

Social rent, professional management

Public management letter for housing associations

June 2017

NBA

Royal Netherlands
Institute of Chartered
Accountants



NBA

The NBA's membership comprises a broad, diverse occupational group of over 21,000 professionals working in public accountancy practice, at government agencies, as internal accountants or in organisational management. Integrity, objectivity, professional competence and due care, confidentiality and professional behaviour are fundamental principles for every accountant. The NBA assists accountants to fulfil their crucial role in society, now and in the future.

To directors, supervisory bodies and other stakeholders in the sector

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Dear Sir/Madam,

The playing field for housing associations (hereinafter referred to as: associations) has changed considerably since the Housing Associations Parliamentary Survey and modifications to the Housing Act in 2015. The main change involves the mandatory separation of core tasks and commercial activities. In addition, the policy of associations is increasingly being determined at local level via annual performance agreements with municipalities and tenant organisations. Finally, there is more and more competition from outside the sector.

This new reality means associations have to revise their strategies and realise a shift in their thinking and behaviour. This is the main message in the 'Social rent, professional management' public management letter (PML). The letter has identified five signals:

1. Strategy fully in redevelopment
2. Risk management still work in progress
3. A pile up of accountability and control
4. Data just as important as bricks
5. Management reporting is being underutilized

Social commitment, professional real estate management, optimisation of cash flows and partnerships with other stakeholders are becoming crucial. Risk management is an important management tool for associations. Associations must pay attention to social risks and the quality of their information. Accountability and audit related requirements have increased in recent years; streamlining and focus on the future could help in this regard. Data management and data processing are progressively becoming an integral part of operations, while risks associated with cybercrime are on the increase. All these developments require transparent management reporting and an appropriate role for accountants.

These signals are based on the knowledge of our members who work in the housing association sector. Various stakeholders, including the Ministry of the Interior and Kingdom Relations (BZK), the Housing Associations Authority (Aw), the Social Housing Guarantee Fund (WSW), the Association for Supervisory Bodies in Housing Associations (VTW) and Aedes, have shared their opinions with us. We greatly appreciate their contributions.

Yours faithfully,

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Social rent, professional management



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A new reality

Associations (officially: permitted institutions) are private legal entities that have been assigned a public task. They must make sure that people with low incomes have access to affordable housing of good quality. A total of 351¹ associations are currently active, and manage approximately 2.4² million social rental homes (rental units). This represents approximately 31 percent of the whole housing stock in the Netherlands (7.7 million homes)³. According to the sector balance sheet 2015, the market value of real estate in the sector amounted to 243 billion euros. Associations must take into account income-related restrictions when awarding houses⁴: at least 80 percent must be let to people with an income up to € 36,000 and at least 90 percent to people with an income up to € 40,000. Associations are free to allocate the remaining 10 percent, as long as they give priority to tenants who have difficulties finding suitable housing due to a disability. There are major differences in the size and number of houses possessed by each housing association: 63 percent of associations do not possess more than 5,000 homes, while only 5 associations in the Netherlands possess more than 50,000 homes.

Separation of activities

The findings of the Housing Associations Parliamentary Survey,⁵ and the resulting changes to the Housing Act in 2015, have drastically altered the playing field for associations. An important change in the Housing Act involves the mandatory distinction between services of general economic interest (DAEB) and commercial services (non-DAEB). In accordance with their public task, associations must primarily focus on their DAEB activities. These core tasks include:

- constructing and letting social rental homes;
- constructing and letting social real estate in their area of work;
- contributing to liveability in areas where they possess homes.

The following are regarded as commercial, non-DAEB activities:

- constructing and letting homes in the liberal or open sector;
- constructing and letting industrial real estate;
- constructing owner-occupied homes.

This separation of activities can be either administrative or legal in nature. If the former, associations can continue performing their tasks, but with separate record-keeping. If the latter, non-DAEB activities can be incorporated into a separate legal entity. Final plans for this separation must have been submitted to the Housing Associations Authority (Aw) before 1 July 2017. Very small associations are subject to a less stringent framework, with limited administrative separation.

Complicated environment

Associations find themselves in a complex environment with different types of stakeholders, each with their own interests: governments, external supervisory bodies, municipalities, healthcare institutions, tenants and financiers. The Ministry of the Interior and Kingdom Relations (BZK) has assumed the role of regulating body. As part of the Habitat and Transport Inspectorate (ILT), Aw is responsible for public supervision. Aw monitors the financial positions of individual associations and of the sector as a whole. In concrete terms, it focuses on governance, protection of company assets, compliance and integrity⁶. This is done using an integral risk-oriented supervision process, as well as specific individual supervision initiatives. The Aw sends

1 The latest state of affairs according to Aedes, April 2017

2 Sectorbeeld 2016 (= status 2015). Aw, 30 November 2016

3 CBS Statline status January 2017, 24 February 2017

4 Also see <http://www.woningwet2015.nl/kennisbank>

5 Hoofdrapport commissie: Tweede Kamer, Vergaderjaar 2014-2015 stuk 33606 nr 4

6 Resultaten individuele integrale beoordeling woningcorporaties 2016.

The Hague, February 2017

supervision reports to all associations every year, and also publishes an insight into the sector. The Social Housing Guarantee Fund (WSW) evaluates the credit worthiness of associations. It makes sure that associations are able to access the capital market for their DAEB activities, while getting the best financing rates. The WSW serves as a guarantor for interest and repayment obligations in the loans it approves. Just like the Aw, the WSW plays a role when evaluating plans to separate DAEB and non-DAEB activities⁷.

The CorpoData department, which falls under the authority of the Aw, serves as an information distribution hub for the Aw, WSW and BZK. Besides their annual documents, associations must also submit dVi (extra accountability information) and dPi (forecast-related information) to CorpoData. The Accountantsprotocol Regeling toegelaten instellingen volkshuisvesting (Accountants protocol Ordinance for permitted public housing institutions) identifies the role set aside for public accountants. Besides auditing financial statements, they must also verify dVi data in terms of statistical reporting and compliance with specific laws and regulations.

Other organisations that operate in the playing field of associations include Aedes, the Dutch Housing Association (Nederlandse Woonbond), the Association of Supervisory Bodies in Housing Associations (VTW), the Review Foundation for Dutch Housing Associations (SVWN) and the Association of Dutch Municipalities (VNG). Aedes is the main sector representative for associations, and can count 296 of the 351 associations among its membership. The Dutch Housing Association defends the interests of tenants and residents' organisations within and outside the housing association sector. The VTW has approximately 1,400 members, who serve on the supervisory board at over 300 associations. The SVWN oversees the mandatory four-yearly reviews carried out at associations. The VNG has come into the picture because associations must make annual performance-related arrangements with municipalities (and tenant organisations) when it comes to providing housing. In this case, the indicative spending capacity (IBW) per association is an important source of information. The IBW⁸ is an indicator for the loaning capacity of an association and estimates the maximum financial capacity for new-builds, renovations and rental price reductions. Priorities identified by the national government in annual performance arrangements include affordability and availability, energy efficiency, urgent target groups and home care. Within the social domain (Wmo and Youth Law), associations are having to deal with healthcare institutions due to the mandatory separation of housing and care-related activities.

The Dutch Authority for the Financial Markets (AFM) has been given a more explicit role since the cabinet proposal to classifying associations as Public Interest Entities (OOB) as of 2018. This will have organisational and financial consequences for associations as well as public accountants. According to the proposal, the threshold for OOB status is 1,500 rental units.

Important themes

Due to stricter legislation and the economic crisis, associations have mainly spent the past three years reorganising, implementing cut-backs and re-considering planned investments. And their finances have been placed under even greater pressure because of rental policy, the landlord levy, mandatory restriction of activities and duty to pay corporation tax. During these years, associations have placed a lot of attention on compliance: complying with all new requirements and regulations. This has led to an increase in administrative workload, which was further compounded in 2016 when real estate had to be officially valued in its rented condition.

Associations must now adopt a more outward-looking vision, and offer the best possible service to their main customers, namely tenants. This is accompanied by various strategic and operational issues. What will the management model look like once non-DAEB activities have been separated? What will be the most suitable form of risk management? Stakeholders are becoming increasingly demanding and are becoming more critical of quality and efficiency. Housing policy is more and more being determined at local level by municipalities. What impact will this have on strategy and reporting to the outside world? What will be the best way to address IT, data privacy and the digitalisation of information flows? Finally, how can accountants offer the added value needed in this new reality?

⁷ See WSW visie op scheiden en/of splitsen van DAEB en niet-DAEB. Hilversum, 22 September 2016

⁸ Letter to Parliament about Indicative spending capacity of housing associations. The Hague, 21 June 2016

Signal 1 |

Strategy fully in redevelopment

Their changing surroundings are forcing associations to alter their thinking and behaviour. Associations have to operate in a more business-minded manner if they want to survive in the changing housing market. Scenario-based thinking, professional real estate management, insights into cash flows and partnerships with other stakeholders are becoming increasingly important.

Although associations barely faced competition in the past, things appear to be changing. New players are active in the housing markets for students and starters. There is also a chance of real estate investors entering the housing market at the lower end of the social scale. Due to low interest rates in capital markets, increasing automation and developments in the construction sector, it is becoming easier for them to cherry-pick the best opportunities. In contrast, associations are expected to invest in areas that have been neglected by other parties. The large cities, in particular, are still experiencing a shortage of affordable living space. In order to respond to such developments in time, and to effectively carry out their legal task, associations will have to revise their strategies, optimise their cash flows and re-design their governance, processes and information flows.

Associations are having to search for alternative sources of finance for their existing non-DAEB activities. They can no longer be financed with DAEB resources (under the WSW) because this is classed as illegal government support. Despite major focus on valuing property at market value in its rented condition, it remains important to have an insight into realised and expected cash flows for their core tasks. Revaluation based on market value in rented condition, means potential increases in equity capital are actually tied up in the houses themselves. In contrast, operational cash flows have been placed under increasing pressure in recent years. On the one hand, due to demographic changes, arrangements with municipalities or maximum rental prices and, on the other hand, due to

legislation relating to the landlord levy, energy labels and effective allocation of housing.

This requires a further shift in strategic thinking. Portfolio strategy (investment, renovation or sale) needs to be revised and alternative scenarios must be considered. There are major differences between associations when it comes to size and market area. While there is a housing surplus in shrinkage areas, demand for housing is outstripping supply in other areas. This is creating a mismatch between demand and supply, which will have major consequences for the feasibility of existing strategies. It could actually bring the old equalisation debate back to the fore.

Associations are being forced to clearly explain what they are doing and where in the market they are doing it. They are being held accountable for value development in their real estate, their cash flows and the difference between social rental price and market rental price. Professional real estate management is becoming essential. This requires effective knowledge of existing portfolios, the associated risks and the realised yields. At the same time, it is important to estimate the cost of essential investments and maintenance needed to continue meeting needs within the market. Many associations need to place greater focus on maintenance costs when formulating their cash flow forecasts. This has been demonstrated by the difference between forecast and actually incurred costs.

The revised strategy will also mean setting up a professional organisation, where the quantity and quality of structures is consistent with future tasks. The financial function and control deserve specific attention by focusing on issues in the field of risk management, compliance and quality of (digital) information. Smaller associations often face pressure on this front, because they do not possess the know-how and financial resources needed to implement changes. Besides financing-related problems,

it is often difficult to find qualified successors for their organisations, boards or supervisory bodies. More and more of these associations are trying to find a solution via partnerships or mergers – mainly involving fellow associations, although other parties could also be involved in the future. Their main partners at the moment are municipalities and healthcare institutions. Due to decen-

tralisation initiatives in the social domain, they are being forced to look for partners who are willing to join them in the change process. For associations, this task involves doing more than just establishing annual performance-related agreements. It is important for the government to support such initiatives and create a responsible framework within which they can take place.

Negative example

Why change

Association A is small and has a close-knit relationship with the local community. Its directors are all over 70 years of age, the association has sufficient resources and change is not on the agenda. Its houses are in good condition because maintenance is a priority. Finding successors for board members is not a priority, and consideration is not given to the fact there will not be enough tenants in 15 years' time because the region is shrinking. Advisory and support costs are high because all required knowledge is being insourced. As a result, the score for the operating costs benchmark is well above average. So why should A change something now if tenants and the local community are happy?

Positive example

Careful change process

Association B is a medium-sized association in the eastern part of the country. B's region is expected to encounter shrinkage. In recent years, B has considered several scenarios when trying to identify potential effects. In addition, it has started to implement real estate management and employed extra people with the required knowledge. It has also set up a training programme to develop further in this area. Third parties are only insourced when absolutely necessary. Finally, B regularly consults its stakeholders and, wherever possible, measures are implemented together with them.

RECOMMENDATION 1: Revise strategy and management model

Associations

- Evaluate the effectiveness of existing strategy and the usefulness of management models. Use scenarios to consider the feasibility of strategic plans, continuity, competitors and any disparity between the desired and achievable role in the region.
- Address real estate management in a professional manner and make sure involved employees possess the required expertise. Continue to focus on controlling cash flows. Make sure maintenance activities are forecast realistically, also in long-term forecasts.
- Explore possibilities for partnerships with nearby associations and other players in the supply chain, so the continuity of services can be safeguarded.

Government

- Make sure clear and consistent short-term and long-term policy is implemented on time, so the sector can make well-founded decisions about strategic options.
- Facilitate new initiatives and partnerships between municipalities, healthcare institutions and associations in order to effectively address decentralisation in the social domain.

Accountants

- Address directors, the audit committee and the supervisory board each year about the quality of management models and internal controls, and their effect on future cash flows and long-term forecasts.
- Ask critical questions about implemented decisions: Are ambitions feasible? Is the association paying enough attention to competitors and social developments? Is there enough quality within the organisation? Which expenditure and investment is needed?

Signal 2 |

Risk management still work in progress

Risk management is an important management tool that must be integrated into all of the association's processes. In recent years, emphasis has mainly been placed on complying with new legislation. It is now time to place greater focus on strategic and social risks, and the quality of supplied information.

Although the sector is now heavily involved in risk management, this is sometimes still seen as a one-off project. A lot of risks are being identified, but this makes it difficult to set priorities. When performing risk management, it is actually important to create a link between risks and strategy, the company plan and day-to-day work processes. Risk management should not just be about rules; it involves more than simply adopting a standard model. Besides hard management initiatives, or hard controls, it is important to also focus on soft controls, the behaviour-related side of risk management. Addressing one another, sharing dilemmas and being critical are important principles. The Aw also focuses on governance and behavioural aspects in its evaluation framework⁹. It seems obvious that a small association with transparent processes will rely more heavily on informal control measures than a large organisation with complex processes and formal internal control structures. Risk management will always need a tailor-made approach, where it is important to establish a link with potential financial and non-financial effects (integrity and image). This is where an important supervisory task has been set aside for the supervisory board.

Associations will benefit by expanding their risk management and looking further than financial risks alone. The risk model of the WSW¹⁰ could be a good starting point, where various business risks can be identified. Focus must be placed on risks that are truly important to associations:

- Risks associated with the **association's strategic and social objectives** not being achieved. Examples include punctually completing renovation projects within budget (risk of increased demand in the construction market, thus causing projects to be more expensive), realising new-build plans (risk of not enough land being available) and punctually responding to changed government policy.
- Risks associated with **failure to meet prerequisites** when it comes to compliance. Examples include compliance with demands for appropriate allocation (risk of intermediaries deviating from the rules), failure to realise financial targets or failure to punctually submit dVi information. Because all associations face the same prerequisites, they also all face the same risks. However, their meaning and effect will be determined by the starting position of individual associations.
- Risks associated with **unavailability of relevant and reliable information** due to shortcomings in processes and systems. Examples include the reliability of real estate administration (risk of incorrect market value in rented condition), the absence of information about the state of maintenance, the quality of dVi and dPi details as well as data leaks and cyber crime. Up-to-date information about the condition of real estate is essential for effective real estate management. It is important for the financial function to possess sufficient capacity, deployment and commitment, in terms of manpower and resources, so the reliability of information can be safeguarded. Shortcomings could lead to additional activities for accountants, and thus extra control costs.

Risk models often tend to focus on risks associated with the prerequisites. However, because the surroundings are changing rapidly, more focus should actually be placed on strategic and social risks.

⁹ Contouren van het toezicht door de Autoriteit woningcorporaties. The Hague, 21 September 2016

¹⁰ Risicomanagement – Een nieuwe werkwijze van het WSW. Hilversum, September 2013

In this case, the starting points of individual associations can vary greatly in terms of size, type of real estate, condition of maintenance, type of region (growth/shrinkage), type of households (level of income and family composition), strategic objectives (preservation or new-build)

and financial position (external financing versus own resources). A tailor-made approach is essential, whether it involves project management for maintenance, internal controls for housing allocation or condition-related measurements on real estate.

Negative example

One-off risk inventory

Association C decides to implement risk management. A risk session is organised with the whole management team, and this session identifies 121 risks. The controller is held responsible for monitoring risks and must report about them to the board. After three reports, the board decides that the reports are no longer necessary because they do not offer an appropriate basis for managing C.

Positive example

Systematic and continuous process of risk management

Association D designed its risk management process a few years ago. This involved paying attention to strategic risks as well as risks associated with systems and processes. A rating was also assigned to the risks (high/medium/low). Control measures were formulated to manage strategic risks, and their implementation is reported per department in a monthly management report. System and process-related risks are translated into measures within processes and automated systems. Internal audits are carried out on a regular basis throughout the year, and findings and recommendations are reported to the responsible managers.

RECOMMENDATION 2: Improve the quality of risk management

Associations

- Realise that risk management needs a tailor-made approach, which must be incorporated into the organisation from top to bottom. Turn it into a continuous process, which is an integral part day-to-day operations. Establish a link with the financial aspect of risks by including financial performance indicators. Also ensure appropriate accountability.
- Do not only focus on hard controls, but also examine soft controls. When doing so, focus on risks associated with fraud and integrity.
- Avoid an instrumental approach and focus on relevant risks. The risk of failing to achieve social objectives or the risk of unreliable information is at least equally important as potential failure to comply with prerequisites.

Government

- Regularly revise the reference framework and risk policy, based on the actual situation in the sector. Consult all relevant stakeholders when doing so.

Accountants

- Regularly discuss the quality of risk management with directors, audit committee and the supervisory board. Do not just stop at compliance-related risks. Also pay attention to risks associated with the main social function and the reliability of processes, systems and data.
- Make sure the audit approach pays specific attention to the association's risk management. The approach should focus on hard controls and soft controls. Identify how the association acknowledges, manages and registers risks, and links them to financial performance indicators.

Signal 3 |

A pile up of accountability and control

Although requirements concerning accountability and control have increased in recent years, the end is not yet in sight considering the plans to give associations OOB status. Greater emphasis on future-oriented information can help to improve transparency. A complicating factor is that legislation and the accountants protocol will only become final once the reporting year has ended.

The new Housing Act has significantly increased information being demanded by the Aw and WSW, with increasing focus being placed on dVi and dPi information. Many associations are struggling with the wide range of requirements that have been set for financial statements. That is why Aedes decided to dedicate a set of guidelines¹¹ to the issue. Together with protocols for the education and healthcare sectors, the accountants protocol is one of the top three most comprehensive protocols for accountants. Although strict reporting and control requirements are part of the parliamentary survey, one could ask whether all requirements are equally important. The Aw and WSW could consider placing greater emphasis on the future when requesting their information, whereby creating a large set of data by implementing Standard Business Reporting (SBR). After all, forecast-related information and long-term forecasts are essential when evaluating the continuity of an association, far more than information from the past. Accountants could work with the sector to examine what added value they could offer for this information.

The accountability process is being complicated by delays in the formulation of legislation, reporting formats and the accompanying accountants protocol. Associations need time to modify their systems and accountants should have the time needed to set up effective audits. Legislation must thus be available before the reporting year and a few months should preferably be available to implement it¹².

An interim solution could involve already publishing the accountants protocol on 1 July, and possibly follow this up with an addendum in December. As long as these conditions have not been met, it may be difficult to realise the shorter submission period, which has shifted from 1 July to 1 May.

Associations and accountants are also facing challenges on this front. A lot of dVi and dPi information is not yet found in the regular processes of organisations. This means the availability and reliability of this information cannot be guaranteed in advance. Standardisation could help. Accountants can advise associations about how processes should be designed, including planning and control, when creating maintenance forecasts and dVi information. However, it sometimes appears that accountants mainly serve as a source of information and messengers of changes in legislation. They assume the function of compliance watchdog, which means their role as trustee of public interest threatens to be pushed into the background.

The government's proposal to issue OOB status to associations will have consequences for accountability and control. Organisations need to have an audit committee, while accountants must possess an OOB licence from the AFM. In practice, it appears that audit-related costs generally tend to be higher for OOB organisations due to stricter quality requirements, while the OOB licence could discourage new entrants. Well balanced legislation is needed. The proposed (and not explicitly substantiated) threshold for OOB status, namely 1,500 rental units, is not consistent with the existing thresholds for establishing an independent control function (2,500 units) and for having an audit committee (10,000 units)¹³. It would be efficient to introduce greater consistency on this front, bearing in mind all existing supervisory instruments.

¹¹ Handreiking Toegelaten Instellingen Volkshuisvesting, The Hague, January 2017

¹² See the NBA Open letter entitled 'Think and act', Amsterdam, December 2016

¹³ See article 105 para. 1 of the NBA discussierapport Continuous Assurance

Since 2016, associations have encountered many value-related terms: market value in rented condition, value in use, fiscal value, WOZ value and historical cost. The question is, do the readers of annual reports still understand what all these terms actually mean. Because market value in rented condition does not represent a realisable value, the value in use continues to be essential for management

and accountability. This value also reflects cash flows that are expected to be realisable in the future. But the value in use must be based on the policy value (realisable value) and not on the standard calculated WSW value in use. In the meantime, the Aw and WSW are working on a new definition for policy value, which will replace value in use.

Negative example

Lack of knowledge in accountability framework

Small housing association E decides to submit its annual documents to accountant X based on legislation from the previous year. X must then ensure compatibility with the very latest laws and regulations. E asks X to complete the whole dVi form because the organisation does not possess the knowledge needed to supply the required data. In doing so, X unintentionally starts compiling reporting information.

Positive example

Revised planning and control

In response to changes in the new Housing Act and RJ Guideline 645, association F has taken care of its real estate information, modified its planning and control cycle and re-designed its administrative systems. All data needed for reporting has been inventoried and embedded into existing systems wherever possible. The audit process for the annual account flows smoothly and F is able to supply good quality management information relatively quickly.

RECOMMENDATION 3: Streamline the accountability process

Associations

- Make sure the information request for dVi and dPi is effectively embedded into internal systems. Try to standardise wherever possible. Implement interim closures, so the speed at which the annual account is realised can be improved.
- Continue using the value in use, and the policy value in particular, as a management tool. Continue to focus on the quality of cash flow overviews.
- Ensure greater involvement in the realisation of new legislation, in collaboration with Aedes. Punctually create an inventory for the effects of new legislation on internal processes. Do not postpone this until the annual information request by supervisory bodies.

Government

- Make sure accountability guidelines, the accountants protocol and dVi and dPi formats are published sooner. Organise the realisation process in the same way as the Inspectorate of Education. Already publish the accountants protocol on 1 July. Only comply with the legal deadline of 1 May if all these conditions have been met.
- Investigate what added value accountants can offer for dPi information. Also think about how to incorporate all information requests via SBR.
- Implement a practical OOB threshold. Make sure it offers a balanced reflection of OOB requirements, compared to existing supervisory tools in the sector.

Accountants

- Allow associations to examine the possibilities of an internal control system, where continuous reporting, monitoring and auditing are implemented¹⁴. More frequent internal reports and audits can help to simplify the annual accountability process.

¹⁴ See the NBA discussion report entitled Continuous Assurance. Amsterdam, December 2016

Signal 4 |

Data just as important as bricks

Effective data management is essential for associations, when it comes to efficiently managing real estate and effectively matching demand and supply. Appropriate data can be used to reduce operating costs and offer tenants more personal support. However, because more and more automated systems are accessible online, susceptibility to cyber criminality is also increasing.

Associations not only manage real estate, but also a huge amount of data. Besides physical information about real estate, the various values linked to real estate also need to be registered. This includes historical information about the construction or purchase, the location, surface area, contents, value in use, fiscal value, WOZ value and market value in rented condition. Not only the name and address of tenants is registered, but also confidential personal information about their income and family composition. In addition, associations also keep a variety of other data files, like waiting lists for potential tenants, salary details for their employees, information about their affiliations (shareholdings), fundamentals for the landlord levy and agreements they have established with stakeholders in the supply chain. Data management and data processing are becoming an essential part of operations. Reliable data is needed for professional real estate management, effective use of SBR for reports and the exploitation of new trends like platforms for the shared economy.

Many associations have implemented several parallel automated systems, each with their own procedures, control measures and data definitions. This leads to risks when it comes to the reliability and continuity of data processing. Mainly the process for registering physical details of real estate objects does not flow smoothly. An additional problem is that there are only a limited number of software suppliers in the sector and they are reluctant to invest in new applications. This limits the choices available to associations and leads to a longer turnaround

time. It regularly occurs that general IT control measures for information security, change management and operational control do not work properly. It is thus important to integrate and optimise systems to ensure the continuity of operations and the quality and uniformity of managed data. IT risks, data quality and privacy must be given an important role within risk management. This mainly tends to be a problem for smaller associations, due to the size of their workforce and often limited access to resources. One of the solutions could involve collaborating with other associations via a shared service.

More and more associations are using digital customer portals, platforms and apps to speed up customer processes and improve tenant participation. This development towards increasing online information exchange requires appropriate cyber security measures. Insufficient security can result in hacking or other types of cyber criminality. Private information can be stolen, infrastructure can be damaged or IT systems could even be shut down. People could, for example, maliciously change rental prices, and errors in the system could cause the wrong tenants to be given priority. It will be in the best interest of associations to already take into account tighter European regulations, which will come into effect by 2018 at the latest. Directors are now jointly and severally liable for properly storing their data and protecting the privacy of tenants. Huge fines can be issued for data leaks.

When dealing with IT security, associations primarily focus on preventive measures like firewalls, the use of 2-factor access authentication and information and training about the issue of cyber security. In today's digital world, prevention is not enough and detective and corrective measures must also be considered. Detective measures are aimed at identifying threats. This includes, for example, system monitoring, anti-virus programmes, security testing via break-in tests and the introduction of internal hotlines. Corrective measures involve restricting

damage as quickly as possible if an actual incident is encountered. Incident response teams are a good example of this and are authorised to close applications or block access to systems. This also includes communication

plans for the board should data leaks still take place. The solution for small associations could involve collaborating with fellow associations or jointly insourcing external expertise.

Negative example

Physical real estate data is unreliable

Association G registers physical real estate data in various IT systems. When calculating the market value in rented condition, there appear to be major differences between individual registrations of the same physical details. This can only be resolved via a time consuming and intensive internal audit based on original source data.

Positive example

Association fends off hacking attempt

Association H uses a customer portal where customers and employees can log in. A hacker has been able to access the customer portal by phishing the required information, and is attempting to significantly reduce the rental price for various houses. However, the attack is detected on time via a continuous monitoring feature on the portal. H's incident response team is warned and is immediately able to take the required action. This includes blocking access for the hacker, changing the passwords and repairing any damage that may have been caused.

RECOMMENDATION 4: Ensure a robust IT system

Associations

- Prioritise the integration and optimisation of internal IT systems and use a plan-based approach when doing so. Regularly check whether real estate data in the various systems is still uniform. Examine possibilities for using a single central database.
- Do not only invest in prevention, but also in detective and corrective cyber security measures. Examine whether it would be efficient to work with fellow associations in this area. This could be done via a shared service centre or the joint acquisition of expertise in the field of IT and cyber security.
- Consider risks associated with IT, data quality and privacy in risk analyses and the organisation's risk management system.

Government

- Prioritise the definition of unambiguous data sets for associations and maximise the use of SBR when doing so.
- Make sure changes in valuation terms and data registered for annual accountability information are available on time so ICT suppliers have the opportunity to adjust their software packages accordingly.

Accountants

- Make sure the risk analysis and audit approach pays specific attention to cyber security and risks associated with IT security¹⁵.
- Examine opportunities for innovation in the adopted audit approach. For instance, comprehensive data analyses, IT quality assurances and continuous auditing.

15 See the NBA Public Management letter about Cyber Security, 'From hype to methodology'. Amsterdam, May 2016

Signal 5 |

Management reporting is being underutilized

There is increasing need for an insight into the social performance of associations, but few examples are currently available on this front. This requires solid foundations for social accountability and a suitable role for accountants. NBA, Aedes and the Ministry can join forces when addressing the matter.

In recent years, associations have spent most of their time focusing on compliance. The separation between DAEB and non-DAEB activities has had major consequences for their governance, internal organisation and financing. Associations need to focus on their core tasks. The management report is the perfect way for associations to account for their tasks and can be used to provide an insight into the realisation of social objectives. The difference between the market price and the actually requested rental price shows how much associations invest in society. In this case, an important role is played by the (mandatory) analysis for differences between market value in rented condition and the value in use of real estate. There is currently very little material available in this area. Aedes could take the initiative by compiling sector-wide guidelines and publishing best practices, with accountants playing an advisory role.

Greater focus by accountants on the management report is consistent with the trend of integrated reporting, which is used by organisations to account for their strategy, governance and performance to their stakeholders. An integrated report is used to demonstrate how value is added for all involved parties. It offers a comprehensive performance overview using a combination of financial and non-financial information. Due to changes in the Civil Code and NBA Standard 720¹⁶, the role of accountants has changed since reporting year 2016. They must use their knowledge of the organisation, and the results from the financial statements audit, to examine whether reports

contains material misstatements (inaccuracies). At this moment in time, a debate is still ongoing about the nature and scope of these activities. The NBA could eliminate any ambiguity by issuing practical guidelines. In addition, there is nothing to stop the supervisory board or audit committee from offering accountants a more comprehensive assignment (in relation to the directors' report) than prescribed by law.

Due to changes in the housing market, the issue of housing association continuity is also becoming increasingly important for accountants. In this regard, it seems obvious for them to also use future-related information, long-term forecasts and the guarantee limit assigned by the WSI, even though they are not required to pass judgement on it. For instance, has a realistic estimate been used for future costs of keeping housing in leasable condition; have there been excessive cut-backs in major maintenance; what is the risk of vacancy considering demographic developments in the region? All these factors have an impact on future cash flows, and thus eventually how real estate will be valued. It may be interesting to analyse the differences between dPi information and cash flows realised over a number of years.

In this case, it is important for accountants to correctly address their role in the association's governance and to make sure this governance is effective. The quality of the supervisory board and audit committee will also play a role on this front. However the accountant's role involves more than just auditing the financial statements. It requires a more active role towards the audit committee and greater transparency about costs associated with the audit. Accountants must be able to discuss with managers and internal supervisory bodies about the association's strategy. Not in order to question it, but to ask critical questions about safeguards implemented to ensure continuity.

16 Article 2:393 CC and Standard 720, 'De verantwoordelijkheden van de accountant m.b.t. andere informatie in documenten waarin gecontroleerde financiële overzichten zijn opgenomen'

In addition, they can request greater attention for the quality of dVi and dPi information. The comprehensive auditor's report offers accountants the perfect opportunity

to be transparent towards users of the association's annual account about important issues within the audit.

Negative example

Differing expectations among supervisory directors

The issues of shrinkage in the region and the long-term budget are also addressed during final discussions about financial statements in the supervisory board. Various supervisory directors believe accountant Y must also consider the long-term budget when evaluating the directors' report. To their dissatisfaction, Y says the directors' report has only been assessed based on minimum legal requirements. If he was to spend more time on the management report, this would be accompanied by a lot of extra audit costs.

Positive example

Proactive role for accountants

Housing association K is experimenting with a more comprehensive financial statement. K wants to pay specific attention to sustainability and the role of various stakeholders in the organisation. In addition, K is examining the possibilities for integrated reporting. As the accountant of K, Z provides a comprehensive insight into this topic to management and the supervisory board. He also addresses the accompanying requirements and start-up costs.

RECOMMENDATION 5: Towards transparent social accountability

Accountants

- The NBA should put together a well represented sector commission for associations. Allow this commission to have structural discussions with the main stakeholders in the sector, including the Ministry, Aw, WSW and Aedes. Also use the commission to have professional debates, so accountants in the sector are able to adopt a uniform stance. This could, for example, help discussions about market value in rented condition to flow more smoothly.
- The NBA should clearly inform the sector about the role of accountants when dealing with the management report, and develop a clear evaluation framework using a set of practical guidelines.
- As an accountant, fulfil an appropriate role during the governance process. Discuss with managers and internal supervisory bodies about integrated reporting and also talk about the quality of future-oriented information and dVi. Be transparent about audit-related costs: which are incidental and which are structural due to changing legislation. Make a distinction between the audit for the annual account and the audit for dVi. Make the most of the comprehensive audit report to communicate in a transparent manner with users of the annual account.
- When evaluating the association's stance towards continuity, pay attention to the long-term forecast and future-oriented dPi information. When doing so, also analyse the difference between budgeted cash flows and assumed future cash flows when determining value in use.

Associations

- Work with Aedes, Aw, the Ministry and NBA to develop sector-wide guidelines about social reporting. Design a model for analysing market value in rented condition versus value in use, and for creating transparency about the social performance of associations. Examine the added value that accountants can offer when doing so.
- Make sure the supervisory board and audit committee effectively fulfil their role in the association's governance. In the end they award the assignment to the accountant.

Government

- Facilitate initiatives in the sector when it comes to social accountability, and do this in collaboration with Aedes and the NBA.



Summary of stakeholders' responses

At the request of the NBA, the following stakeholders have responded to the public management letter. Their responses are summarized in this chapter.

Ministry of the Interior and Kingdom Relations (BZK)

The Ministry of the Interior and Kingdom Relations is grateful to the NBA for releasing this public management letter. It appreciates that NBA has paid attention to the consequences of the revised Housing Act for various stakeholders and also agrees with the findings of the management letter. The Ministry subscribes to the issues that have been identified and supports the recommendations. It has made note of the recommendation to punctually publish legislation and find a balance between regulations and administrative burden. As a result, it aims to publish its Manual for Market Valuation in good time and is working with the sector to create uniform value concepts and promote the use of Standard Business Reporting. Finally, the Ministry is pleased with the NBA's decision to set up a work group of accountants in the housing associations sector.

Housing Associations Authority (Aw)

The Housing Associations Authority subscribes to the recommendations in the public management letter when it comes to revising strategy and the management model, and improving the quality of risk management. The Aw also supports the call for accountants to play a better role in the governance of associations, with support from the Aw. The same applies to the recommendation to report transparently, with a broad scope in the audit report, management letter and accountant's report. The Aw acknowledges the importance of stricter legislation but, at the same time, also wants to look into pos-

sibilities for reducing administrative burden. Examples include more intensive collaboration with the Social Housing Guarantee Fund, reviewing requests for information, creating uniform definitions, restricting the number of value-related terms, using Standard Business Reporting and accelerating the annual accountants protocol.

Social Housing Guarantee Fund (WSW)

The Social Housing Guarantee Fund acknowledges the signals in the public management letter. The first signal is very much in line with the WSW's approach of focusing on portfolio strategy when evaluating the business risks of associations. It would also like to participate in the NBA work group for accountants in the housing associations sector.

Association of Supervisory Bodies in Housing Associations (VTW)

The Association of Supervisory Bodies in Housing Associations appreciates that NBA has taken the initiative to publish a public management letter about associations. It realises that the effects of wide-ranging legislation have been clearly identified, also when it comes to external supervision. A critical approach has also been adopted to describe the relationship between internal supervisory bodies (as commissioning parties for the accountant) and accountants. The VTW has three recommendations: also pay attention to the risk appetite of housing associations; clarify the role played by internal supervisory bodies in responsible risk management and place greater emphasis on the role of internal supervisory bodies within the recommendations.

Aedes

Aedes appreciates the NBA's initiative to create a public management letter about the housing associations sector, considering their current situation. Aedes subscribes to the signals and recommendations in the management letter. As far as the first signal is concerned, Aedes misses a reference to the Woonagenda (Housing agenda), which mentions the ambitions of associations for the coming years. Aedes feels it is important for accountants to ask critical questions about ambitions and the management model. However, there appears to be a trend where accountants are placing greater emphasis on sorting out their dossiers than maintaining an overall view and having decent discussions with associations. Aedes is currently busy trying to develop its own basic management model. In terms of the second signal, Aedes has noticed that associations are showing risk averse behaviour, which is leading to reluctance when making investments. It must also be emphasised that focus and prioritisation are very important in risk management. As far as the third signal is concerned, Aedes believes the accountants protocol needs to be revised. Aedes has concerns about ever increasing audit costs and wonders whether accountants could play less of a role in some areas in order to keep costs reasonable. When it comes to the fourth signal, Aedes says it is currently working with the sector on a management covenant for the supply of management and accountability data in the future. Aedes subscribes to the idea of setting up an NBA work group of accountants in the housing associations sector, as mentioned in the fifth signal. It feels the NBA is wise in calling for greater social transparency. Although the sector is currently working on this, management strength and perseverance could be better.



Credits

In the NBA Sharing Knowledge policy programme the expertise of accountants is collectively applied to signal risks early in social sectors or relevant themes. In doing so the emphasis is on governance, operations, reporting and audit.

The NBA has used this public management letter (PML) to present five recommendations for the housing associations sector. The sector is the nineteenth topic to be selected by the Identification Board of the NBA. A working group of public and government accountants in the sector gathered anonymised findings and discussed them. This was then discussed at a sector meeting with stakeholders.

The Identification Board then gauged the signals from a social perspective and applied a social assessment to the signals. Stakeholders in the sector were willing to respond in writing to the PML. Coordination and final editing was provided by the Sharing Knowledge programme team.

Further information

A public management letter is one of the publications issued by the Sharing Knowledge policy programme. Open letters and discussion reports are also released. The NBA has released the following publications:

- 2016: Cyber security, Energy sector and Introducing new laws
- 2015: Curative healthcare and Hospitality
- 2014: Life Sciences and Banks
- 2013: VET colleges, Risk management and Transport & Logistics
- 2012: Municipalities, Tone at the Top and Charities
- 2011: Commercial Property, Pensions and Greenhouse Horticulture
- 2010: Insurance and Long-term Care

All publications are public and are intended for a wide audience.

Identification Board

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drs. Gineke Bossema RA
Johan van Hall RA RE
drs. Karin Hubert RA
mr. Charlotte Insinger MBA
Carel Verdiesen AA

Associations working group

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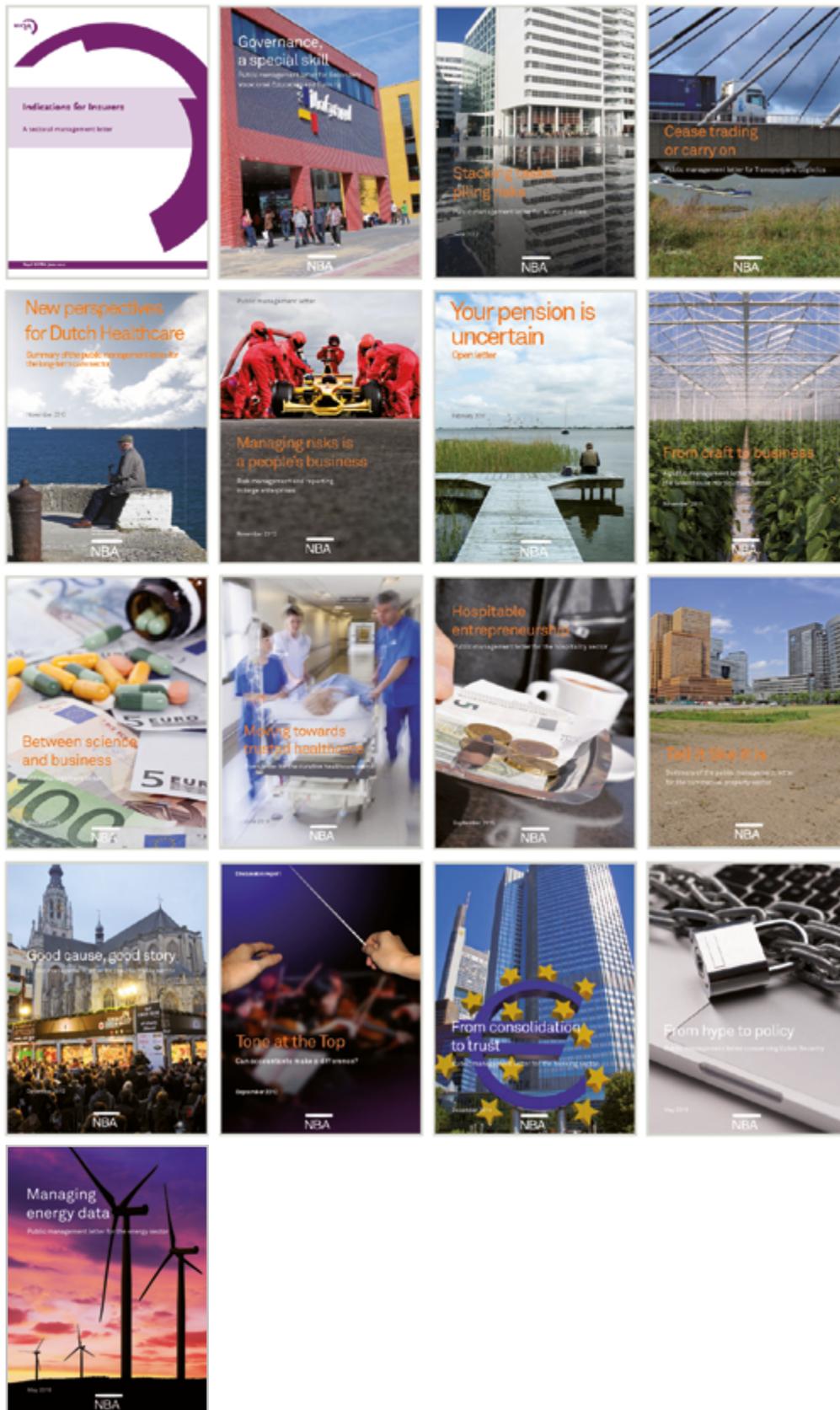
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The last five years NBA published sixteen Public Managementletters (PML's) concerning specific sectors or themes.



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