



**PROPOSED
PRACTICE NOTE 14
THE AUDIT OF HOUSING
ASSOCIATIONS IN THE
UNITED KINGDOM**

INVITATION TO COMMENT

NOVEMBER 2020

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Executive Summary and Objectives

- Practice Note (PN) 14 provides sector specific guidance on applying the FRC's auditing standards to an audit of Housing Associations. Housing Associations are private sector bodies who generally provide affordable housing at below-market rate rents and offer homes for purchase through a number of incentivised schemes.
- PN 14 was last revised in 2014 and since then there have been significant changes in the devolved regulatory regimes under which Housing Associations operate. In addition, changes in the operating environment for Housing Associations means that new business risks have arisen and those identified in the previous revision of PN14, while mostly still relevant, have changed in their relative significance.
- These factors, along with a need to update material due to the issuing of revised ISAs (UK), and a need to ensure that FRC guidance remains current and fit for purpose, meant that revisions to PN14 were necessary.
- Our objectives in revising PN14, in addition to editorial and stylistic changes, were:
 - Ensuring that the information provided in relation to the devolved regulatory regimes is current, achieved through direct linkage to the relevant regulator's websites, better facilitating timely future updates.
 - Ensuring that the business risks identified are current, reflective of the risks faced by Housing Associations and includes new risks that have arisen since the last revision to PN14 in 2014.
 - Developing the sections on individuals ISAs (UK) to aid auditors in identifying and responding to business risks, highlighting additional areas where the nature of the Housing Association business model means more attention may be required by the auditor.
 - Removing any general guidance which does not relate specifically to Housing Associations in order to improve the clarity and usability of PN14. This is an overall objective when revising the FRC's practice notes and is not isolated to revisions of PN14.
- Our revisions have been made with the aim of meeting these objectives, ensuring that up to date and relevant guidance is available for auditors of Housing Associations.

Invitation to comment

- The FRC is requesting comments on this consultation by 5pm on Friday 29th January 2021. Comments are invited in writing on all aspects of the consultation, particularly in relation to questions 1-3 as detailed below. Comments on the Consultation Paper should be sent to:

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Introduction

- The Financial Reporting Council (FRC) is committed to acting as a proportionate and principles-based regulator, and balances the need to minimise the impact of regulatory requirements on business, while working to support the delivery of high-quality audit and assurance work, to maintain investor and wider stakeholder confidence in audit and assurance.
- The FRC issues practice notes to provide auditors with guidance in specific sectors where there are special considerations unique to entities operating within that sector, for example where there is significant regulation of an entities activities. Practice notes in issue include, in addition to PN14, *PN11 – The audit of charities in the United Kingdom*, *PN15 – The audit of occupational pension schemes in the United Kingdom* and *PN19 – The audit of banks and building societies in the United Kingdom*.
- Practice Note (PN) 14 provides sector specific guidance on applying the FRC's auditing standards to the audit of Housing Associations. Housing Associations are private sector bodies who generally provide affordable housing at below-market rate rents & offer individuals who might otherwise struggle to purchase their homes, an opportunity to do so.
- The market is a large one, with over 3 million homes provided by Housing Associations across the UK. Increasingly Housing Associations are seeking finance through the issuance of bonds, an activity that brings some under the Public Interest Entity (PIE) definition.
- Housing Associations provide large numbers of, sometimes vulnerable, individuals and families with homes and any financial difficulty within, or even failure of, a Housing Association could have a significant detrimental impact. High quality audits, which a revised PN14 assists in achieving, aid in providing assurance on entities on which large numbers of people rely for their housing, a matter of clear public interest. Housing Association financing also includes direct investment from pension funds, the safety of whose investments are clearly of wider public interest.
- PN 14 was last revised in 2014 and since then there have been significant changes in the devolved regulatory regimes under which Housing Associations operate. In addition, changes in the operating environment for Housing Associations means that new business risks have arisen and those identified in the previous revision of PN14, while mostly still relevant, have changed in their relative significance.
- Our revisions have been made to help facilitate high quality audit and have been made with advice and assistance from staff of:
 - **The Housing Regulation Branch (Department for Communities)** – Northern Ireland
 - **The Regulator of Social Housing** – England
 - **The Welsh Government's Housing Division** – Wales
 - **The Scottish Housing Regulator** - Scotland
- In addition, the FRC's working party for revising PN14 included auditors with specialism in Housing Associations, members of Housing Associations boards and FRC staff from the Audit Quality Review (AQR) team, enabling us to draw on a wide range of experience and expertise in revising this practice note.

Summary of Key Revisions

- In addition to editorial changes and the updating of links and references, the following key revisions to PN14 have been made in meeting the objectives outlined above:

Key Revision	PN14 Paragraph Reference	Explanation
Revision of sections relating to the devolved regulatory regimes	Paragraphs 23 - 42	<p>Since the last revision of PN14 in 2014 there have been significant changes in the devolved regulatory regimes, which the revised PN14 provides an introduction to.</p> <p>Changes in the relevant regulations are reasonably frequent, meaning that detailed descriptions in a practice note age quickly and risk incorrect information being used by auditors.</p> <p>As such, to aid in usability and to ensure that the information available is current, we have taken an approach of including a brief introduction to each of the devolved regulatory regimes, and linked to further detail on the regulator's websites, which is updated for changes much more frequently than a practice note.</p> <p>This significantly improves usability and clarity and ensures that auditors are able to access up to date regulatory information.</p>
Updating of key business risks	Paragraphs 45 - 78	<p>The key business risks in the current PN14 are largely still valid but their relative significance has changed. We have amended the risks, combining them where they relate to similar issues and have included new material relating to housing stock value, leasing and the impact of health, safety and fire regulations.</p> <p>We have also updated the relevant facts and figures to provide an up to date picture of the Housing Association market.</p>
Updating of ISA (UK) specific guidance with new sections on ISA (UK) 570 and ISA (UK) 720	Paragraphs 82-175	<p>We have clarified our guidance to auditors in applying the ISAs (UK) to the audit of housing associations, updating to reflect changes made to ISAs (UK) since 2014.</p> <p>The following sections have been most substantially revised:</p> <p>ISA (UK) 250 Section A Consideration of Laws and Regulations in an Audit of Financial Statements – Given the significant changes in regulation, we have updated material on the relevant laws and regulations likely to be applicable to Housing Associations and</p>

		<p>included guidance on where additional detail may be found.</p> <p>ISA (UK) 402 Audit Considerations Relating to an Entity Using a Service Organisation – We have included new material on the use of service organisations given Housing Associations often make significant use of them, including for the provision of repair services, which we believe will aid auditors in ensuring they give appropriate consideration to the use of service organisations.</p> <p>ISA (UK) 570 Going Concern – Given the substantial revisions to ISA (UK) 570 in September 2019, we have significantly revised this section, including additional material on how the business risks identified may indicate events or conditions exist which cast doubt on the entities ability to continue as a going concern.</p> <p>ISA (UK) 720 Auditor’s responsibilities relating to other information – We have included new material relating to ISA (UK) 720. Housing Associations may be incorporated under a number of different pieces of legislation, depending on their legal form, each of which may have different requirements regarding the other information which must be prepared.</p> <p>This revised section highlights the key types of other information an auditor might encounter in auditing a Housing Association and links to other practice notes and FRC guidance where relevant to clarify the auditor’s responsibilities in relation to this.</p>
<p>Removal of general guidance not specifically related to the audit of Housing Associations</p>	<p>Various</p>	<p>In addition to the above revisions, we have removed guidance which is general in nature and does not pertain specifically to Housing Associations</p> <p>This is to ensure that PN14 is focused and clear on the additional consideration which are relevant to the audit of Housing Associations and does not contain significant amounts of material which are available elsewhere in FRC publications.</p>

Questions

Q1: Do you agree with the approach taken to providing information on the devolved regulatory regimes, linking to the regulators websites to allow for more frequent updates, is reasonable?

Q2: Do you agree with the revised and updated business risks? Do you believe there are any additional risks that the FRC should consider?

Q3: Do you agree that the revised and updated guidance relating to the ISAs (UK), particularly the new material relating to ISA's (UK) 402, 570 and 720, supports auditors in applying the ISAs (UK) to the audit of Housing Associations?

Impact Assessment

- Practice notes provide additional guidance on applying the ISAs (UK) to the special considerations that arise in certain sectors and do not create additional requirements or obligations for auditors.
- We believe that the proposed revisions to PN14 are proportionate and reflect the key risks that auditors may wish to consider when engaged to audit a Housing Association. We do not believe that the revised guidance included in PN14 will increase auditors work effort, it provides clear guidance in applying the ISAs (UK) to the audit of a Housing Association.

Financial Reporting Council

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