial statements or the auditor's report, and their resolution (AU 380).	— In the event of such matters of significance we would expect to communicate with the Audit Committee throughout the year. Formal reporting will be included in our Audit Committee paper for the next Audit Committee meeting, which focuses on the financial statements.
— Significant difficulties we encountered during the audit. — Significant matters discussed, or subject to correspondence, with management. (ISA 260).	
— Our views about the qualitative aspects of the entity's accounting and financial reporting. — The potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements (ISA 260 and ISA 540).	
— Audit adjustments, whether or not recorded by the entity, that have, or could have, a material effect on its financial statements. We will request you to correct uncorrected misstatements (including disclosure misstatements) (ISA 450).	
— The selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the entity's financial statements (ISA 570).	
— Material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern (ISA 570).	
— Expected modifications to the auditor's report (ISA 705).	
— Other matters warranting attention by those charged with governance, such as any insignificant breaches of the IESBA Code of Ethics and UK Ethical Standards[a], significant deficiencies in internal control, questions regarding management integrity, non-compliance with laws and regulations including illegal acts, and fraud involving management (ISA 265, ISA 260, ISA 250 and ISA 240).	— As above, except that formal reporting on any material weaknesses identified in internal control will be at the June Audit Committee meeting.

Confirmation of independence

We confirm the independence of KPMG LLP

To: Audit 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 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; and
- 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 & Risk Committee.

Confirmation of audit independence

We confirm that as of 26 April 2016, 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 & Risk Committee and should not be used for any other purposes.

Yours faithfully

KPMG LLP

KPMG LLP

Sector updates

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.

Consumer Regulation Review 2014/15

In September 2015, the HCA set out its experience of carrying out its consumer regulation role in 2014/15. During 2014/15, they published 6 findings of serious detriment. In each of these cases they found that providers had breached the home standard. In previous years, a failure to meet statutory obligations with regard to gas servicing underpinned all of the breaches identified. In 2014/15 this occurred in the majority of cases, but they also found serious detriment both as a consequence of a structural failure of a building, and a widespread, persistent failure of an emergency repairs service.

The key messages highlighted were as follows:

Boards are responsible for ensuring that their organisation complies with all of the standards, both economic and consumer. The fact that the regulator regulates consumer standards reactively does not lessen the obligation to comply, but does make the risk of non-compliance significant as interventions in the event of failure are likely to be of consequence.

The importance of health and safety obligations. Boards and councillors who govern housing associations' service delivery must make sure that they have proper oversight of all health and safety issues, including gas servicing, fire safety and other issues such as asbestos. Meeting health and safety requirements in respect of tenants is a fundamental responsibility.

Many of the referrals which come to the regulator are ultimately judged to be individual complaints which, however well-founded they may be, do not represent a breach of the standards.

The correct route for redress for these continues to be the association's own complaints process, a Designated Person under the terms of the Localism Act 2011, and the Housing Ombudsman. The HCA continues to encourage tenants to pursue the appropriate route for their complaints, and encourages associations to ensure their tenants know of that route.

In the case of private registered providers, when the HCA finds a breach of the standard which has or may cause serious detriment, they will also consider the impact upon their view of the provider's compliance with the Governance and Financial Viability Standard. There is a separate process and basis for consideration: there is no "double jeopardy" whereby a breach of a consumer standard automatically creates a judgement of a breach of the Governance and Financial Viability Standard.

Where a provider becomes aware of a potential breach of a consumer standard which it believes has or could result in serious detriment to tenants, it should communicate this to the regulator in a timely way. The increasing number of self-referrals by providers to the regulator, particularly on well-established gas safety issues, indicates growing awareness of this obligation.

The consumer standards continue to apply to local authorities, even though the economic standards do not.

Where another statutory body is investigating a matter which may be a breach of the consumer standards (such as the Health & Safety Executive), the HCA will take into account the action being undertaken by that authority when exercising our own regulatory powers.

Further detail can be found here: http://bit.ly/1jDB92s

Sector updates

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.

Learnings from in-depth assessment (IDA) pilots

In June 2015, the Homes and Communities Agency (HCA) published the latest "Regulating the Standards" document, which provided detail about the HCA's new IDA process (http://bit.ly/1HqGLZh).

Instead of an annual profile on all providers with more than 1,000 homes, the HCA will conduct periodic IDAs, although these are expected to be every three or four years. The IDA is designed to look at risks, finances and governance and will be bespoke to each individual provider. An annual stability check will also be carried out using data supplied by individual providers.

Pilot IDAs have taken place at 10 providers and the first substantive IDAs started in Autumn 2015. Providers should be working towards compliance with the new requirements within Regulating the Standards, particularly the requirement for stress testing scenarios and an assets and liabilities register.

Sector risk profile

The primary focus of the Sector Risk Profile is to outline the key financial risks which, if not properly or adequately managed, may cause a registered provider to fail the HCA's economic standards, in particular the viability element of the Governance and Financial Viability standard.

The 2015 publication particularly highlights changes to the operating environment that will result from the July Budget. These include reductions in rental income, the extension of "Pay to Stay" and further welfare reform changes. Along with the extension of Right to Buy, these changes are likely to have financial implications for associations' business plans.

Boards must ensure they understand issues relating to all the regulatory standards, both economic and consumer.

The full publication can be found here: http://bit.ly/1Qe1MJE

Sector updates

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.

Universal Credit – first steps

Parliament passed the Welfare Reform Act in 2012. A key element of the Act was the abolition of a number of existing welfare benefits and their replacement with a single Universal Credit, designed to be simpler to operate and to incentivise claimants to gain employment. Disability benefits and benefits payable to old age pensioners were not included within the plan. Universal Credit is also paid monthly in arrears, like a salary, rather than weekly.

The key change affecting the sector is the replacement of Housing Benefit with Universal Credit. Universal Credit payments are made direct to the claimant, not the landlord as under Housing Benefit. Research undertaken during the early phases of Universal Credit implementation have shown that:

direct payments resulted in 5.5 percentage points less rent being paid to landlords than under the Housing Benefit system. 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. (Source: Direct Payment Demonstration Projects: the longitudinal survey of tenants, Department of Work and Pensions, December 2014, http://bit.ly/1Ck3vTF)

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. (Source: Welfare reform impact assessment: Final report, National Housing Federation, January 2015, http://bit.ly/1OKQyLx)

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. The final tranche (the fourth) of roll-outs is taking place between December 2015 and April 2016. From May 2016, existing benefit claimants will start to be transitioned onto Universal Credit as the roll out for new, more complex claims, continues across the UK. The process should be completed by December 2019.

Alternative payment mechanisms

Housing associations have the option to request an Alternative Payment Arrangement (APA) where their tenant is:

- two or more months in arrears; or
- one or more month in arrears as a result on continually underpaying their rent over a period of time.

When making a request for an APA, the landlord can also request deductions from the tenant's Universal Credit to repay the arrears balance. Deductions can be made of between 10% and 20% of the Universal Credit allowance, at a rate determined by the Department of Work and Pensions.

Sector updates

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 tax specialists.

Apprenticeship Levy – The Government confirmed that the Levy will be set at a rate of 0.5% with effect from April 2017. An allowance of £15,000 will be available to employers to offset the Levy, meaning that only those with a pay bill in excess of £3 million per annum will be liable to the charge. As expected, the Levy will be collected via the PAYE system. In addition to the direct impact on workforce costs, it is possible that some of the larger employment agencies will be covered by the Levy and that increases in agency costs may be passed on to end users.

The Government's aim is to let employers choose and pay for the apprenticeship training they want, which should make apprenticeships more responsive to their business needs. Organisations should review their training requirements, learning and development policies and current training costs to help them plan their future training programmes to benefit from the Levy. The Government's response to the Apprenticeship Levy Consultation indicates that there is scope for employers to get out more than they pay in. With control of the funding, employers should become more demanding customers for high quality training programmes which fully meet their organisation's needs.

Childcare Support – the Government will increase free childcare provision for 3 and 4 year olds and tax free childcare support from 6 April 2017. This will only be available to individuals who earn less than £100,000 per year (per parent, not household) and who work at least 16 hours a week.

Employment intermediaries and tax relief for travel and subsistence – as initially announced in March 2015, workers engaged through employment intermediaries or personal service companies to which the intermediaries' legislation applies, will be denied tax relief on travel and subsistence expenditure from 6 April 2016.

Diesel Company cars – the previously announced abolition of the 3% premium on the company car benefit in kind for diesel vehicles has been deferred from 6 April 2016 to 6 April 2021.

National Insurance Contributions (NIC) contracting out rebates ended on 5 April 2016. The standard rate of NIC from 5 April 2016 was unchanged and will remain at current rates (13.8% for employers and 12% for employees).

Glossary of terms

We define key terms in our memoranda and in the statutory accounts

Accruals: obligations which arise when a good/service has been received but not yet invoiced.

Actuarial loss/gain: gains or losses on pension plans that arise as assumptions change.

Amortised cost: the amount at which a financial asset or financial liability is measured at initial recognition, less principal repayments and plus or minus any unamortised original premium or discount.

APB Ethical Standards: Standards issued by the Auditing Practices Board covering the integrity, objectivity and independence of auditors.

Articles of Association: the internal rule book for incorporated businesses – a contract that sets out the duties and responsibilities of the Directors and Shareholders.

Balance Sheet: a snapshot of the value of assets and liabilities held by a business at a particular point in time. Aka Statement of Financial Position.

Benefits in kind: remuneration offered to employees instead of cash, e.g. a company car or health insurance.

Capitalised: expenditure held in the balance sheet as the benefits relate to future periods.

Cash Flow Statement: this shows how the level of cash has changed over the period. It takes into account cash payments (eg purchase of an asset) and cash receipts (e.g. receipts from a bank loan, cash sales or proceeds from a disposal of an asset). The Opening cash balance is added to cash receipts and cash payments are deducted to arrive at the Closing cash balance. This is usually different from the Income Statement as it does not include non-cash items such as depreciation, accruals or prepayments.

Chapter 3 of Part 16 of the Companies Act 2006: the Companies Act 2006 is an Act of Parliament which covers a wide range of Company Law. This specific part of the Act describes the Functions of the Auditor which includes requirements/information about the audit report, duties and rights of auditors etc.

Charities Act 2011: an Act of Parliament consisting of rules and regulations which charities must follow.

Code of Conduct for Trustees: a rule book detailing the expected behaviour and responsibilities of Trustees.

Combined Code: sets out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders.

Construction Industry Scheme: where contractors deduct money from a subcontractor's payments and pass it to HMRC. They are essentially advance payments towards the subcontractor's tax and NI.

Corporation Tax Act 2010: an Act of Parliament for rules over Corporation Tax – who is applicable, what rate, how it's paid and how it's calculated etc.

CPI: stands for Consumer Price Index. The most common measure of Inflation. This is calculated as a percentage based upon how much the price rises for a typical 'basket' of goods over a period.

Creditors: amounts owed by the business to suppliers for goods/services received where the cash hasn't been paid out yet.

Debtors: amounts owed to the business from customers for goods/services sold where the cash has not been received yet.

Deferred tax assets: these are taxes that have been paid or carried forward which have not yet been recognised in the income statement. This can be used to reduce future tax liabilities and can arise due to timing differences between the tax authority's policies and the accounting standards.

Deficit: a shortage of something e.g. not enough cash to meet requirements.

Defined benefit net pension liability: defined benefit schemes are where employees are paid a set amount rather than based upon their contributions. A net liability means the pension liabilities exceed the pension assets.

Glossary of terms (continued)

We define key terms in our memoranda and in the statutory accounts

Depreciation: a cost recognised in the year to reflect the reduction in value of an asset over time.

Derivative: an arrangement or product (such as a future, option, or warrant) whose value derives from and is dependent on the value of an underlying asset, such as a commodity, currency, or security.

Director's remuneration: aka Directors Emoluments. This is the amount that the Directors are paid by the business for the period. This can include Salary, Bonuses, Pensions and Benefits in Kind.

Dissolution: where a business ceases trading and winds down. Its assets are sold to pay off its liabilities and the remainder is distributed out amongst the shareholders.

Emoluments: a salary, fee, or profit from employment or office.

Experience adjustments: adjustments made to actuarial values to obtain actuarial gains and losses. They are used to estimate the reliability of costs used.

Fair value: unbiased estimate of the potential market price of a good, service, or asset.

Finance Act 2010: an Act of Parliament which provides legislation surrounding taxes, duties, exemptions and reliefs. Sets out the current tax rate etc.

Financial instrument: a document representing legal agreement for a monetary value. They can be equity based or debt based and can be traded on stock markets.

First tranche sales of shared ownership properties: the first part of shared ownership properties sold which are classified as stock until sale, as opposed to the remainder which is held as fixed assets.

Fixed asset: an item that is expected to generate economic benefits for the business and is expected to be owned for >1 year. E.g. Cars, Buildings, Patents.

Gilt yields: a Gilt is a UK Government Liability that is listed on the stock exchange, aka Treasury Stock. Investors can obtain these and by doing so are essentially lending to the government. The yield is how much the investor will get back in interest from the gilt over time.

Going concern basis: the financial statements are prepared based on the assumption that the business is expected to continue normal trading operations for at least 12 months.

Goodwill: this is the additional amount paid for a business over and above the value of its Net Assets. This is often to take into account the reputation of the business, branding or its existing customer base.

Gross cost: the cost of a good/service after VAT is charged. Net Cost excludes VAT.

Housing and Regeneration Act 2008: an Act of Parliament that provides the rules and regulations around Social Housing. The Homes and Communities Agency was established as part of this.

Housing Revenue Account: an account which records all revenue expenditure and income relating to the provision of council houses and related services. This is a requirement for Councils and the account cannot be used to fund non-housing related expenditure.

IFRS: International Financial Reporting Standards are rules set by the International Accounting Standards Board (IASB) detailing how accounts should be prepared.

Impairment: this is where an asset is actually worth less than the Net Book Value. For example, a more up to date type of technology could be released which may mean that the asset comes obsolete, or the asset has been damaged. The difference between the carrying amount (the higher of its Fair Value less Selling Costs, and its Value in Use) and the Net Book Value should be recorded as an expense in the Income Statement and the NBV should be reduced

Income and Expenditure Account: this shows the cumulative value of income and expenses that have incurred over a period e.g. 12 months. This shows the profit or loss made by the business and hence aka the Profit & Loss Account.

Inflation risk premium: investors hold assets at nominal value and are therefore exposed to inflation. As the real return over a period depends on how inflation changes over the same period, investors demand a premium for taking on the risk of inflation.

Glossary of terms (continued)

We define key terms in our memoranda and in the statutory accounts

ISA 260: stands for International Standard of Auditing. This specific standard details the requirements for Communication with Those Charged with Governance by the auditors.

ISA 330: stands for International Standard of Auditing. This specific standard details the requirements regarding the Auditor's Response to Assessed Risks.

ISA 610: stands for International Standard of Auditing. This specific standard details the requirements for external auditors when Using the Work of Internal Auditors.

iXBRL tagging: stands for Extensible Business Reporting Language. It is a standard for reporting financial data using labels that computers can interpret.

LGPS: Local Government Pension Scheme.

Liabilities: amounts owed to other parties (external such a bank loans or internal such as intercompany creditors). They reduce net assets in the balance sheet.

Limited by guarantee: this is where the Directors/Shareholders contribute a guaranteed amount to financially back the company up to a certain amount if it gets into financial difficulties.

Material misstatement: an error that has a significant impact on the financial statements to the extent that it could influence the decisions of the users of the financial statements (Stakeholders). What is deemed to be 'material' depends on the size of the business.

Material weaknesses: where one or more of the business's internal controls are ineffective and could lead to a material misstatement in the financial statements.

Memorandum of Association: a legal document which provides general information about the business such as the company name, the name of its shareholders, the address of its registered office and what types of trading it can conduct etc. This must be drawn up upon incorporation (if the business becomes a Limited company).

Net book value: the current value of a fixed asset, which is cost less depreciation to date.

Net current assets: a balance sheet term. It is the amount by which the value of current assets (e.g. cash, trade debtors, stock) exceeds the value of current liabilities (e.g. bank overdraft, trade creditors).

Net realisable value: the amount expected to be received if the asset was sold to the market. Aka NRV.

NHF: stands for the National Housing Federation. They represent the work of housing associations and campaign for better housing.

Operating costs: expenses that are incurred in the general day to day running of the business e.g. rent and rates, administrative salaries, stationary. They are incurred regardless of the level of sales in the period and are therefore also known as indirect costs.

Operating lease: the business rents an asset from a supplier for a periodic charge rather than purchasing the asset outright. The business does not own the asset and therefore it is not recognised in the balance sheet, it is recognised as an expense in the income statement.

Operating surplus: where income is in excess of expenses.

P11D: a form required by HMRC where employers detail the cash equivalents of benefits and expenses that they have provided to employees/directors during the tax year.

Parent undertaking: this is the entity that is above the business in the group and has control over it.

Prepayments: these are assets. the good/service has not been received yet but the business has already paid for them (in advance). The expense should be recognised in the period that the good/service was received rather than when it's paid for.

Prevention of Social Housing Fraud Act: an Act of Parliament prohibiting un-lawful sub-letting and parting with possession of social housing.

Glossary of terms (continued)

We define key terms in our memoranda and in the statutory accounts

Prudent: assets are valued at the lower of cost and net realisable value and liabilities are valued at the higher value. This is to avoid overstating the value of the business.

Rate of return: the percentage profit the business expects to receive on an investment.

Related party transaction: a transaction between the business and another member of the group (e.g. its subsidiary or parent). This can also include transactions between the business and its Directors/Owners etc.

Reserves: this is at the bottom of the Balance Sheet and should equal the value of Net Assets. Can consist of Revaluation Reserves, Share Capital and the Profit & Loss Reserve for example. The total of these reserves is essentially owed by the business to the owners/shareholders.

Revaluation reserve: a Balance Sheet item which records any increase/decrease in the value of Fixed Assets after a revaluation occurs.

RPI: stands for Retail Price Index. This is a measure of Inflation and is calculated as a percentage. Main difference from CPI is that it includes House Prices.

S400 of the Companies Act 2006: section 400 provides an exemption from preparing group accounts for companies included in EEA group accounts of a larger group.

Shared ownership: where the occupier buys a proportion of an asset such as property and pays rent/fees on the remainder to the business.

Social housing grant: funding given to Registered Housing Associations from the government.

Statement of Comprehensive Income (SOCI): shows the changes in net assets over a period of time from sources other than changes in shareholder equity.

Statement of Total Recognised Surpluses and Deficits: a statement showing business performance which presents the profit for the year before dividends, unrealised gains or losses on revaluation of assets, currency translation differences and prior year adjustments.

Straight line basis (depreciation): this is where a fixed asset reduces in value by the same amount each period. This is calculated as follows.

Subsidiary: a business which is controlled by another business (parent) which has >50% voting power.

Surplus: an excess of something e.g. more cash than required.

Swaps: a derivative contract where two parties exchange financial instruments.

Tangible fixed assets: fixed assets which have a physical existence.

Taxation and Chargeable Gains Act 1992: an Act of Parliament which governs the levying of capital gains tax in the United Kingdom.

True and fair view: the financial statements are an accurate representation of the business's activities and performance.

Turnover: the value of goods/services sold over a period.

UK GAAP: stands for Generally Accepted Accounting Practice. Framework for preparing accounts in the UK.

Unqualified audit opinion: the auditor believes the financial statements are not materially misstated, represent a true and fair view of the business and that the appropriate accounting standards have been followed.

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