



THE SCOTTISH
HOUSING
REGULATOR

GUIDANCE NOTE

To: All Registered Social Landlords (RSLs)

Subject: Annual Accounts, Preparation of Financial Statements

Issued by: The Scottish Housing Regulator

Ref no: SHR 28

Date: 13 April 2010 (**updated 9 June 2011**)

Summary

The purpose of this guidance note is to clarify the reporting requirements that Registered Social Landlords need to comply with when preparing their financial statements. It comes into effect from the date of publication.

This guidance note supersedes the following guidance previously issued:

- The requirement to submit 'Appendix 2' – Analysis of Operating Costs' contained within SHR 13 – 'Assessing the Financial Viability of RSLs' is now superseded by the requirement to comply with The Registered Social Landlords Accounting Requirements (Scotland) Order 2007.
- SHR 06 – 'Annual Accounts, Preparation of Financial Statements'.

If you have any questions about this guidance, you should direct 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 This guidance note should be read in conjunction with SHR 25 – 'Notifiable Events'. Section 3.3 of SHR 25 provides details of financial notifiable events. RSLs should take the preparation of the financial statements as an 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 It is the responsibility of the governing body of an RSL to prepare financial statements. In preparing financial statements, RSLs must be aware of changes in applicable accounting standards issued by the Accounting Standards Board and pronouncements issued by the Urgent Issues Task Force (part of the Accounting Standards Board) 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 ORDER 2007

2.1 The "Registered Social Landlords Accounting Requirements (Scotland) Order 2007 (SSI 2007/165)" came into force on 1 April 2007 and applies to all RSLs registered under statute with accounting periods starting on or after 1 April 2007.

2.2 All organisations registered with the Scottish Housing Regulator should prepare financial statements in accordance with the 2007 Order. Compliance should be confirmed in the Notes to the Accounts.

3. STATEMENT OF RECOMMENDED PRACTICE (SORP 2008)

3.1 A Statement of Recommended Practice for Registered Social Landlords ("SORP 2008") sets out how RSLs should apply generally accepted accounting practice (UK GAAP) in preparing their financial statements.

3.2 With the exception of co-ownership societies, all RSLs must prepare financial statements in accordance with the 2008 SORP. There are no exemptions on the basis of size of organisation. For RSLs with charitable status the 2008 SORP takes precedence over the Charities SORP.

3.3 Compliance with SORP 2008 must be confirmed in the Notes to the Accounts, and any material departures from applicable accounting standards should be disclosed, together with the reasons for any such departure.

4. STATEMENT OF RECOMMENDED PRACTICE (SORP 2010)

4.1 A Statement of Recommended Practice for Registered Social Landlords (“SORP 2010”) interprets UK Generally Accepted Accounting Practice (UK GAAP) for registered social housing providers, incorporating changes that have occurred to Financial Reporting Standards and other accounting practice since the last SORP update in 2008. It should be applied to accounting periods beginning on or after 1 April 2011 but earlier adoption has been encouraged by the Working Group. RSLs should discuss its implications with their auditors in deciding how to prepare their financial statements.

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 annual turnover equal to or in excess of €40 million. 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) engaged in commercial activities and in receipt of public funding for the provision of a Service of General Economic Interest (SGEI) to ensure that their financial statements are sufficiently separate to distinguish between the publicly supported activities and the purely commercial activities pursued by the undertaking which are unrelated to the SGEI. The Directive came into force on 22 September 2009.

5.4 It is the responsibility of the governing body of an RSL to review the current scope of the Directive. If RSLs are in any doubt about whether they are required to comply with the above Directive, they must consult their auditor.

6. GOING CONCERN

5.1 Auditors of a RSL will be performing tests during the course of their audit relating to going concern and reporting any issues in the RSL’s audited financial statements. However, it remains the responsibility of a RSL’s governing body to determine whether it is appropriate to adopt the going concern basis for preparing the financial statements.

5.2 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 SHR 25 – ‘Notifiable Events’.