



CONSULTATION ON CHANGES TO THE ACCOUNTING DIRECTION

Issued 20 December 2018

ICAEW welcomes the opportunity to comment on the consultation on changes to the Accounting Direction (the 'Direction') published by the Regulator of Social Housing (the 'Regulator') on 8 November a copy of which is available from this [link](#).

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

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KEY POINTS

1. We have provided some detailed comments in the Appendix but as the proposed changes largely meet the objectives identified (and are therefore to be welcomed), we do not comment further on the specific questions raised.
2. We are, however, one of the stakeholders who believe that further consideration of the Direction is required. We welcome the commitment of the Regulator to undertake work on that in the future and are taking this opportunity to outline our main concerns for the purposes of future engagement.
3. In particular, we believe that further consideration is required as to whether the Regulator could obtain the detailed information it needs for its own purposes by other means than requiring information to be included in the financial statements of private registered providers ('RPs').

REGULATORY DISCLOSURE REQUIREMENTS IN ACCOUNTS

4. The Direction requires a variety of disclosures to be made in the financial statements of RPs that would not otherwise be required under applicable accounting standards (or the SORP). This may have led to an increase in the comparability and consistency of sector information and in some cases the additional disclosures may be of benefit to users of the financial statements, but the requirements of the Direction have also added to the length and complexity of the financial statements and, therefore, the costs of preparation and audit. We believe that the additional requirements also increase the risk of the financial statements becoming 'cluttered' and so less easy to follow.
5. We suggest therefore that each disclosure requirement should be considered in that context.
6. This may include consideration as to who the users of the accounts are and what information they require. We also believe that, where the Regulator wishes to collate data or key information on the performance of an RP, further consideration should be given to obtaining this information outside of the financial statements. For instance, such key information may be collated in the form of an accounts return as part of a separate exercise (subject to further external assurance should the Regulator wish to obtain such assurances on the data provided by RPs).

RELIABILITY OF DATA AND AUDIT

7. We understand that one reason why the Regulator may prefer information to be included in the financial statements rather than through separate regulatory reports is that the financial statements, for most RPs, are required to be audited.
8. It is not, however, clear to us that users of the financial statements will necessarily understand what is involved in an audit in so far as the additional information required by the Regulator is concerned. For example, there is a risk that information required for regulatory purposes needs to be at a higher level of accuracy and consistency than is required for those financial statements to present a true and fair view. There is therefore a risk of users taking misplaced comfort in some regards from the fact that the information appears within the audited financial statements. There are also costs involved in extending the scope of an audit in this manner.

SEGMENTAL REPORTING AND CONFLICT WITH NEW SORP

9. We comment on segmental reporting with a suggestion for change in the Appendix, but by way of further explanation note that the revised social housing SORP was issued in November 2018. It makes it an express requirement for relevant RPs to follow IFRS 8 on operating segments and this is now likely to apply to a significant number of RPs. IFRS 8 requires that the analysis of operating segments included within financial statements is

based on similar information about the components of the entity that management uses to make decisions about operating matters. IFRS 8 information will therefore inevitably vary from one RP to another.

10. There is an innate tension between this and the fixed requirements of the Direction on segmental reporting. Relevant RPs may have to produce two sets of reports to satisfy the different requirements or may seek to align their management reporting with the requirements of the Direction to avoid this outcome. Not only would there be increased costs involved in producing two sets of segmental reports, but users of the accounts might also reasonably question why this should be and which set is correct (or more useful). This is illustrative of the risks that can arise where additional financial reporting requirements are imposed for regulatory reporting purposes.
11. We acknowledge that previous versions of the SORP did not include this express reference to IFRS 8 and therefore it is arguable that the potential inconsistency did not exist, at least to the same extent, in previous years.
12. Further consideration on segmental reporting disclosures may be helpful through a research exercise, focusing on the disclosure of operating segments in the financial statements more widely in the housing sector and ensuring that the information disclosed in the financial statements remains relevant for the users of the accounts.

PURPOSE OF FINANCIAL STATEMENTS AND POWERS OF THE REGULATOR

13. From an accounting and audit perspective, the purpose of the financial statements is, broadly speaking, to show a 'true and fair view' of the financial position of the entity. Relevant accounting standards, along with the SORPs, are designed with that objective in mind. The Housing and Regeneration Act 2008 empowers the Regulator to impose accounting Directions to ensure that the accounts are prepared in proper form and present a 'true and fair view' of the state of affairs of an RP and the disposition of its funds and assets.
14. We believe that any requirements of the Direction that are inconsistent with the position under relevant accounting standards (and SORP) should be considered in that context.

SPECIFIC AREAS FOR FURTHER CONSIDERATION

15. In particular, we would welcome discussion on whether the following matters contained in the Direction contribute to showing a 'true and fair view':
 - Detailed and prescriptive segmental analysis covering turnover, cost of sales, operating expenditure and operating surplus
 - Assessing compliance with the Governance and Financial Viability Standard
 - Disclosing details of key management remuneration, the Chief Executive's remuneration arrangements and amounts of compensation payable to directors and past directors
 - Disclosing audit fees
 - Detailed disclosures on the RCGF and DPF
 - Providing a full analysis of the different types of social housing the RP provides
16. However, there are other areas where additional information might contribute to a true and fair view and merit inclusion in the Direction, and we would also welcome further discussion on these, for instance:
 - Information relating to the loan structure, unused loan facilities, uncharged properties, funding requirements in the longer term and headroom over financial reporting covenants
 - Condition of properties used for social housing purposes
 - Reserves policies
 - Remuneration strategies

NEXT STEPS

17. We would like to see the Regulator engage with the sector at the start of 2019 on these issues so that, if it agrees that more radical reform might be appropriate, it would be able to issue a formal consultation document with a relevant proposal by the end of that year.
18. While the changes envisaged in the current consultation are limited in scope, the consultation period was very short. We hope that any consultations on the Direction in future will be open for a longer period (eg three months) so that the broader issues outlined above can be considered more fully.
19. We would be happy to assist the Regulator in its future work on this.

APPENDIX

(detailed comments on draft revised Direction)

Section	Paragraph	Comment
Part 1	Note A and Note B	We understand that the Regulator has continued to include both Note A and B as requirements for large RPs and whilst this is helpful to achieve consistency in terms of disclosure of key areas of income and expenditure across the sector, we wish to highlight that there are additional requirements in respect of operating segments for those entities with listed debt under FRS 102 paragraph 1.5 or where an entity has voluntarily opted to disclose information as operating segments, both of which would require the RP to follow IFRS 8 Operating segments disclosure requirements. Therefore it may be helpful to signpost that Note A and Note B are required even where the entity is in scope of FRS 102 paragraph 1.5 and the new Housing SORP 2018, paragraph 3.8.
Part 2	4	We believe that this requirement should be extended to also cover any cross guarantees, debts between group entities or financial support made across the group members.
Part 2	8	In our view this paragraph could be improved through clarification on how the requirements apply to group structures and how the reporting is reflected in the accounts of the individual RPs.
Part 2	14	Whilst there is an expectation that the term 'remuneration' includes the definition of employee benefits as defined in FRS 102 and Chapter 15 of the Housing SORP (2014), the list under paragraph 14 could be improved further by explicitly stating that this should include termination benefits as well.
Part 2	26	This paragraph refers to paragraph 26(b) however we believe that this is a typo and should be referring to paragraph 25(b). We are not clear whether this paragraph 26 is adding to the requirements as by providing an exemption where it is impracticable may be in conflict with the requirements of FRS 102.11.42. In our view the disclosures of paragraph 25 would be required under FRS 102, so we are not clear how the exemption in paragraph 26 may be taken by a RP.