



Changes to the HCA Accounting Direction

ICAEW welcomes the opportunity to comment on the consultation on *Changes to the Accounting Direction* published by Homes and Communities Agency on 18 March 2015 and on the consultation draft Direction, a copy of which is available from this [link](#).

This response of 15 June reflects consultation with the ICAEW Social Housing sub-Committee which includes representatives from public practice and registered housing providers. The Social Housing sub-committee is responsible for ICAEW's policy on social housing issues and related submissions to regulators and other external bodies.

ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 144,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.

ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.

Copyright © ICAEW 2015
All rights reserved.

This document may be reproduced without specific permission, in whole or part, free of charge and in any format or medium, subject to the conditions that:

- it is appropriately attributed, replicated accurately and is not used in a misleading context;
- the source of the extract or document is acknowledged and the title and ICAEW reference number are quoted.

Where third-party copyright material has been identified application for permission must be made to the copyright holder.

For more information, please contact representations@icaew.com

icaew.com

MAJOR POINTS

1. The Direction continues to require RPs to include an assessment of 'value for money' in delivering their purpose and objectives in accordance with the regulator's standard (Paragraph 8 of Part 2). This assessment is to be included as a part of the strategic report or Director's report or equivalent. We have commented on this in the past.
2. By way of summary, we do not believe that financial reporting disclosures should be used to explain compliance with an isolated regulatory standard. Instead, this information could be requested outside of the statutory accounts if it is needed by the regulator. The current requirements have resulted either in unduly lengthy disclosures to no great purpose or in summaries of the full disclosures which can be time consuming and difficult to prepare (and therefore add to disclosure costs). Furthermore since it will be part of the narrative reporting by the relevant body noted above it will normally not be separately audited, but subject only to checks on consistency and this could be misunderstood by users.
3. Our members have suggested that the extensive narrative requirements resulted in additional costs for PRPs, possibly running into hundreds of thousands of pounds over the sector, which should be a matter of concern for the HCA.
4. While we understand that the Direction needs to be updated to reflect the new regulatory framework and standards, it is disappointing that the opportunity was not taken to 'go back to basics' with a view, in particular, to removing 'clutter' from accounts. We would urge HCA to do so when the Direction is next subject to extensive review.

RESPONSES TO SPECIFIC QUESTIONS

Q1: Does the proposed direction adequately reflect the requirements of the new regulatory framework and standards?

5. Yes.

Q2: Is the direction consistent with FRS 102 and the social housing SORP? If not, please indicate where it is not.

6. Yes

Q3: Do the narrative reporting requirements adequately allow risks to be explored and the performance of the PRP to be explained to stakeholders in meaningful ways, consistent with the size and complexity of the provider?

7. Please see our general comments above regarding value for money narrative reporting and the need for a 'back to basics' review of the Direction.
8. The narrative reporting section does not currently make mention of an assessment of the association's business model and it also does not mention analysis using financial and non-financial KPIs both of which are requirements of the FRC guidance. We suggest that greater value and consistency would be achieved by requiring the RP to comment on both of these points.

Q4: Are there any further sections in the direction that that should be clarified, expanded or removed?

9. See also our general comments above.

10. Part 2, paragraph 7. We do not believe that the reference to 'larger PRPs' is helpful and suggest that this paragraph begin: 'PRPs with at least 5,000 homes are expected to produce a strategic report.....'. This is because there is a separate definition of larger RPs which this paragraph sets aside but the higher cut off limit specified in this paragraph is then not used anywhere else. It therefore seems pointless to revise the definition just in this paragraph. It would be better to just state the limit in this paragraph alone that you consider appropriate for a strategic report.
11. Part 2, paragraph 22. This could be clearer with additional text added to emphasise that the financial assistance and other government grant received or receivable at the date of the balance sheet should be based on properties owned as at that date, and not the total amount of financial assistance and other grant received or receivable by the entity in totality.
12. Part 2 (paras 11-17) The Direction could benefit from better clarification regarding employee remuneration and will need to include all employee benefits as defined in FRS 102.

Part 2 (paras 23-24). The guidance around disclosure of auditors' remuneration could usefully be expanded to include reference to Schedule 2A to SI 2008/489 which currently would only be a requirement under the Companies Act.

Q5: Does the proposed implementation date provide an adequate timescale for PRPs to introduce the requirements of the direction?

13. See our general comments above. In practice, assuming that no material changes are made as a result of the consultation, we anticipate that users will be able to cope in practice with the timescale. However, if changes are now made, it could be more problematic.

Q6: Do you have any other comments regarding the proposed direction?

14. No