CHARTERED ACCOUNTANTS, TAX & BUSINESS ADVISERS

Lamont Pridmore

HOUSING ASSOCIATION – AUDIT

The purpose of this schedule and the Standard Terms of Business is to set out the basis on which we are to act as auditors and to clarify our respective responsibilities in respect of the audit of the Housing Association (HA).

Auditing Standards require us to appoint an engagement partner who shall take overall responsibility for the planning and conduct of the audit, and for the report that is issued on behalf of the firm. We have assessed the professional requirements of this assignment and have nominated the person listed as the engagement partner.

1 Your responsibilities as a board

1.1 Our audit will be conducted on the basis that you acknowledge and understand that you have responsibility:

(a) to prepare financial statements for each financial year that give a true and fair view of the HA's state of affairs and of its surplus or deficit for the period;

(b) in preparing those financial statements to:

(i) select suitable accounting policies and then apply them consistently;

(ii) make judgments and accounting estimates that are reasonable and prudent;

(iii) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

(iv) prepare the financial statements on the going concern basis, considering in particular the HA's ability to continue in business for at least twelve months from the date when the financial statements are expected to be approved, unless it is inappropriate to presume that the HA will continue in business;

(c) for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the HA and to enable it to ensure that the financial statements comply with the *Co-operative and Community Benefit Societies Act* 2014 (CCBSA 2014), registered social housing legislation and applicable accounting standards. You are also responsible for such internal control as you determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error; and

(d) for safeguarding the assets of the HA and hence for taking reasonable steps to ensure the HA's activities are conducted honestly and for the prevention and detection of fraud and other irregularities.

1.2 As board members, you are required to have regard to the *Housing SORP 2018: Statement of Recommended Practice for registered social landlords*. HAs' financial statements and accounting practices are expected to comply fully, where appropriate, with the SORP. In England, the Regulator of Social Housing (RSH) also requires board members to have regard to the latest *Accounting Direction for Private Registered Providers of Social Housing*.

1.3 You have agreed to provide us with:

(a) access to all information of which you are aware that is relevant to the preparation of the financial statements such as HA's books of account and all other relevant records and documentation, including minutes of all management and members' meetings and other matters;

(b) additional information that we may request from you for the purpose of the audit, including access to information relevant to disclosures;

(c) unrestricted access to persons within the HA from whom we determine it necessary to obtain audit evidence; and

(d) additional information that may include when applicable, matters related to other information in accordance with ISA (UK) 720. If such information is not expected until after the date of the auditor's report, you should note that we still have a responsibility to take appropriate action if we consider a material misstatement exists in this other information.

1.4 Where the HA is the parent of a group and we are the group engagement auditors, you acknowledge and understand your responsibility to provide us with:

(a) access to all information of which group management is aware that is relevant to the preparation of the group financial statements such as records, documentation and other matters;

(b) additional information that we may request from group management or component management for the purpose of the group audit; and

(c) unrestricted access to persons within the group from whom we determine it necessary to obtain audit evidence.

1.5 Where audited information is published on the HA's website or by other electronic means, it is your responsibility to advise us of any intended electronic publication before it occurs and to ensure that any such publication properly presents the financial information and auditor's report. We reserve the right to withhold consent to the electronic publication of our report if it or the financial statements are to be published in an inappropriate manner.

1.6 It is your responsibility to ensure there are controls in place to prevent or detect quickly any changes to that information. We are neither required to review such controls or to carry out ongoing reviews of the information after it is first published. The maintenance and integrity of the HA's website is your responsibility and we accept no responsibility for changes made to audited information after it is first posted.

Scope of audit

1.7 We expect that you will inform us of any material event occurring between the date of our report and that of the annual general meeting which may affect the financial statements. We are also entitled to attend all general meetings of the HA, and to receive notice of all such meetings.

2 Our responsibilities as auditors

2.1 Our duty as auditors under the CCBSA 2014 and registered social housing legislation is to examine and report on the annual financial statements of the HA.

2.2 Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (ISAs) (UK and Ireland) as to whether:

- the financial statements of the HA give a true and fair view of the state of the HA's affairs as at the year end, and of its surplus or deficit for the year then ended;
- the financial statements have been properly prepared in accordance with CCBSA 2014, applicable accounting standards, the SORP and, in England, the *Accounting Direction for private Registered providers of Social Housing;*
- the financial statements have been appropriately prepared on the going concern basis; and
- the financial statements have disclosed any identified material uncertainties that may cast significant doubt on the HA's ability to continue to adopt the going concern basis for at least the next twelve months from the date they are approved.

In arriving at our opinion we are required by law to consider the following matters, and to report on any in respect of which we are not satisfied:

- whether proper accounting records have been kept by the HA and proper returns adequate for our audit have been received from branches not visited by us; or
- whether a satisfactory system of control has been established and maintained over the HA's books of account, cash holdings and all its receipts and remittances; or
- whether the HA's balance sheet and income and expenditure account are in agreement with the accounting records and returns; or
- whether we have obtained all the information and explanations which we consider necessary for the purpose of our audit; or
- whether the information in the board's report is consistent with that in the audited financial statements; or
- whether the requirements concerning the disclosure of directors' benefits, remuneration, pensions and compensation for loss of office are complied with.

In arriving at that opinion those standards require us to comply with ethical requirements.

2.3 It is not sufficient for us as auditors to conclude that the financial statements give a true and fair view solely on the basis that the financial statements were prepared in accordance with accounting standards and any other applicable legal requirements. We are therefore required to consider whether additional disclosure will be necessary in the financial statements when compliance with an accounting standard is insufficient to give a true and fair view. If you are unwilling to make such additional disclosures, we will have to consider the effect on our report.

2.4 Our report will be made solely to the HA's members, as a body, in accordance with CCBSA 2014, s. 87. Our audit work will be undertaken so that we might state to the HA'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 will not accept or assume responsibility to anyone other than the HA and the HA's members as a body, for our audit work, for the audit report, or for the opinions we form. The audit of the financial statements does not relieve you of your responsibilities.

2.5 There are certain other matters which, according to the circumstances, may need to be dealt with in our report. For example, although only auditors of listed companies are required to include key audit matters in their report, there may be rare occasions when we believe it necessary to communicate key audit matters in our report.

2.6 In England, under sections 107 and 108 of the *Housing and Regeneration Act* 2008 we may be required to provide documents to the RSH. In addition, under section 143 of the same Act we may disclose information to the RSH for a purpose connected with the RSH's function, despite any duty of confidentiality and whether or not the RSH requests the information.

2.7 In addition, we have a professional duty to report if the financial statements do not comply in any material respect with applicable accounting standards, unless in our opinion the non-compliance is justified in the circumstances. In determining whether the departure is justified we will consider:

(a) whether the departure is required in order for the financial statements to give a true and fair view; and

(b) whether adequate disclosure has been made concerning the departure.

2.8 Our professional duties also:

(a) include in our report a description of the board's responsibility for the financial statements, where the financial statements or accompanying information do not include such description; and

(b) consider whether other information and documents contained in the financial statements are consistent with the audited financial statements and our knowledge acquired during the course of the audit.

2.9 Where the HA is a subsidiary of a group, the audited financial statements of this HA are included in the group financial statements of the parent. We are required by auditing standards to cooperate with the auditors of the parent and to provide them with representations and confirmations concerning the conduct of the audit of this HA. You agree that we may correspond with the auditors of the parent and respond to their reasonable requests for explanations and information (which may include granting them access to our working papers and the transfer of relevant documentation for the use of the group auditor) concerning the preparation and audit of the group financial statements without further authority from you. Our communications with the group auditor will be unrestricted to the extent possible under laws and regulations. Our communications with the group auditor may include:

(a) the sharing of important communications between us as component auditor, and you as component management, or those charged with governance, including communications on deficiencies in internal control; and

(b) communications between regulatory authorities and entities or business units related to financial reporting matters that may be relevant to the group audit.

The group auditor may request that we perform additional work on the HA for the purposes of the group audit. This work may extend beyond the work that we would reasonably undertake as part of our statutory audit work on the HA.

2.10 Where the HA is the parent of a group and all components are audited by the same firm, the audited financial statements of this HA are the group financial statements.

As the group engagement auditors, we are required by auditing standards to coordinate the audit work on all components. Therefore, whilst as auditors of each component the firm already has access to the management and those charged with governance of those components concerning their individual audited financial statements, you agree that we may also correspond with the management, or those charged with governance, as appropriate, of the components and request reasonable explanations and information concerning the preparation and audit of the group financial statements without further authority from you.

2.11 Where the HA is the parent of a group and not all component auditors are from the same firm, the audited financial statements of this HA are the group financial statements.

As the group engagement auditors, we are required by auditing standards to coordinate the work of the auditors of the components and to provide them with guidance concerning the conduct of the audit of the group. You agree that we may correspond with the management, or those charged with governance, as appropriate, of the components, and their auditors, and request reasonable explanations and information (which may include access to the component auditor’s working papers and the transfer of relevant documentation from the component auditor) concerning the preparation and audit of the group financial statements without further authority from you. Our communications with the component auditors will be unrestricted to the extent possible under laws or regulations. Component auditors are required to share the following communications with us:

(a) important communications between the component auditor and those charged with governance or management of the component, including communications on significant deficiencies in internal control; and

(b) communications between regulatory authorities and entities or business units related to financial reporting matters that may be relevant to the group audit.

As the group engagement auditors, we are also permitted to perform work, or request a component auditor to perform work, at the component for the purposes of the group audit.

2.12 We will inform you of all significant facts that may bear upon our integrity, objectivity and independence.

Scope of audit

2.13 Our audit will be conducted in accordance with applicable law and the ISAs (UK) issued by the Financial Reporting Council (FRC), in particular with regard to the FRC's Practice Note 14 *The Audit of Housing Associations in the United Kingdom (January 2014).* An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. We will evaluate whether the information presented in the financial statements is relevant, reliable, comparable and understandable as well as providing adequate disclosures and appropriate terminology. This includes an assessment of:

- whether the accounting policies are appropriate to the HA's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the board;
- Whether there is adequate disclosure of the applicable financial reporting framework; and
- the overall presentation of the financial statements.

2.14 In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

2.15 Because of the test nature and other inherent limitations of an audit, together with the inherent limitations of any accounting and internal control system, there is an unavoidable risk that even some material misstatements may remain undiscovered even though the audit is properly planned and performed in accordance with ISAs (UK).

2.16 We will obtain an understanding of the accounting and internal control systems in order to assess their adequacy as a basis for the preparation of the financial statements and to establish whether the HA has maintained proper accounting records. We will need to obtain relevant and reliable evidence sufficient to enable us to draw reasonable conclusions therefrom.

2.17 The nature and extent of our tests will vary according to our assessment of the HA's accounting and internal control systems, and may cover any aspects of the business's operations. We shall report to you any significant deficiencies in, or observations on, the HA's systems that come to our attention of which we believe you should be made aware. Any such report may not be provided to third parties (other than the RSH, or other equivalent UK social housing regulator as appropriate) without our prior written consent. Such consent will only be granted on the basis that such reports are not prepared for the interests of anyone other than the HA in mind and that we neither have nor accept any responsibility to any other party as concerns the reports.

2.18 In performing our audit procedures, we may make use of analytical tools. To facilitate this, we may request that you extract data, provide back-ups or provide alternative access to your accounting systems. How we will use analytical tools and any data provided will be set out in the communication of our planned approach.

2.19 As noted in section 1, the responsibility for safeguarding the assets of the HA and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with the management. However, we will plan our audit so that we have a reasonable expectation of detecting material misstatements in the financial statements resulting from irregularities, fraud or non-compliance with law or regulations, but our examination should not be relied upon to disclose all such material misstatements, frauds, errors or instances of non-compliance as might exist.

2.20 As part of our normal audit procedures, we will request you to provide formal representations concerning certain information and explanations we have received from you during the course of our audit. In particular, where we bring misstatements in the financial statements to your attention which are not adjusted, we shall require written representation of your reasons.

2.21 To enable us to conduct a review of your financial statements, which constitutes part of our audit, we will request sight of any documents or statements which will be issued with the financial statements.

2.22 Once we have issued our report we have no further direct responsibility in relation to the audit for that financial year. However, as noted in section 1, we expect that you will inform us of any material event occurring between the date of our report and that of the annual general meeting which may affect the financial statements.

2.23 Where applicable, HMRC do not require the auditor to provide assurance on the XBRL tagging of the financial statements submitted to it with the Company Tax Return. In addition, the ISAs (UK) do not require the auditor to confirm the accuracy of the tagging as part of the audit. Accordingly, our audit does not cover the accuracy of the XBRL tagging in the financial statements, and we accept no responsibility for any inaccuracies identified by HMRC.

2.24 A fuller description of the scope of an audit of financial statements arising from the requirements of ISAs (UK), together with other legal and regulatory requirements, is provided on the Financial Reporting Council's website at *www.frc.org.uk/auditorsresponsibilities.*

Communication

2.25 In order to ensure that there is effective two-way communication between us we set out below the expected form and timing of such communications.

- We shall contact your primary contact listed by telephone prior to each year-end for preliminary discussions concerning the audit. We will confirm in writing the matters discussed and any agreed action.
- We will arrange a meeting to discuss the forthcoming audit prior to the expected start date. Again we will confirm in writing the matters discussed and any agreed action.
- We will arrange a meeting to discuss any matters arising from the audit after completion of the detailed work. Again we will confirm in writing the matters discussed and any agreed action.

2.26 The formal communications set out above are the minimum required to comply with auditing standards. We shall of course contact you on a more frequent and regular basis regarding both audit and other matters.

2.27 We shall not be treated as having notice, for the purposes of our audit responsibilities, of information provided to members of our firm (principals and staff) other than those engaged on the audit, for example information provided in connection with accounting, taxation and other services.