



Scottish Housing
Regulator

Preparation of Financial Statements

December 2014

Regulatory Guidance

About Us

We are the independent regulator of social landlords in Scotland. We regulate around 180 registered social landlords (RSLs) and the housing activities of Scotland's 32 local authorities.

Our statutory objective is to safeguard and promote the interests of current and future tenants, homeless people and others who use services provided by social landlords.

We were established by the Housing (Scotland) Act 2010 and are accountable directly to the Scottish Parliament. Our Regulatory Framework explains how we regulate social landlords. You can download our Regulatory Framework and find out more about us on our website at www.scottishhousingregulator.gov.uk.

Summary

The purpose of this guidance note is to clarify the reporting requirements that registered social landlords (RSLs) need to comply with when they prepare their financial statements.

The guidance note comes into effect immediately.

If you have any questions about this guidance, please send them to:

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1. Introduction

- 1.1 The Scottish Housing Regulator uses RSLs' financial statements to review and analyse performance therefore consistent financial reporting within the social housing sector is essential.
- 1.2 You should read this guidance note in conjunction with our notifiable events guidance which gives details of financial notifiable events. When preparing their financial statements, RSLs should take opportunity to consider whether there have been any notifiable events during the period under review and to report any matters to us that have not already been drawn to our attention.
- 1.3 The governing body of an RSL is responsible for preparing financial statements. In preparing financial statements, RSLs must be aware of changes in applicable accounting standards issued by the Financial Reporting Council along with any Abstracts issued by the Financial Reporting Council and formerly the Urgent Issues Task Force and adjust their financial reporting accordingly.
- 1.4 If RSLs are in any doubt about financial reporting requirements, they must consult their auditor.

2. Accounting Determination 2014

- 2.1 The Accounting Determination in terms of Section 68(1) Housing Act 2010 comes into force on 1 January 2015 and applies to all RSLs registered under statute with accounting periods starting on or after 1 January 2015.
- 2.2 All organisations registered with the Scottish Housing Regulator should prepare financial statements in accordance with the 2014 Determination for accounting periods that commence on or after 1 January 2015 and the Notes to the Financial Statements should include confirmation that they comply with the Determination.

3. Accounting Determination 2012

- 3.1 The Accounting Determination in terms of Section 68(1) Housing Act 2010 came into force on 1 April 2012 and applies to all RSLs registered under statute with accounting periods starting on or after 1 April 2012, and starting on or before 31 December 2014.
- 3.2 All organisations registered with the Scottish Housing Regulator should prepare financial statements in accordance with the 2012 Determination where their accounting period commenced prior to 1 January 2015. The Notes to the Financial Statements should include confirmation that they comply with the Determination.

4. Statement of Recommended Practice (SORP 2014)

- 4.1 The Statement of Recommended Practice for Registered Social Landlords ("SORP 2014") interprets UK Generally Accepted Accounting Practice (UK GAAP) for registered social housing providers and incorporates changes that have occurred to Financial Reporting Standards and to other accounting practices since the last SORP update in 2010. It should be applied to accounting periods beginning on or after 1 January 2015. RSLs should discuss its implications with their auditors in deciding how to prepare their financial statements.
- 4.2 All RSLs except co-ownership societies must prepare financial statements in accordance with the 2014 SORP. There are no exemptions on the basis of size of organisation. For

RSLs with charitable status, the 2014 SORP takes precedence over the Charities' SORP.

- 4.3 Notes to the Financial Statements must include confirmation that the statements comply with SORP 2014. The Notes should also cover any material departures from applicable accounting standards and the reasons for any such departure.

5. Statutory Instrument 2009 No. 2331 European Communities – The Financial Transparency (EC Directive) Regulations 2009

- 5.1 The purpose of the Directive is to enable the European Commission to ensure that public money being granted to public undertakings is being used to pay for providing public services and that there is no cross-subsidy of commercial activities, which may be illegal under European State Aid law.
- 5.2 The Directive, as at the date of enforcement, only applies to any RSL with an annual turnover €40 million or over. Annual turnover includes turnover from all activities, as well as publicly funded activities. Information within the Directive indicates that two sets of financial accounts are required; one for the public authority task and one for the Trading activity.
- 5.3 The Transparency Directive Regulations ('the Directive') requires bodies (including not-for-profit ones) which are engaged in commercial activities and which receive public funding to provide a Service of General Economic Interest (SGEI), to ensure that their financial statements are sufficiently separate to distinguish between the publicly supported activities of the body and the purely commercial activities it undertakes which are unrelated to the SGEI. The Directive came into force on 22 September 2009.
- 5.4 The governing body of an RSL is responsible for reviewing the current scope of the Directive. If RSLs are in any doubt about whether they must comply with this Directive, they must consult their auditor.

6. Going Concern

- 6.1 As part of their audit, an RSL's auditors will test going concern, and will report any issues in the RSL's audited financial statements. However, the RSL's governing body is still responsible for determining whether it is appropriate to adopt the going concern basis for preparing the financial statements.
- 6.2 In preparing the financial statements the RSL should make clear disclosures and document a thorough assessment of whether the RSL is a going concern. It also remains the responsibility of an RSL to notify us at an early stage if there are going concern issues within the organisation as detailed in our notifiable events guidance.

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