



PREPARING AN AUDIT REPORT FOR ENGLISH, SCOTTISH AND WELSH REGISTERED PROVIDERS OF SOCIAL HOUSING/REGISTERED SOCIAL LANDLORD - REGISTERED UNDER THE CO- OPERATIVE AND COMMUNITY BENEFIT SOCIETIES ACT 2014

14 June 2018

This helpsheet was last updated in June 2018 and is based on the relevant laws and regulations that apply as at 1 June 2018.

Introduction

This helpsheet is designed to explain the main changes that are needed to the audit report of an English Registered Provider of Social Housing (RP) or a Scottish or Welsh Registered Social Landlord (RSL) registered under the Co-operative and Community Benefit Societies Act 2014 that does not prepare group financial statements, compared to that of a company. It does not seek to explain every difference, just the key areas to consider as a result of the differing legal and regulatory requirements.

The audit requirements for English RPs are set out in the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015, which contain specific details of how the accounting and auditing provisions of the Acts apply to RPs.

The audit requirements for Scottish RSLs are set out in the Co-operative and Community Benefit Societies Act 2014, Part 6 of the Housing (Scotland) Act 2010 and the Determination of Accounting Requirements – December 2014, which contain specific details of how the accounting and auditing provisions of the Acts apply to RSLs.

The audit requirements for Welsh RSLs are set out in the Co-operative and Community Benefit Societies Act 2014, Schedule 1 to the Housing Act 1996 and the Accounting Requirements for Social Landlords General Determination (Wales) 2015, which contain specific details of how the accounting and auditing provisions of the Acts apply to RSLs.

The example wording in this helpsheet has been adapted from the company examples in the [FRC's Compendium of illustrative auditor's reports](#).

For the purposes of this helpsheet it has been presumed that the RP/RSL is not listed, is not a Public Interest Entity as defined by the EU Regulation and is not required nor has chosen voluntarily to report on how it has applied the UK Corporate Governance Code.

Where the RP/RSL is the parent entity of a group, refer to the separate group helpsheets for guidance on how to amend the audit report to deal with the auditor reporting requirements for a group.

The guidance in this helpsheet suggests options for how RP/RSL audit reports can comply with the applicable requirements of the Co-operative and Community Benefit Societies Act 2014, the

Housing and Regeneration Act 2008, Part 6 of the Housing (Scotland) Act 2010, Schedule 1 to the Housing Act 1996, the Accounting Direction for Private Registered Providers of Social Housing 2015, the Determination of Accounting Requirements – December 2014, the Accounting Requirements for Social Landlords General Determination (Wales) 2015 and International Standards on Auditing (UK). However, provided that the audit report complies with the applicable requirements, audit firms may prefer alternative ways of presenting the required information.

Pervasive changes to the audit report

All references to “company” need to be amended to “association”, “society” or other appropriate term. In this helpsheet, where relevant the references have been updated to association.

All references to “directors” need to be amended and the recommended term to use is “Board” as that is the term that is used in the Co-operative and Community Benefit Societies Act 2014.

The references to the “Companies Act 2006” need to be amended to “Co-operative and Community Benefit Societies Act 2014”.

Addressee of the report

The audit report of an RP/RSL is addressed to its members, the same as for a company.

Opinion

The opinion paragraph describes the financial statements, including specifying the titles of the primary statements. However, it is important that the titles of the primary statements precisely match those used by the entity.

The opening paragraph of the “opinion” section needs to reflect whether the financial reporting framework is either UK GAAP (including either FRS 101 or 102) or IFRS.

Although RPs/RSLs in the United Kingdom apply “Housing SORP 2014: Statement of Recommended Practice for Social Housing Providers” (“the SORP”), the SORP is not required to be referred to as part of the financial reporting framework, or in the auditor’s opinion, as it represents an interpretation of the requirements of UK GAAP as applied to RPs/RSLs and is not a separate element of the financial reporting framework.

The actual audit opinion needs to be amended as follows for an English RP:

In our opinion, the financial statements:

- give a true and fair view of the state of the association’s company’s affairs as at [date] and of its income and expenditure (profit/(loss)) for the year then ended;
- have been properly prepared in accordance with [United Kingdom Generally Accepted Accounting Practice / IFRSs as adopted by the European Union]; and
- have been prepared in accordance with the requirements of the Companies Act 2006 Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

The actual audit opinion needs to be amended as follows for a Scottish RSL:

In our opinion, the financial statements:

- give a true and fair view of the state of the association’s company’s affairs as at [date] and of its income and expenditure (profit/(loss)) for the year then ended;
- have been properly prepared in accordance with [United Kingdom Generally Accepted Accounting Practice / IFRSs as adopted by the European Union]; and

- have been prepared in accordance with the requirements of the Companies Act 2006 Co-operative and Community Benefit Societies Act 2014, Part 6 of the Housing (Scotland) Act 2010 and the Determination of Accounting Requirements – December 2014.

The actual audit opinion needs to be amended as follows for a Welsh RSL:

In our opinion, the financial statements:

- give a true and fair view of the state of the association's company's affairs as at [date] and of its income and expenditure ~~(profit/(loss))~~ for the year then ended;
- have been properly prepared in accordance with [United Kingdom Generally Accepted Accounting Practice / IFRSs as adopted by the European Union]; and
- have been prepared in accordance with the requirements of the Companies Act 2006 Co-operative and Community Benefit Societies Act 2014, Schedule 1 to the Housing Act 1996 and the Accounting Requirements for Social Landlords General Determination (Wales) 2015.

Basis for opinion

Where the auditor has taken advantage of an exemption provided in paragraphs 6.11, 6.12 or 6.13 of the FRC's Ethical Standard for the audits of "small entities"¹ in relation to non-audit services or partners/statutory auditors joining the entity, the auditor is required to disclose this in the "basis for opinion" section of the audit report:

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the association company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and the provisions available for small entities, in the circumstances set out in note [X] to the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

No changes apart from the pervasive changes referred to above.

Other information

The "other information" section of the audit report should clearly identify all the information comprising "other information" to make clear that the auditor does not report on other information unless expressly stated elsewhere in the audit report. There are no requirements under the Co-operative and Community Benefit Societies Act to report on any other information, and hence the words "except to the extent otherwise explicitly stated in our report" need to be deleted.

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon². The Board is directors are responsible for the other information.

¹ As defined in the FRC's Ethical Standard, paragraph 6.4.

² A more specific description of the other information may be used, such as:
The other information comprises the Board report.

Our opinion on the financial statements does not cover the other information and ~~except to the extent otherwise explicitly stated in our report~~, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

Delete as not applicable – there are no equivalent matters under the relevant laws and regulations.

Matters on which the auditor is required to report by exception

The matters to report by exception need to be amended as follows:

~~In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.~~

We have nothing to report in respect of the following matters in relation to which the ~~Companies Act 2006~~ the Co-operative and Community Benefit Societies Act 2014 requires us to report to you if, in our opinion:

- a satisfactory system of control over transactions has not been maintained; or
- the association has not kept proper accounting records; or
- ~~adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or~~
- the financial statements are not in agreement with the books of account~~accounting records and returns~~; or
- ~~certain disclosures of directors' remuneration specified by law are not made; or~~
- we have not received all the information and explanations we require for our audit~~; or the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemptions in preparing the directors' report and from the requirement to prepare a strategic report~~.

In addition, for Welsh RSLs the auditor is required to review whether the Board's statement on page [X] reflects the association's compliance with the Housing Association Circular 02/10 ("The Circular") 'Internal Controls and Reporting', and report whether the Board has provided the disclosures required by the Circular and whether the statement is not inconsistent with information of which the auditor is aware from their audit:

With respect to the Board's statement on internal controls, in our opinion the Board has provided the disclosures required by the Circular and the statement is not inconsistent with the information of which we are aware from our audit work on the financial statements.

Responsibilities of the Board

No changes apart from the pervasive changes referred to above.

Auditor's responsibilities for the audit of the financial statements

ISA (UK) 700 includes a detailed description of the responsibilities of the auditor and the wording to use varies depending on whether the entity is listed, reports key audit matters in accordance with ISA (UK) 701 or where there is a group audit.

As for a company, an RP/RSL auditor has three choices in relation to the more detailed description of the auditors' responsibilities:

- to include within the audit report directly;
- to include within an appendix to the audit report; or
- to include a reference to a more detailed description on the FRC's website.

A *Include within the audit report directly*

The only changes needed are to amend the references to "directors" and "company".

An example of how this would look is given in Appendix 2 of the FRC Bulletin – please note that the example in that Appendix is for a group and all references to "group" need to be removed or amended to refer to the RP/RSL. In addition, the last bullet point in that example needs to be deleted as that responsibility only applies to group auditors:

- ...
- ~~Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.~~
- ...

B *Include within an appendix to the audit report*

Where the more detailed description is included in an appendix, the references to "directors" and "company" in that Appendix again need to be amended. The audit report needs to indicate the page number or other specific reference to the location of the more detailed description.

An example of how this would look is given in Appendix 6 of the FRC Bulletin – please note that the example here is for a listed group and all references to "group" need to be removed or amended to refer to the "association". In addition, the following further changes are needed to remove responsibilities that only apply for listed entities or groups:

- ...
- ~~Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the group financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.~~

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

~~We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.~~

~~From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in~~

~~extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.~~

C Include a reference to a more detailed description on the FRC's website

Where the auditor chooses to refer to the description of the auditor's responsibilities on the FRC website, the audit report needs to refer to www.frc.org.uk/auditorsresponsibilities.

An example of how this would look is given in Appendix 1 of the FRC Bulletin.

The website link above does not refer anywhere to "company" and uses the term "entity", which would be equally applicable to RPs/RSLs. It does, however refer to "directors" but it should be clear from the context that, as this is setting out the responsibilities under ISAs (UK), any such references relate to the Board for an RP/RSL.

Use of the audit report

ICAEW guidance within Technical Release 01/03AAF (Revised), The Audit Report and Auditors' Duty of Care to Third Parties, includes clarification language stating that the audit is performed for the benefit of the members, as a body, in accordance with the Companies Act 2006 and case law. This wording is also referred to as "Bannerman" wording.

The wording is equally applicable to audits of RPs/RSLs registered under the Co-operative and Community Benefit Societies Act, although care needs to be taken to ensure that appropriate addressees are referenced as required by relevant law (see 'Addressees of the report' above). In this case the report is still addressed to the members.

The guidance in Technical Release 01/03AAF (Revised) states that this paragraph is suitably placed as the final section of the audit report with a heading "Use of our report".

The typical company wording need to be amended to read as follows:

This report is made solely to the ~~association's company's~~ members as a body, in accordance with ~~Section 87 of the Co-operative and Community Benefit Societies Act 2014 Chapter 3 of Part 16 of the Companies Act 2006~~. Our audit work has been undertaken so that we might state to the ~~association's company's~~ members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the ~~association company~~ and the ~~association's company's~~ members as a body, for our audit work, for this report, or for the opinions we have formed.

It will remain for each firm to decide its own individual approach to the management of audit risk, and whether to include the above wording. However, as the guidance in Technical Release 01/03AAF (Revised) makes clear, while a third party's use of an audit report presents uncertainty for auditors, the best risk management policy is for firms to take the steps that are necessary to carry out quality audits.

Signature on the audit report

In respect of RPs/RSLs that are not registered under the Companies Act 2006, the auditor signs in the name of the audit firm:

ABC LLP
Statutory Auditor
[Address]
[Date]

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