

Technical bulletin

2009/1



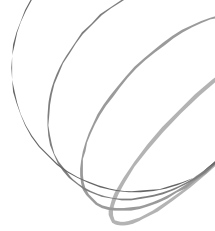
Published by the Technical Services Unit

March 2009



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Foreword

Technical bulletins (TBs) are published by Audit Scotland's Technical Services Unit (TSU) at quarterly intervals onto the TSU intranet/extranet. Their purpose is to summarise technical developments in the quarter for external auditors appointed by the Accounts Commission and Auditor General, and to provide auditors with guidance, where required.

TBs are also e-mailed to audited bodies in order that they may be aware of the guidance that has been issued to auditors. TBs should not be regarded as providing an exhaustive review of all matters relevant to audited bodies.

Audit Scotland makes no representation as to the completeness or accuracy of the contents of TBs or that legal or technical guidance is correct. Points of law, in particular, can ultimately be decided only by the Courts. Audit Scotland accepts no responsibility for any loss or damage caused as a result of any person relying upon anything contained in a TB.

In selecting items for TBs the bias is towards those which are of particular interest to external auditors, and TBs frequently recommend that auditors take, or consider taking, action in certain regards. A summary of these items is provided at the end of each chapter. It is important, therefore, that a mechanism is in place for senior audit staff to review the TB promptly and to ensure that steps are taken to consider such recommendations.

While auditors act independently of Audit Scotland, and are responsible for their own conclusions and opinions, consistency of opinions in similar circumstances is important and **it is expected therefore that auditors will normally follow all TSU guidance. Auditors should advise the TSU promptly if they disagree with, and may intend not to follow, any guidance issued on an important issue** (e.g. a matter that required consideration to be given to the qualification of the accounts of a number of audited bodies).



General

Introduction

This TB covers all the sectors within the Audit Scotland remit. This general chapter contains articles on cross-sectoral technical matters and should be read by all auditors. Matters that are relevant to only one sector are covered in the relevant sector-specific chapter.

The documents referred to in the articles that are available from websites can be obtained by using the hyperlinks. They can also be downloaded by auditors from the TSU intranet/extranet.

The TSU encourages any comments from auditors regarding the TB's structure and contents, particularly suggestions for improvement. Comments and suggestions should be sent to pobrien@audit-scotland.gov.uk.

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note that the following articles in this chapter relate to 2008/09

- TSU guidance on leases and unpaid annual leave under international financial reporting standards
- revised guidance on the audit of charities
- bulletin on going concern
- new procurement handbook.

There are also articles on the following subjects: international exposure drafts on consolidated financial statements, embedded derivatives, and debt instruments; international discussion papers on leases and on revenue recognition; draft revised ethical standards; draft bulletin on financial instruments; and clarified ISAs.

TSU developments

Responses to enquiries

The TSU operates a 'help-desk' for auditors which provides responses to ad hoc technical enquiries. Selected responses are added to the frequently asked questions section of the TSU intranet/extranet and include the following since the issue of TB 2008/4.



International financial reporting standards

When should a leased asset be categorised as a finance lease under international financial reporting standards (IFRS)?

IAS 17 Leases defines a finance lease as one that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. The standard provides the following examples of situations that would normally lead to a lease being classified as finance lease

- the lease transfers ownership of the asset to the lessee by the end of the lease term
- the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised
- the lease term is for the major part of the economic life of the asset even if title is not transferred
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset
- the leased assets are of such a specialised nature that only the lessee can use them without major modifications.

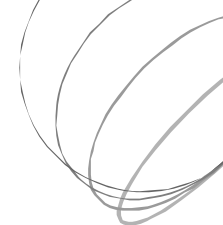
Bodies preparing IFRS-based financial statements should review the supporting documentation for each lease and assess this information against the IAS 17 criteria to establish whether the lease should be classified as an operating or finance lease.

Auditors should confirm that their audited bodies have undertaken a review of all leases and have appropriately categorised them in accordance with IAS 17.

How should an accrual for untaken annual leave be calculated under IFRS?

IAS 19 Employee benefits requires an entity to recognise a liability when an employee has provided service in exchange for employee benefits to be paid in the future. Employee benefits include short-term employee benefits such as wages and salaries, but also include paid annual leave and flexi-time.

Where the full entitlement to annual leave is not taken in a period and can be carried forward, a liability requires to be recognised in the balance sheet at the end of the period. This is required even where employees are not entitled to a cash payment for unused entitlement on leaving. Entities are required to measure the liability as the additional amount that the entity expects to pay as a result of unused



entitlement that has accumulated at the balance sheet date. Although year on year changes are not likely to be material, the amount initially recognised has the potential to be so.

Entities are required to gather information on the number of days of untaken leave as at 31 March to allow them to identify the liability. If they cannot obtain the information for the whole workforce, it may be acceptable for entities to use a representative sample which is large enough to provide valid results. The liability should represent the proportion of the annual salary which relates to the number of days of untaken leave.

Auditors should confirm that their bodies have assessed their employee benefits to identify whether a liability exists and review the methodology used to quantify this.

Accounting developments

The documents referred to in the following articles can be obtained by using the hyperlinks, or can be downloaded by auditors from the TSU intranet/extranet.

International developments

Exposure draft on consolidated financial statements

The [International Accounting Standards Board](#) (IASB) has issued [ED 10 Consolidated financial statements](#) which proposes a single definition of the term 'control' for all bodies, and provides guidance on how to apply it. The proposed definition in the exposure draft is that a reporting entity controls another entity when it has the power to direct the activities of that other entity to generate returns for itself.

The IASB believes that the power to govern the financial and operating policies of another entity, as referred to in the current definition, is not the only means of having power to direct its activities. For example, power can be achieved by having voting rights, or by means of contractual arrangements.

The current definition states that control conveys the right to obtain benefits from another entity. However, the exposure draft uses the term 'returns' rather than 'benefits', because the IASB believes this makes it more explicit that what is obtained from the other entity may be positive or negative.

The exposure draft also proposes enhanced disclosure requirements for consolidated entities, particularly relating to the effect of non-controlling interests.

Comments were required by 20 March 2009.



Exposure draft on embedded derivatives

The IASB has issued an exposure draft on [Embedded derivatives](#) which clarifies the treatment of embedded derivatives and proposes amendments to *IAS 39 Financial instruments: recognition and measurement* and *IFRIC 9 Reassessment of embedded derivatives*.

The exposure draft has been issued as a result of unintended consequences of the issue of *Amendments to IAS 39 and IFRS 7 Financial instruments: Disclosures* (see TB 2008/4 – page 4) to prevent any practice developing whereby, following reclassification of a financial asset, embedded derivatives are not separately accounted for where this is required.

The proposals in the draft would require an entity to assess whether an embedded derivative is required to be separated from a host contract when the entity reclassifies a hybrid (combined) financial asset out of the fair value through profit or loss category.

Comments were required by 21 January 2009.

Exposure draft on debt instruments

The IASB has issued an exposure draft on [Investments in debt instruments](#) which contains proposals to further amend *IFRS 7 Financial instruments: Disclosures*. The exposure draft proposes additional disclosure requirements for all investments in debt instruments, other than those classified as at fair value through profit or loss. The proposals are to require

- information in tabular format about the effect on pre-tax profit or loss as if these instruments were accounted for (i) at fair value and (ii) at amortised cost
- a summary of the different measurement bases of these instruments in tabular format that sets out (i) the measurement as in the statement of financial position (ii) fair value and (iii) amortised cost.

Comments were required by 15 January 2009.

Discussion paper on leases

The IASB has issued a discussion paper [Leases: preliminary views](#) which discusses a new approach to accounting for leases. The paper proposes that lease accounting should be based on the principle that all leases, including operating leases, give rise to liabilities and assets that should be recognised in the statement of financial position/ balance sheet.

The asset represents an entity's right to use the leased item for the lease term (the right-of-use asset), and the liability is for its obligation to pay rentals. It is proposed that the liability should be measured initially at the present value of the lease payments discounted using the lessee's incremental borrowing rate, and



subsequently measured on an amortised cost basis. The right-of-use asset would be measured initially at cost, which should equal the present value of the lease payments discounted using the lessee's incremental borrowing rate. The asset would be amortised over the shorter of the lease term and the economic life of the leased item.

It is proposed that, in cases where there is an option to extend the term, the measurement of assets and liabilities should be based on the most likely lease term, which should be reassessed at each reporting date.

Responses should be made via the IASB website by 17 July 2009.

Discussion paper on revenue recognition

The IASB has issued a discussion paper called [Preliminary views on revenue recognition in contracts with customers](#) which sets out an approach for the recognition of revenue. The objective of the paper is to develop a single revenue model that can be applied consistently regardless of industry.

In applying the proposed underlying principle, an organisation would recognise revenue when it satisfies a performance obligation by transferring goods and services to a customer as contractually agreed. This is similar to many existing requirements, and it is expected that most transactions would remain unaffected by the proposals. However, clarifying the principle and applying it consistently to all contracts with customers would improve the comparability and understandability of revenue for users of financial statements.

Comments should be submitted via the IASB website by 19 June 2009.

Auditing developments

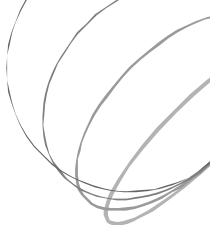
The documents referred to in the following articles can be obtained by using the hyperlinks, or can be downloaded by auditors from the TSU intranet/extranet.

Revised guidance on audit of charities

The [Auditing Practices Board](#) has published a revision of [Practice note 11 The audit of charities in the UK](#). The note supplements international standards on auditing (ISAs), and sets out the special considerations relating to the audit of charities which arise from individual ISAs. For public sector bodies, it complements [Practice note 10 The audit of financial statements of public sector bodies in the UK](#).

The revisions to the previous version of practice note (PN) 11 take account of relevant regulatory and other developments including

- the replacement of statements of auditing standards by ISAs

- 
- the implementation of the *Companies Act 2006*
 - changes arising from the *Charities and Trustee Investment (Scotland) Act 2005*
 - the establishment of the Office of the Scottish Charity Regulator.

[Bulletin 2009/1 Auditor's reports – Supplementary guidance for auditors of charities with 31 March 2009 year ends](#) supplements the guidance in PN 11 by providing illustrative auditor's reports for charities.

Bulletin on going concern

The APB has issued [Bulletin 2008/10 Going concern issues during the current economic conditions](#) to provide guidance on a number of going concern issues that auditors are likely to encounter as a result of current economic conditions. The guidance in the bulletin draws on *ISA(UK and Ireland) 570 Going concern* and does not establish any new requirements.

One consequence of the current economic conditions is expected to be an increase in the disclosures in annual reports and accounts about going concern and liquidity risk. It should be noted that the general economic situation does not, of itself, necessarily mean that a material uncertainty exists about an entity's ability to continue as a going concern or justify auditors modifying their auditor's reports to draw attention to going concern.

Extensive disclosures are not necessarily indicative of the existence of a significant doubt on the entity's ability to continue as a going concern. Indeed an objective of the disclosures may be to explain why the going concern issues that affect the company do not give rise to a significant doubt.

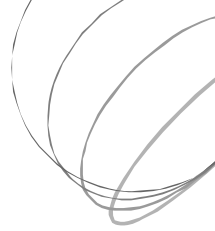
However, directors need to apply an appropriate degree of rigour when making their judgments and will need to plan their assessment of going concern as early as practicable, including deciding on the information that will need to be produced and the processes and procedures that will be undertaken.

Draft revised ethical standards

The APB has issued [Revised draft ethical standards for auditors](#) which proposes amendments to the ethical standards.

The paper requests views as to whether the period of time after which audit engagement partners and engagement quality control reviewers are required to rotate should be extended from five years to seven. Other proposals include

- setting out the safeguards to be applied when managers with a long association with an audited entity become key partners involved in the audit



- providing guidance on instances where personnel from an internal audit function directly assists the external auditor in carrying out external audit procedures. As the associated threats are similar to situations where reliance is placed on other work carried out by the internal audit function, members of the audit team should be required to take a similar approach and review the work undertaken, as well as agreeing the approach with those charged with governance in advance
- explaining how the general approach to non-audit services applies to restructuring services where the same firm provides both audit and restructuring advice to a company. A new section is proposed that provides examples of the type of services included in the category of restructuring services and sets out the requirements and guidance associated with their provision to an audited entity
- extending the prohibition on serving as a director or officer of an audited body from only those who undertake audit work to all partners and employees of an audit firm.

Comments should be sent to h.osullivan@frc-apb.org.uk by 15 June 2009.

Draft bulletin on financial instruments

The APB has issued [Draft practice note 23 \(Revised\) Auditing complex financial instruments](#) for consultation which will provide guidance on auditing complex financial instruments.

The current PN 23 provides guidance on auditing derivative financial instruments. The draft revisions will widen the scope of PN 23 to cover other complex financial instruments. In addition, the following developments make this an appropriate time to update PN 23

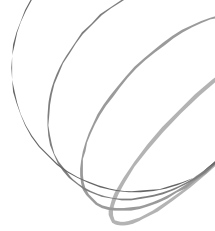
- the current difficult financial market conditions which give rise to particular considerations in relation to valuations and to financial statement disclosures about risks and uncertainties pertaining to complex financial instruments
- the changes to the financial reporting frameworks used by entities in the UK to account for complex financial instruments.

Responses should be sent to k.billing@frc-apb.org.uk by 27 March 2009.

Clarified ISAs

The [International Auditing and Assurance Standards Board](#) (IAASB) has completed its [Clarity project](#) with the release of the following final seven clarified ISAs

- ISA 210 (Redrafted) Agreeing the terms of audit engagements



- ISA 265 Communicating deficiencies in internal control to those charged with governance and management
- ISA 402 (Revised and redrafted) Audit considerations relating to an entity using a service organisation
- ISA 700 (Redrafted) Forming an opinion and reporting on financial statements
- ISA 800 (Revised and redrafted) Special considerations - Audits of financial statements prepared in accordance with special purpose frameworks
- ISA 805 (Revised and redrafted) Special considerations - Audits of single financial statements and specific elements, accounts or items of a financial statement
- ISA 810 (Revised and redrafted) Engagements to report on summary financial statements.

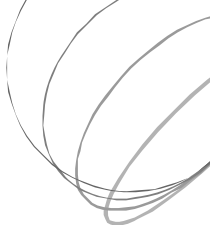
The IAASB has now issued all its auditing standards in a form designed to enhance their understanding and implementation. They comprise 36 ISAs and one international standard on quality control including

- one new standard, addressing communication of deficiencies in internal control
- 16 standards containing new and revised requirements
- 20 standards that have been redrafted to apply the new conventions and reflect matters of general clarity only.

The ISAs have a new structure in which the following information is presented in separate sections

- introductory material which may include information regarding the purpose, scope, and subject matter of the ISA, in addition to the responsibilities of the auditors and others in the context in which the ISA is set
- a clear statement of the objective of the auditor in the audit area addressed by each ISA
- a definition of the applicable terms in each ISA
- clearly stated requirements in support of each objective that are always expressed by the phrase 'the auditor shall'
- application and other explanatory material which explains more precisely what a requirement means or is intended to cover, or includes examples of procedures that may be appropriate under given circumstances.

The APB has announced its intention to update UK auditing standards for the new clarified ISAs. The APB plans to shortly issue an exposure draft of a complete set of proposed new UK standards with the intention to finalise them the autumn. The proposed new standards will adopt the IAASB's new clarified standards with some supplementary requirements and guidance. Supplementary material will be proposed where considered necessary to

- 
- address specific UK legal and regulatory requirements
 - provide other guidance relating to legal and regulatory matters relevant to an audit
 - maintain other current APB requirements and guidance that are, in the APB's view, necessary to prevent changes in audit practice to the detriment of audit quality.

Because of the improvements in the new ISAs, the quantity of supplementary material is expected to be reduced significantly from that in the current UK standards.

The APB has concluded that making the revised ISAs effective in the UK for audits of periods *ending* after 15 December 2010 is more appropriate than for audits of periods *commencing* on or after 15 December 2009, which is the IAASB's effective date. The APB's date will exclude any 'short accounting periods' that could have presented practical difficulties to auditors.

Other developments

The document referred to in the following article is available free of charge by using the hyperlink, or can be downloaded by auditors from the TSU intranet/extranet.

Procurement

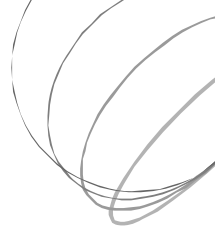
New handbook

The [Scottish Government](#) has published a new [Scottish procurement policy handbook](#) which sets out the fundamental rules, behaviours and standards applicable to public procurement in Scotland.

Public procurement is defined in the handbook as the acquisition of goods, services and works from third parties. Compliance with the principles in the handbook is mandatory for all Scottish public bodies, including local authorities (contracting authorities). Any contracting authority which fails to comply with the handbook is unlikely to be able to demonstrate adequate governance and accountability for the appropriate management of public funds and expenditure.

The handbook describes the key roles and responsibilities in relation to the procurement function and outlines the governance and accountability arrangements that organisations should have in place. Each organisation should ensure that its arrangements are appropriate to the level of procurement undertaken.

Organisations should have access to a dedicated procurement function, which should be led by an individual with full responsibility for procurement across the organisation. The head of procurement should be at board level or, at a minimum, one level below with a board member taking clear ownership for procurement and commercial matters. The specific role of the procurement function may vary depending upon the size and nature of the organisation. At a high level, however, the primary role of the procurement



function includes providing professional procurement expertise and support in the development of, and adherence to, procurement policy, best practice and law.

The term 'procurement officer' is used within this document to describe any member of staff who is formally authorised to place contracts on behalf of the organisation. The key elements of the procurement officer's role are to provide support and guidance to the end user/customer in

- market analysis and engaging in initial market dialogue, where appropriate
- challenging end users' requirements for cost-effectiveness and need
- developing an appropriate output-based specification which is fashioned to attract market interest and stimulate competition and innovation
- developing a procurement strategy which requires consideration of existing and/or collaborative contracts
- ensuring that all procurement processes are compliant with relevant legal and policy obligations.

The handbook also addresses key policy issues such as the achievement of value for money through effective competition, and the importance of collaboration at a national, sectoral and local level.

Auditors should confirm that their audited bodies have arrangements in place to ensure compliance with the principles in the handbook.

Legislation

The following items of legislation are available free of charge by using the hyperlinks, or can be downloaded by auditors from the TSU intranet/extranet.

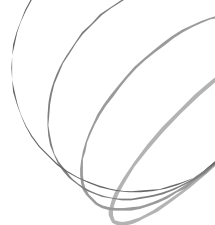
Statutory instruments

Public finance and accountability

[The Budget \(Scotland\) Act 2008 Amendment Order 2008](#), SSI 424 came into force on 18 December 2009 and amended the *Budget (Scotland) Act 2008* in respect of 2008/09.

Publications

The following publication is available free of charge by using the hyperlink.



Scottish budget

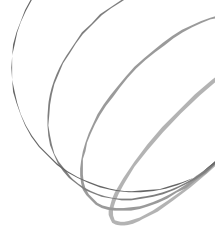
Scotland's budget documents – the 2008/09 spring budget revision

These [documents](#) from the Scottish Government provide information in respect of the 2008/09 spring budget revision.

Auditor action

The following is a summary of items in this chapter of the TB that include specific recommendations or requests that auditors take specific actions

Section	Action
TSU developments – Responses to enquiries – International financial reporting standards (leases)	Auditors should confirm that their audited bodies have undertaken a review of all leases and have appropriately categorised them in accordance with IAS 17.
TSU developments – Responses to enquiries – International financial reporting standards (annual leave)	Auditors should confirm that their bodies have assessed their employee benefits to identify whether a liability exists and review the methodology used to quantify this.
Other developments – Procurement – New handbook	Auditors should confirm that their audited bodies have arrangements in place to ensure compliance with the principles in the procurement handbook.



Local authority

Introduction

This chapter contains articles on local authority technical matters and should be read by auditors with appointments in that sector. The general chapter contains articles on cross-sectoral technical matters.

The documents referred to in the articles that are available from websites can be obtained by using the hyperlinks. They can also be downloaded by auditors from the TSU intranet/extranet.

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note that the following articles in this chapter relate to 2008/09

- TSU guidance on landfill allowances trading scheme
- TSU guidance on strategic development planning authorities
- TSU guidance on true and fair view
- 2008/09 SORP guidance notes
- guidance on impairment of investments
- 2008 BVACOP
- guidance on direct payments
- HB COUNT 2008/09
- revised guidance on new rules on councillors' remuneration
- revised 2008/09 capital grant allocations.

There are also other articles on the following subjects: IFRS outline project plan; second update on IFRS-based accounting code; pre-consultation draft accounting code section on property, plant and equipment, investment properties, assets held for sale, benefits payable during employment, and termination benefits.



TSU developments

Responses to enquiries

The TSU operates a 'help-desk' for auditors which provides responses to ad hoc technical enquiries. Selected responses are added to the frequently asked questions section of the TSU intranet/extranet and include the following since the issue of TB 2008/4.

Landfill allowances trading scheme

What is the status of the landfill allowances trading scheme in Scotland?

TB 2008/3 (page 18) advised of a landfill allowances trading scheme (LATS) which was implemented in Scotland from 1 April 2008. The accounting requirements for the scheme involves the recognition of

- an asset for landfill allowances measured at the lower of cost or net realisable value
- a liability for landfill usage which is discharged by using the allowances and/or paying a cash penalty to the Scottish Government, and is measured using the market price of the allowances and the cost of the penalty.

However, LATS is currently under review and the Scottish Government has suspended penalties and trading under the scheme since October 2008 pending the review's outcome. It would therefore be reasonable for the asset and liability to be measured at zero in the 2008/09 accounts as there is no market for the allowances. However, as the penalties are only suspended rather than cancelled, the disclosure of a contingent liability may be appropriate.

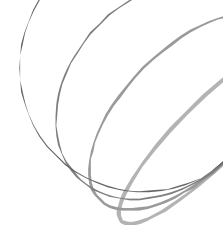
Auditors should confirm that authorities are appropriately measuring their LATs assets and liabilities and have considered the disclosure of a contingent liability.

Strategic development planning authorities

What are the accounting requirements for the strategic development planning authorities?

Four strategic development planning authorities (SDPAs) were designated by Scottish Ministers in May 2008 under Section 4 of the *Planning etc (Scotland) Act 2006*. In accordance with the designation orders and associated statutory guidance, SDPAs meet the definition of joint committees section 106 of the *Local Government (Scotland) Act 1973*.

Section 106 extends the accounts and audit provisions of the 1973 Act to joint committees. SDPAs are therefore required to produce separate accounts in compliance with the SORP and are subject to the



inspection and accounts submission requirements of *The Local Authority Accounts (Scotland) Regulations 1985*.

Other guidance

True and fair view

From 2008/09, the wording in the audit certificate for Scottish local authorities will move from a 'presents fairly' to 'true and fair view' basis of audit opinion. This brings local government into line with the rest of the public sector in Scotland. It is not expected that this change will have any practical impact on auditors' work.

It is unlikely that the other UK audit agencies will be in a position to make this change in 2008/09 as amendments to legislation would be required. No such legislative amendments are required for Scotland.

Further guidance on the wording to be used will be provided by the TSU in due course.

Accounting developments

The documents referred to in the following articles are available free of charge by using the hyperlinks, or can be downloaded by auditors from the TSU intranet/extranet.

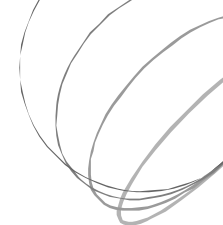
2008/09 SORP guidance notes

The [Chartered Institute of Public Finance Accountants](#) (CIPFA) has published the *Code of practice on local authority accounting in the UK: A statement of recommended practice – guidance notes for practitioners – 2008/09 accounts* (the guidance notes) which are intended to assist in understanding how to apply the accounting requirements of the 2008 SORP. The guidance notes provide background to the SORP's requirements and include detailed illustrations, but are not prescriptive.

There have been a number of changes to the guidance notes to reflect changes to the 2008 SORP and to clarify other matters. The main changes that auditors' attention is particularly drawn to are summarised in the following paragraphs.

Capital receipts

The guidance notes at paragraph D17 of module 3 refer to the SORP requirement for capital receipts that do not derive from the disposal of fixed assets (e.g. the repayment of a grant) to be credited to the income and expenditure account (I&E account). The guidance notes highlight that the I&E account format set out in the SORP does not include a line for such income. They advise authorities to consider whether the item can be posted to one of the existing headings (e.g. where the capital receipt is the repayment of a grant that was originally charged to a particular service) or whether requires its own new heading.



Members allowances

Paragraph N45 of module 3 states that the SORP requirements in respect of disclosing members allowances should be read as requiring disclosure of all payments relating to the remuneration of members, i.e. salaries and expenses, as well as allowances. This is consistent with guidance previously provided by the TSU.

Joint arrangements

New guidance is provided at paragraphs U28 to U31 of module 3 on the accounting requirements for joint arrangements which are not entities (JANEs). A JANE arises where an authority engages in a joint activity with another organisation, but the arrangement stops short of identifiably carrying out a trade or business of its own. The notes give the following two indicators of a JANE

- the participants derive their benefit from products or services taken in kind rather than by receiving a share in the results of trading, or
- each participant's share of the output or result of the joint activity is determined by its supply of key inputs to the process producing that output or result.

In the local government context, JANEs might arise in situations such as the promotion of services or local amenities across the area of two or more authorities; sharing the use of fixed assets; or the provision of support services on a joint basis. Each participant should account separately for its own transactions in respect of the arrangement. This would mean the single entity accounts of the authority would feature

- its share of the jointly controlled assets, based on some reasonable apportionment methodology
- any liabilities the authority has incurred directly
- its share of any liabilities incurred jointly with other partners
- any income from sale or use of its share output, together with its share of any expenses incurred
- any expenses that it has incurred in respect of its interest in the arrangement.

Accrued interest

Paragraph B9 of module 4 states that interest on external borrowings should be fully accrued in order that each year bears the cost of interest related to its actual external borrowing. Paragraph L20 of module 3 states that amounts payable in relation to financial instruments should normally be accounted for as part of the carrying amount of the instrument. However, it also states that an alternative treatment would be for the current elements of long-term liabilities, such as accrued interest, to be separately disclosed under current liabilities. Auditors should note that the TSU favours the 'alternative treatment'.



Capital grant

Paragraph I45 of module 5 clarifies that the general capital grant, which applies for the first time in 2008/09, should be allocated to specific assets on an appropriate basis and then credited to government grants deferred, rather than be treated as a grant that cannot be identified to particular assets.

Investment properties revaluations

Paragraph F27 of module 5 clarifies that authorities are not permitted to maintain a negative balance on the revaluation reserve for investment properties. However, it also states that SSAP 19 allows gains and losses on the revaluation of investment properties to be taken to an investment revaluation reserve, and permits negative balances. The notes then put forward the view that, while the SORP does not require authorities to maintain a separate investment revaluation reserve, it does not prohibit the use of such a reserve, and authorities may therefore choose to operate such a reserve for investment properties. Authorities should note that the TSU does not agree with this recommendation.

Rolled up debt

Paragraph A18 of module 6 covers instances where authorities voluntarily allow social work clients to defer payment for services by rolling up costs against a legal charge on the client's property, and highlights that this charge may represent a soft loan where interest is charged at a concessionary rate. As the nature of the charges means that it will be difficult to estimate the life of the loan on an individual basis, the notes suggest that the write-down to fair value of the loans could therefore be estimated on a portfolio basis. Authorities will need to estimate the average length of their arrangements, based on past experience. The average remaining life of the loans can be assumed to be half that of the average life of the arrangements. The calculation will need to be revisited at each balance sheet date. Where the charge is on a percentage of the value of the property, rather than a fixed amount, this will raise issues as to whether the arrangement includes a separable embedded derivative represented by the potential gain or loss that will be attributable to movements in house prices.

Miscellaneous

Other changes of note include the following

- Section V of module 3 has been updated to provide guidance on the impact of revisions to the pension SORP.
- Section T of module 4 has been amended to reflect the revision of FRS 17 disclosure requirements. This includes at paragraph T23 a revised example disclosure note.
- Paragraph C1 of module 6 notes that assets arising purely from statutory provisions (e.g. council tax and non-domestic rates) are exempt from the definition of financial assets, as the definition requires there to be a contractual basis (e.g. housing rent arrears).



The guidance notes may be downloaded by inhouse audit providers from the TSU intranet, but licensing restrictions prevent it from being available on the extranet. They can however be ordered from the [CIPFA shop](#).

Auditor action

Auditors may find it useful to refer to the guidance notes when checking authorities' compliance with the requirements of the 2008 SORP.

Guidance on impairment of investments

Proposed amendment to guidance

TB 2008/4 (page 14) drew attention to [Bulletin 78 Impairment of financial assets and amendments to accounting standards](#) issued by CIPFA's Local Authority Accounting Panel (LAAP) which provides guidance on whether an investment has been impaired and, if so, how to measure the impairment. In response to points raised by Audit Scotland, CIPFA has agreed to amend one aspect of the guidance that recommends the disclosure of a contingent liability in cases where there is no information on which to base an estimate of an impairment loss.

Several Scottish local authorities have deposits with Icelandic banks and/or their UK subsidiaries. The banks concerned are in administration or receivership and a number of the deposits are, or will be by 31 March 2009, past their due date for repayment. The TSU has been made aware that due to the uncertainty regarding how much of the deposits will be recoverable, the authorities involved do not wish to recognise an impairment loss. Instead, in reliance on advice contained in LAAP bulletin 78, they want to disclose a contingent liability.

The TSU's view is that this is not an acceptable approach to accounting for an asset that is already on an authority's balance sheet. The TSU is not aware of any reference in the SORP or FRS 26 that implies that uncertainty in measuring an asset should be reflected in a contingent liability being disclosed rather than in the value of the asset. In addition, this would not meet the definition of a contingent liability contained in FRS 12 (i.e. a present obligation arising from past events where the amount of the obligation cannot be measured with sufficient reliability).

The SORP states that financial information is reliable if, under conditions of uncertainty, it has been prudently prepared. It goes on to say that there is often uncertainty either about the existence of assets or the amount at which they should be measured, and that prudence requires that accounting policies take account of such uncertainty in recognising and measuring those assets.

FRS 26 states that in some cases the data required to estimate the amount of an impairment may be limited and that an entity should use its judgement to estimate the amount of impairment loss. It also states



that the use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability. The application guidance to FRS 26 states that an entity should recognise an impairment loss equal to its best estimate taking into account all relevant information available before the financial statements are issued.

The TSU believes that authorities should make an estimate of the amount recoverable, based on the latest information available e.g. from administrators, when they prepare their unaudited accounts in June and that this should be reviewed and updated before auditors sign their opinions in September. It is recognised that such an estimate will inevitably be based on imprecise information but that it should nevertheless be made. If there is no information on which to base an estimate of the recoverable amount, it may be appropriate for authorities to conclude that the prudent approach would be to fully impair the value of the asset. The TSU does not believe that this approach to impairment should prejudice the amounts that the authorities ultimately recover.

Audit Scotland recently raised this issue at a meeting of the [CIPFA/LASAAC Local Authority SORP Board](#) (CIPFA/LASAAC) where it was recognised that the LAAP bulletin 78 was potentially misleading. CIPFA has undertaken to amend the bulletin shortly, in conjunction with the issue of further bulletins, to remove any reference to contingent liabilities.

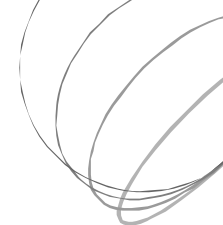
New statutory guidance

The Scottish Government has issued *Guidance on proper accounting practices – impairment of certain investments* which allows local authorities with funds deposited in Icelandic banks that are in administration or receivership to postpone the impact of the impairments from 2008/09 to 2010/11.

The statutory guidance applies to any deposit made by a local authority in a bank which is subject to an event which requires the authority to recognise an impairment in the period commencing 1 October 2008 and ending on 31 March 2009 (relevant investments). It deals with the treatment of the consequent impairment loss on the relevant investments. The local authority accounts will continue to show the impairments in accordance with proper accounting practice, but authorities will be permitted to make offsetting credits to prevent any impact on budget calculations for 2009/10. The statutory credit covers the principal element of the deposit and, to the extent it is considered prudent to do so, the interest element.

In 2010/11, the local authority will have to reverse any statutory credits made.

Authorities will be required to maintain a separate subdivision of the financial instruments adjustment account, and disclose the transactions relating to this subdivision separately in the note to their accounts. In 2010/11, the accounts should clearly demonstrate that a debit has been made to eliminate all statutory credits made to the accounts.



Supplementary accounting guidance

LAAP has issued [*Bulletin 79 \(Provisional\) Impairment of financial assets: supplementary guidance*](#) which provides updated guidance on accounting for impairment losses.

The bulletin updates and extends guidance contained in LAAP bulletin 78 to reflect developments since that bulletin was published including the preparation of the statutory guidance to defer the impact of impairment charges. Although the bulletin is based on the equivalent draft regulations for England, the Scottish Government has indicated that it will be applicable to Scotland. The bulletin is described as provisional as it was prepared while the statutory guidance/regulations were in draft, and it will be re-issued in final form shortly.

Where an investment has been impaired, the authority should account for the impairment in accordance with proper practice. In the year in which the impairment is recognised, which is likely to be 2008/09, an authority may take advantage of the statutory guidance/regulations and adjust the general fund to reduce or negate the impact of the impairment charge in that year. This is achieved by debiting the financial instruments adjustment account and crediting the general fund with an amount no greater than the impairment charge. Any part of the impairment charge that an authority chooses to not transfer to the financial instruments adjustment account remains as a charge to the general fund.

Interest should be credited to the I&E account in accordance with proper practice. Where the impairment charge has been transferred out of the general fund in accordance with the statutory guidance/regulations, the interest credited should also be reversed out of the general fund (to the extent considered prudent) and credited to the financial instruments adjustment account where the interest had not been received at the time the investment was impaired.

The reversal of the transfers in either 2009/10 or 2010/11 required by the statutory guidance/regulations involves debiting the general fund and crediting the financial instruments adjustment account.

In accordance with the statutory guidance, the bulletin notes that Scottish authorities should maintain a separate subdivision of the financial instruments adjustment account, and disclose the transactions relating to this subdivision separately in the note to the accounts.

The bulletin also notes that authorities' investment operations may include cash management on behalf of other funds (e.g. the surplus cash of pension funds) and other organisations (e.g. other local authorities and local authority companies). Responsibility for the impairment charge will be determined by the contract or agreement between the authority and the other fund or organisation.

- In respect of pensions fund arrangements, the pension funds generally invest in the loans fund, and therefore the impairment will be the responsibility of the loans fund.
- Where an authority is acting as an agent for another fund or organisation, the impairment will be the responsibility of that other party.



- Where an authority has received an investment from another fund or organisation, which it has subsequently chosen to reinvest, the impairment will be the responsibility of the authority.
- Where there is a joint arrangement between the other fund or organisation, responsibility for the impairment will be shared, based on each party's share of the joint arrangement.

The bulletin applies to accounting arrangements from 2008/09 to 2010/11.

Auditors should confirm that their authorities are making a reasonable estimate of the amount of deposits recoverable, properly recognising the impairment loss and properly accounting for any deferral permitted by the statutory guidance.

2008 BVACOP

CIPFA has published a revised edition of the *Best value accounting code of practice* (BVACOP) which sets out proper accounting practice for financial reporting below the level of the financial statements for 2008/09.

The guidance on accounting for trading accounts and trading operations has been extended in relation to charges made by local authorities for providing trading companies, which are set up by the authorities, with services, supplies, work and facilities. The charges should cover all the costs of doing so, and this should include contributions to the corporate and democratic core and to non-distributed costs.

In addition, continuing compulsory competitive tendering arrangements has been removed from the list of trading operations run by local authorities.

It is expected that the consultation on the 2009 SORP will incorporate an accounting treatment for PFI arrangements which is based on international financial reporting standards (IFRS). This would bring most assets on to the balance sheet, along with a related liability. Expenditure under a PFI scheme should be classified under the following groups in the recommended standard objective analysis

- the service charge element of the payment should be included in group 4 supplies and services.
- depreciation should be included in group 8 depreciation and impairment losses
- the interest element should be included in group 10 capital financing costs.

The SORP does not allow costs associated with abortive capital projects to be capitalised; instead the costs must be charged to the I&E account. The accounting treatment for these costs has been clarified by requiring them to be charged to the relevant service revenue account.

It has also been clarified that revenue expenditure funded from capital under statute should be charged to the relevant service revenue account.



Consultation on pension scheme reporting

The [Local Authority \(Scotland\) Accounts Advisory Committee](#) (LASAAC) has issued a [Consultation on potential requirement for separate LGPS pension fund reports](#) which is concerned with arrangements for the publication and audit of local government pension scheme (LGPS) financial statements.

There is no legal requirement for a Scottish local authority to produce a separate LGPS annual report, or ensure that a separate external audit certificate is provided on the LGPS accounts. A requirement has been introduced in England and Wales for administering authorities to produce a pension fund annual report. LASAAC is therefore reviewing whether there should be a similar requirement in Scotland.

The paper sets out a number of reasons for a separate audited annual report including the following

- Officers and elected members who govern and manage the LGPS should be accountable to the scheduled and admitted bodies that provide the LGPS with funds.
- Authorities need to be able to assess the sustainability and stability of the relevant LGPS fund they contribute to.
- The size of some LGPS funds may support the provision of a full LGPS annual report, which could promote greater accountability to, and improved openness and communications with, current scheme members and pensioners.
- The amount of LGPS information required to be shown in administering authority accounts could be reduced.
- The absence of an independent audit report on the LGPS financial statements, and on the performance and administration of the fund, may be seen as a weakness in the arrangements.

Responses were required by 6 March 2009.

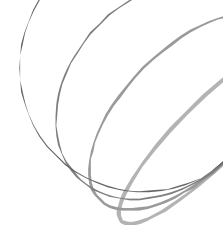
Other developments

The documents referred to in the following articles are available free of charge by using the hyperlinks, or can be downloaded by auditors from the TSU intranet/extranet.

International financial reporting standards

Outline project plan

CIPFA has published [LAAP bulletin 80 Implementation of IFRS – outline project plan](#) which provides an outline project plan for moving to IFRS. In the absence of mandatory dates, the outline plan sets out recommended completion dates for a number of major milestones leading to the preparation of IFRS-based accounts in 2010/11.



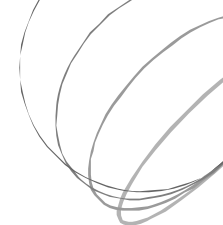
Authorities are expected to use this to develop their own detailed plans. The bulletin strongly advises authorities to discuss their project plans with their external auditors. The dates and milestones set out in the outline project plan are as follows

May 2009	High level impact assessment completed and changes to accounting policies identified
	Key staff identified, responsibilities allocated, and an assessment carried out of whether resources are adequate.
	Detailed project plan completed
July 2009	System and procedural changes identified
Sept 2009	Information required to restate 1 April 2009 balance sheet and 2009/10 accounts onto an IFRS basis identified
	Skeleton IFRS-based accounts developed
	Information required to restate 1 April 2009 balance sheet onto an IFRS basis obtained
	Any impact on basing budgets on IFRS identified
Dec 2009	1 April 2009 balance sheet restated onto an IFRS basis
Jan 2010	System and procedural changes implemented
	2010/11 IFRS-based budgets compiled
March 2010	System and procedural changes tested
Dec 2010	2009/10 accounts restated onto an IFRS basis
June 2011	2010/11 accounts produced on an IFRS basis
Sept 2011	2010/11 IFRS-based accounts audited

Auditors should confirm that their authorities have prepared their own detailed IFRS project plans.

Second update on new code

CIPFA/LASAAC has issued [*IFRS-based code of practice on local authority accounting - update 2*](#) which outlines the latest position regarding the development of the IFRS-based code. The following matters contained in the update are particularly drawn to auditors' attention.



For the first IFRS-based accounts to be published in 2010/11, authorities will also need to restate the 2009/10 accounts, including an opening balance sheet as at 1 April 2009 (in effect the restated closing 2008/09 balance sheet). The update clarifies that the restated opening balance sheet will require to be published as part of the 2010/11 accounts. The code will adopt the IFRS 1 exemptions to the retrospective approach in respect of IFRIC 1 and 4 in respect of leases, *IAS 23 Borrowing costs* and, for group accounts, *IFRS 2 Share-based payment* and *IFRS 3 Business combinations*.

IAS 16 Property, plant and equipment has a greater emphasis on component accounting than FRS 15 and, when parts of an asset are replaced, IAS 16 requires the replaced parts to be derecognised. It has been decided that the code should adopt these requirements.

Revaluation bases will remain largely as required by the SORP, including infrastructure assets and community assets continuing to be carried at depreciated historical cost. IAS 16 suggests a revaluation period of three to five years. For the draft code, this has been interpreted as a five-year rolling programme of valuations to cover a class of assets, which is in line with the current SORP requirements.

Renewals accounting is not permitted under IAS 16 and, in contrast with the current SORP, will no longer be permitted by the code.

The draft code requires residual values for depreciation purposes to be based on current prices at the balance sheet date. In the current SORP, residual values are based on the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes. This difference is likely to have little impact on the depreciation of assets carried at current value, but it may make a difference to depreciation charges in respect of assets carried at historical cost.

IAS 23 Borrowing costs requires borrowing costs associated with the construction of a qualifying asset to be capitalised. This is an optional treatment rather than a requirement in the SORP. IAS 23 does not need to be applied to assets measured at fair value. The draft code adapts this requirement, and does not permit any borrowing costs to be capitalised.

It has been decided that pension fund accounts will be produced under the draft code, not the pensions SORP. *IAS 26 Accounting and reporting by retirement benefit plans* includes optional accounting treatments that would not be permitted under the current pension SORP. However, it is expected that the code requirements will be similar.

It has been decided that the code should adopt the requirements of *IFRS 5 Non-current assets held for sale and discontinued operations*. In contrast with FRS 15, assets held for sale or included in a disposal group are not depreciated. Assets classified as held for sale are measured at the lower of carrying value and fair value less costs to sell. Where the carrying amount is lower, this will lead to a different valuation when compared to the current SORP which requires the asset to be measured at market value less



expected selling costs. IFRS 5 includes strict criteria that must be met before an asset is reclassified as held for sale, whereas the current SORP does not include any such criteria.

Auditors should confirm that authorities are taking the required action set out in the update.

CIPFA/LASAAC will formally consult on the whole code during spring 2009, but comments on the pre-consultation draft of each section can be made as they are approved by CIPFA/LASAAC to ifrcode@cipfa.org. Pre-consultation drafts are currently available on property, plant and equipment; investment property; assets held for sale; benefits payable during employment; and termination benefits. They are summarised in the following articles.

Pre-consultation draft section on property, plant and equipment

The [draft](#) proposes that authorities should account for tangible fixed assets in accordance with *IAS 16 Property, plant and equipment*, except for the following adaptations

- Infrastructure assets, community assets and assets under construction should be measured at historical cost, as the option to use fair value does not apply. All other classes of asset should be measured at fair value.
- Where an asset is not held for the purpose of generating cash flows, value in use is the present value of the asset's remaining service potential, which can be assumed to be at least equal to the cost of replacing that service potential.

The cost of an item of property, plant and equipment should only be recognised as an asset if it is probable that the future economic benefits or service potential associated with the item will flow to the entity, and the cost or fair value of the item can be measured reliability. It is proposed that this recognition criteria should apply to subsequent expenditure as well as initial expenditure. The current SORP has separate criteria for enhancement expenditure i.e. expenditure can be capitalised where the expenditure 'extends the economic life of the asset'. However, it is not expected that this will result in different accounting treatments.

The current SORP permits the capitalisation of borrowing costs but this is not permitted under the draft code.

Land and buildings should be treated separately for depreciation purposes. The current SORP requires the separate recognition of two or more significant components of an asset for depreciation purposes where the useful life is substantially different. However, this section of the draft code requires each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item to be depreciated separately. The requirement for componentisation for depreciation purposes is applicable to enhancement and acquisition expenditure incurred, and revaluations carried out, from 1 April 2010.



Assets classified as held for sale should not be depreciated. It is proposed that the only general ground for not charging depreciation is when the residual value of an asset is equal or greater than the asset's carrying amount.

The code proposes that residual values should be based on current prices at the balance sheet date. The current SORP defines residual values as being based on prices prevailing at the date of the acquisition (or revaluation) of the asset and which do not take account of expected future price changes. This may require the restatement of the residual values and depreciation charges of assets carried at historical cost. However, it is anticipated that for authorities, the residual values of assets carried at historical cost (i.e. community and infrastructure assets) will not be material

The carrying amount of an item of property, plant and equipment should be derecognised on disposal or when no future economic benefits are expected from its use or disposal. The draft code requires that, where a component is replaced or restored (i.e. enhancements), the carrying amount of the old component should be derecognised to avoid double counting and the new component reflected in the carrying amount. This includes the derecognition of parts of an asset not previously recognised as a separate component.

Pre-consultation draft section on investment property

The [draft](#) proposes that authorities should account for investment property in accordance with *IAS 40 Investment property*, except it requires the fair value model to be used; the option to use the cost model is not permitted.

IPSAS 16 Investment property is based on *IAS 40*, and provides additional guidance for public sector bodies. It defines an investment property as one that is used solely to earn rentals or for capital appreciation or both; property that is also used to deliver services is not an investment property. The draft code adopts this definition of investment property.

The current SORP requires investment property to be carried at the lower of net current replacement cost or net realisable value (effectively market value). The draft code requires investment property, after initial recognition at cost, to be carried at fair value. However, as fair value will normally be based on market value, this is not expected to result in any change to the carrying amount.

The draft code proposes that changes to fair value should be taken to the I&E account for the period in which it arises. However, these are not proper charges to the general fund, and therefore they require to be transferred to the capital adjustment account. The current SORP requires revaluations of investment property to be adjusted through the revaluation reserve in the first instance.

The current SORP requires investment property held on a lease to be depreciated when the unexpired term is 20 years or less. This requirement has been removed in the code, and no investment properties are depreciated.



Pre-consultation draft section on assets held for sale

It is proposed in the [draft](#) that authorities should account for assets held for sale and present and disclose discontinued operations in accordance with *IFRS 5 Non-current assets held for sale and discontinued operations*.

Assets should be classified as held for sale if their carrying amount will be recovered principally through a sale rather than their continued use. The current SORP does not include any criteria that has to be met in order to classify an asset as a surplus asset held for disposal, i.e. held for sale. In contrast, the draft code sets out the following strict criteria, all of which have to be met

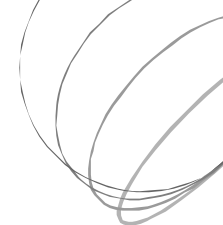
- The asset must be available for immediate sale in its present condition subject to terms that are usual and customary for sales of such assets.
- The sale must be highly probable; the appropriate level of management must be committed to a plan to sell the asset and an active programme to locate a buyer and complete the plan must have been initiated.
- The asset must be actively marketed for a sale at a price that is reasonable in relation to its current fair value.
- The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification and action required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

The draft code requires an authority to measure an asset classified as held for sale at the lower of its carrying value and fair value less costs to sell. Where the carrying amount is lower, this will lead to a different valuation when compared to the valuation under the current SORP which requires the asset to be measured at market value less expected selling costs.

When the sale is expected to occur beyond one year, authorities will be required to measure the cost to sell at their present value. Any increase in the present value of the costs to sell that arises from the passage of time is a financing cost. The current SORP does not contain such a requirement.

It is proposed that a non-current asset classified as held for sale should not be depreciated (or amortised in relation to intangible assets). The current SORP states that assets held for sale are not exempt from depreciation.

Following reclassification of an asset as held for sale, it is proposed that the subsequent amount of revaluation gains arising from an increase in fair value that can be recognised is limited to the cumulative



impairment loss that has been previously recognised. The amount that can be recognised is not limited under the current SORP.

The draft code introduces the concept of a 'disposal group'. These relate to assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. The criteria and requirements that relate to held for sale individual assets also apply to disposal groups.

In order to qualify as 'discontinued operations', the activities must cease completely. Responsibilities transferred from one part of the public sector to another (such as 'machinery of government' changes) are not discontinued operations. In contrast, the definition within the current SORP encompasses local government reorganisation.

The draft code requires prior periods to be restated for discontinued operations, so that the current and prior periods relate to all operations that have been discontinued by the end of the reporting period being presented. The restatement of prior periods is not required by the current SORP.

Pre-consultation draft section on benefits payable during employment

The [draft](#) proposes that authorities should account for benefits payable during employment in accordance with *IAS 19 Employee benefits*, and *IPSAS 25 Employee benefits* which provides additional guidance for public sector bodies, subject to the following interpretations

- Actuarial gains and losses should be recognised in reserves. The alternative approach permitted by IAS 19 by which actuarial gains and losses falling outside an agreed corridor are recognised in the I&E account does not apply.
- The rate to be used to discount liabilities should be based on yields on high quality corporate bonds in accordance with IAS 19. The adaptation contained in IPSAS 25 to apply a discount rate that reflects the time value of money has not been adopted by the draft code.
- An IPSAS 25 interpretation of IAS 19 requires that in certain circumstance an authority should consider whether some or all long-term disability payments should be accounted for in the same way as defined benefit post employment benefits rather than as an 'other long-term benefit'. The IPSAS 25 interpretation has been adopted by the code.

Benefits payable during employment include short-term employee benefits and other longer-term employee benefits.

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the year end of the period in which the employee renders the service.



Short-term employee benefits are not covered by the current SORP, and there is no UK accounting standard that deals with them. As a result, differing accounting treatments may have developed. An approach based on IAS 19 will necessitate a change in accounting policies for many authorities. A key difference is likely to relate to the treatment of short-term compensated absences that can be carried forward where the current entitlement is not used e.g. annual leave. Short-term accumulating compensated absences require to be

- recognised when employees render services that increases their entitlement to future compensated absences
- measured as the additional amount that the authority expects to pay as a result of unused entitlement that has accumulated at the balance sheet date.

Non-accumulating compensated absences should be recognised when the absence occurs.

Other long-term employee benefits are those (other than post employment benefits and termination benefits) that do not fall due wholly within twelve months after the end of the period in which the employees render the related services. Other long-term employee benefits are accounted for on similar principles to post retirement benefits but a simplified method of accounting is used. It differs from the accounting required for post-employment benefits in that actuarial gains and losses and all past service costs are recognised immediately in I&E account

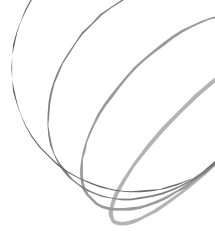
Long-term employee benefits were not covered by the current SORP, except for long-term disability benefits (referred to as 'incapacity benefit' in the SORP), which are treated as a type of defined benefit pension benefit. In the code they are not classed as a post retirement benefits but rather as other long-term employee benefits. However, the code proposes an IPSAS 25 interpretation that allows long-term disability benefits to be accounted as defined benefit retirement benefits in certain circumstances.

Pre-consultation draft section on termination benefits

It is proposed in the [draft](#) that authorities should account for termination benefits in accordance with *IAS 19 Employee benefits*.

The current SORP only covers termination benefits awarded as an enhancement of pension benefits. It treats these as a retirement benefit and classifies them as one type of past service cost. The draft code covers all forms of termination benefits and does not treat them as a 'post employment benefits' but as a separate category of employment benefit. Termination benefits are payable as a result of either

- an employer's decision to terminate an employee's employment before the normal retirement date
- an employee's decision to accept voluntary redundancy in exchange for those benefits.



Under the current SORP the pension enhancement is recognised in the I&E account on a straight-line basis over the period in which the increase in benefit vests. The draft code proposes that termination benefits should be charged to the I&E account immediately whether they vest immediately or not.

Supporting people

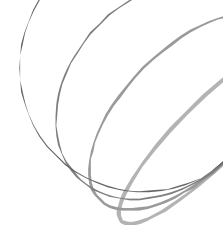
Guidance on direct payments

[CIPFA Scotland](#) has issued [Self-directed support: direct payments – a guide for local authority finance managers](#) which sets out a financial framework for making direct payments. The guide complements national guidance on self-directed support but focuses specifically on financial matters in respect of direct payments. It sets out a proportionate risk based national framework for financial monitoring and assessment, and provides guidance on the level of record keeping required.

For the purposes of this guidance, financial monitoring of direct payments is defined as those actions which seek to gain evidence to ensure that payments made to individuals have been utilised for the intended service purpose. Activities may include examination of separate (but not personal) bank accounts and examination of records and receipts. The following guiding principles are considered to be paramount in setting out a framework for financial monitoring

- The assurance of individual independence and choice should be balanced with evidence of personal responsibility. It is reasonable to ask people to account for how they have spent their funds in achieving their support plan outcomes.
- Financial monitoring arrangements should be 'light touch' and proportionate to the level of risk involved
- Local authorities can set a local de-minimis level of expenditure below which receipts are not required.
- There should be flexibility, within clear boundaries, to spend the resources allocated creatively in ways which reflect the agreed outcomes.

As a minimum, individuals must be able to provide reasonable evidence of their income and expenditure on direct payments, which may be achieved by providing bank statements together with the supporting invoices and receipts.



Benefits

HB COUNT 2008/09

The Audit Commission has issued some of the HB COUNT modules for 2008/09. The Department for Work and Pensions (DWP) has agreed with Audit Scotland (and the Audit Commission and Wales Audit Office) that external auditors should use the HB COUNT methodology when certifying housing and council tax benefit (HB/CTB) subsidy claims. Auditors in Scotland were given the choice in 2007/08 to adopt HB COUNT or continue to Audit Scotland's pre-existing audit sampling methodology. From 2008/09, Audit Scotland's methodology will be consistent with HB COUNT.

HB COUNT was designed by the Audit Commission and is set out in modules which are updated and agreed with the DWP each year. The HB COUNT approach for 2008/09 consists of seven modules. The following have been issued and are of relevance to auditors in Scotland

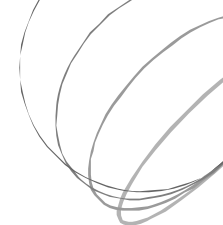
- Module 1 provides an overview of the approach.
- Module 2 contains a checklist to help auditors ensure that the authority's system is using the correct benefit parameters to calculate benefit entitlement and for the authority to claim the correct amount of subsidy.
- Module 3 comprises workbooks to be completed for detailed testing, incorporating step-by-step guidance and a test result summary.

Module 4 is an analytical review tool and module 5 is a software diagnostic tool but these have not yet been issued. Modules 6 and 7 relate only to England.

A key element of the HB COUNT approach involves taking a sample of benefit cases from the entries on an authority's subsidy claim form and undertaking detailed testing on these cases using the module 3 workbooks. The HB COUNT approach differs considerably from the audit methodology recommended previously by Audit Scotland, particularly in respect of the sampling methodology. The approach to sampling under HB COUNT is summarised in the following paragraphs.

Auditors will select initial samples of 20 cases (10 new claims and 10 changes in circumstances) from the subsidy claim form each of the headline cells for rent rebate, rent allowance and council tax benefit. They will then test these 60 cases from the event that caused them to be included in the sample to the end of the accounting period or until benefit ceases, whichever is earlier, to ensure that they have been assessed correctly and that the correct amount of subsidy has been claimed.

If auditors are unable to conclude that the authority's claim can be amended to make it fairly stated, or they conclude an amendment is possible but the authority does not agree the proposed amendment, they will



apply the 40+ approach. This entails testing a further 40 cases and reporting the results of all the tests in the auditor's covering letter. The DWP can then decide how the results of the testing affect the amount of subsidy payable to the authority, without further recourse to auditors.

HB COUNT recommends that auditors and their audited bodies should consider whether it would be quicker and more cost effective for any 40+ testing to be carried out by the authority with the findings reviewed by the auditor, including an element of re-performance. The TSU understands that the practice of local authorities carrying out 40+ testing is widespread in England and has been accepted by authorities and auditors as being a cost effective use of resources. If authorities do not wish to carry out the additional testing, auditors will do so and reflect this additional work in the audit fee.

Under HB COUNT, testing can be carried out much earlier in the year than under the previous methodology (e.g. April/May rather than October /November). This provides the opportunity for auditors and authorities to plan to spread work throughout the audit year so that audited claims can be submitted to the DWP by 30 November 2009.

Detailed guidance on the audit of the 2008/09 HB/CTB claims will be provided in due course.

Councillors' remuneration

Revised guidance

The Scottish Government has issued [Councillors' remuneration: Remuneration, allowances and expenses guidance](#) which provides guidance on the revised arrangements for councillors' remunerations.

The term 'remuneration' relates to the whole package of remuneration, allowance and reimbursement of actual expenditure which may be paid to local authority elected members. This guidance replaces the interim guidance issued in March 2007 and reflects changes arising from

- [The Local Government \(Allowances and Expenses\) \(Scotland\) Amendment Regulations 2008](#) which extend the right to claim reimbursement of Civic Head expenses to others undertaking civic duties on behalf of the Civic Head
- [The Local Government \(Scotland\) Act 2004 \(Remuneration\) Amendment Regulations 2008](#) which substitute increased amounts for local authority payments to their members for 2008/09 and 2009/10.



Capital grants

Revised grant allocations

The Scottish Government has issued a letter setting out revised allocation of general capital grant for 2008/09. The allocations have been revised to reflect agreements reached in respect of funds relating to the former schools fund and police capital grant. A table provides a reconciliation between *Finance circular 1/2008* and the current total general capital grant.

The conditions attached to this revised offer are unchanged.

Legislation

The following items of legislation are available free of charge by using the hyperlinks, or can be downloaded by auditors from the TSU intranet/extranet.

Statutory instruments

Local government

[*The Local Government \(Allowances and Expenses\) \(Scotland\) Amendment Regulations 2008*](#), SSI 414 came into force from 10 February 2009 and amended the principal 2007 regulations. See Other developments – Councillors' remuneration.

[*The Local Government \(Scotland\) Act 2004 \(Remuneration\) Amendment Regulations 2008*](#), SSI 415 came into force from 10 February 2009 and amended the principal 2007 remuneration regulations. See Other developments – Councillors' remuneration.

[*The Local Government Finance \(Scotland\) Order 2009*](#), SSI 50 came into force on 12 February 2009. See Key circulars – Finance circulars - *Finance circular 2/2009 Local government finance settlement 2009/10 etc.*

Rating and valuation

[*The Non-Domestic Rate \(Scotland\) Order 2009*](#), SSI 3 comes into force on 1 April 2009 and prescribes a rate of 48.1 pence in the pound as the non-domestic rate to be levied for 2009/10.

[*The Non-Domestic Rate \(Levying\)\(Scotland\) Regulations 2009*](#), SSI 42 come into force on 1 April 2009 and provide for the non-domestic rates payable in certain circumstances

- Regulation 3 provides for the general reduction in rates for a ratepayer of non-domestic subjects with a rateable value of £15,000 or less. Regulation 3(2) sets out the reduction on a sliding scale of between 25% and 100%.

- Regulation 4 provides a formula for the additional amount payable as rates for lands and heritages with a rateable value exceeding £29,000.

Police

[The Police Grant \(Variation\) \(Scotland\) Order 2009](#), SSI 41 came into force on 12 March 2009 and varied *The Police Grant (Scotland) Order 2008 for 2008/09* to state the actual audited police grant paid to each police authority, as redetermined on the basis of audited accounts, for 2008/09.

[The Police Grant \(Revocation and Variation No 2\) \(Scotland\) Order 2009](#), SSI 55 came into force on 12 March 2009 and revoked the original variation order and states the actual audited police grant paid to each police authority, as redetermined on the basis of audited accounts.

[The Police Grant \(Scotland\) Order 2009](#), SSI 80 comes into force on 1 April 2009 and determines the amount of police grant to be paid for 2009/10.

Housing

[The Housing Revenue Account General Fund Contribution Limits \(Scotland\) Order 2009](#), SSI 43 came into force on 19 March 2009 and provides that local authorities must not include in their estimates for 2009/10 any contribution from their general fund to their housing revenue account.

Key circulars

The following circulars are available free of charge by using the hyperlink, or can be downloaded by auditors from the TSU intranet/extranet.

Finance circulars

[Finance circular 5/2008 Local government finance settlement 2009/10](#) provides details of the updated, provisional total funding allocations for each council for 2009/10. It also gives details of the non-domestic rate poundage; as well as the current known redeterminations, for 2008/09.

[Finance circular 1/2009 Setting the decapitalisation rates for the 2010 revaluation](#) specifies the decapitalisation rates used for valuing certain non-domestic subjects from 1 April 2010. Decapitalisation rates are used by the Scottish Assessors when valuing non-domestic subjects using the contractor's principle method of valuation. This method is used for those properties (around 20% of the total) where there is no direct evidence of actual rents to estimate the rateable value. The next revaluation of non-domestic property in Scotland will take effect from 1 April 2010. For the purposes of that revaluation

- the higher decapitalisation rate will remain at 5%
- the lower rate will remain at 3.33%.



[Finance circular 2/2009 Local government finance settlement 2009/10 etc](#) provides a summary of the figures contained in *The Local Government Finance (Scotland) Order 2009*, together with details of individual council allocations of revenue and capital support for 2009/10 and revised general revenue funding figures for 2008/09.

Finance circular 4/2009 Guidance on proper accounting practices – impairment of certain investment. See Accounting developments – Guidance on impairment of investments – New statutory guidance.

HB/CTB circulars

Adjudication and operations

[HB/CTB circular A3/2009 2008/09 right time performance indicator](#) gives information on the right time performance data for 2008/09. The DWP will not publish right time performance data on its website until the concerns raised over the accuracy of the data have been addressed. Authorities will be sent their own right time performance data for October and November 2008 on request.

Section 102 reports

Under [section 102\(1\) of the Local Government \(Scotland\) Act 1973](#), the Controller of Audit may report to the Accounts Commission on the accounts of local authorities or any matters arising from the accounts. The following reports have been prepared since TB 2008/4 and are available by following the hyperlinks.

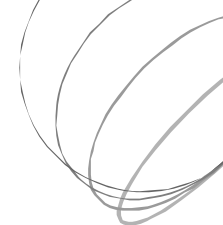
Shetland Islands Council: Annual audit 2007/08

The purpose of this report on [Shetland Islands Council's 2007/08 accounts](#) is to bring the Accounts Commission's attention to fact that, for the third consecutive year, the auditors have qualified the accounts because of a disagreement about accounting treatment in the Council's group accounts.

The council's group accounts did not include the Shetland Development Trust (SDT) and the Shetland Charitable Trust (SCT), and their related subsidiaries. In the auditors' opinion, the substance of the council's relationship with these bodies represents a significant interest and their omission results in a material misstatement of the group accounts.

The results of SDT are to be included in the group accounts for 2008/09. The position on SCT will be the subject of further consideration by the council in 2008/09.

The Accounts Commission noted with great concern that the council has received a qualified audit opinion for the third consecutive year, and expects it to take all appropriate action without further delay to resolve this situation for 2008/09.



Aberdeen City Council: Annual audit 2007/08

The purpose of this report on [Aberdeen City Councils 2007/08 accounts](#) is to bring the Accounts Commission's attention to the qualification of the accounts arising from a limitation in the scope of the audit.

The council was unable to identify the cause of significant unmatched items in its general bank account reconciliation. As a result, the auditors could not obtain sufficient appropriate audit evidence to confirm that all bank transactions had been properly recorded in the 2007/08 accounts and qualified their opinion accordingly.

The Commission asked the Controller to continue to monitor the position.

Publications

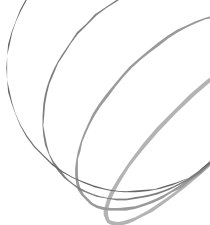
The following publications are available free of charge by using the hyperlinks.

Audit Scotland

Overview of the local authority audits 2008

This report [Overview of the local authority audits 2008](#) provides an overview of the main issues arising from the audit of local government in 2008. It also draws on a range of other sources and seeks to highlight issues of general importance for the local government sector. Key messages include the following

- Development of the effectiveness of governance and accountability is essential to support elected members in carrying out their complex role and to enhance governance and scrutiny. Effective performance management is now critical to support outcome agreement implementation and development.
- Councils generally reported a better financial position than predicted for 2007/08, mainly due to underspending in some services and lower than expected financing costs. However, some councils are experiencing difficulty in maintaining reserves in line with their policies.
- There is continuing slippage in capital spending. The current economic position means it is more difficult for councils to generate income from the disposal of property to finance capital and they may have to reassess their capital programmes.
- The annual financial audits are increasingly important in the current economic environment, providing independent assurance on the financial position and on financial governance and management. All local authority bodies submitted their 2007/08 accounts for audit by the statutory deadline of 30 June 2008, and accounts preparation and the quality of working papers were



generally good. All but one audits were completed by the deadline of 30 September 2008. Auditors qualified the accounts of two councils; Shetland Islands and Aberdeen City.

Audit of best value and community planning

The audit of best value was introduced in response to the *Local Government in Scotland Act 2003*, which gives local authorities responsibilities to continually improve their service delivery, and to report publicly on their performance. Best value audit reports provide an overall picture of each council's performance and give the public an independent view on whether their council is achieving continuous improvement. The following have been published since TB 2008/4

- [Argyll and Bute Council](#)
- [Inverclyde Council](#)
- [The Moray Council](#)
- [South Lanarkshire Council](#)
- [Fife Council](#).

International financial reporting standards

How local authorities can prepare for the introduction of IFRS in 2010/2011

This document from [CIPFA Finance Advisory Network](#) called [How local authorities can prepare for the introduction of IFRS in 2010/2011](#) offers guidance on the implementation of IFRS in the local government sector. Following a series of workshops, this document summarises the delegate responses to a number of themed questions on the IFRS implementation agenda which are intended to help authorities focus on what still needs to be done. The themes include

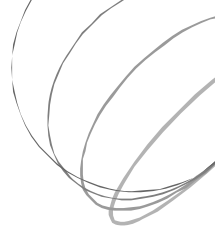
- capital asset recognition and measurement issues
- presentation of financial statements
- areas of an authority's budget that might require mitigation regulations
- changes to systems
- planning and resources
- communicating and explaining the effects of IFRS to stakeholders



Auditor action

The following is a summary of items in this chapter of the TB that include specific recommendations or requests that auditors take specific actions

Section	Action
TSU developments – Responses to enquiries – Landfill allowances trading scheme	Auditors should confirm that authorities are appropriately measuring their LATs assets and liabilities and have considered the disclosure of a contingent liability.
Accounting developments – 2008/09 SORP guidance notes	Auditors may find it useful to refer to the guidance notes when checking authorities' compliance with the requirements of the 2008 SORP.
Accounting developments – Guidance on impairment of investments	Auditors should confirm that their authorities are making a reasonable estimate of the amount of deposits recoverable, properly recognising the impairment loss and properly accounting for any deferral permitted by the statutory guidance.
Other developments – International financial reporting standards – Outline project plan	Auditors should confirm that their authorities have prepared their own detailed IFRS project plans.



Health

Introduction

This chapter contains articles on health technical matters and should be read by auditors with appointments in that sector. The general chapter contains articles on cross-sectoral technical matters.

The documents referred to in the articles that are available from websites can be obtained by using the hyperlinks. They can also be downloaded by auditors from the TSU intranet/extranet.

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note the following articles in this chapter relate to 2008/09

- hand hygiene
- senior managers pay arrangements
- organisation change protected pay increase
- pharmacy remuneration arrangements
- new contract for staff grade doctors
- work permit requirements
- GP statement of financial entitlements
- ophthalmic allowances.

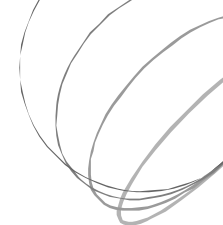
There are also articles on: prescription charges from 1 April 2009; and the enhanced services programme for 2009/10.

Clinical governance developments

The document referred to in the following article can be obtained free of charge by using the hyperlink or downloaded by auditors from the TSU intranet/extranet.

Hand hygiene

[CEL\(2009\)5](#) sets out the respective roles and responsibilities of healthcare workers in ensuring compliance with hand hygiene policies and applies with immediate effect. All NHS staff are professionally accountable



for adherence to board policies. This should include taking personal responsibility for reminding colleagues, and informing patients and visitors, of their responsibilities in ensuring good hand hygiene. The boards' employee conduct policy should be used to support implementation of the zero tolerance approach for all healthcare workers. NHS chief executives are responsible for ensuring that adequate resources are made available to enable staff and the NHS estate to comply with local hand hygiene policies.

The national healthcare associated infections (HAI) reporting template will demonstrate local surveillance and monitoring of key areas impacting on the prevention and control of infection. The Scottish Government HAI team will be arranging meetings at individual boards to discuss implementation of the zero tolerance approach and progress against the actions set out in the national HAI action plan.

Other developments

The documents referred to in the following articles are available free of charge by using the hyperlinks, or can be downloaded by auditors from the TSU intranet/extranet

Pay modernisation and workforce planning

Senior managers pay arrangements

[CEL\(2008\)52](#) announced amendments for those on the executive and senior management pay arrangements. For 2008/09, pay ranges have been increased by 2.25% at the minimum and maximum to be applied from 1 October 2008. Consolidated and non-consolidated performance payments are also being applied from 1 October 2008 based on performance in 2007/08.

The consolidated percentage increases based on individual manager's performance markings are

- nil for an unacceptable marking
- 2.25% for incomplete
- 5.75% for a marking of fully acceptable
- 6.75% for a superior or outstanding marking.

Non-consolidated performance payments are payable to all managers including those at the maximum of their pay range. The non-consolidated payments are

- 2.5% for a superior performance marking
- 4.5% for outstanding.



Managers on personal protection are eligible for a 2.25% consolidated uplift effective from 1 October 2008. The maximum personal salary should be increased by 2.25% and the appropriate consolidated uplift should then be applied.

Organisational change protected pay increase

[PCS\(2008\)\(OCP\)1](#) announced an agreement on pay increases to staff on organisational change protection. The Scottish Terms and Conditions Committee (STAC) have agreed that staff who went on to organisational change protection under the Whitley system should have their target earnings increased in line with the *Agenda for change* uplift. The uplifts to be applied are 2.5% from 1 April 2006 and 1 April 2007, and 2.75% from 1 April 2008. [PCS\(2009\)\(OCP\)1](#) confirms that the pay increase from 1 April 2009 is 2.4%.

Salaries for these staff will continue to be increased in line with the *Agenda for change* rates.

Pharmacy remuneration arrangements

The Scottish Government Health Directorate (SGHD) has issued two letters relating to payments in 2008/09 to assist with the implementation of the new pharmacy contract.

[PCA\(P\)\(2009\)1](#) advises of the details for the data collection exercise to assist with the introduction of the chronic medication service (CMS). The exercise will provide baseline information on the workload associated with the clinical, legal and administrative checks performed by pharmacy contractors, where the pharmacist identifies a problem with a prescription. This data will be used in considering the impact of CMS.

Participation in the data collection exercise will attract a payment of £900. Data collection and claim forms are included as annexes to the letter.

[PCA\(P\)\(2009\)3](#) gives details for the incentivisation payments for making electronic claims using the electronic acute medication service. The payment will be £900 and may be claimed in two parts

- £450 when the number of electronic claims submitted reaches 30% of the total prescription forms processed in a full month
- £450 when the percentage reaches 60%.

Where the 60% level is reached prior to an initial claim being made, a single payment of £900 can be made.



New contract for staff grade doctors

[CEL\(2008\)56](#) provides boards with a model contract and job plan for the staff and associate specialist group of doctors and dentists. The new contracts have replaced the optional and discretionary points systems with an incremental salary scale. The letter includes a list of frequently asked questions and a guide to contracting additional activities to assist the implementation of the new contracts.

Doctors and dentists can transfer to the new contract from 1 April 2008 and should transfer to new terms and conditions by June 2009.

Work permit requirements

[CEL\(2009\)2](#) provides guidance on a revision to the immigration rules for post graduate doctors. CEL(2008) 33 (see TB 2008/3 – page 33) provided an interpretation of UK Border Agency guidance on the new points based immigration system. This letter clarifies that the restriction on work as a doctor in training was not intended to prevent existing NHS trainees from continuing with their training. However, a number of post graduate doctors applying to tier 1 of the new system from the *Fresh talent: working in Scotland scheme* have been subject to this restriction prohibiting them from taking a training position.

Following representations to the Home Office, the policy has been amended to ensure that this restriction should not apply to fresh talent migrants. The migrants must provide evidence to prove that they are currently on an NHS foundation programme or are working as a doctor in training. Migrants who have already been granted leave to remain, subject to a condition preventing employment as a doctor in training, may apply to the UK Border Agency to have this restriction removed.

Family health services

GP statement of financial entitlements

The SGHD issued two letters providing details of the statement of financial entitlements (SFEs) for GPs providing services under a general medical services (GMS) contract.

[PCA\(M\)\(2009\)1](#) introduced a revised SFE for GPs which came into force with effect from 14 January 2009 with the exception of sections 4 and 5 and annex E which have retrospective effect from 1 April 2008. The amendments compared with the previous version include

- The percentage applied to the calculation of the aspiration payment has been changed from 60% to 70% of the contractor's previous year's achievement. A one-off payment to reflect the change in the calculation of the aspiration payment will be made.
- The number of indicators within the patient experience domain has increased from two to four; the new indicators relate to access. Performance against the standards is assessed by the percentage



of patients who indicate, in the national GP access survey, that they were able to obtain a consultation or book an appointment in accordance with the required time limits. If the access survey does not generate results for a contractor they are not entitled to any points for this indicator.

- The formula for the maximum amount payable for childhood immunisations has been amended to reflect revised figures for the average number of children covered by the scheme.

[PCA\(M\)\(2009\)2](#) introduced a revised SFE for GPs for 2009 which came into force with effect from 1 March 2009. It amends the calculation of the global sum and minimum practice income guarantee from the previous version to reflect that

- The total global sum amount for Scotland has increased from £326.5 million to £328.3 million.
- The calculation of the contractors' population index is their contractor registered population (CRP) divided by 5124. The previous calculation divided their CRP by 5095.

Prescription charges

[PCA\(P\)\(2009\)6](#) notifies boards of the introduction of revised prescription forms and the planned further reduction in prescription charges.

The prescription form has been amended to include two new exemption categories for the employment and support allowance and free of charge tuberculosis medications. Although the revised form is now available, the previous form will continue to be accepted by Practitioner Services until 30 June 2009.

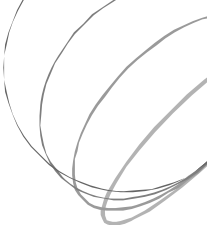
[The National Health Service \(Charges for Drugs and Appliances\)\(Scotland\)Amendment Regulations 2009](#) have reduced prescription charges from 1 April 2009. The cost of a single item prescription will be reduced to £4 from 1 April 2009. The costs of prescription prepayment certificates will also be reduced to £38 for a twelve month certificate, and £13 for a four month certificate.

There will be no partial refunds for prepayment certificates valid beyond 1 April 2009. Further legislation will be laid in the Scottish Parliament to abolish prescription charges by 1 April 2011.

Ophthalmic allowances

[PCA\(O\)\(2009\)1](#) notifies boards of increases in the NHS optical voucher values and other allowances for ophthalmic contractors

- A 2% increase has been applied to the value of optical vouchers presented to suppliers on or after 1 April 2009. The full range of voucher values is included as an annex to the letter.

- 
- The domiciliary visiting fee, payable in addition to the eye examination fee, has increased to £34.87 for the first and second patient and £8.73 for subsequent patients from 1 April 2008.
 - The pre-registration supervisors allowance has increased to £2950 from 1 April 2008.
 - The continuing education and training allowance has increased to £458 for 2008. Further guidance will be issued on the arrangements for the payment of this allowance.

Enhanced services

[PCA\(M\)\(2008\)14](#) outlines plans to develop the *Scottish enhanced services programme* (SESP) and announces funding of £13 million for 2009/10 for the phase of the programme to begin in April 2009. The funding should be used to develop and pilot new enhanced services that can be supported in the longer term from core allocations. A working group has been established to advise on the strategic development of the programme. The aim is to develop the SESP into a rolling programme with funding to develop new services for a three year period.

Patient registration with dentists

[PCA\(D\)\(2009\)2](#) advises boards of an agreement to extend the duration of the continuing care and capitation arrangements for NHS dental services from 1 April 2009. The period at which a patient's registration with a dentist lapses under NHS arrangements, if the patient has not seen the dentist since registering, is being extended from 36 to 48 months.

This is the first in a two step change to make the arrangements non time limited with effect from 1 April 2010. This would mean that from that date patients would be registered for life with a dentist.

Legislation

The following items of legislation are available free of charge by using the hyperlinks, or can be downloaded by auditors from the TSU intranet/extranet.

Statutory instruments

Public Health

[The Public Health etc \(Scotland\) Act 2008 \(Commencement No1\) Order 2009](#), SSI 9 brings into force on 1 April 2009 provisions of the Act relating to the designation of competent persons by health boards and local authorities and enabling Scottish Ministers to give effect to International Health Regulations or other international agreements relating to the spread of infectious disease or contamination.



National health service

[*The National Health Service Superannuation Scheme \(Scotland\) Amendment Regulations 2009*](#), SSI 19 came into force on 16 February 2009 and further amended the 1995 regulations by making provisions including membership of the scheme for those returning to NHS employment and changes to the contribution rates

- Regulation 4 provides that a person returning to NHS employment from 1 October 2008 following a break of five years or more will not be permitted to rejoin the 1995 scheme and will be required to join the 2008 scheme.
- Regulation 5 provides that any change to members' contribution rates and pay bandings by the Scottish Ministers should be subject to the consent of HM Treasury.
- The requirement for a re-assessment of health for establishing an entitlement to an ill health pension has been amended to reflect persons engaging in further NHS employment.

[*The National Health Service \(Charges for Drugs and Appliances\)\(Scotland\) Amendment Regulations 2009*](#), SSI 37 come into force on 1 April 2009. See Other developments – Family health services – Prescription charges.

[*The National Health Service \(Optical Charges and Payments\)\(Scotland\) Amendment Regulations 2009*](#), SSI 86 come into force on 1 April 2009. See Other developments – Family health services – Ophthalmic allowances.

[*The National Health Service \(General Dental Services\)\(Scotland\) Amendment Regulations 2009*](#), SSI 96 come into force on 1 April 2009. See Other developments – Family health services – Patient registration with dentists.

Key circulars

The following is a brief summary of significant circulars issued since the last TB that auditors' attention is particularly drawn to. They are available free of charge by using the hyperlinks, or can be downloaded by auditors from the TSU intranet/extranet.

Chief executive letters (CEL)

[*CEL\(2008\)52*](#) *Pay and conditions of service executive and senior management pay 2008/09*. See Other developments – Pay modernisation and workforce planning – Senior managers pay arrangements



[CEL\(2008\)56](#) *Supporting documentation for new specialty doctor and associate specialist 2008 contracts.* See Other developments – Pay modernisation and workforce planning – New contract for staff grade doctors.

[CEL\(2009\)2](#) *Change to the policy regarding doctors transferring from the fresh talent scheme to tier 1 of the points based system.* See Other developments – Pay modernisation and workforce planning – Work permit requirements.

[CEL\(2009\)5](#) *Zero tolerance to non hand hygiene compliance.* See Clinical governance developments - Hand hygiene.

[CEL\(2009\)8](#) *Guidance on reimbursement of out of pocket expenses for volunteers within NHS Scotland* provides guidance on the preparation of a written policy for reimbursement of expenses for volunteers in line with the HM Revenue and Customs (HMRC) guideline rates. The HMRC rates should be applied from 1 April 2009 and reviewed annually.

PCA

[PCA\(M\)\(2008\)14](#) *Scottish enhanced services programme for primary and secondary care (SESP)2009/10.* See Other developments – Family health services – Enhanced services.

[PCA\(M\)\(2009\)1](#) *General medical services statement of financial entitlements for 2008.* See Other developments – Family health services – GP statement of financial entitlements.

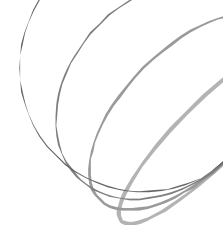
[PCA\(M\)\(2009\)2](#) *General medical services statement of financial entitlements for 2009.* See Other developments – Family health services – GP statement of financial entitlements.

[PCA\(O\)\(2009\)1](#) *General ophthalmic services increase in NHS optical vouchers etc.* See Other developments – Family health services – Ophthalmic allowances.

[PCA\(P\)\(2009\)1](#) *Pharmaceutical services remuneration arrangements for 2008/09 contract preparation payments – pharmacy interventions audit.* See Other developments – Pay modernisation and workforce planning – Pharmacy remuneration arrangements.

[PCA\(P\)\(2009\)3](#) *Pharmaceutical services remuneration arrangements for 2008/09 contract preparation payments – strand F – electronic claims incentivisation payment.* See Other developments – Pay modernisation and workforce planning – Pharmacy remuneration arrangements.

[PCA\(P\)\(2009\)6](#) *Prescription stationery version 5 Reduction in prescription charges.* See Other developments – Family health services – Prescription charges.



[PCA\(D\)\(2009\)2](#) *General dental services changes to the continuing care and capitation period.* See Other developments – Family health services – Patient registration with dentists.

PCS

[PCS\(2008\)\(OCP\)1](#) *Pay uplifts for staff on organisational change protection.* See Other developments – Pay modernisation and workforce planning – Organisational change protected pay increase.

[PCS\(AFC\)\(2008\)6](#) *Addendum Rates of pay for staff who undertake on call duties on a less than 1 in 12 basis under agenda for change* amends the effective date for the national arrangements for payment for on call duties under *Agenda for change* from 4 July 2008 to 1 October 2004.

[PCS\(2009\)\(OCP\)1](#) *Pay uplifts for staff on organisational change protection.* See Other developments – Pay modernisation and workforce planning – Organisational change protected pay increase.

Publications

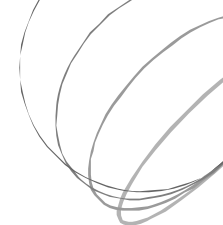
The following publications are available free of charge by following the hyperlinks or can be downloaded by auditors from the TSU intranet/extranet.

Audit Scotland

Asset management in the NHS in Scotland

This report [Asset management in the NHS in Scotland](#) examines how the NHS strategically manages its assets, including the extent to which NHS bodies are working with other public sector organisations and achieving value for money from their estate. The key messages include the following

- In 2007/08, the NHS held fixed assets worth nearly £5 billion. Investment of around £3 billion between 2003 and 2011 is allowing bodies to undertake a major asset redesign and improvement programme.
- There is no complete picture of the quality of the NHS estate, but the information available shows that around a third of the estate will require major upgrading in coming years. Boards are beginning to manage their estate more strategically but need to develop strategies and performance measures to link asset management with clinical strategies.
- The NHS is beginning to work with other public bodies on joint approaches to estate management. The new hub initiative aims to stimulate joint working, and the SGHD should ensure that momentum is maintained in developing this initiative.



Pay modernisation and workforce planning

NHS pay modernisation in England: Agenda for change

This report from the [National Audit Office](#) (NAO) [NHS pay modernisation in England: Agenda for change](#) examines the implementation and costs of *Agenda for change* in the NHS in England.

The objective of the scheme was to reform and standardise the pay and conditions of staff in the NHS. The lack of comparable terms and conditions had created barriers to developing new roles and new ways of working and had also led to equal pay claims.

By March 2006, 99% of staff had been transferred to their new pay points and by September 2008 54% had had a knowledge and skills review. The annual cost of employing staff on the scheme has increased from £20.8 billion in 2003/4 to £28.2 billion in 2007/08. 65% of this increase reflects higher levels of pay, while the remaining increase is due to growth in the workforce and increased employers' pension contributions.

Agenda for change was expected to attract people to NHS positions and improve staff morale. However the Healthcare Commission staff surveys showed that job satisfaction did not improve between 2004 and 2006, although there has been improvement in some areas in 2007. Some NHS trusts have used the scheme to improve care pathways and develop new roles, such as nurse consultants.

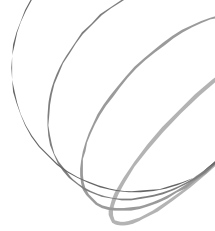
There is limited evidence to show the impact of pay modernisation on productivity and it cannot yet be shown to have enhanced value for money. The knowledge and skills framework is key to the delivery of such benefits, however some staff and managers reported that it is burdensome and complicated.

Performance management

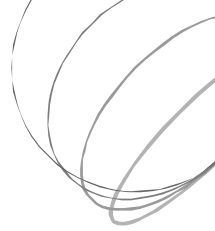
Financial management in the NHS – Report on the NHS summarised accounts 2007/2008

This joint report from the NAO and the Audit Commission [Financial management in the NHS – Report on the NHS summarised accounts 2007/2008](#) summarises the financial performance of NHS bodies in England and comments on the audit and financial issues that arose during 2007/08. The key messages include

- The NHS had a surplus of £1.67 billion in 2007/08, which equates to 2% of the total available resources. The auditors' evaluation at individual organisations found that financial management improved during 2007/08.



- The NHS made progress against the national healthcare targets set out in the NHS Operating Framework, while increasing activity and delivering more cost savings than planned. The Healthcare Commission also reported that the quality of the services provided had improved in the year.
- The NHS faces a number of issues in 2008/09 including a degree of financial uncertainty, an estimated £9 billion of PFI schemes coming onto the balance sheet under IFRS and changes to the performance and financial regimes.



Central government

Introduction

This chapter contains articles on central government technical matters and should be read by auditors with appointments in that sector. The general chapter contains articles on cross-sectoral technical matters.

The documents referred to in the articles that are available from websites can be obtained by using the hyperlinks. They can also be downloaded by auditors from the TSU intranet/extranet.

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note that the following articles in this chapter relate to 2008/09

- note for guidance on 2008/09 central government financial statements
- TSU guidance on directors' report requirements
- TSU guidance on the creditors payment performance indicator
- 2009/10 Government financial reporting manual
- example remuneration report for 2008/09
- security policy framework
- NAO disclosure guide
- new SPFM section on expenditure and payments
- revised SPFM section on risk management.

There is also an article on the 2009/10 pensions earnings cap.

TSU developments

Publications

In addition to TBs, the TSU publishes other technical publications (i.e. notes for guidance, urgent issue notes and grant notes) to provide auditors with more in-depth guidance on specific matters. The following publication has been issued by the TSU since TB 2008/4 and can be downloaded by auditors from the TSU intranet/extranet. It can be sent to other TB recipients on request.



Note for guidance on 2008/09 financial statements

The TSU has published *Note for guidance 2009/1(CG) 2008/09 central government financial statements* to provide auditors with guidance on subjects where the risk of non-compliance with the *Government financial reporting manual* (FReM) is considered to be particularly high in the audit of the 2008/09 accounts.

Responses to enquiries

The TSU operates a 'help-desk' for auditors which provides responses to ad hoc technical enquiries. Selected responses are added to the frequently asked questions section of the TSU intranet/extranet and include the following since the issue of TB 2008/4.

Directors' report

What does the Companies Act require to be included in the management commentary?

Section 417 of the *Companies Act 2006* requires the business review part of the management commentary to contain a fair review of the body's business, and a description of the principal risks and uncertainties facing the body. The review requires to be a balanced and comprehensive analysis of the development and performance of the body's business during the year and the position at the end of that year. Specific disclosures, which should refer to amounts disclosed in the annual accounts where relevant, are required on

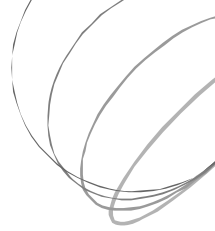
- the main trends and factors likely to affect the future development, performance and position of the company's business
- information about environmental matters, the body's employees, and social and community issues
- information about persons with whom the body has contractual or other arrangements which are essential to its business
- analysis using financial key performance indicators and, where appropriate, analysis using other key performance indicators, including information relating to environmental matters and employee matters.

The Act also provides for the issue of regulations that specify additional disclosures.

Have regulations under the Act been issued?

The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 specify additional disclosures to be made in the directors' report. These include

- any material difference in fixed asset values between their market value and balance sheet value



- the financial risk management objectives and policies, and the exposure to risk in respect of financial instruments
- particulars of any important events which have occurred since the end of the financial year, an indication of likely future developments in the body's business, and an indication of any activities in the field of research and development
- the policy applied in respect of employing disabled persons (where the body has more than 250 staff)
- a statement describing the arrangements for providing employees with information, consulting with employees, and encouraging their involvement (where the body has more than 250 staff)
- disclosures in respect of the policy and practice on the payment of creditors, including any code followed on payment practice the average invoice payment time.

Are all performance indicators included in the management commentary subject to audit?

Auditors are required to check that performance indicators included in the management commentary are consistent with the financial statements. Any performance indicators should therefore be reviewed to determine if they are based on information contained in the financial statements. Any indicators that are based on information in the financial statements are covered by the consistency opinion. Any other indicators should simply be read by auditors and be subject to the same negative assurance as other 'non-audited' sections of the annual report.

What is the relationship between the annual report required under an NDPB's statutory obligations and the annual report required under the FReM?

The annual report described in the FReM satisfies the statutory obligation that NDPBs have to produce a report. The annual report should be presented to Parliament with the accounts as a combined document described as the 'Annual report and accounts.'

Other guidance

Creditors payment performance indicator

A key performance indicator that is likely to be included in the management commentary is the average time taken to pay creditors. The *Scottish public finance manual* (SPFM) section on [Expenditure and payments](#) contains a revised requirement, from 1 December 2008, which reduces the target time to pay invoices from 30 to 10 working days (see Other developments – Expenditure and payments).

Auditors should therefore expect two average payment figures to be disclosed in 2008/09: one covering the period 1 April to 30 November 2008 and a second covering 1 December 2008 to 31 March 2009.



Accounting developments

The documents referred to in the following article can be obtained free of charge by using the hyperlink or downloaded by auditors from the TSU intranet/extranet.

2009/10 Government financial reporting manual

Publication of FReM

[HM Treasury](#) has issued the 2009/10 edition of the [FReM](#). This is the first year that the FReM is based on IFRS. The FReM provides guidance on the application of IFRS, adapted and interpreted for the public sector.

The accounting policies contained in the FReM follow generally accepted accounting practice (GAAP) to the extent that it is meaningful and appropriate in the public sector context. The definition of the term 'GAAP' provided in the FReM has been revised. It still refers to the accounting and disclosure requirements of the *Companies Act 2006* but in addition, rather than references to UK standards etc, it now refers to pronouncements by, or endorsed by, the International Accounting Standards Board (IASB), including the *Framework for the preparation and presentation of financial statements*, IFRS, and interpretations thereof issued by the Standards Interpretations Committee or its successor, the International Financial Reporting Interpretations Committee.

For charities registered in the UK, GAAP also includes regulations issued under charities legislation and, where applicable, the charities SORP. If they are both registered companies and charities, they must comply with the *Companies Act 2006* and the charities SORP. In all such cases, they are required to follow the principles in the FReM and provide the additional disclosures required where these go beyond the *Companies Act 2006* or the SORP.

When adopting IFRS for the first time, the FReM requires bodies to follow the requirements of *IFRS 1 First-time adoption of international financial reporting standards* as interpreted for the public sector context as follows

- The date of transition to IFRS is 1 April 2008 for the purposes of preparing the opening IFRS statement of financial position.
- Any adjustments arising from differing accounting policies resulting from the application of IFRS for the first time should be taken through the general fund.
- Assets require to be carried at valuation and so the elections available in IFRS for cost based valuations are not relevant.
- Bodies cannot elect to use the 'corridor' approach in *IAS 19 Employee benefits*.



- Where the move to IFRS has a material impact on a body's financial position, financial performance or cash flows, the body is required to provide, in the notes to its financial statements, a reconciliation between
 - taxpayers' equity as at 31 March 2009 under UK GAAP and restated taxpayers' equity at 1 April 2009
 - its net operating cost (or surplus or deficit or equivalent) for the 2008/09 reported under UK GAAP and as reported under IFRS where this is not explained through the reconciliation of taxpayers' equity
 - its cash flows for the 2008/09 reported under UK GAAP and as reported under IFRS.

Although this edition of the FReM applies to 2009/10, it will be of relevance to bodies preparing their shadow accounts during 2008/09.

Revised guidance on accounting for PPP

The 2009/10 FReM has been revised to clarify the guidance on accounting for PPP under IFRS.

There has been concern over the inconsistent interpretation of the guidance previously issued (see TB 2008/3 – page 46) regarding the use of the nominal risk free rate of interest in situations where it is not possible to ascertain the interest rate implicit in a contract. The revised guidance therefore makes it clear that, in the rare circumstances where it is not possible to determine the interest rate implicit in a contract, entities should use their cost of capital rate plus inflation for both new and existing contracts.

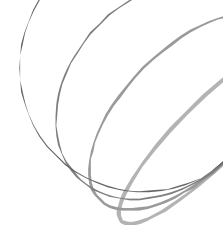
The guidance has been clarified in cases where the contract is separable. It now states that while the asset will be initially measured following the guidance in IAS 17, the subsequent measurement should be subject to the guidance of IAS 16.

Auditors should confirm that any PPP/PFI projects which used the nominal interest rate are changed to the entity's cost of capital rate plus inflation

Accounting for intangible assets

The 2009/10 FReM has been revised in respect of accounting for intangible assets. Paragraph 7.2.6 of the FReM originally stated that internally generated intangible assets should only be recognised where they make a direct contribution to the delivery of services to the public. This meant that virtually all IT assets that were previously capitalised would require to be written off. This paragraph has been removed.

Auditors should note that any intangible assets written off during the opening balance sheet exercise should be reassessed purely against the criteria in *IAS 38 Intangible assets* and potentially added back to the 1 April 2008 balance sheet.



2009/10 pensions earnings cap

The [Cabinet Office](#) has issued [EPN 238 Increase in the pensions earnings cap 2009/10](#). The rules of the civil service pension scheme limit the amount of salary that can be used in calculating the pensionable pay of civil servants. This limit is referred to as the earnings cap.

For the final salary schemes classic, premium and classic plus, the earnings cap applies to all civil servants who joined, or returned to, the Civil Service on or after 1 June 1989, with minor exceptions. Where a member is subject to the earnings cap their contributions must only be calculated on their salary below the cap. The same applies to employer contributions.

For the period 6 April 2009 to 5 April 2010 the cap is £123,600.

2008/09 remuneration report

The Cabinet Office has issued [EPN 240 Disclosure of salary, pension and compensation information for 2008/09](#) which provides a revised example remuneration report for 2008/09. Auditors will be aware that the FReM requires the disclosure of a remuneration report containing information about the salary and benefits of senior managers. The FReM describes the information to be included but does not prescribe the form.

The example is not mandatory and focuses on a department but may also be useful to illustrate what other entities could disclose. There have been no significant changes from last year.

Corporate governance developments

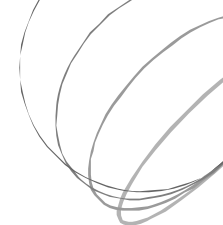
The document referred to in the following article can be obtained free of charge by using the hyperlink, or can be downloaded by auditors from the TSU intranet/extranet.

Security policy framework

The Cabinet Office has issued a [Security policy framework](#) setting out the mandatory requirements for data security, and outlining the policy that all bodies are required to follow. The framework has four tiers and is intended to be used to frame departmental security policies to meet the specific business needs of the organisation and its delivery partners.

The top tier is the overarching security statement that protective security is essential to making government work better, and that security risks must be managed to achieve a secure and confident working environment.

The second tier is a set of five core security principles, highlighting accountability at senior levels, collective responsibility of all staff and contractors, and the need to employ trustworthy people.



The third tier is a series of security policies. The first policy is on governance, risk management and compliance, and sets out the governance arrangements that should be put in place. This includes internal self assessment to ensure the framework is complied with. Other policies are on: asset control; personnel security; information security and assurance; physical security; counter-terrorism; and business continuity.

The fourth tier of the framework is aimed primarily at the security practitioner; and much of this material is protected.

Auditors should confirm that their bodies statement on internal control, in its description of how risks to information are being managed and controlled as part of the risk management process, accurately describes the processes required by the new framework.

Other developments

The documents referred to in the following articles can be obtained free of charge by using the hyperlinks, or can be downloaded by auditors from the TSU intranet/extranet.

NAO disclosure guide

The [National Audit Office](#) (NAO) has issued its *Disclosure guide 2008/09 for entities covered by the FReM* which is designed to help ensure that entities have prepared their accounts in the appropriate form and have complied with disclosure requirements.

The guides are designed primarily for the NAO's internal use and for English central government bodies. However, they have been modified by the TSU to reflect the different guidance and legislative situation in Scotland to help auditors of Scottish central government bodies to use them.

Auditors may wish to use the guides when auditing the 2008/09 accounts.

The unmodified guides are available as originally published by the NAO from their website or the modified versions can be downloaded by auditors from the TSU intranet/extranet.

Expenditure and payments

A new section of the SPFM has been introduced on [Expenditure and payments](#) which gives guidance on the basic principles and safeguards associated with authorising expenditure and making payments.

Public sector organisations are required to ensure that their use of resources is properly authorised and controlled. Expenditure should be incurred in a way which represents value for money, taking into account potential risks to regularity and propriety. Effective control over payments requires to be maintained at all stages.



Expenditure should be authorised in the operational area which entered into the commitment, with due consideration to separation of duties. Public sector organisations are responsible for the propriety, regularity and accuracy of the expenditure that they authorise. Desk instructions covering the arrangements for entering into commitments and for approving and processing payments should be put in place at operational area level.

Where there is no provision governing the time of payment, it should be assumed that the suppliers terms are that payment should be made within 30 days of receipt of goods and services or the presentation of a valid invoice, whichever is the later. Payments by relevant public sector organisations, however, should be made in accordance with the Scottish Government target for the payment of invoices which is within 10 working days of their receipt.

Risk management

The SPFM section on [Risk management](#) has been extensively revised to give guidance on the basic principles of risk management.

Each public sector organisation's internal control systems should include embedded arrangements for identifying, assessing and managing risks. Risk management should be closely linked to the business planning process. Each organisation's governing body should make a considered choice about its desired risk profile. In order to manage risk, an organisation needs to know what risks it faces, and to evaluate them. Identifying risks is the first step in building the organisation's risk profile. There is no single right way to record an organisation's risk profile, but maintaining a record is critical to effective risk management.

Risks should be prioritised in relation to objectives. A statement of a risk should encompass both the possible cause and the impact on the objective which might arise. Risks should be identified at a level where a specific impact, and actions to address them, can be identified. All risks should be assigned to an owner who has responsibility for ensuring that the risk is managed and monitored over time.

It will be necessary to develop a framework for assessing risks that evaluates both the likelihood of the risk being realised, and the impact if the risk is realised. Risk assessment should be recorded in a way that demonstrates clearly the key stages of the process. In choosing between responses to risk, factors to consider include cost, feasibility, probability and the potential impact.

The management of risk should be reviewed regularly to monitor whether the risk profile is changing, to gain assurance that risk management is effective, and to identify when further action is necessary. In addition, the overall risk management process should be reviewed at least once a year to deliver assurance that it remains appropriate and effective.



Key players in the review and reporting processes are audit committees and internal audit, but neither can substitute for management ownership of risk or for an embedded review system by staff with executive responsibility for the achievement of organisational objectives.

Key circulars

The following circulars are available free of charge by using the hyperlink, or can be downloaded by auditors from the TSU intranet/extranet.

Finance guidance notes

[FGN 2008/4 SPFM amendments](#) has been amended since it was first published, and announces a further substantive amendments to the SPFM. See Other developments – Expenditure and payments.

[FGN 2009/2 SPFM amendments](#) announces the following substantive amendments to the SPFM.

- The section on [Fraud](#) has been reviewed and updated. In particular the *Scottish Government fraud policy statement* and the *Scottish Government fraud response plan* have been revised to clarify roles and responsibilities.
- The section on [Risk management](#) has been revised to provide guidance on the basic principles of risk management. See Other developments – Risk management.

Section 22 reports

Under [section 22\(3\) of the Public Finance and Accountability \(Scotland\) Act 2000](#), the Auditor General may prepare a report to Scottish Ministers on the accounts sent to him by auditors. The following report has been prepared since TB 2008/4 and is available by following the hyperlink.

The 2007/08 audit of Visit Scotland

The Auditor General issued this report on [the 2007/08 audit of VisitScotland](#) to bring to Parliament's attention events surrounding VisitScotland's investment in eTourism Limited, a joint venture company responsible for the operation of a Scottish tourism website and call centre.

At 31 December 2007 eTourism Limited's financial statements reported cumulative losses and net liabilities. VisitScotland consolidates eTourism Limited in its group accounts, resulting in the inclusion of £0.4 million of net expenditure and £2.2 million net liabilities in VisitScotland's accounts for the year ended 31 March 2008.

Following consideration of eTourism Limited's financial position and forecasts, VisitScotland management took the decision to reflect provisions for non-recovery of a loan of £1.85 million and unpaid interest due on



that loan of £900,000 in its 2007/08 accounts. Consequently, VisitScotland's reported a deficit of £2.6 million against its financial target set by the Scottish Government.

Publications

The following publication is available free of charge by using the hyperlinks.

Audit Scotland

How government works - Central government's use of consultancy services

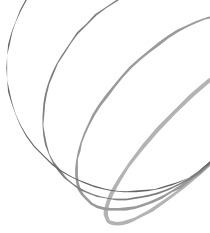
This report [Central government's use of consultancy services](#) examines the planning for, and managing the use of, consultancy services. Key messages include

- Consultancy expenditure has not been recorded separately and therefore bodies do not have information on costs, the type of services used, or whether consultants are used because staff do not have time to do the work or because they do not have the skills and knowledge to do it.
- There is a need to better plan the use of consultants as this is rarely linked to wider corporate planning on the best way to obtain the services needed.
- Most procurements follow recommended practice and the effective use of competition ensures value for money. However, savings may be made by using existing framework agreements and ensuring that the most cost-effective form of competition is used.
- the management of consultancy projects could be improved through more consistent and formal evaluation.

Auditor action

The following is a summary of items in this chapter of the TB that include specific recommendations or requests that auditors take specific actions

Section	Action
TSU developments – Other guidance - Creditors payment performance indicator	Auditors should expect two figures for the average time taken to pay creditors to be disclosed in the management commentary.
Accounting developments – 2009/10 Government financial reporting manual – Revised guidance on accounting for PPP	Auditors should confirm that any PPP/PFI projects which used the nominal interest rate are changed to the entity's cost of capital rate plus inflation
Corporate governance developments – Security policy framework	Auditors should confirm that their bodies statement on internal control accurately describes the processes required by the new framework.



Other developments – NAO disclosure guide	Auditors may wish to use the modified NAO checklists when auditing the 2008/09 accounts.
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Further education

This chapter contains articles on further education technical matters and should be read by auditors with appointments in that sector. The general chapter contains articles on cross-sectoral technical matters.

The documents referred to in the articles that are available from websites can be obtained by using the hyperlinks. They can also be downloaded by auditors from the TSU intranet/extranet.

TSU developments

Responses to enquiries

The TSU operates a 'help-desk' for auditors which provides responses to ad hoc technical enquiries. Selected responses are added to the frequently asked questions section of the TSU intranet/extranet and include the following since the issue of TB 2008/4.

Best value

What are the requirements in respect of best value?

The financial memorandum requires the Scottish Funding Council (SFC) and colleges to work in partnership to secure best value from the investment of funds derived from Scottish Ministers.

What is the colleges' role in respect of best value?

Colleges are required to have in place the organisation and procedures necessary to ensure the achievement of best value from funds derived from Scottish Ministers. The SFC will obtain evidence from colleges, which will include undertaking reviews, to provide the assurances that they have discharged this responsibility.

What mandatory requirements are there in relation to value for money?

Colleges are required to have a strategy for systematically reviewing management's arrangements for securing value for money. As part of its internal audit arrangements, colleges are required to obtain a comprehensive appraisal of those management arrangements.

Other developments

The document referred to in the following article can be obtained free of charge by using the hyperlink or downloaded by auditors from the TSU intranet/extranet.



Charitable status

TB 2008/4 (page 53) advised that a further Order was required to prevent colleges from failing the charity tests set out in the [Charities and Trustee Investment \(Scotland\) Act 2005](#). [The Further and Higher Education \(Scotland\) Act 1992 Modification Order 2009](#) has been passed and modifies the *Further and Higher Education (Scotland) Act 1992* to require profits on disposal of assets to go to an educational charity.

Section 7(4)(a) of the 2005 Act provides that a body will not meet the charity test if its constitution allows it to distribute any of its property for a non-charitable purpose. Under section 18(5) of the 1992 Act, which forms part of a college's constitution, colleges were required to pay a portion of the proceeds from the disposal of certain property to the Scottish Ministers.

This Order amends that requirement and instead requires that any amount paid must now go to an educational charity directed by the Scottish Ministers. The amendment means that colleges will not lose their charitable status in this regard.

Key circulars

The following circulars are available free of charge by using the hyperlinks, or can be downloaded by auditors from the TSU intranet/extranet.

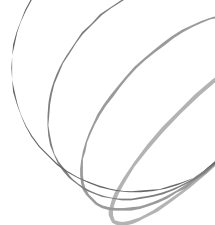
SFC circulars

[SFC/03/2009 Allocation of variable element of the college sector knowledge transfer grant](#) provides colleges with information on allocation of the variable element of the knowledge transfer grant for 2008/09.

[SFC/04/2009 In-year management of student support funds: 2008-09](#) invites colleges to confirm whether they wish to relinquish or request additional student support funds for use in the remainder of 2008/09.

[SFC/05/2009 Funding support for partnership action for continuing employment \(PACE\)](#) informs colleges of the financial support related to the *Partnership action for continuing employment (PACE)* programme which is a Scottish Government initiative which puts in place a co-ordinated public sector response to companies in difficulty, including those considering redundancies. Additional funding has been allocated for the remainder of 2008/09 and 2009/10 so that colleges can respond without delay. The SFC will 'underwrite' increased provision in a college caused by responding to a redundancy once it is alerted of the potential case.

[SFC/07/2009 Guidance on the audit requirements for education maintenance allowances \(EMAs\) for financial year 2008/09](#) provides guidance on the audit requirements for the operation of the EMA programme for 2008/09.



[SFC/09/2009 Final fee waiver grant 2007-08](#) provides details of the calculation of the final fee waiver claims for 2007/08.

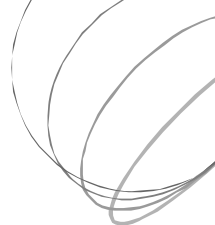
Legislation

The following item of legislation is available free of charge by using the hyperlink, or can be downloaded by auditors from the TSU intranet/extranet.

Statutory instruments

Charities

[The Further and Higher Education \(Scotland\) Act 1992 Modification Order 2009](#) SSI 2009-28 came into force on 9 March 2009. See Other developments – Charitable status.



Contact points

General comments regarding the TB's structure and contents, particularly suggestions for improvement, should be made to

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Tel: 0131 625 1795
E-mail: pobrien@audit-scotland.gov.uk

Specific enquiries or requests for further information relating to items contained in each chapter of this TB should be made to

<p>General chapter</p> <p>Paul O'Brien</p>	<p>Health chapter</p> <p>Neil Cameron, Manager - Health (Technical) Tel: 0131 625 1797 E-mail: ncameron@audit-scotland.gov.uk</p>
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25 March 2009

Technical bulletin

2009/2



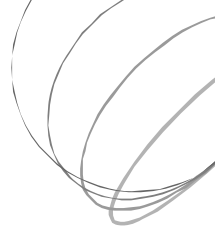
Published by the Technical Services Unit

June 2009



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Foreword

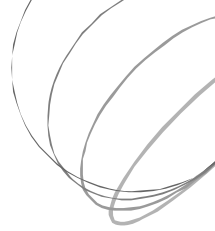
Technical bulletins (TBs) are published by Audit Scotland's Technical Services Unit (TSU) at quarterly intervals onto the TSU intranet/extranet. Their purpose is to summarise technical developments in the quarter for external auditors appointed by the Accounts Commission and Auditor General, and to provide auditors with guidance, where required.

TBs are also e-mailed to audited bodies in order that they may be aware of the guidance that has been issued to auditors. TBs should not be regarded as providing an exhaustive review of all matters relevant to audited bodies.

Audit Scotland makes no representation as to the completeness or accuracy of the contents of TBs or that legal or technical guidance is correct. Points of law, in particular, can ultimately be decided only by the Courts. Audit Scotland accepts no responsibility for any loss or damage caused as a result of any person relying upon anything contained in a TB.

In selecting items for TBs the bias is towards those which are of particular interest to external auditors, and TBs frequently recommend that auditors take, or consider taking, action in certain regards. A summary of these items is provided at the end of each chapter. It is important, therefore, that a mechanism is in place for senior audit staff to review the TB promptly and to ensure that steps are taken to consider such recommendations.

While auditors act independently of Audit Scotland, and are responsible for their own conclusions and opinions, consistency of opinions in similar circumstances is important and **it is expected therefore that auditors will normally follow all TSU guidance. Auditors should advise the TSU promptly if they disagree with, and may intend not to follow, any guidance issued on an important issue** (e.g. a matter that required consideration to be given to the qualification of the accounts of a number of audited bodies).



General

Introduction

This TB covers all the sectors within the Audit Scotland remit. This general chapter contains articles on cross-sectoral technical matters and should be read by all auditors. Matters that are relevant to only one sector are covered in the relevant sector-specific chapter.

The documents referred to in the articles that are available from websites can be obtained by using the hyperlinks. They can also be downloaded by auditors from the TSU intranet/extranet.

The TSU encourages any comments from auditors regarding the TB's structure and contents, particularly suggestions for improvement. Comments and suggestions should be sent to pobrien@audit-scotland.gov.uk.

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note that the following articles in this chapter relate to 2008/09

- note for guidance on model auditor's reports
- new internal auditing standards
- involvement of SMEs in public procurement.

There are also articles on the following subjects: new standard on heritage assets; amendment to financial instrument disclosure standard; exposure draft on going concern; discussion paper on corporate reports; international standard of embedded derivatives; international exposure draft on measuring fair value; international exposure draft on measuring derecognition; international exposure draft on employee benefits; revised standards on auditor's reports from 2009/10; proposed clarified auditing standards; proposed new requirements for accounting systems for tax purposes; and the public services reform bill.

TSU developments

Publications

In addition to TBs, the TSU publishes other technical publications (i.e. notes for guidance, urgent issue notes and grant notes) to provide auditors with more in-depth guidance on specific matters. The following has been published by the TSU since TB 2009/1 and can be downloaded by auditors from the TSU intranet/extranet. They can be sent to other TB recipients on request.



Note for guidance on model auditor's reports

The TSU published *Note for guidance 2009/3 Model auditor's reports* to provide auditors with model auditor's reports on the financial statements for 2008/09.

Other matters

Staffing changes

Anna Lewis has joined the TSU as Administrator (Technical).

John Gilchrist, who was on secondment with the TSU as Technical Adviser (Central Government and Further Education) moves within Audit Strategy to take up a promoted post on 30 June 2009. Auditors will be informed of his successor in due course but should continue to send enquiries to technicalqueries-centralgovernment@audit-scotland.gov.uk.

Accounting developments

The documents referred to in the following articles can be obtained by using the hyperlinks, or can be downloaded by auditors from the TSU intranet/extranet.

New standard on heritage assets

The [Accounting Standards Board](#) (ASB) has issued [FRS 30 Heritage assets](#) which sets out new disclosure requirements for heritage assets. A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. Where heritage assets fall within the scope of FRS 30, the disclosure requirements of *FRS 15 Tangible fixed assets* do not apply. However, if a heritage asset is used in an entity's operations, FRS 15 applies rather than FRS 30.

The new FRS 30 disclosures are intended to provide information about an entity's total holding of heritage assets and its stewardship of these assets. Where information on an asset's cost or value is not available, and cannot be obtained at a reasonable cost relative to the benefits, the assets will not be recognised in the balance sheet. However, the new disclosure requirements apply whether or not the assets are reported in the balance sheet. The disclosures should provide readers with an understanding of the asset values being reported as well as the entity's policies for managing its total holding of heritage assets. The specific disclosures include the following

- An indication of the nature and scale of the heritage assets held by the entity, the entity's policy for their acquisition, preservation, management and disposal, and the accounting policies adopted, including details of the measurement bases used.



- For heritage assets that are not reported in the balance sheet, an explanation for the non-reporting along with an explanation of the assets' significance and nature.
- Where heritage assets are reported in the balance, their carrying amount at the beginning of the financial period and at the balance sheet date, including an analysis between those reported at cost and those that are reported at valuation. Where assets are reported at valuation, information should be disclosed to assist in an understanding of the valuations being reported and their significance e.g. the date of the valuation, and the methods used to produce the valuation.
- A summary of transactions relating to heritage assets including: the cost of acquisitions; the value of assets acquired by donation; the carrying amount of, and proceeds from, disposals; and any impairment recognised in the period. This summary should separate assets reported in the balance sheet from those that are not.

The new FRS retains the recognition and measurement requirements in FRS 15 which require heritage assets to be reported as tangible fixed assets in the balance sheet where information is available on cost or valuation. There are however some relaxations to the measurement requirements of FRS 15 to encourage the reporting of heritage assets in the balance sheet at valuation. For example, there is no requirement for valuations to be carried out or verified by external valuers, nor is there any prescribed minimum period between valuations.

Depreciation need not be provided on heritage assets which have indefinite lives. However, the carrying amount of an asset should be reviewed where there is evidence of impairment, and any impairment should be dealt with in accordance with *FRS 11 Impairment of fixed assets and goodwill*.

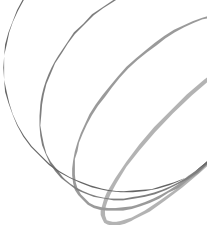
This standard should be applied in respect of accounting periods beginning on or after 1 April 2010, though earlier application is encouraged.

Amendment to financial instruments disclosure standard

The ASB has issued [Amendments to FRS 29 Financial instruments: disclosures - Improving disclosures about financial instruments](#) which apply to periods beginning on or after 1 January 2009.

The amendments require disclosures about the measurement of financial instruments at fair value to be categorised based on a three-level fair value hierarchy. They also introduce changes to the disclosures about the nature and extent of liquidity risk that are intended to

- clarify that liquidity risk disclosures are only required for financial liabilities that will result in the outflow of cash or another financial asset

- 
- require quantitative disclosures to be based on how an entity manages liquidity risk (including an expected maturities basis for derivatives)
 - strengthen the relationship between quantitative and qualitative information about liquidity risk.

There are also new disclosure requirements for the credit risk of loans and receivables designated at fair value through the profit and loss.

Exposure draft on going concern

The FRC has issued [Going concern and liquidity risk: Guidance for directors of UK companies – exposure draft](#) which provides updated draft guidance on the assessment of going concern.

The purpose of this guidance is to bring together the requirements of company law, accounting standards and the listing rules relating to going concern and liquidity risk in relation to UK companies. It is designed to provide a framework to assist directors, audit committees and finance teams in determining whether it is appropriate to adopt the going concern basis for preparing financial statements and in making balanced, proportionate and understandable disclosures.

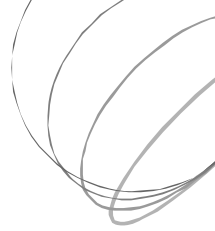
Directors are required to satisfy themselves that it is appropriate to prepare financial statements on a going concern basis. This assessment involves reaching a reasoned conclusion based on the specific facts and circumstances that exist at the date the financial statements are approved. However, accounting standards provide little guidance about the process that should be undertaken or how to link together the various disclosures that are required.

The FRC is seeking to ensure that going concern assessments are made with appropriate diligence and that disclosures are balanced, proportionate and understandable in the circumstances prevailing at the date of approval of the financial statements.

Directors should plan their assessment of going concern as early as practicable including deciding on the information and analysis that will need to be produced. These plans should also address the evidence to be obtained, including identifying any potential remedial action plan that may need to be addressed, to support their conclusion.

Directors need to evaluate which one of the following three potential conclusions is appropriate to the specific circumstances of the company. The directors may conclude that

- there are no material uncertainties that lead to significant doubt about the company's ability to continue as a going concern. Although going concern is therefore presumed in preparing financial statements, disclosure may need to be made about liquidity risk and other matters necessary to



give a true and fair view. The audit report should be unmodified provided the auditor concurs with the directors' assessment and supporting disclosures

- there are material uncertainties that lead to significant doubt about the company's ability to continue as a going concern but the going concern basis remains appropriate. Disclosures explaining the specific nature of the material uncertainties that give rise to significant doubt are required along with an explanation of why the going concern basis has still been adopted. Assuming auditors concur with the directors' assessment, the audit report should be modified to include an emphasis of matter paragraph highlighting the existence of material uncertainties; or
- the use of the going concern basis is not appropriate. Disclosures explaining the basis of the conclusion and the accounting policies applied in drawing up financial statements on a non-going concern basis are required. The audit report may be unmodified provided the financial statements contain the necessary disclosures and the auditor considers the basis to be appropriate to the specific facts and circumstances.

Comments should be sent to s.leonard@frc-apb.org.uk by 28 August 2009.

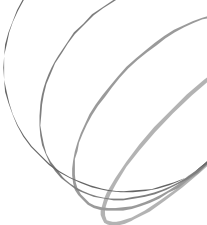
Exposure draft on amendments to financial reporting standards

The ASB has issued [Exposure draft – Improvements to financial reporting standards 2009](#) which contains proposed improvements to various financial reporting standards.

The most significant point is a proposal to amend FRS 11 to strengthen the disclosure requirements. It is proposed that, if the impairment loss is measured by estimating the value in use or the net realisable value of a fixed asset, the key assumptions made in determining those estimated amounts should also be disclosed. This requirement would be applied in periods beginning on or after 1 January 2010, with earlier application permitted.

Other proposed amendments include amending

- *FRS 20 Share-based payment* to change the scope of the standard and clarify that it does not apply to common control transactions or the contribution of a business in the formation of a joint venture
- *FRS 26 Financial instruments: recognition and measurement* to address treating loan prepayment penalties as closely related embedded derivatives, providing a scope exemption for business combination contracts and clarifying the operation of hedge accounting

- 
- *UITF Abstract 42 Reassessment of embedded derivatives* to clarify that it does not apply to embedded derivatives in contracts within the scope of *FRS 6 Acquisitions and mergers* and *FRS 9 Associates and joint ventures*.

Comments should be sent to the ASB by 30 September 2009.

Discussion paper on corporate reports

The [Financial Reporting Council](#) (FRC) has issued a discussion paper called [Louder than words](#) to provide the results of an investigation into the complexity and relevance of corporate reporting.

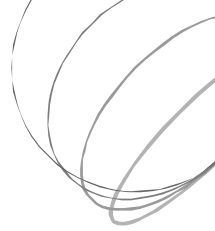
Complexity is considered by the paper in a broad sense, and means anything that makes corporate reporting unnecessarily difficult to understand, implement or analyse. An approach is recommended based on eight guiding principles; four for regulation of reporting and four for effective communication.

The paper recommends that regulators and standard setters should adopt a single set of principles that govern how they set and communicate their regulations (i.e. legislation, accounting standards and other requirements that govern the content of annual reports). Four guiding principles for less complex regulation of reporting are proposed and these are that regulations should

- focus on significant problems, be targeted to provide relevant information that meets important user needs, reflect the reality of the business, and minimise unintended implementation consequences
- limit change by intervening only when an area is high-risk and change will bring obvious benefit
- understand what other national and international regulators are doing in a particular area. Wherever possible, they should be consistent with one another and work together in a joined-up way
- be simple and user-friendly.

The paper also recommends that the general requirements for the operating and financial review should be extended to cover corporate reporting in its entirety. It therefore recommends four principles in respect of effective communication, and they are that reports should

- highlight important messages, transactions and accounting policies and avoid distracting readers with immaterial clutter
- provide a balanced explanation of the results



- use plain language, only well defined technical terms, consistent terminology and an easy-to-follow structure
- get the point across and hold the reader's attention.

In addition, a number of specific sources of complexity in corporate reporting are summarised in the paper and include

- the valuation of acquired intangibles which is unnecessarily complex, time consuming, and does not result in useful information
- significant underlying complexity in relation to the valuation of pension plans
- searching for embedded derivatives and the process of valuing them which is complex and time consuming, and does not always yield a sensible result
- fair values which are considered complex where there is an absence of a market for determining the value
- the significant underlying complexity of financial instruments as well as the very complex and detailed accounting standards which are considered to add unnecessarily to complexity in this area
- the proliferation of interpretive guidance for accounting standards such as International Financial Reporting Interpretations Committee interpretations and accounting manuals produced by audit firms
- remuneration reports which are considered too dense to be useful. There should be greater focus on important details such as how performance ties to remuneration, and greater use of graphical displays of information, but less boilerplate text.

Comments should be sent to complexity@frc.org.uk by 30 October 2009.

International developments

Embedded derivatives

The [International Accounting Standards Board](#) (IASB) has issued *Embedded derivatives (Amendments to IFRIC 9 and IAS 39)* to clarify the treatment of embedded derivatives.

The amendment has been issued as a result of unintended consequences of the issue of *Amendments to IAS 39 and IFRS 7 Financial instruments: Disclosures* to prevent any practice developing whereby,



following reclassification of a financial asset, embedded derivatives are not separately accounted for, where this is required.

The amendments require an entity to assess whether an embedded derivative is required to be separated from a host contract when the entity reclassifies a hybrid (combined) financial asset out of the fair value through profit or loss category.

The amendments apply for periods ending on or after 30 June 2009.

Exposure draft on measuring fair value

The IASB has issued [Exposure draft - Fair value measurement](#) which provides draft guidance on fair value measurement. The proposed standard defines fair value, establishes a framework for measuring it, and requires disclosures about fair value measurements.

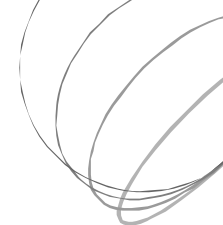
Guidance on measuring fair value has been added to international financial reporting standards (IFRS) piecemeal as it was decided that fair value was an appropriate measurement or disclosure basis in a particular situation. As a result, guidance is dispersed across many IFRSs and it is not always consistent.

The proposals would replace fair value measurement guidance contained in individual standards with a single, unified definition, as well as further authoritative guidance on the application of fair value measurement in inactive markets. The proposals deal with how fair value should be measured when it is already required by existing standards; they do not extend its use in any way.

The draft standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). In the absence of an actual transaction at the measurement date, a fair value measurement assumes a hypothetical transaction in the most advantageous market for the asset or liability. A fair value measurement requires an entity to determine

- the particular asset or liability that is the subject of the measurement
- for an asset, the valuation premise that is appropriate for the measurement (consistently with its highest and best use)
- the most advantageous market for the asset or liability
- the valuation techniques appropriate for the measurement.

Comments should be made via the IASB website by 28 September 2009.



Exposure draft on derecognition

The IASB has issued [Exposure draft – Derecognition \(Proposed amendments to IAS 39 and IFRS 7\)](#) which proposes improvements to the derecognition requirements for financial instruments. The amendments are proposed because of the complexity of the current requirements and the resulting difficulty in applying them in practice.

IAS 39 combines elements of various derecognition concepts and requires them to be applied in a specified order to determine whether all or part of a previously recognised financial asset should be derecognised. An entity must consider whether it has transferred the asset to another party and, if so, whether it has also transferred substantially all the risks and rewards of the asset. Otherwise the entity determines whether it has retained control of the asset and, if it has, the entity recognises the asset only to the extent of its 'continuing involvement' in the asset.

However, the proposed approach is different from IAS 39 in that it does not combine elements of several derecognition concepts but rather focuses on the test of control.

Comments should be made via the IASB website by 31 July 2009.

Exposure draft on employee benefits

The IASB has issued [Exposure draft - Prepayments of a minimum funding requirement](#) which contains proposals to amend IFRIC 14, which is an interpretation of *IAS 19 Employee benefits*,

As a result of IFRIC 14, entities are in some circumstances not permitted to recognise as an asset some prepayments for minimum funding contributions. The proposals are aimed at correcting this unintended consequence of the interpretation.

Comments should be made via the IASB website by 27 July 2009.

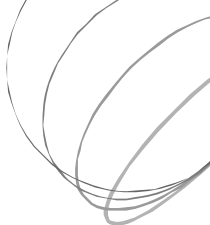
Auditing developments

The documents referred to in the following articles can be obtained by using the hyperlinks, or can be downloaded by auditors from the TSU intranet/extranet.

Revised standard on auditor's reports

The [Auditing Practices Board](#) (APB) has published [ISA \(UK and Ireland\) 700 \(Revised\) The auditor's report on financial statements](#) which is intended to facilitate a more concise auditor's report.

A significant change relates to the 'basis of opinion' section of the report. The revised standard changes the heading of this section to 'scope of the audit' and allows three alternatives, i.e. the report can

- 
- cross-refer to a statement of the scope of an audit that is maintained on the APB's web site; or
 - cross-refer to a statement that is included elsewhere within the annual report; or
 - include a prescribed description of the scope of an audit. Where auditors decide to use this option, the description should be as short as possible and use words prescribed in the standard.

A further significant change relates to the description of the auditor's responsibilities which has been both reduced in length and in part re-distributed to the second part of the auditor's report that addresses other reporting matters.

The effective date of the revised standard for UK companies will be for accounting periods ending on or after 5 April 2009, and for other UK entities periods ending on or after 15 December 2010.

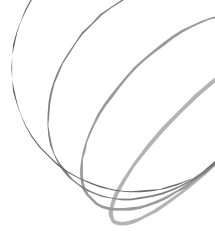
The APB has also issued [Bulletin 2009/2 Auditor's reports on financial statements in the UK](#) which provides updated illustrative examples of auditor's reports on financial statements of UK companies for years ending on or after 5 April 2009. The example auditor's reports included in the bulletin provide both unmodified and modified illustrations, and have been updated from bulletin 2006/6 to take account of the revised ISA 700 and the applicable requirements of the Companies Act 2006.

Proposed clarified auditing standards

The APB has issued [Proposed clarified international standards on auditing – consultation paper](#) which proposes updates to auditing standards in the UK following the clarified international standards recently published by the International Auditing and Assurance Standards Board (IAASB). The consultation paper contains exposure drafts of

- a revised [Statement of the scope and authority of APB pronouncements](#)
- 33 proposed ['clarified' UK standards](#)
- a 'clarified' [International standard on quality control \(UK and Ireland\) 1](#).

The IAASB *Clarity project* was undertaken in order to improve the ability of the international standards to be understood, and make them more compatible with regulatory frameworks. The APB therefore believes that it is appropriate to introduce these new standards in the UK as soon as is practicable. It is proposed that the standards should have a new structure, in which information is presented in the following separate sections

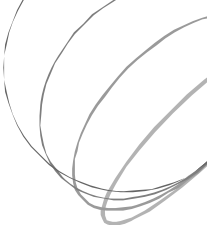


- introductory material which may include information regarding the purpose, scope, and subject matter of the standard, in addition to the responsibilities of auditors and others in the context in which the standard is set
- a clear statement of the objective of the auditor in the audit area addressed by that standard
- a definition of applicable terms used in the standard
- clearly stated requirements in support of each objective which are always expressed by the phrase 'the auditor shall'
- application and other explanatory material which explains more precisely what a requirement means or is intended to cover, or includes examples of procedures that may be appropriate under given circumstances
- additional supplementary APB requirements and guidance, where necessary, which maintain the requirements and meaning of the previous UK auditing standards.

The purpose of this consultation paper is to seek views on the APB supplementary requirements and guidance that require to be retained. Many of the supplementary requirements and guidance in the current UK standards have been rendered unnecessary by the improvements made to the international standards as part of the *Clarity project* and the revisions of particular standards. The criteria the APB has used for keeping supplementary requirements are that they either relate to UK legal/regulatory requirements or are still considered important for audit quality (and are not covered by the IAASB requirements in the clarified standards).

The proposed audit quality supplementary requirements relate to

- *ISA (UK and Ireland) 450 Evaluation of misstatements* which requires the auditor to seek written representation from those charged with governance that explains their reasons for not correcting misstatements brought to their attention by the auditor
- *ISA (UK and Ireland) 510 Opening balances* which extends the requirements relating to opening balances on initial engagements to all audits
- *ISA (UK and Ireland) 570 Going concern* which requires the auditor to plan and perform procedures specifically designed to identify any material matters which could indicate concern about the entity's ability to continue as a going concern. It also requires the auditor to document the extent of their concern.

- 
- *ISA (UK and Ireland) 720 A Other information* which requires the auditor to consider including an 'other matters' paragraph in the auditor's report when an amendment is necessary in the other information and the entity refuses to make the amendment.

Comments should be sent to k.billing@frc-apb.org.uk by 22 July 2009. When finalised, these standards will replace the existing APB standards for audits of financial statements for periods ending on or after 15 December 2010.

Corporate governance developments

The document referred to in the following article is available free of charge by using the hyperlink, or can be downloaded by auditors from the TSU intranet/extranet.

New internal audit standards

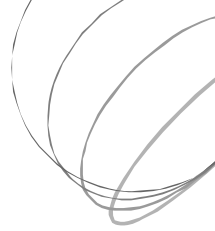
The [Institute of Internal Auditors](#) has published [International standards for the professional practice of internal auditing](#) which set out basic principles for internal auditing, provide a framework for value-added internal auditing, and establish the basis for evaluating internal audit performance.

The standards are principles-focused and consist of statements of basic mandatory requirements which are internationally applicable. They also include interpretations which clarify terms or concepts within the statements. The structure of the standards is divided between

- attribute standards which address the attributes of organisations and internal auditors
- performance standards which describe the nature of internal auditing and provide quality criteria against which the performance of these services can be measured.
- implementation standards which expand upon the attribute and performance standards by providing the requirements applicable to assurance and consulting services.

Other developments

The document referred to in the following article is available free of charge by using the hyperlink, or can be downloaded by auditors from the TSU intranet/extranet.



Procurement

Statement on involving SMEs

The [Scottish Government](#) has issued a statement called [Promoting the involvement of SME in public contracts – six simple steps](#) which is aimed at promoting the involvement of small and medium sized enterprises (SMEs) in public procurement processes.

The Scottish Government believes that it would be beneficial and timely in the current economic climate to issue a clear statement of its commitment to ensuring that SMEs have fair access to public sector contracts in Scotland. The statement highlights that all Scottish public bodies are expected to take the following six steps

- adopt the *Suppliers' charter* which commits public bodies to improving the way they work with businesses
- use the Public Contracts Scotland advertising portal. This includes: publishing their buyer profile on the portal; advertising as many contract opportunities as possible and publishing contract award notices; and using the 'quick quote' facility for very low value contracts
- review contract award procedures to ensure that they place the minimum possible burden on suppliers
- use outcome-based tender specifications wherever possible
- include in their terms and conditions a requirement that contractors pay any sub-contractors within 30 days of receipt of a valid invoice
- monitor spend with SMEs.

Tax

Proposed new requirements for accounting systems

[HM Revenue and Customs](#) has issued [Budget note 62 Corporate transparency: personal tax accountability of senior accounting officers of large companies](#) which advises of a requirement to be included in new legislation regarding the adequacy of the accounting systems of large companies for the purposes of tax reporting.

The legislation will require senior accounting officers of large companies to establish and monitor accounting systems that are adequate for the purposes of accurate tax reporting. They will also be



required to certify annually that this is the case, or specify the nature of any inadequacies and confirm that they have been notified to the external auditors.

These new obligations will be supported by penalties chargeable on the senior accounting officer personally and on the company for a careless or deliberate failure to meet the obligations, and for giving a carelessly or deliberately incorrect certificate or notification.

Legislation

The following items of legislation are available free of charge by using the hyperlinks, or can be downloaded by auditors from the TSU intranet/extranet.

Bills

Public Services Reform (Scotland) Bill

The [Public Services Reform \(Scotland\) Bill](#) was introduced into the Scottish Parliament on 28 May 2009 to help simplify and improve the landscape of Scottish public bodies in order to deliver more effective, co-ordinated government. The Bill is structured in the following parts

- Parts 1 and 2 give the Scottish Ministers power to simplify public bodies listed at Schedule 3 (which includes Audit Scotland and the Accounts Commission), including the transfer and delegation of certain functions, and the dissolution of those bodies.
- Parts 3 to 5 establish three new public bodies i.e. Creative Scotland (effectively a merger of the Scottish Arts Council and Scottish Screen), Social Care and Social Work Improvement Scotland (a merger of the Care Commissions and the Social Work Services Inspection Agency), and Healthcare Improvement Scotland (largely NHS Quality Improvement Scotland)
- Part 6 makes provision about the exercise of scrutiny functions by certain bodies, and amends the *Public Finance and Accountability (Scotland) Act 2000*.
- Part 7 makes provision in relation to indemnity insurance for charity trustees, and other miscellaneous and general provision.

Part 6 contains the following sections

- Section 92 imposes a duty on scrutiny authorities listed in Schedule 13 (which includes the Accounts Commission) to secure continuous improvement in user focus in the exercise of their scrutiny functions (i.e. regulation, audit or inspection) and to demonstrate that improvement. User



focus is the involvement of users of scrutinised services in the design and delivery of scrutiny functions and the governance of the listed scrutiny authorities.

- Section 93 requires listed scrutiny authorities to have regard to any guidance provided by the Scottish Ministers in relation to the Section 92 duty.
- Section 94 imposes a duty on scrutiny authorities listed in Schedule 14 (which includes the Accounts Commission) to co-operate and co-ordinate activity with each other and, where appropriate, the Scottish Ministers.
- Section 98 makes various amendments to the *Public Finance and Accountability (Scotland) Act 2000*.

The amendments to the 2000 Act include the following

- Responsibility for appointing the three other members of the Audit Scotland Board will be transferred from the Auditor General and the Chairman of the Accounts Commission to the Scottish Commission for Public Audit. Members of Audit Scotland staff and members of the Accounts Commission will not be eligible for appointment as a member of the Audit Scotland Board.
- Future Auditors General may hold office only for a period of 8 years, and will not be eligible for reappointment.
- The duty on Scottish Ministers to publish accounts of bodies is formally disapplied where these are published by the body in question.
- The Auditor General is given an explicit power to publish the results of any examination carried out under section 23 (economy, efficiency and effectiveness examinations) of the 2000 Act.
- For the purposes of the law of defamation, reports that are sent by the Auditor General to the Scottish Ministers under section 22 and the results of any examination that are carried out and reported by the Auditor General to the Parliament under section 23 are absolutely privileged (i.e. they have a complete defence against proceedings for defamation).

Statutory instruments

Public finance and accountability

[The Budget \(Scotland\) Acts 2007 and 2008 Amendment Order 2009](#), SSI 120 came into force on 20 March 2009 and amended the *Budget (Scotland) Act 2007* and the *Budget (Scotland) Act 2008*.



Pensions

[The Pensions Increase \(Review\) Order 2009](#), SI 692 came into force on 6 April 2009 and provides for the increase in the rates of public service pensions as follows

- For pensions which began before 7 April 2008, the increase is 5%.
- For pensions which began on or after that date the increases are set out in the Order.

Publications

The following publication is available free of charge by using the hyperlink.

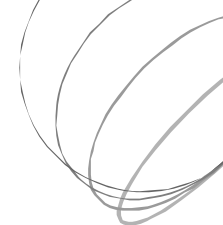
Scottish budget

SPICe Briefing 09/27 Impact of recession on Scotland's public finances

The [Scottish Parliament Information Centre](#) (SPICe) has issued [Briefing 09/27 Impact of recession on Scotland's public finances](#) which considers some of the potential impacts of the recession on Scotland's public finances.

The briefing presents the latest Scottish Government expenditure plans based on its economic recovery programme and the recent UK budget. It notes that the change in economic circumstances is likely to reduce the amount of funds available in 2010/11 due to a reduced capital budget and revenue from taxes. The recession may also increase demand for, or increase the priority given to, services such as social work, health, housing, justice and economic development. The briefing suggests that, with reduced public spending in Scotland, it may be necessary to

- cut back and more clearly prioritise intended capital projects
- increase council tax and non-domestic rates
- make deeper efficiency savings, outwith those imposed via Whitehall reductions
- impose medium term public wage settlements at or below inflation
- replace universally available public services (such as free care for the elderly, free bus passes for the over 60s, and free eye tests) to more targeted ones
- increase or re-introduce charges for tolls, prescriptions, etc
- increase private contributions to higher education.



It also suggests that there should be a challenge function performed within the Scottish Government, similar to the role performed by the UK Treasury. It argues that there should be a body within the Government which would tightly control spending in other departments and make necessary, but possibly unpopular, spending decisions.

Fraud cases

The following is a selection of fraud cases at audited bodies that have been reported by auditors to the TSU.

Expenditure

A manager is thought to have misappropriated £26,000 of goods from a council for their personal use. The manager is alleged to have used blank purchase orders signed by other staff to purchase personal goods. The alleged fraud was possible because the manager was able to circumvent controls and use their position of authority to persuade subordinates to sign the purchase orders. The manager has been dismissed and the matter has been reported to the police.

Income

A clerical assistant misappropriated £43,000 from a council over a seven year period by failing to bank income collected from social work clients and keeping the cash. The fraud was possible due to insufficient supervision and management checks. It was identified when a new manager investigated why the amount of income recorded in the financial ledger was so low. The employee has been dismissed and the matter has been reported to the police.

A catering supervisor misappropriated £8,000 from a council in less than a year by failing to bank income from customers in a school canteen and keeping the cash. A cashless system was in operation and any cash taken should have been recorded separately and banked. The fraud was discovered when another employee reported under the council's whistle-blowing scheme that the supervisor was collecting cash but there was no evidence of it being banked. The fraud was possible as monitoring controls in the system were not followed. The supervisor has been dismissed and the matter has been reported to the police. Three other members of staff were subject to disciplinary procedures for the failure to follow monitoring controls.

Payroll

Two manual workers defrauded £10,000 from a council by working for other companies while absent on sick leave for five months. The employees were undertaking other work during their absence. The cases have been reported to the procurator fiscal and both employees have had their employment with the council terminated.



Local authority

Introduction

This chapter contains articles on local authority technical matters and should be read by auditors with appointments in that sector. The general chapter contains articles on cross-sectoral technical matters.

The documents referred to in the articles that are available from websites can be obtained by using the hyperlinks. They can also be downloaded by auditors from the TSU intranet/extranet.

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note that the following articles in this chapter relate to 2008/09

- Grant notes on general guidance, education maintenance allowance grant, safety camera partnership grant, housing and council tax benefit subsidy claim, unfunded elements of superannuation benefits grant claim, and criminal justice social work services claim
- CIPFA guidance on closing 2008/09 accounts
- CIPFA guidance on the impairment of Icelandic bank deposits
- CIPFA bulletin on treasury management practices
- Extension of new police commutation factors.

There are also other articles on the following subjects: draft statutory guidance on PFI schemes; third update on IFRS-based accounting code; and pre-consultation draft accounting code sections on revenue recognition, inventories, work-in-progress, trade and other receivables, cash and cash equivalents, employee benefits, and post employment benefits; 2009/10 non domestic rating deferral scheme; new pension funding arrangements for police and fire; and guaranteed minimum pension.

TSU developments

Publications

In addition to TBs, the TSU publishes other technical publications (i.e. notes for guidance, urgent issue notes and grant notes) to provide auditors with more in-depth guidance on specific matters. The following have been published by the TSU since TB 2009/1 and can be downloaded by auditors from the TSU intranet/extranet. They can be sent to other TB recipients on request.



Grant notes

Grant notes (GNs) are published to provide local authority auditors with guidance on the audit of approved grant claims. The TSU has published the following GNs since TB 2009/1

- GN/GEN/09 General guidance on the local authority audit of grant
- GN/EMA/09 Education maintenance allowance grant
- GN/FPN/09 Safety camera partnership grant
- GN/HBS/09 Housing and council tax benefit subsidy claim
- GN/SUP/09 Transfer of functions to the NHS - unfunded elements of superannuation benefits grant claim
- GN/CJS/09 Criminal justice social work services grant claim.

Accounting developments

The documents referred to in the following articles are available free of charge by using the hyperlinks, or can be downloaded by auditors from the TSU intranet/extranet.

Guidance on closing 2008/09 accounts

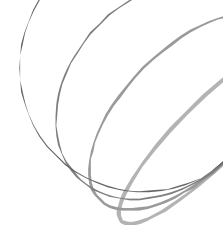
The Local Authority Accounting Panel (LAAP) of the [Chartered Institute of Public Finance Accountancy](#) (CIPFA) has issued [Bulletin 81 Closure of the 2008/09 accounts and related matters](#) to provide guidance on closing the 2008/09 accounts.

The bulletin does not include detailed guidance, but rather it aims to provide sufficient information for authorities to identify issues they will need to address, and indicates where further guidance can be found. Auditors' attention is particular drawn to the issues referred to in the following paragraphs.

Statement of total recognised gains and losses

The statement of total recognised gains and losses (STRGL) continues to cause problems in a number of authorities. Only in exceptional circumstances will lines other than those detailed in the *Code of practice for local authority accounting in the UK – statement of recommended practice* (the SORP) be required in the STRGL; if additional lines are required to balance the STRGL, this may indicate underlying problems elsewhere in the accounts.

However, a credit or a debit to the available-for-sale financial instruments reserve would need to be reflected in the STRGL because it will not be reflected in the income and expenditure account (I&E



account), but will impact upon net worth. Where an available-for-sale financial asset has been impaired, any unrecognised losses recycled from the available-for-sale financial instruments reserve to the I&E account should then be deducted as an additional item in the STRGL to avoid overstating gains for the year.

Government grants deferred account

The bulletin states that capital grants and contributions received in advance of work being undertaken cannot be credited to the government grants deferred account (GGDA), because no matching asset is recognised on the balance sheet. Therefore they should be credited to a grants and contributions unapplied account until the work has commenced. Authorities may choose to present such an account either as a separate line in the balance sheet or consolidated with the GGDA. Once the work has commenced, the grant or contribution should be transferred to the GGDA up to the value of the asset recorded as under construction.

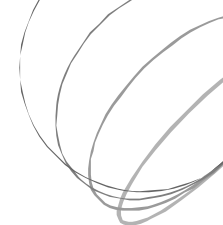
Where authorities are unable to identify assets relating to a proportion of their GGDA due to events in the past, the grant will need to be derecognised in the balance sheet. A prior year adjustment is required where the error is fundamental. Where the amount is not material, the grant should be credited to the general government grants section of the I&E account, and reversed in the statement of movement on the general fund balance with a transfer to the capital adjustment account.

The bulletin also reminds Scottish authorities that they will need to identify the amount of general capital grant used for specific assets in order to comply with the SORP. It highlights that the use made of the grant determines the accounting treatment i.e.

- Grant used to fund local authority capital expenditure should be credited to the GGDA and written off to the service revenue account to match the depreciation of the asset to which it relates.
- Grant used to fund third party capital expenditure should be treated as service revenue income in the I&E account.

Gain or loss on disposal of fixed assets

When calculating the gain or loss on the disposal of a fixed asset for presentation in the I&E account, the proceeds should be adjusted for any disposal costs. When these entries are reversed in the statement of movement on the general fund balance, it is permissible in Scotland to charge the disposal costs against the proceeds, and therefore they can be credited to the general fund and debited to the capital receipts reserve (this contrasts with England where regulations require the costs to remain a charge against the general fund).



The prohibition in the 2008 SORP on the revaluation of a fixed asset at the point of disposal does not mean that authorities should not revalue assets once the decision to dispose of them has been taken. When a general fund asset is transferred from operational to non-operational assets, the asset should be revalued to a market value basis. However, the bulletin considers that HRA assets being disposed of under right to buy legislation will generally remain operational up to the point of disposal and should therefore continue to be valued as operational properties.

Financial instruments

FRS 26 excludes investments in subsidiaries, associates and joint ventures from its scope (unless the investments are held for resale) but the 2008 SORP requires these investments to be accounted for as financial instruments. CIPFA/LASAAC has confirmed that this was not the intended reading of the SORP, and it is expected that the wording in the 2009 SORP will be amended so that it is clear that such investments do not fall within the scope of FRS 26 and chapter 4 of the SORP, provided these bodies are included in the group accounts.

The bulletin recommends that authorities should carry investments in subsidiaries, associates and joint ventures either at cost less impairment or at fair value in 2008/09 as this is consistent with the exclusion of these investments from the requirements of FRS 26.

In addition, the 2009 SORP is expected to require authorities to present the current portion of long-term liabilities/assets (including accrued interest) within current liabilities/assets. Although not a requirement of the 2008 SORP, the bulletin recommends that accrued interest and similar items should be shown in the current liabilities/assets lines in 2008/09.

Asset valuations

The present economic climate has resulted in more volatile asset values, and authorities should therefore consider whether circumstances are such that an impairment review is required. In determining whether asset values need to be revised, the bulletin highlights the following points that should be taken into account

- Authorities should revise asset values in the light of specific evidence for each class of asset they hold. In particular, changes in the value of specialised properties may arise from factors that are different to other assets.
- Reviewing a sample rather than all properties may provide sufficient evidence.
- Valuers should be involved in providing new values for assets.



The bulletin corrects the SORP guidance notes which state that impairments should only be recognised when the change in value is 'permanent'. This is not a requirement of the SORP or FRS 11 and this factor should therefore not be taken into account in determining whether an amendment is required.

International financial reporting standards

The bulletin highlights some key issues in respect of preparing in 2008/09 for IFRS, and advises authorities to

- reassess their PFI schemes in time for the revised accounting treatment to be adopted in their 2009/10 accounts. This will involve restating the 2008/09 accounts, and authorities may find that collecting the required information in parallel with that required to close the 2008/09 accounts simplifies the process
- collect information on untaken annual leave and other short-term employee benefits at 31 March 2009 as part of their 2008/09 close-down arrangements. It is acceptable to base the estimated accruals on appropriate samples
- collect the necessary information to allow leases to be split between land and buildings as soon as possible, bearing in mind that non-finance staff (e.g. valuers and legal staff) are likely to have an essential role in this process
- discuss with their valuers those assets likely to have a material difference between their current carrying value and their fair value, and ensure a programme to identify those assets is in place. It should be noted that separate components do not require to be identified in the opening IFRS-based balance sheet and comparative figures (except where authorities have already separately identified components under the SORP). Separate components will need to be identified, where these are significant and have a different useful life to the rest of the asset, as assets are acquired, enhanced and revalued from 1 April 2010 onwards.

Auditors may find it useful to refer to this bulletin when checking authorities' compliance with the requirements of the 2008 SORP.

Guidance on impairment of Icelandic bank deposits

Guidance on impairment levels

CIPFA has issued [LAAP bulletin 82 Guidance on the impairment of deposits with Icelandic banks](#) which provides further information on the impairment to be recognised in the 2008/09 accounts for deposits in each Icelandic bank (i.e Heritable and Kaupthing Singer and Friedlander – both of which are registered in the UK – and Landsbanki and Glitnir – both of which are Icelandic entities) which went into administration in October 2008.



The bulletin summarises the information currently available in respect of each bank, and recommends an appropriate level of impairment for each. However, if more information becomes available before the accounts are authorised for issue, this will need to be reflected in the accounts.

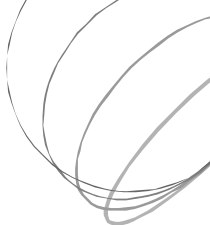
The SORP requires the impairment to be calculated on a discounted cash-flow basis using the original effective interest of the deposit. In order to perform this calculation, an estimate of the dates when amounts will be recovered is required. Certain assumptions have therefore had to be made about the projected timing of repayments to depositors.

For the two UK registered banks, the administrators issued progress reports in April 2009. The recommended level of impairment and timing of repayments for each bank is as follows

- The administrators of Heritable reported that a total repayment of 70% could result if the administration were wound up in 2010, and that this rises to 80% if it were wound up in 2012. It is expected that the administrator will proceed on the basis that the administration will be wound up in 2012, and it would therefore be appropriate for authorities to recognise an impairment based on an 80% recovery. The discounted cash flow calculations reflect a payment of 15% of the claim amount at the end of July 2009, followed by 30%, 15%, 10% and then another 10% each July until 2013.
- The administrators of Kaupthing Singer & Friedlander reported that a best estimate of the total repayment is 50%. It would therefore be appropriate for authorities to recognise impairment based on a 50% recovery. The discounted cash flow calculations reflect a payment of 10% of the claim amount at the end of June 2009 with the balance of repayments (40%) split evenly between December 2009, 2010, and 2011 and October 2012.

In respect of the two Icelandic entities, Icelandic law provides for claims for 'deposits' to have priority when distributing the assets of a bankrupt financial undertaking. A legal opinion obtained by the Local Government Association (LAG) indicates that the deposits made by local authorities (including interest up to 14 November 2008) will rank as priority claims. The recommended level of impairment and timing of repayments for each bank is as follows

- Glitnir's assets are significantly greater than the liabilities owed to depositors, indicating that a full repayment of the principal and interest up to 14 November 2008 (or the maturity date if earlier) is considered likely. It would therefore be appropriate to use the full amount of the priority creditor when calculating the recoverable amount. It is reasonable to estimate that the repayment of the priority deposits will be made by 31 March 2010. Interest accruing after 14 November 2008 however will rank as an unsecured claim and it is not considered prudent to take this interest into account when calculating the recoverable amount.

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- Landsbanki's assets are sufficient to repay approximately 90% of the deposits from customers. However, it is considered that arrangements sufficient for full repayment of depositors remain possible which gives a likely range for the recoverable amount of 90% to 100%. In the absence of other information, the bulletin recommends that authorities should take the mid-point of the range and assume that the recoverable amount will be 95%. It would be appropriate to assume that the repayment will be split evenly between March 2010, and December 2010, 2011 and 2012.

LAAP considers that a note provided by the LGA's legal advisors provides evidence to support the recommended level of impairment. However, it should be noted that the impairment loss in respect of the Icelandic entities will be significantly greater if local authority deposits are not deemed to have priority. This should be disclosed in the notes to the accounts along with an indication of the lower recoverable amount if that proves to be the case.

Appendix A to the bulletin provides a worked example of the calculations and accounting entries for an impaired deposit. While it is based on Heritable, the principles apply to deposits with all the banks. Appendix B includes an example disclosure note. There is also an [accompanying spreadsheet](#) containing an impairment calculator.

Auditors should confirm that authorities have paid due regard to this bulletin when calculating the impairment in 2008/09 for deposits in each Icelandic bank that has gone into administration.

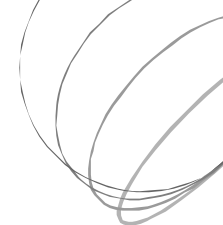
Revision to LAAP bulletin 78

TB 2009/1 (page 19) advised that CIPFA had agreed to amend an aspect of [LAAP bulletin 78 Impairment of financial assets and amendments to accounting standards](#) which provides guidance on whether an investment has been impaired and, if so, how to measure the impairment.

As expected, CIPFA has now re-issued the LAAP bulletin. The only change concerns cases where no information was available on which to estimate the recoverable amount. The original guidance was to disclose a contingent liability instead of recognising an impairment, but this recommendation has been removed from the revised bulletin.

Update to LAAP bulletin 79

TB 2009/1 (page 21) advised that CIPFA had issued [Bulletin 79 \(Provisional\) Impairment of financial assets: supplementary guidance](#) to provide updated guidance on accounting for impairment losses. The bulletin was described as provisional as it was prepared on the basis of statutory guidance/regulations that were still in draft. Following publication of the statutory guidance/regulations (see TB 2009/1 – page 20), CIPFA has issued the finalised bulletin.



The statutory guidance will allow Scottish authorities to defer the impact on the general fund of any impairment charges relating to Icelandic bank deposits. Where an investment has been impaired, the authority is required to account for the impairment in accordance with proper practice. In the year in which the impairment is recognised, which is likely to be 2008/09, an authority may take advantage of the statutory guidance and adjust the general fund to reduce or negate the impact of the impairment charge in that year. This is achieved by debiting an amount no greater than the impairment charge to the financial instruments adjustment account and crediting the general fund. Any part of the impairment charge that an authority chooses to not transfer remains as a charge to the general fund.

Interest should be credited to the I&E account in accordance with proper practice. Where the impairment charge has been transferred out of the general fund in accordance with the statutory guidance, a prudent reduction the interest credited (which may not be the full amount) should also be reversed out of the general fund and credited to the financial instruments adjustment account.

As the statutory guidance only defers the impact of the impairment on the general fund, it requires authorities to reverse the transfers in either 2009/10 or 2010/11. The reversal involves debiting the general fund and crediting the financial instruments adjustment account.

Scottish authorities are required to maintain a separate subdivision of the financial instruments adjustment account, and disclose the transactions relating to this subdivision separately in the note to the accounts. This is intended to assist authorities in demonstrating that, at the end of the process, all remaining balances have been reversed.

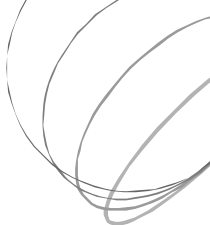
Draft statutory guidance on PPP/PFI schemes

The Scottish Government has issued *Guidance on proper accounting practices – statutory repayment of PPP/PFI schemes – consultation draft* on accounting for PPP/PFI arrangements under IFRS from 2009/10. The guidance also sets out statutory arrangements for finance leases.

Under the 2009 SORP proposals for a revised accounting treatment for PFI/PPP arrangements (see TB 2008/4 – page 15), the criteria for asset recognition will move from 'risk and reward' to issues about control of service provision and the residual value of the asset. It is probable that most local authorities will recognise PPP/PFI assets on their balance sheets under these proposals.

There is likely to be an impact on local authority finances from this change, and the statutory guidance is required to determine what costs should be charged to the general fund. The intention of the guidance is to put local authorities in a neutral position when compared with current requirements. Local authorities will be required to separate the unitary charge into

- an element recognising the payment of the liability for the construction cost of the asset. This would be used to reduce the outstanding liability on the balance sheet, and would not be a charge to the I&E account

- 
- interest costs arising from the financing arrangements, which would be charged to the I&E account
 - the service charge for services provided under the arrangement, which would also be charged to the I&E account.

Depreciation and impairment losses for relevant PPP/PFI arrangements (and finance leases) are to be charged to the I&E account, but will be excluded when determining the movement on the general fund balance for the year. When determining the movement on the general fund balance a 'statutory charge for the repayment of debt' should be made, which will be a sum equal to the element of the unitary charge that relates to repayment of the outstanding liability.

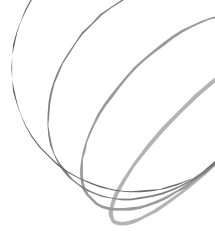
The guidance also covers gains arising where the refinancing of the operator's debt involves a proportion of the savings being transferred to the local authority. They are considered to be the same as premiums and discounts arising on the refinancing of borrowing, and this draft guidance takes the same approach as the statutory guidance issued on financial instruments. The local authority's share of any gain will therefore be required to be credited to the general fund over the life of the new liability recognised.

Where a local authority permanently transfers to the operator existing assets that are not used in the PPP/PFI arrangement in exchange for reduced or eliminated payments, it is required to derecognise the asset, and recognise the consideration (capital receipt) received. This may be the reduction or elimination of the PPP/PFI outstanding liability, and the statutory guidance permits the capital receipt to be applied to the outstanding liability to reflect the reduced liability and hence reduced payments. No further statutory intervention is required, and the annual charge to the general fund follows the statutory guidance.

Except in the circumstances set out in the above paragraph, capital receipts may not be used to reduce or repay the long term liability, or fund the statutory charge associated with a PPP/PFI arrangement or finance lease.

Where the asset transfer is not permanent (i.e. it is an operating lease), no revised balance sheet entries are required. Over the period of the lease, the authority will recognise income in the I&E account, which will cause a corresponding reduction in the long term liability. The statutory charge to the general fund is unaffected by the operating lease arrangements.

A local authority may in the past have recognised an element of the unitary charge as being related to the acquisition of the residual value of the asset, and may therefore have funded this from a capital resource. The revised accounting arrangements do not recognise any capital element to the charges to be made to the I&E account, and it is not possible to create a neutral position through statutory guidance. However, there will be no impact on the general fund where historic decisions on the funding of any contribution are not reconsidered or re-addressed, and it is therefore not considered desirable that authorities should review and restate capital contributions made in previous years.



Comments were required by 11 May 2009.

Other developments

The documents referred to in the following articles are available free of charge by using the hyperlinks, or can be downloaded by auditors from the TSU intranet/extranet.

International financial reporting standards

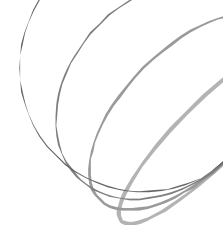
Third update on new code

[The CIPFA/LASAAC Local Authority SORP Board](#) has issued [IFRS-based code of practice on local authority accounting - update 3](#) which outlines the latest position regarding the development of the IFRS-based code. Developments since TB 2009/1 are not significant but include the following

- The format of the statement of accounts, and the requirements for segment reporting, have been agreed in principle.
- Authorities are required to identify the inventories that will be distributed at no or nominal cost and inventories obtained at no or nominal costs, and restate the amounts accordingly.
- It has been agreed that cash and cash equivalents should be a separate balance sheet item. Authorities are required to reclassify short term investments as cash equivalents.
- CIPFA is currently working with HM Treasury to agree a consistent approach across the local government and central government sectors, with regard to accounting for government and non-government grants.
- There are expected to be no transition issues arising from construction contracts, revenue recognition, trade and other receivables, or trade and other payables.

Auditors should confirm that authorities are taking the required action set out in the update.

CIPFA/LASAAC will formally consult on the whole code shortly with a closing date for comments of 11 September 2009. Comments on the pre-consultation draft of each section can be made in the meantime to ifrcode@cipfa.org, and those made available since TB 2009/1 are on revenue recognition; inventories; work-in-progress; trade and other receivables; cash and cash equivalents; employee benefits; and post employment benefits .



Pre-consultation draft section on revenue recognition

The [draft](#) proposes that authorities should account for revenue recognition in accordance with *IAS 18 Revenue*, and *IPSAS 23 Revenue from non-exchange transactions (taxes and transfers)*. *IPSAS 9 Revenue from exchange transactions* is based on IAS 18, and provides additional guidance for public sector bodies.

No interpretations or adaptations of IAS 18 and IPSAS 23 are required for the public sector context. However, IPSAS 9 includes a public sector adaptation, which the draft Code has adopted, whereby the definition of revenue excludes the reference to 'ordinary activities'.

There are no proposed differences in accounting compared with the current SORP.

Pre-consultation draft section on inventories

Inventories are materials or supplies to be consumed in the production process, or distributed in service delivery, which are held for sale or distribution. The [draft](#) proposes that authorities should account for inventories in accordance with *IAS 2 Inventories*, and *IPSAS 12 Inventories* which provides additional guidance for public sector bodies.

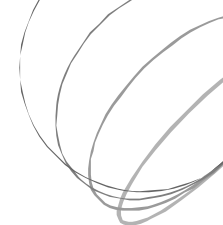
The current SORP requires inventories to be measured at the lower of cost and net realisable value. In contrast, the draft Code requires that where inventories

- are acquired through a non-exchange transaction, their cost is deemed to be their fair value as at the date of acquisition
- have been acquired for less than fair value, the difference between the fair value of the inventories and the consideration paid should be recognised in the statement of comprehensive income as income when the inventories are sold
- are provided at no charge or for a nominal charge, they are to be valued at the lower of cost and current replacement cost.

It is not expected that there will be a change in the measurement for many inventories held by authorities.

Where an authority purchases inventories on deferred settlement terms, the draft Code requires the difference between the purchase price for normal credit terms and the amount paid to be recognised as interest over the period of the credit within the statement of comprehensive income. The current SORP is silent on this issue although the measurement is implicit in FRS 26.

The draft Code does not allow the use of last-in first-out (LIFO) cost formula. *SSAP 9 Stock and long term contracts* refers to the use of LIFO cost formula as one of the options to use as a basis for cost valuation



for stock, although it discourages its use. The use of cost formula is not specifically stated in the current SORP.

The draft Code requires that an authority must use the same cost formula for all inventories having a similar nature and use to the entity. This is not specifically stated in SSAP 9 or the SORP, although the principle of consistency under *FRS 18 Accounting policies* set out in the SORP should lead to a similar treatment.

Pre-consultation draft section on work-in-progress

The [draft](#) proposes that authorities should account for work in progress (construction contracts) in accordance with *IAS 11 Construction contracts*, and *IPSAS 11 Construction contracts* which provides additional guidance for public sector bodies. This section of the draft Code only applies to construction that authorities are undertaking for their customers. It does not apply to assets under construction, i.e. where the authority is the customer rather than the contractor.

When the outcome of a construction contract can be estimated reliably, the draft Code requires the percentage of completion method to be used to recognise revenue and expenses at the end of the reporting period. The current SORP follows a similar approach, but specifically only permits revenue to be recognised once the authority has obtained the right to consideration as a result of performing an identifiable element of its contractual obligations. The draft Code may therefore allow earlier recognition of contract revenue.

Pre-consultation draft section on trade and other receivables

The [draft](#) proposes that authorities should account for trade and other receivables in accordance with *IAS 18 Revenue*, *IPSAS 23 Revenue from non-exchange transactions (taxes and transfers)*, *IAS 39 Financial instruments: recognition and measurement*, and *IPSAS 9 Revenue from exchange transactions* which provides additional guidance for public sector bodies.

There are no proposed differences compared with the current SORP

Pre-consultation draft section on cash and cash equivalents

The [draft](#) proposes that authorities should account for cash and cash equivalents in accordance with *IAS 7 Statement of cash flows*, and *IPSAS 2 Cash flow statements* which provides additional guidance for public sector bodies.

The current SORP does not use the concept of cash equivalents and requires the movement of cash to be reported in the cash flow statement and balance sheet. This section of the draft Code does not relate to cash flows but relates to 'cash and cash equivalents' as a balance sheet item. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject



to an insignificant risk of changes in value. They include short term investments (e.g. with a maturity of 3 months or less from the date of acquisition).

There are no strict criteria to follow relating to the nature and maturity of items treated as cash equivalents and as such authorities will be required to disclose the policy adopted in determining their composition.

Pre-consultation draft section on employee benefits

This [draft](#) section provides an introduction to the following four sections on employee benefits

- Section 6.2 – benefits payable during employment, which include short-term employee benefits (e.g. wages and salaries, paid annual leave and non-monetary benefits) for current employees, and benefits earned by current employees but payable twelve months or more after the end of the reporting period (e.g. long-service leave or long-term disability benefits).
- Section 6.3 – termination benefits, which are payable as a result of either an employer's decision to terminate an employee's employment before the normal retirement date; or an employee's decision to accept voluntary redundancy in exchange for those benefits.
- Section 6.4 – post employment benefits which cover pensions, life insurance and medical care.
- Section 6.5 – pension fund accounts.

Pre-consultation draft section on post employment benefits

The [draft](#) proposes that authorities should account for post employment benefits in accordance with *IAS 19 Employee benefits*, except for one interpretation on the approach to recognising actuarial gains and losses, and *IPSAS 25 Employee benefits* which provides additional guidance to public sector bodies.

The interpretation is necessary because IAS 19 permits an approach whereby only those actuarial gains and losses falling outside an agreed 'corridor' are recognised in the I&E account; this approach is not permitted by the draft Code. Post-employment benefits will therefore be accounted for on a similar basis to FRS 17 and the current SORP.

However, IAS 19 allows a wider range of accounting for post-employment benefits than FRS 17 or the current SORP. They include not only pensions but also other benefits such as life insurance and medical care that is provided 'post-employment'. However, the pension plans in which local authority employees participate do not provide medical benefits or free standing postemployment life insurance, and therefore the matter is not covered in detail by the draft Code.



The current SORP states that minor non principal authorities, such as internal drainage boards, may account for the local government pension scheme as if it were a defined contribution plan. The draft Code includes joint committees as an example of a minor non principal authority.

Treasury management

New bulletin on treasury management practices

CIPFA's Treasury Management Panel has issued [Bulletin – Treasury management in local authorities – post Icelandic bank collapse](#) which provides interim advice on treasury management practices in the light of the Icelandic Banks collapse.

Formal treasury management guidance will be published in the form of a revised *Treasury management code* and *Guidance notes for local authorities* later this year. This bulletin constitutes advice only and covers some of the key areas likely to be covered in the revised guidance.

The bulletin highlights that it is important that treasury management policies adequately reflect risk and in particular security, liquidity and yield risk. Diversification between counterparties, countries, sectors and instruments should be a key consideration in setting treasury management objectives.

Authorities should support the involvement of elected councillors in treasury management decision-making with improved information and regular review by councillors in both executive and scrutiny functions. It is suggested that authorities consider how they can best involve executives and leading portfolio holders in determining treasury management strategies and whether audit committees should be given an explicit responsibility to keep treasury management arrangements under review.

The bulletin suggests that authorities report formally on treasury management activities at least twice a year and preferably quarterly.

Where authorities have a gross borrowing level that substantially exceeds their capital financing requirement, they should satisfy themselves that they have taken account of all the risks associated with this strategy and that the reasons underpinning it are sound. The bulletin suggests that both the reasons for any significant difference and the risks and benefits associated with the strategy are clearly placed before councillors as part of their agreement of the annual strategy.

Local authorities should ensure that their treasury management functions are adequately resourced. Training should address all of the procedures and practices which are relevant to the treasury management arrangements.

Credit ratings remain a key source of information but it is important to recognise their limitations. Authorities are advised to have regard to the ratings issued by all three main agencies and to make their



decisions on the basis of the lowest rating. Ratings should be kept under regular review and 'ratings watch' notices acted upon. Other sources of information should also be systematically reviewed by authorities including the financial press, market data and information on government support for banks. It is recommended that authorities set limits on the principal amounts invested and duration dependant on the financial standing of institutions, and apply sector and country limits in line with their financial strength.

Authorities should be clear on the status of the service they are receiving from their treasury management advisers and satisfy themselves of its appropriateness for their needs.

Non domestic rates

2009/10 deferral scheme

The Scottish Government has introduced a non-domestic rate deferral scheme under which businesses will be able to defer payment of 60% of the increase in their 2009/10 business rates bills until 2010/11 and 2011/12.

In practice, this deferred amount is equal to 3% of the 2009/10 bill, repaid half in 2010/11 and half in 2011/12. The Scottish Government will adjust its funding to local government in 2009/10 and in the following two years so that local authority budgets over the period are unaffected.

[Finance circular 8/2009](#) provides an explanation of how the scheme is expected to operate.

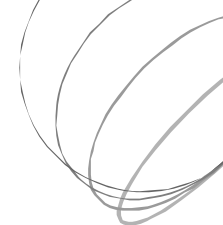
Pension schemes

New funding arrangements for police and fire

The Scottish Government has issued *Police circular 1/2009 Police and fire pensions reform – Transition arrangements for 2009/10* to provide guidance on new funding arrangements for 2009/10 in respect of police and fire service pensions.

Pension accounts are to be introduced to centralise the financing of police and fire pensions. This will be phased in two stages.

The first stage is transition arrangements to apply in 2009/10, and this circular focuses on this stage. Existing funding arrangements will continue although the commutation funding element of settlements will be set at 80% of the costs of the commutation payments that may fall due. The Scottish Government will top-up funding where actual payments exceed the 80% level, but each force and fire service may retain any surplus. A system of quarterly monitoring and returns to the Scottish Government requires to be set up to underpin the process.



The second stage is the complete set of new arrangements that will come into effect from 2010/11. The current 'pay as you go' arrangements will cease and pension funding flows will instead be managed separately from the main revenue account. An employers contribution will be introduced based on a fixed percentage of pensionable pay to reflect scheme costs. Ring-fenced pension accounts will be set up by each force and fire service into which employer and employee contributions will be paid and from which payments of pension will be made. Any surplus or deficit will fall to the Scottish Government. This second stage will be the subject of further guidance in due course.

Extension of new police commutation factors

TB 2008/3 (page 23) advised of new actuarial factors for the commutation of police pension into a lump sum effective from 1 October 2007. The [Scottish Public Pensions Agency](#) (SPPA) has issued [Police pensions circular 2009/5 Further backdating of the commutation factors applicable to the police pension scheme](#) which advises that the effective date has been backdated further to 1 December 2006.

This means that the new factors apply to any officer who retired with an immediate pension on that date or later (i.e. whose last day of service was 30 November 2006 or later) or whose deferred pension came into payment on 1 December 2006 or later. This will require the payment of interest in all cases.

Officers who retired on or after 1 October 2007 will already have been covered by the previous backdating exercise. Police authorities are now required to identify those officers who retired between 1 December 2006 and 30 September 2007, or whose deferred pension came into payment between those dates, and who commuted some of their annual pension for a lump sum. The lump sum to which the officers are entitled must be recalculated using the new factors.

All commutation lump sum payments, including interest, made under this exercise will be more than a year after entitlement arose and will therefore attract an unauthorised payment charge. These charges will be met by central government and will not be payable by retired officers or police authorities.

Guaranteed minimum pension

The SPPA has issued [Police/Fire/Local government pensions circular 2009/1 Increased pension entitlement](#) to advise of new regulations for those affected by the overpayment of guaranteed minimum pension (GMP). A small number of pensioners have been receiving larger pension increases than they are entitled to. This is because interest on the GMP element has erroneously been paid twice; once by the pension scheme administrator and once by the Department for Work and Pensions. The regulations have effect back to 1979 to provide retrospective authority for the overpayments.

Pensioners are not required to pay back the GMP-related overpayment, which will continue to be paid from 2009/10, albeit frozen at existing levels, as an additional entitlement called the increased pension entitlement.



Legislation

The following items of legislation are available free of charge by using the hyperlinks, or can be downloaded by auditors from the TSU intranet/extranet.

Statutory instruments

Local government

[*The Local Government Finance Act 1992 \(Scotland\) Amendment Order 2009*](#), SSI 132 amends the amount of revenue support grant contained in *The Local Government Finance Act 1992 (Scotland) Order 2009* in respect of 2009/10. See Key circulars – Finance circulars – Finance circular 6/2009 Local government finance settlement 2009/10.

Pensions

[*The Local Government Pension Scheme Amendment \(Scotland\) Regulations 2009*](#), SSI 93 came into force on 1 April 2009 and made corrections and minor amendments to the principal 2008 Regulations.

[*The Firefighters' Pension Scheme Amendment \(Increased Pension Entitlement\) \(Scotland\) Order 2009*](#), SSI 184 came into force on 26 June 2009. See Other developments – Pension schemes – Guaranteed minimum pensions.

[*The Police Pension Scheme Amendment \(Increased Pension Entitlement\) \(Scotland\) Regulations 2009*](#), SSI 185 came into force on 26 June 2009. See Other developments – Pension schemes – Guaranteed minimum pensions.

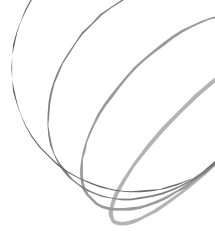
[*The Local Government Pension Scheme Amendment \(Increased Pension Entitlement\) \(Scotland\) Regulations 2009*](#), SSI 186 came into force on 26 June 2009. See Other developments – Pension schemes – Guaranteed minimum pensions.

Key circulars

The following circulars are available free of charge by using the hyperlink, or can be downloaded by auditors from the TSU intranet/extranet.

Finance circulars

[*Finance circular 6/2009 Local government finance settlement 2009/10*](#) provides a summary of the figures contained in *The Local Government Finance Act 1992 (Scotland) Amendment Order 2009*. The amended figures include an additional £70 million as a result of local authorities freezing 2009/10 council tax rates.



[Finance circular 7/2009 Non domestic rates: statutory instruments](#) summarises a number of non domestic rating statutory instruments that came into force on 1 April 2009.

[Finance circular 8/2009 The non domestic rating deferral scheme 2009/10](#). See Other developments – Non domestic rates – 2009/10 deferral scheme.

[Finance circular 9/2009 Guidance on the use of completion notices](#) provides guidance on the use of completion notices for new properties.

Pension circulars

[Police/Fire/Local government pensions circular 2009/1 Increased pension entitlement](#). See Other developments – Pension schemes – Guaranteed minimum pensions.

[Police pensions circular 2009/5 Further backdating of the commutation factors applicable to the police pension scheme](#). See Other developments – Pension schemes – Extension of new police commutation factors.

Police circulars

[Police circular 1/2009 Police and fire pensions reform – Transition arrangements for 2009/10](#). See Other developments – Pension schemes – New funding arrangements for police and fire.

Publications

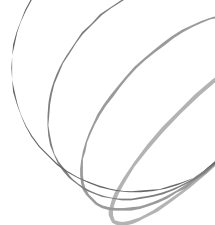
The following publications are available free of charge by using the hyperlinks.

Audit Scotland

Asset management in local government

The aim of this study into [Asset management in local government](#) was to evaluate the extent to which councils manage their property assets to ensure effective service provision and achieve value for money. Key messages include the following

- Councils reported that 27% of their property assets are in poor or bad condition, 23% are not sufficiently suitable for the services being delivered from them, and 14% fail in both respects.
- Almost two-thirds of all councils report that their property maintenance backlog is increasing.
- More than half of councils do not have an approved corporate asset management strategy

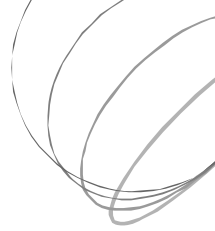


- The majority of councils report good arrangements for collecting data about assets. Almost three-quarters of councils have up-to-date information across most performance areas, but good operational data is not always used to support decision-making.
- Many councils do not have effective elected member scrutiny of property assets and only half provide regular information to members on property performance.

Auditor action

The following is a summary of items in this chapter of the TB that include specific recommendations or requests that auditors take specific actions

Section	Action
Accounting developments – Guidance on closing 2008/09 accounts	Auditors may find it useful to refer to the LAAP bulletin 81 on closing the 2008/09 accounts when checking authorities' compliance with the requirements of the 2008 SORP.
Accounting developments – Guidance on impairment of Icelandic bank deposits - Guidance on impairment levels	Auditors should confirm that authorities have paid due regard to LAAP bulletin 82 when calculating the impairment in 2008/09 for deposits in each Icelandic bank that has gone into administration.
Other developments – International financial reporting standard – Third update on new code	Auditors should confirm that authorities are taking the required action set out in the update on the IFRS-based code.



Health

Introduction

This chapter contains articles on health technical matters and should be read by auditors with appointments in that sector. The general chapter contains articles on cross-sectoral technical matters.

The documents referred to in the articles that are available from websites can be obtained by using the hyperlinks. They can also be downloaded by auditors from the TSU intranet/extranet.

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note the following articles in this chapter relate to 2008/09

- note for guidance on 2008/09 annual accounts
- TSU guidance on the pension disclosures within the remuneration report
- 2008/09 annual accounts manual
- 2008/09 capital accounting manual
- 2008/09 statement of internal control guidance
- sustainable development strategy
- partnership agreement with Counter Fraud Services
- non-executive members' remuneration
- Scottish distant islands allowance.

There are also articles on: healthcare associated infection targets; 2009/10 annual pay award; working time regulation compliance; leave entitlement; 2009/10 pay uplift for doctors and dentists; 2009/10 GMS contract uplift; 2009/10 pharmacy remuneration arrangements; the dental premises revaluation; and the revised *Scottish capital investment manual*.



TSU developments

Publications

In addition to TBs, the TSU publishes other technical publications (i.e. notes for guidance, urgent issue notes and grant notes) to provide auditors with more in-depth guidance on specific matters. The following has been published by the TSU since TB 2009/1 and can be downloaded by auditors from the TSU intranet/extranet. They can be sent to other TB recipients on request.

Note for guidance on 2008/09 annual accounts

The TSU has published *Note for guidance 2009/2(H) 2008/09 health annual accounts* to provide auditors with guidance on

- the main changes contained in the *2008/09 NHS board accounts manual (the accounts manual)*
- other annual accounts guidance issued by the Scottish Government Health Directorates (SGHD)
- certain risk areas that auditors should pay particular attention to in the audit of the 2008/09 annual accounts
- the audit review of the annual accounts summarisation schedules.

Responses to enquiries

The TSU operates a 'help-desk' for auditors which provides responses to ad hoc technical enquiries. Selected responses are added to the frequently asked questions section of the TSU intranet/extranet and include the following since the issue of TB 2009/1.

Annual report

Should the disclosure within the remuneration report of total accrued pension include any lump sum element of the pension?

The accounts manual requires the total accrued pension at the age of 60 to be disclosed in bands of £5,000; it does not specifically refer to the lump sum element of a pension.

However, the accounts manual is derived from the *Government financial reporting manual (FReM)*, which provides an interpretation of the Companies Act requirements for the public sector context. The FReM states that the value at the end of the reporting year of the accrued pension and (if applicable) related lump sum at age 60 in bands of £5,000 should be disclosed.

Auditors should confirm that their boards' pension disclosures include the lump sum element.



Accounting developments

The documents referred to in the following articles can be downloaded by auditors from the TSU intranet/extranet.

2008/09 annual accounts manual

The SGHD issued the accounts manual for 2008/09 to complement the guidance in the FReM and assist boards in the preparation of their annual accounts. The main changes to this version of the manual from the previous year relate to the new financial instrument standards.

Note 1 on accounting policies states that boards classify financial assets and financial liabilities at initial recognition in the following categories

- fair value through profit or loss which comprise derivatives. They are initially recognised at fair value, with transaction costs expensed in the operating cost statement, and are subsequently measured at fair value. Gains or losses arising from changes in the fair value are presented in the operating cost statement
- loans and receivables are non-derivatives with fixed or determinable payments that are not quoted in an active market. They comprise trade and other receivables and cash at bank and in hand. Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment
- available for sale assets are non-derivatives that are either designated in this category or not classified in any of the other categories; they comprise investments. They are initially recognised and subsequently carried at fair value, with changes in the fair value recognised in equity. When they are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the operating cost statement. Dividends are recognised in the operating cost statement when the boards' right to receive payments is established
- other financial liabilities which comprise trade and other payables in the balance sheet. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Boards assess at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A provision for impairment of loans and receivables is established when there is objective evidence that the board will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective



interest rate. Subsequent recoveries of amounts previously written off are credited in the operating cost statement.

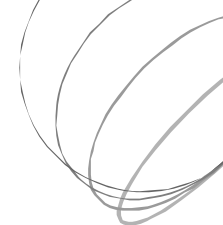
In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss) is removed from equity and recognised in the operating cost statement. Impairment losses recognised in the operating cost statement on equity instruments are not reversed through the income statement.

The standards contain significantly increased disclosure requirements for financial instruments which affect the notes as follows

- Lines have been added to note 13 to allow the disclosure of the movement in the provision for the impairment of debtors. Previously, boards reported the balance of the provision for bad debts. Further disclosure notes have been included to highlight the boards' exposure to credit risk.
- Note 14 includes further disclosures on the type of investment held, and the movement and impairment of investments.
- A footnote has been added to note 15 to highlight that the credit risk associated with NHS funds in commercial bank accounts is deemed to be low risk.
- Additional lines have been added to note 16 to record derivative financial instruments due within and after one year. Further disclosures have been included to record the borrowings through overdrafts, finance leases, and PFI schemes included within creditors. These borrowings are shown as current and non-current borrowings, and the fair value of non-current borrowings should be disclosed.
- New notes 29 and 30 have been added for an analysis of financial instruments to be disclosed.

Other changes include the following

- The directors report reference to the boards' payment policy has been amended to reflect the introduction of the Scottish Government 10 day target for the payment of invoices.
- Additional lines have been added to note 9 on the acquisition and disposal of donated fixed assets.
- The SFR 18 has been amended to reflect the revised arrangements for reporting fraud.



2008/09 capital accounting manual

The SGHD has issued the *Capital accounting manual* (the CAM) for 2008/09 which interprets the accounting guidance contained in the FReM in respect of capital accounting transactions in the NHS. The CAM has been revised for 2008/09 to include amended guidance on capital grants to other bodies

- The paragraph included in the previous version of the guidance stating that assets developed to be used by a board normally do not meet the definition of a capital grant has been removed.
- A reference has been added to state that payments in respect of a property which are considered to be a prepayment of a lease should be accounted for in accordance with the guidance on leases rather than being treated as a capital grant.

Governance developments

The documents referred to in the following articles can be obtained free of charge by using the hyperlinks or downloaded by auditors from the TSU intranet/extranet.

Corporate governance

2008/09 statement of internal control guidance

The SGHD has issued a letter to provide boards with updated guidance on preparing the statement of internal control (SIC) for inclusion with the 2008/09 annual accounts. The SIC is an integral part of the annual reporting process and requires to be approved by each board's chief executive and endorsed by its audit committee along with the annual accounts, and passed to the external auditors for review.

The Corporate Governance and Audit Group have prepared this guidance to assist boards in identifying sources of assurance and evidence of compliance to be considered when preparing the SIC. The format of the SIC and the extant guidance on governance issues are set out in annexes to the letter.

Boards should apply the guidance fully and consistently to enable the Scottish Government Health and Wellbeing Audit Committee to form an opinion on internal control across NHSScotland. As a new requirement, the chair of boards' audit committees are also required to send a letter to the chief accountable officer of NHSScotland to advise of any governance issues that should be brought to their attention. As a minimum this letter should include the issues disclosed in the SIC.

The guidance covers

- the review of the effectiveness of the internal control framework by the chief executive. At a minimum this should cover an assessment of the effectiveness of the internal control and risk management arrangements covering overall good governance



- sources of assurance including the work of internal and external audit
- the role of the audit committee for reviewing the disclosures included in the SIC. The audit committee should receive the information provided to the chief executive in support of the SIC and should also consider in advance the other information it wishes to receive. It may wish to receive from external auditors a description of their processes and judgements in the review of the reliance that can be placed on the work of internal audit
- the required disclosures. The SIC should provide a balanced assessment of the significant risks and the effectiveness of the system of internal control in managing those risks. All significant control failings or weaknesses identified must be individually disclosed in the relevant section, including their impact and the actions being taken to rectify them.

The guidance advises that the process for developing a framework that provides overt assurance on best value from 2009/10 should be considered within the SIC.

Clinical governance

Healthcare associated infection targets

The SGHD issued [CEL\(2009\)11](#) to confirm the arrangements for clostridium difficile associated disease (CDAD).

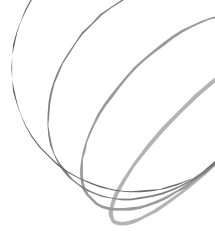
The mandatory surveillance for CDAD has been extended from April 2009 to include patients aged 15 and over. This additional group will not be included in the HEAT target. The mandatory surveillance of in-patients remains unchanged, except that the surveillance period for caesarean sections has been reduced from 30 days to 10 days.

The circular also advised of the introduction of a new HEAT target to reduce the rate of CDAD among patients aged 65 and over by at least 30% by March 2011. Complimentary targets have been developed for boards' local delivery plans to identify that antibiotic prescribing and surgical antibiotic prophylaxis are compliant with the local prescribing policy in at least 95% of sampled cases.

Boards are required to report compliance with these indicators via the web based Institute for Healthcare Improvement extranet reporting system, which should be available by August 2009. Boards are required to develop local systems to collect the data in the interim.

Other developments

The documents referred to in the following articles are available free of charge by using the hyperlinks, or can be downloaded by auditors from the TSU intranet/extranet



National agenda/direction

Sustainable development strategy

The SGHD has published *A sustainable development strategy for NHSScotland* under cover of [CEL\(2009\)15](#). The strategy creates a framework within which boards can manage their actions in accordance with the Scottish Government's requirements for sustainable development. It also provides a framework for a series of key actions associated with the identification and reduction of carbon emissions.

This strategy draws on the Sustainable Development Commission's assessment model which identified six priority areas for action i.e. transport; procurement; facilities management; employment and skills; community engagement; and new build projects.

Boards are required to nominate a board-level champion for sustainability, and to develop and implement a sustainability action plan in 2009/10 using the strategy as guidance. The strategy identifies the actions and milestones to be addressed in the action plan over the next 5 years. For example

- in year 1, boards should begin to establish baseline data and performance measures in key areas
- by year 5, boards should be able to demonstrate substantial reductions in their carbon and ecological footprints.

Partnership agreement with Counter Fraud Services

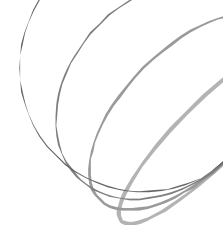
The SGHD announced in [CEL\(2009\)18](#) that an updated [Partnership agreement between NHS Counter Fraud Services \(CFS\) and boards](#) had been issued. The partnership agreement is effective from 1 April 2009 to 31 March 2012 and sets out the respective roles and responsibilities of CFS and boards in reducing fraud and promoting an anti-fraud culture within NHSScotland.

Board accountable officers are responsible for countering fraud and are required to have adequate arrangements in place for the deterrence, prevention and detection of fraud. They should notify CFS of all cases of fraud and use CFS to assist in the investigation of actual and alleged cases.

The role of CFS is to

- undertake education, training and a campaign of fraud deterrence
- proactively detect and identify cases of fraud and assist in the investigation and any recovery of resources resulting from fraudulent or corrupt activity

The roles and responsibilities of boards' internal audit and human resources functions are set out in two separate memoranda of understanding.



Chief executives are required to sign the partnership agreement by 30 June 2009.

Pay modernisation and workforce planning

2009/10 annual pay award

[PCS\(AFC\)\(2009\)3](#) confirms that the arrangements to make a payment on account to staff not assimilated on to *Agenda for change* pay bands should continue for the 2009/10 pay award. The payment for 2009/10 should increase by 2.4%. It will be non-superannuable and should be paid via a separate allowance code and shown separately on the staff pay slip.

There will be no recovery of any payment on account for those who on assimilation would still be on a protected salary. The payment on account will cease on assimilation.

Working time regulation compliance

[CEL\(2009\)14](#) advises boards on how to calculate compliance levels with the working time regulations target for doctors in training. Under the regulations, all doctors in training must be working no more than 48 hours a week (averaged over a 26 week period) by 1 August 2009. It is an employer's responsibility to hold documentary evidence to confirm employees' compliance with the regulations.

Previous monitoring was undertaken centrally and was based on a two week period every six months which may have underestimated compliance with the target. Under new arrangements, boards are required to calculate their own compliance levels. They are required to undertake robust measuring of the actual hours of work of all junior doctors and report on compliance against the target on a monthly basis starting from 1 March 2009.

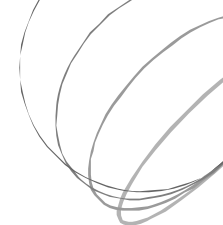
Boards are also required to report projected compliance levels by 1 August 2009. Details of rotas which may not be compliant by that date should be provided together with reasons for potential non-compliance and plans to gain compliance. Guidance on how to measure compliance, templates for monitoring returns and examples of different working patterns are included with the letter.

Auditors should confirm that their boards are aware of this guidance and are taking steps to comply with it.

Leave entitlement

The SGHD issued two letters relating to staff entitlement to annual leave.

[PCS\(AFC\)\(2009\)4](#) confirms the impact of the working time regulations on the entitlement to paid annual leave. The statutory entitlement to paid annual leave has increased from 24 to 28 days with effect from 1 April 2009. This will not affect substantive staff as they already receive entitlements above the statutory amount (i.e. they have a minimum leave entitlement of 27 days annual leave and 8 public holidays).



However, it will affect the leave entitlement of bank staff, and their percentage leave entitlement has increased from 11.59% to 12.07%.

[CEL\(2009\)17](#) advises boards of a legal ruling on the carry forward of holiday entitlement for staff on long term sick leave. The current situation is that employees on long term sick leave can carry forward 5 days annual leave. A recent European Court judgement entitles employees to carry forward the full statutory amount of annual leave under the Working Time Directive.

Staff unable to use their leave entitlement due to sick leave will therefore be entitled to carry forward untaken leave up to the statutory entitlement and add this to the new leave year's entitlement. This policy is effective from 1 April 2009.

2008/09 non-executive members' remuneration

[CEL\(2009\)10](#) advises boards of the revised annual rates of remuneration payable to chairs and other non-executive members to apply from 1 April 2008. The revised rates are set out in an annex to the letter. The annual uplift, as informed by the recommendations of the Senior Salaries Review Body, is 2%.

2009/10 pay uplift for doctors and dentists

The SGHD issued three letters relating to the remuneration of doctors and dentists for 2009/10.

The first letter informs boards of the Scottish Governments agreement to pay the levels of award recommended by the Doctors and Dentists Review Body (DDRB) for doctors and dentists, including salaried dentists and salaried general medical practitioners (GMPs). The base increase to the national salary scales is 1.5%. This equates to a gross uplift of 2.29%.

Distinction awards, discretionary points, GMPs trainers grant, and educators pay scales will also be increased by 1.5%. A further 27 distinction awards will be awarded at the following grades: 3 A+ awards; 8 A awards; and 16 B awards.

[PCS\(2009\)\(DD\)3](#) advises boards of the 1.5% annual uplift to salary scales, fees and allowances for hospital medical and dental staff, and [PCS\(2009\)\(DD\)2](#) advises boards of the same uplifts for those on the 2004 consultant contract. The revised rates are set out in an annex to the letters.

2009/10 GMS contract uplift

[PCS\(M\)\(2009\)7](#) provides a further update on the agreed approach to the financial uplift of 2.29% to the GMS contract for 2009/10. The methodology for applying the increase was set out in [PCA\(M\)\(2008\)10](#) (see TB 2008/4 – page 34), and this circular explains how the uplift will be applied. The total monetary increase for GMS practices has been estimated at £12 million.



A revised statement of financial entitlement will be issued when robust figures are available, and revised payments were made in May 2009.

2009/10 pharmacy remuneration arrangements

[PCAS\(2009\)\(P\)7](#) sets out the provisional arrangements for remunerating and reimbursing pharmacy contractors for 2009/10. The arrangements, pending the outcome of the negotiations on the global sum, are generally rolled forward from 2008/09, subject to some minor adjustments including the following

- The only element of the ePharmacy programme payments to continue will be the £100 per month payment for ongoing infrastructure costs.
- The supplementary and independent prescribing clinics arrangements will continue until 30 September 2009 subject to a maximum of £500,000.
- Boards are required to submit palliative care model scheme plans to access the enhanced funding available for 2009/10.

Scottish distant islands allowance

[PCS\(SCDIA\)\(2009\)1](#) notifies boards of increases to the Scottish distant islands allowance for 2008 and 2009. The rates have been uplifted by 2.75% from 1 April 2008 and 2.4% from 1 April 2009 in line with the *Agenda for change* salary increase. The allowance is non-superannuable but is taxable and should be paid with salaries and wages. The rates for each island group are set out in the circular.

Family health services

Dental premises revaluation

[PCA\(2009\)\(D\)3](#) advises of the revaluation of GDP practice premises, effective from 1 April 2009, to inform the reimbursement of practice rental costs. Boards have been provided with individual practice and summary valuation reports by the appointed valuer. Appeals and representations against the valuations require to be notified in writing to the valuer by 1 July 2009. In the event of a successful appeal, the revised valuation will be backdated to 1 April 2009.

Capital

Scottish capital investment manual

The SGHD has published an updated edition of the [Scottish capital investment manual](#) (SCIM) under cover of [CEL\(2009\)19](#). The SCIM provides guidance on the development of infrastructure assets. It creates a framework within which boards can plan develop, procure and manage their infrastructure projects. The



guidance in the SCIM is mandatory and should be followed in respect of all infrastructure investment by boards with effect from 1 April 2009.

The SCIM includes six sections providing detailed guidance on the various stages of infrastructure development from inception to post project evaluation and review, including

- the technical issues around investment appraisal and procurement
- the project management and governance arrangements to support the development of the project
- the decision making and approvals processes within NHSScotland and the SGHD.

Projects for which a business case has been submitted for consideration by the capital investment group (CIG) at meetings scheduled until June 2009 should use the existing SCIM guidance. For submissions to be considered later the revised guidance should be used. The SCIM is only available in electronic format and regular updates will be notified to nominated contacts within boards.

Auditors should confirm that their boards are aware of the revised SGHD guidance to be applied in the development of infrastructure projects.

Legislation

The following items of legislation are available free of charge by using the hyperlinks, or can be downloaded by auditors from the TSU intranet/extranet.

Statutory instruments

National health service

[*The National Health Service \(Travelling Expenses and Remission of Charges\)\(Scotland\) Amendment Regulations 2009*](#), SSI 124 came into force on 4 May 2009 and amended the principal 2003 regulations by increasing the limits to be used in calculating entitlement. The level of income to be used in calculating entitlement to full remission of charges or payment of travelling expenses is increased from £15,050 to £15,276. The capital threshold to be used for the calculation is increased from £22,250 to £23,000.

[*The National Health Service \(Appointment of Consultants\)\(Scotland\) Regulations 2009*](#), SSI 166 come into force on 1 July 2009 and replace the 1993 regulations to introduce a simplified procedure for the appointments to NHS consultant grade.



[The National Health Service \(Pharmaceutical Services, Charges for Drugs and Appliances and Charges to Overseas Visitors\)\(Scotland\) Amendment Regulations 2009](#), SSI 177 came into force on 8 May 2009 and amend certain principal regulations in respect of pandemic influenza. The regulations provide that

- no charges will apply for the supply of approved drugs to treat pandemic influenza
- no charges will apply for the treatment of pandemic influenza to overseas visitors
- flexible arrangements can be applied to assist pharmacists to relocate or take on additional premises.

[The National Health Service \(Pharmaceutical Services\)\(Scotland\) Regulations 2009](#), SSI 183 come into force on 1 July 2009 and regulate the terms on which pharmaceutical services are provided under the *National Health Service (Scotland) Act 1978*. The terms and conditions of pharmaceutical contractors have been amended to include

- provisions relating to the chronic medication service
- a requirement for contractors to keep appropriate records for at least seven years which must be made available for inspection on request of the relevant health board or the Common Services Agency.

[The National Health Service \(Pharmaceutical Services\)\(Scotland\) Amendment Regulations 2009](#), SSI 209 come into force on 1 July 2009 and correct minor errors in the principal regulations.

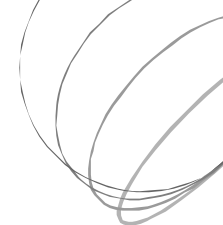
Key circulars

The following is a brief summary of significant circulars issued since the last TB that auditors' attention is particularly drawn to. They are available free of charge by using the hyperlinks, or can be downloaded by auditors from the TSU intranet/extranet.

Chief executive letters (CEL)

[CEL\(2009\)10](#) *NHS health boards and special health boards remuneration increase 2008-09 for chairs and non-executive members*. See Other developments – Pay modernisation and workforce planning – 2008/09 non-executive members' remuneration.

[CEL\(2009\)11](#) *A revised framework for national surveillance of healthcare associated infection and the introduction of a new health efficiency and access to treatment (HEAT) target for Clostridium difficile associated disease(CDAD) for NHS Scotland*. See Governance developments – Clinical governance – Healthcare associated infection targets.



[CEL\(2009\)14](#) *Working time regulation compliance guidance*. See Other developments – Pay modernisation and workforce planning – Working time regulation compliance.

[CEL\(2009\)15](#) *Sustainable development strategy for NHSScotland*. See Other developments – National agenda/direction – Sustainable development strategy.

[CEL\(2009\)17](#) *Carry over of holiday entitlement during long term sick leave*. See Other developments – Pay modernisation and workforce planning – Leave entitlement.

[CEL\(2009\)18](#) *Partnership agreement between NHS Counter Fraud Services and NHS boards and special health boards*. See Other developments – National agenda/direction – Partnership agreement with Counter Fraud Services.

PCA

[PCA\(2009\)\(D\)3](#) *Results of GDP practice premises 2009 re-evaluation exercise*. See Other developments – Family health services – Dental premises revaluation.

[PCA\(M\)\(2009\)7](#) *GMS contract agreement for 2009/10 update*. See Other developments – Pay modernisation and workforce planning – 2009/10 GMS contract uplift.

[PCA\(2009\)\(P\)7](#) *Community pharmacy remuneration 2009/10 provisional arrangements from 1 April 2009*. See Other developments – Pay modernisation and workforce planning – 2009/10 pharmacy remuneration arrangements.

PCS

[PCS\(AFC\)\(2009\)3](#) *Pay award 2009/10 – Payment on account to staff not yet assimilated to agenda for change*. See Other developments – Pay modernisation and workforce planning – 2009/10 annual pay award.

[PCS\(AFC\)\(2009\)4](#) *New statutory leave entitlement*. See Other developments – Pay modernisation and workforce planning – Leave entitlement

[PCS\(2009\)\(DD\)3](#) *Pay and conditions of service remuneration of hospital medical and dental staff and doctors and dentists in public health medicine and the community health service*. See Other developments – Pay modernisation and workforce planning – 2009/10 pay uplift for doctors and dentists.

[PCS\(2009\)\(DD\)2](#) *2004 consultant contract increases to national salary scales and fees and allowances for 2009/10*. See Other developments – Pay modernisation and workforce planning – 2009/10 pay uplift for doctors and dentists.



[PCS\(SCDIA\)\(2009\)1](#) *Scottish distant islands allowance*. See Other developments – Pay modernisation and workforce planning – Scottish distant islands allowance.

Dear colleague letters

Dear colleague letter 31 March 2009 Doctors and dentists review body pay uplift recommendations for 2009/10. See Other developments – Pay modernisation and workforce planning – 2009/10 pay uplift for doctors and dentists.

Dear colleague letter 25 March 2009 Corporate governance: statement of internal control. See Governance developments – Corporate governance – 2008/09 statement of internal control guidance.

Publications

The following publications are available free of charge by following the hyperlinks or can be downloaded by auditors from the TSU intranet/extranet.

Audit Scotland

Managing the use of medicines in hospital

This report [Managing the use of medicines in hospital](#) follows up the recommendations of the 2005 report and gives an overview of the developments in the management of medicines since then. The key messages include the following

- In 2007/08, acute hospitals in Scotland spent £222 million on medicines, which is approximately 6% of their running costs. This expenditure has increased by 76% since 2002/03. Medicines with a high cost per patient are a particular pressure on budgets.
- Only one board has an electronic prescribing and medicines administration system in place. The SGHD should develop a plan to ensure electronic systems are implemented across all boards.
- The role of hospital pharmacy staff is changing and they are increasingly working directly with patients and staff. However, workforce planning is not sufficiently developed to demonstrate that projections are based on local service needs. Boards should ensure that workforce plans are developed to consider the staff numbers and skill mix required to meet future needs.

Overview of mental health services

This report [Overview of mental health services](#) examines the accessibility and availability of mental health services and how much is spent on them. The key messages include the following

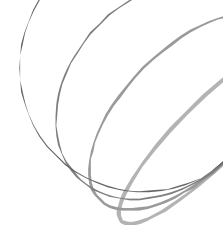


- The NHS spent £928 million on mental health services in Scotland, and the total amount spent by councils is unknown.
- Staffing levels vary across Scotland and are affecting the availability of mental health services. There are gaps in the staffing information available.
- There has been a focus on shifting resources from hospitals to the community, but there is a lack of information on community mental health services. Better information is needed to examine this use of resources.

Auditor action

The following is a summary of items in this chapter of the TB that include specific recommendations or requests that auditors take specific actions

Section	Action
TSU developments – Responses to enquiries – Annual report	Auditors should confirm that their boards' pension disclosures include the lump sum element.
Other developments – Pay modernisation and workforce planning – Working time regulation compliance	Auditors should confirm that their boards are aware of the SGHD guidance on working time regulations compliance and are taking steps to comply with it.
Other developments – Capital – Scottish capital investment manual	Auditors should confirm that their boards are aware of the revised SGHD guidance to be applied in the development of infrastructure projects.



Central government

This chapter contains articles on central government technical matters and should be read by auditors with appointments in that sector. The general chapter contains articles on cross-sectoral technical matters.

The documents referred to in the articles that are available from websites can be obtained by using the hyperlinks. They can also be downloaded by auditors from the TSU intranet/extranet.

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note that the following articles in this chapter relate to 2008/09

- TSU guidance on banking
- TSU guidance on intangible assets
- Revised timetable for shadow IFRS accounts
- Pay policy for senior appointments
- NAO disclosure guide.

There are also articles on: 2009/10 pay policy for staff remits; and an IFRS budget template for 2009/10.

TSU developments

Responses to enquiries

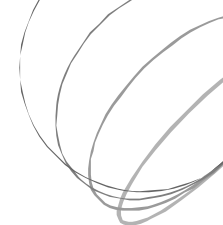
The TSU operates a 'help-desk' for auditors which provides responses to ad hoc technical enquiries. Selected responses are added to the frequently asked questions section of the TSU intranet/extranet and include the following since the issue of TB 2009/1.

Bank

How often should banking arrangements be reviewed?

The *Scottish public finance manual* (SPFM) requires banking operations to be regularly reviewed, and indicates that a biennial review would normally be appropriate.

Reviews undertaken by sponsored bodies should also be copied to the relevant sponsoring unit within the Scottish Government. A review should include an assessment of whether the arrangements meet the body's needs in the most economical, efficient and effective manner.



Intangible assets

What are the differences in treatment under IFRS in accounting for intangible assets?

Intangible assets are accounted for under *IAS 38 Intangible assets* and *SIC 32 Intangible assets – web site costs*. The differences between IAS 38 and the current UK standards (i.e. SSAP 13 and FRS 10) are not large, but have the potential to cause problems. IAS 38 requires that intangible assets that meet certain criteria must be capitalised. The recognition criteria for intangible assets are more prescriptive under IFRS, and some entities previously not capitalising internally generated intangible assets will in some cases be required to do so if the relevant recognition criteria are met. The recognition criteria are that

- the asset must be identifiable
- it must be controlled by the body
- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

An asset is identifiable if it either

- is separable, i.e. is capable of being separated or divided from the entity and sold or otherwise disposed of; or
- arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity.

An asset is controlled if the body has the power to obtain future economic benefits and to restrict the access of others to those benefits. The capacity to control the future economic benefits from an intangible asset would normally stem from enforceable legal rights. An asset is judged to provide future economic benefit if it generates revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by the body. For example, the use of intellectual property in a production process may reduce future production costs rather than increase future revenues. This latter case is most likely to apply to intangible assets created by central government bodies.

The treatment of software will also be different. Where internally generated intangible assets previously had to have a readily ascertainable market value, IAS 38 only requires the cost to be measured reliably. In addition, in contrast to the 2008/09 *Government financial reporting manual* (FReM), the 2009/10 iFReM requires internally developed software to be classified as an intangible non-current asset.



Development expenditure is assessed against the same criteria as under SSAP 13 except that, if it meets the criteria, it must be capitalised.

SIC 32 states that an entity's own web site that arises from development and is for internal or external access is an internally generated intangible asset that is subject to the requirements of IAS 38 i.e. it is assumed to pass the identifiable test, but needs to be assessed against the other recognition criteria, as well as the development criteria, before it may be capitalised.

Other guidance

Revised IFRS timetable

The TSU has been advised of changes to the timetable for preparing and auditing shadow IFRS-based accounts for 2008/09 (see TB 2008/3 – page 52). A revised version of the timetable will be issued by the Scottish Government in due course but in summary the key changes which auditors should be aware of are as follows

- The deadline for the Scottish Government and executive agencies completing the shadow accounts and submitting them for audit has been brought forward from 30 November 2009 to 30 September.
- The deadline for completing the dry run audit of the shadow accounts of agencies has been brought forward from 28 February 2010 to 11 December 2009.
- A deadline of 29 January 2010 for the Scottish Government to submit the consolidated accounts for audit has been added.

Guidance on the audit of the shadow accounts will be provided in due course but, in summary, auditors will be required to confirm in a letter that the figures, including any audit adjustments, are appropriate. The figures will then form the prior year comparatives in the 2009/10 IFRS based accounts.

Auditors of agencies should confirm that their bodies are ready for the revised timetable for shadow accounts and plan to meet the timetable.

Corporate governance developments

The documents referred to in the following article can be obtained free of charge by using the hyperlinks or downloaded by auditors from the TSU intranet/extranet.



Public sector pay policies

Pay policy for staff remits

The [Scottish Government](#) has published the [Public sector pay policy for staff pay remits 2009/10](#) which sets the parameters for public sector pay increases for public bodies in Scotland. The policy applies to staff in central government bodies that are due to enter into a new pay settlement commencing between May 2009 and April 2010.

The aim of the policy is to make sure that public sector pay settlements are affordable, sustainable, fair and non-discriminatory. Bodies are required to target resources at

- addressing inequalities within pay and reward systems and structures
- reducing the width of pay ranges
- addressing recruitment, retention or motivation issues that directly impact on the ability to deliver outcomes
- addressing low pay.

The policy limits the basic award to 1.5% for 2009/10 (or for each year of a multi-year pay deal), and restricts the increase in the net paybill to 3%.

Bodies are responsible for determining the pay and conditions for their staff that are appropriate for their business needs and which take account of the policy, and negotiate detailed pay settlements with trade unions and staff.

Bodies are required to seek approval from the Scottish Government for their proposals, and the policy sets out what bodies need to do in order for the Scottish Government to approve the proposals. The chief executive, as accountable officer, has the responsibility to provide assurance that the proposals are in line with the pay policy.

Pay policy for senior appointments 2008/09

The Scottish Government has published the [Public sector pay policy: Policy for senior appointments 2008-09](#) which sets out the parameters for the remuneration of senior appointments in 2008/09.

The policy covers the remuneration (salary, bonus and other non-salary rewards) of chief executives and, in exceptional circumstances, certain directors; and the remuneration (daily fee rates and any pension arrangements) of chairs and members of Scottish public bodies. It is relevant to all public appointments to NDPBs and public corporations, and also covers non-executive directors of the Scottish Government and its agencies.



The policy extends to proposals for annual increases, as well as remuneration proposals for new appointments, reviews or any other change in the remuneration arrangement. It also sets out the evidence and supporting information on which proposals should be based.

The aim of the policy is to make sure that public sector pay increases for senior appointments are affordable, sustainable, fair and non-discriminatory. Specific objectives include

- making sure that the pay of chief executives is related to performance
- rewarding exceptional performance by payment of non-consolidated bonuses
- ensuring that chief executives' pay range maxima are in line with the median of the salaries offered in the relevant labour market.

Approval by the Scottish Government is required in relation to any aspect of the remuneration of senior appointments. There can be no introduction of, or change to, the remuneration of chief executives, chairs or members until appropriate Scottish Government approval to proposals has been obtained.

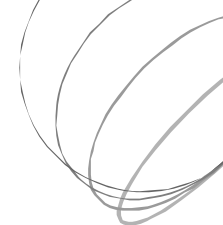
Revised internal audit standards

[HM Treasury](#) has published a revised version of [Government internal audit standards](#) which set out revised standards to apply to internal audit departments of central government bodies.

This new version of the manual is based on the *International standards for the professional practice of internal auditing* issued by The Institute of Internal Auditors (see General chapter – Corporate governance developments – New internal audit standards). The SPFM applies the standards to Scottish central government bodies.

The manual defines the nature of internal auditing within central government, sets basic principles for carrying it out, and establishes a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations. It also establishes the basis for the evaluation of internal audit performance and for driving improvement planning. Specific requirements or interpretations for central government that have been added to the international standards include the following

- The main purpose of internal audit activity within central government is to provide the accountable officer with an objective evaluation of, and opinion on, the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
- The head of internal audit must have free and unfettered access to the accountable officer and the chair of the audit committee.



- The head of internal audit must develop and maintain a strategy designed to meet the main purpose of the internal audit activity and its service provision needs. This strategy must advocate a systematic and prioritised review, outlining the resources and skills required best to meet the assurance needs of the accountable officer, board and audit committee. The head of internal audit must establish risk based plans for periodic planning purposes.

The head of internal audit must provide to the accounting officer an opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control, timed to support the statement on internal control. They must agree arrangements for interim reporting in the course of the year and produce an annual report that incorporates their opinion.

Other developments

The documents referred to in the following article can be obtained free of charge by using the hyperlinks or downloaded by auditors from the TSU intranet/extranet.

NAO disclosure guide

The [National Audit Office](#) (NAO) has issued its *Disclosure guide 2008/09 for charitable non departmental public bodies* which is designed to help ensure that entities have prepared their accounts in the appropriate form and have complied with disclosure requirements.

The guide is designed primarily for the NAO's internal use and for English central government charitable bodies. However, it has been modified by the TSU to reflect the different guidance and legislative situation in Scotland to help auditors of Scottish central government bodies to use it.

Auditors may wish to use the guide when auditing the 2008/09 accounts.

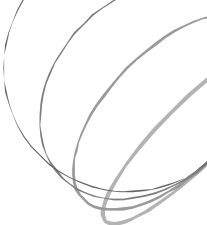
The unmodified guide is available as originally published by the NAO from their website or the modified version can be downloaded by auditors from the TSU intranet/extranet.

International financial reporting standards

Notes from IFRS event 8 April 2009

HM Treasury has published notes that summarise the main points from an event held to consider the key issues that arose from the initial stages of the transition to IFRS. The event discussed a number of issues, the most important of which were on

- service concession arrangements (*IFRIC 12 Service concession arrangements*) where discussions highlighted some of the complexities and difficulties in applying IFRICs 12 and 4, such as determining control over residual interest

- 
- leases, particularly arrangements which contain a lease (*IFRIC 4 Determining if an arrangement contains a lease*)
 - component accounting (*IAS 16 Property, plant and equipment*).

On leases, the following difficulties were identified in applying IFRIC 4

- the difficulty of getting information from contractors, and gaining access to site facilities
- tier 2 contracts (i.e. below the party with which the body has the contract), with no right of access
- valuing assets, including the methodology and cost of doing so
- the lack of evidence of significant implementation of IFRIC 4 (particularly on implicit recognition) in the private sector
- the cost of completing the IFRIC 4 work.

On component accounting, it was highlighted that managing a large asset on a component basis allows the recognition of substantially different useful economic lives and therefore allows the most appropriate depreciation charge to be applied, and appropriate asset management decisions to be made. The following points about component accounting were also discussed

- the importance of ensuring decisions on component accounting are made by the right people inside and outside the finance function
- the extent of componentisation, for example, of an IT system
- the implications for maintaining revaluation and impairment for additional components
- whether the Valuation Office had the capacity to manage any increase in work arising from more componentisation. It was noted that where valuers already take account of significant components in undertaking their valuations, the information available from this process should be considered in deciding whether more explicit component accounting was necessary.

Service concession arrangements

HM Treasury has issued a letter which clarifies the scope of the FReM in regard to accounting for service concession arrangements.

In addition to roads, bridges, prisons, hospitals, airports etc, the FReM includes non-current assets used for administrative purposes in delivering services to the public as examples of infrastructure assets for the purpose of the IFRIC 12 interpretation. The letter clarifies that non-current assets used for administrative purposes generally include office buildings, IT outsourcing operations and other outsourcing arrangements.



The letter acknowledges that *SIC 29 Service concession arrangements: Disclosures* states that arrangements that are not service concessions include an entity's outsourcing operations, such as IT functions. However, the letter confirms that the FReM requirement for the inclusion of administrative infrastructure assets stands notwithstanding the examples given in SIC 29.

Budgetary impact template

HM Treasury has issued a [Opening IFRS balance sheet budgets impact template](#) which sets out how to record the budgetary changes arising from rebasing the opening balance sheet on IFRS.

The template is structured on the basis of the balance sheet headings and has the following columns

- an adjustment column, which should be used to cross reference the notes on changes arising out of converting to IFRS
- columns for the budgetary impact on the 2009/10 operating cost statement
- three further columns to state whether the impacts are on capital department expenditure limits (DEL), revenue DEL near cash, or revenue DEL non cash
- a comments column that can be used to note uncertainties or other points of relevance

Notes should set out sufficient detail to allow an understanding of what changes are being made.

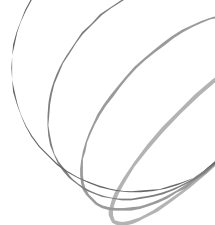
Section 22 reports

Under [section 22\(3\) of the Public Finance and Accountability \(Scotland\) Act 2000](#), the Auditor General may prepare a report to Scottish Ministers on the accounts sent to him by auditors. The following reports have been prepared since TB 2009/1 and are available by following the hyperlinks.

The 2007/08 and 2008/09 audit of the Queen's and Lord Treasurer's Remembrancer

The Auditor General issued these reports on the audit of the Queen's and Lord Treasurer's Remembrancer in [2007/08](#) and [2006/07](#) to bring to Parliament's attention the non-compliance with statutory deadline of 31 December for the laying and publishing of the accounts.

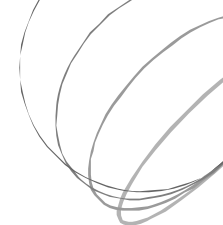
2006/07 was the first year for which the body was required to produce a statutory set of accounts under the *Public Finance and Accountability (Scotland) Act 2000*. However, the arrangements for their preparation were inadequate, and the accounts submitted for audit for both years were incomplete. A number of re-drafts were required which resulted in a considerable delay in the subsequent audit which was not concluded until February 2009.



Auditor action

The following is a summary of items in this chapter of the TB that include specific recommendations or requests that auditors take specific actions

Section	Action
TSU developments – Other guidance – Revised IFRS timetable	Auditors of agencies should confirm that their bodies are ready for the revised timetable for shadow accounts and plan to meet the timetable.
Other developments – NAO disclosure guide	Auditors may wish to use the modified NAO checklist when auditing the 2008/09 accounts.



Further education

This chapter contains articles on further education technical matters and should be read by auditors with appointments in that sector. The general chapter contains articles on cross-sectoral technical matters.

The documents referred to in the articles that are available from websites can be obtained by using the hyperlinks. They can also be downloaded by auditors from the TSU intranet/extranet.

Corporate governance developments

The document referred to in the following article can be obtained free of charge by using the hyperlink or downloaded by auditors from the TSU intranet/extranet.

Financial governance self evaluation questionnaire

CIPFA has published a [Good practice self evaluation tool for financial governance](#) which is intended to provide a practical way for those responsible for financial governance (finance governors) to review periodically their effectiveness and identify areas for future development. The questionnaire looks at the following themes

- the role of finance governors, and their skills and expertise
- behavioural and operational aspects
- the information and support provided to, and the activities and functions undertaken by, finance governors
- the review of governance.

Each question provides an opportunity to reflect on a particular aspect of financial governance and on the college's practice and performance, resulting in an assessment of areas for development. The questionnaire can be used by finance governors singularly or jointly to assess their own performance; by lead financial officers to assess the adequacy of the college's arrangements; by clerks to the finance committee to assess the adequacy of the college's arrangements; or by internal auditors.

It is recommended that the tool is used as part of a cycle of governance effectiveness review and ideally should be considered on at least a three year cycle.

Key circulars

The following circulars are available free of charge by using the hyperlinks, or can be downloaded by auditors from the TSU intranet/extranet.



[SFC/10/2009 Revised formula capital funding for colleges 2008-11](#) announces revised formula capital funding allocations for 2008/09 to 2010/11.

[SFC/15/2009 Further education student support and additional ESOL funds](#) announces the second in-year redistribution process for further education student support funds and additional *English for speakers of other languages* funding of £5,000 to each college.

[SFC/16/2009 Main grants to colleges for academic year 2009/10](#) announces the allocation of main grants to colleges for 2009/10.

[SFC/17/2009 Financial forecast return for colleges 2008/09 to 2011/12](#) requests colleges to complete a financial forecast for the period 2008/09 to 2011/12.

Section 22 reports

Under [section 22\(3\) of the Public Finance and Accountability \(Scotland\) Act 2000](#), the Auditor General may prepare a report to Scottish Ministers on the accounts sent to him by auditors. The following reports have been prepared since TB 2009/1 and are available by following the hyperlinks.

The 2007/08 audit of Stow College

The Auditor General issued this report on [The 2007/08 audit of Stow College](#) to bring to Parliament's attention a contingent liability disclosed in the college's accounts, and the potential for an associated clawback of funding by the Scottish Funding Council (SFC).

A review by the SFC concluded that two collaborative programmes (i.e. the delivery of education and training involving third-party providers) included in the college's teaching funding claims did not meet the relevant eligibility criteria. In both cases, the review found very limited resource input by the college, which is a key requirement of SFC funding.

At the time the accounts were signed off, the college and the SFC had not reached agreement on the conclusions of the SFC review or on the value of any clawback, or on the implications for the college's future funding requirements. However, because the sums involved may be significant, there remains a possibility that the outcome could have a significant impact on the college's financial position.



Contact points

General comments regarding the TB's structure and contents, particularly suggestions for improvement, should be made to

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22 June 2009

Technical bulletin

2009/3



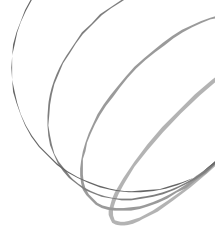
Published by the Technical Services Unit

September 2009



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Foreword

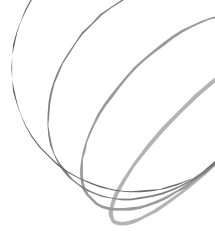
Technical bulletins (TBs) are published by Audit Scotland's Technical Services Unit (TSU) at quarterly intervals onto the TSU intranet/extranet. Their purpose is to summarise technical developments in the quarter for external auditors appointed by the Accounts Commission and Auditor General, and to provide auditors with guidance, where required.

TBs are also e-mailed to audited bodies in order that they may be aware of the guidance that has been issued to auditors. TBs should not be regarded as providing an exhaustive review of all matters relevant to audited bodies.

Audit Scotland makes no representation as to the completeness or accuracy of the contents of TBs or that legal or technical guidance is correct. Points of law, in particular, can ultimately be decided only by the Courts. Audit Scotland accepts no responsibility for any loss or damage caused as a result of any person relying upon anything contained in a TB.

In selecting items for TBs the bias is towards those which are of particular interest to external auditors, and TBs frequently recommend that auditors take, or consider taking, action in certain regards. A summary of these items is provided at the end of each chapter. It is important, therefore, that a mechanism is in place for senior audit staff to review the TB promptly and to ensure that steps are taken to consider such recommendations.

While auditors act independently of Audit Scotland, and are responsible for their own conclusions and opinions, consistency of opinions in similar circumstances is important and **it is expected therefore that auditors will normally follow all TSU guidance. Auditors should advise the TSU promptly if they disagree with, and may intend not to follow, any guidance issued on an important issue** (e.g. a matter that required consideration to be given to the qualification of the accounts of a number of audited bodies).



General

Introduction

This TB covers all the sectors within the Audit Scotland remit. This general chapter contains articles on cross-sectoral technical matters and should be read by all auditors. Matters that are relevant to only one sector are covered in the relevant sector-specific chapter.

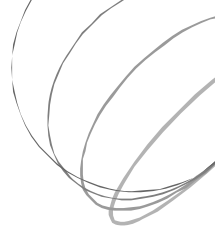
The documents referred to in the articles that are available from websites can be obtained by using the hyperlinks. They can also be downloaded by auditors from the TSU intranet/extranet.

The TSU encourages any comments from auditors regarding the TB's structure and contents, particularly suggestions for improvement. Comments and suggestions should be sent to pobrien@audit-scotland.gov.uk.

Auditors may wish to note that the following articles in this chapter relate to 2009/10

- TSU guidance on leased assets, assets held for sale, intangible assets, cash equivalents and segmental reporting under IFRS
- amendment to international standard on first time adoption
- proposed amendments to international standards on financial instruments, and the international discount rates for employee benefits
- draft international guidance on equity instruments, and on management commentary
- updated bulletin on charity auditor's reports
- statement on role of chief finance officer
- new procurement assessment tool
- draft principles on identity management.

There are articles in this chapter on the following subjects: TSU guidance on 2008/09 whole of government accounts; amendment to standard on share-based payments; amendments to UK standard on embedded derivatives; proposed new international standard on rate regulated activities; proposed amendments to various international standards; consultation on the future of UK GAAP; and a progress report on the review of the combined code.



TSU developments

Publications

In addition to TBs, the TSU publishes other technical publications (i.e. notes for guidance, urgent issue notes and grant notes) to provide auditors with more in-depth guidance on specific matters. The following has been published by the TSU since TB 2009/2 and can be downloaded by auditors from the TSU intranet/extranet. They can be sent to other TB recipients on request.

Note for guidance 2009/4 Audit of whole of government accounts 2008/09

The TSU published note for guidance 2009/4 to provide guidance to auditors on the audit arrangements for whole of government accounts in 2008/09.

Responses to enquiries

The TSU operates a 'help-desk' for auditors which provides responses to ad hoc technical enquiries. Selected responses are added to the frequently asked questions section of the TSU intranet/extranet and include the following since the issue of TB 2009/2.

International financial reporting standards

Are bodies always required to obtain the fair value of a leased asset?

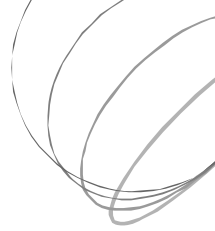
Technical bulletin 2009/1 (page 4) provides guidance on situations that would indicate a finance lease under *IAS 17 Leases*. This includes where the present value of the minimum lease payments amounts to substantially all of the fair value of the leased asset at the inception of the lease. This will require bodies to obtain the fair value.

However, if it is clear from other features that the lease does not transfer substantially all risks and rewards incidental to ownership, the lease should be classified as an operating lease. In the TSU's view, where the results of the bodies' assessment clearly indicate that the lease is an operating lease, a fair value of the asset may not be required. In such instances, bodies are expected to liaise with auditors at the earliest stage to ensure that the evidence available supports this assessment.

Auditors should confirm that bodies' assessment of the evidence supporting lease classification is adequate.

When should property, plant and equipment be categorised as assets held for sale?

IFRS 5 Non-current assets held for sale and discontinued operations sets out the following criteria that must be met for an asset to be classified as held for sale



- The asset must be available for immediate sale in its present condition.
- The sale must be highly probable, which means management must be committed to a plan of sale, and an active programme to locate a buyer and complete the plan must have been initiated.
- The asset must be actively marketed at a reasonable price.
- The sale should be expected to be completed within one year of the classification. Where a sale is not completed within one year due to circumstances beyond the body's control, but there is sufficient evidence that the body remains committed to the sale, the asset may remain categorised as being available for sale.

Auditors should confirm that the evidence available to support the categorisation of assets as being held for sale is adequate.

When can an internally generated intangible asset be recognised?

IAS 38 Intangible assets requires strict criteria to be met before an internally generated intangible asset may be recognised. These criteria are met where a body can demonstrate

- the technical feasibility, adequate resources, and intention to complete the asset so it will be available for use or sale
- its ability to use or sell the asset
- how the asset will generate future economic benefits or deliver service benefits (either by demonstrating a market for the asset or the usefulness of the asset)
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Auditors should confirm that any internally generated intangible assets recognised by the bodies meet the recognition criteria.

What are cash equivalents?

IAS 7 Statement of cash flows defines cash equivalents as short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.



They are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity, e.g. three months or less from the date of acquisition.

Auditors should confirm that their bodies have arrangements in place to identify cash equivalents.

What are the requirements in respect of reporting segmental information?

IFRS 8 Operating segments requires an entity to report financial and descriptive information about its operating segments. The aim of segment reporting is to disclose information to enable users of its financial statements to evaluate the nature and financial effects of the activities in which it engages and the economic environments in which it operates.

Operating segments are components of an entity for which separate financial information is available and regularly evaluated by the chief operating decision maker (i.e. senior management) in deciding how to allocate resources and in assessing performance. Generally, an operating segment has a segment manager who is directly accountable to, and maintains regular contact with, the chief operating decision maker.

An entity is required to report separately information about an operating segment that meets quantitative thresholds set out in the standard e.g. where reported revenue is 10% or more of the revenue of all operating segments. Where the reportable segments identified by applying these criteria do not include at least 75% of the total revenue, additional segments require to be reported until that target is met.

The financial information to be reported should generally be the same as is used internally to evaluate performance and allocate resources. The standard requires the entity to report profit and loss and assets and liabilities for each segment if this information is regularly reported internally. It also requires reconciliations of amounts disclosed for reportable segments to corresponding amounts in the entity's financial statements.

Auditors should confirm that their bodies have arrangements in place to meet the requirements for reporting segmental information.



Other matters

Staffing changes

Ann Marie McLaughlin will join the TSU on secondment as Technical Adviser (Central Government and Further Education) from 1 October 2009. Auditors should continue to send enquiries to technicalqueries-centralgovernment@audit-scotland.gov.uk.

Accounting developments

The documents referred to in the following articles can be obtained by using the hyperlinks, or can be downloaded by auditors from the TSU intranet/extranet.

Amendment to international standard on first time adoption

The [International Accounting Standards Board](#) (IASB) has issued *Additional exemptions for first time adopters (amendments to IFRS 1)* which contains amendments to *IFRS 1 First-time adoption of international financial reporting standards*.

The amendments address the retrospective application of international financial reporting standards (IFRS) to particular situations and are aimed at ensuring that entities applying IFRSs will not face undue cost or effort in the transition process.

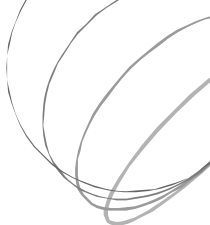
They include exempting entities with existing leasing contracts from reassessing the classification of those contracts in accordance with *IFRIC 4 Determining whether an arrangement contains a lease* when the application of their national accounting requirements produced the same result.

Amendment to standard on share-based payments

The IASB has issued *Amendment to IFRS 2 Group cash-settled share-based payment transactions* to clarify the accounting for group cash-settled share-based payment transactions.

The amendments concern how an individual subsidiary in a group should account for some share-based payment arrangements in its own financial statements. In these arrangements, the subsidiary receives goods or services from employees or suppliers but its parent or another entity in the group must pay those suppliers. The amendments clarify that

- an entity that receives goods or services in a share-based payment arrangement should account for them regardless of which entity in the group settles the transaction, and whether the transaction is settled in shares or cash

- 
- a 'group' has the same meaning in IFRS 2 as in *IAS 27 Consolidated and separate financial statements*, i.e. it includes only a parent and its subsidiaries.

The amendments also incorporate guidance previously included in *IFRIC 8 Scope of IFRS 2* and *IFRIC 11 IFRS 2—Group and treasury share transactions*, both of which have been withdrawn.

The [Accounting Standards Board](#) (ASB) has issued a corresponding adjustment to FRS 20.

Amendments to UK standard on embedded derivatives

The ASB has issued [Amendments to UITF abstract 42 and FRS 26 - Embedded derivatives](#) to clarify the treatment of embedded derivatives when an entity reclassifies a financial asset out of the fair value through profit or loss category.

The amendments to *UITF Abstract 42 (IFRIC 9) Reassessment of embedded derivatives* and *FRS 26 (IAS 39) Financial instruments: Recognition and measurement* are a consequence of the IASB issuing *Embedded derivatives – Amendments to IFRIC 9 and IAS 39* (see TB 2009/2 – page 9) which requires an entity to assess whether an embedded derivative is required to be separated from a host contract when an entity reclassifies a hybrid (combined) financial asset out of the fair value through profit or loss category.

The assessment is made on the basis of the circumstances that existed on the later date of

- when the entity first became a party to the contract
- a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

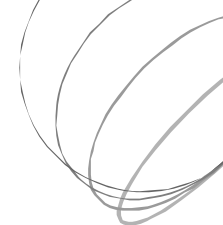
If the fair value of the embedded derivative that is to be separated cannot be reliably measured then the entire financial instrument must remain in the fair value through profit or loss category.

The amendments apply to periods ending on or after 31 December 2009.

Proposed amendments to international standards on financial instruments

Proposed new standard on classification and measurement

The IASB has issued [Exposure draft - Financial instruments classification and measurement](#) containing proposals to improve accounting for the classification and measurement of financial instruments. The proposals are for a new standard of financial reporting for financial instruments that is principle-based and less complex than IAS 39.



The exposure draft proposes two primary measurement categories for financial instruments. A financial asset or financial liability would be measured at amortised cost if two conditions are met, i.e. the instrument

- has basic loan features
- is managed on a contractual yield basis.

If both conditions are not met, the instrument should be measured at fair value. It is proposed to prohibit reclassification of financial assets and financial liabilities between the amortised cost and fair value categories. Other proposals include

- simplifying the accounting requirements for hybrid contracts with financial hosts by proposing a single classification approach for all financial instruments
- measuring all investments in equity instruments at fair value, including those that do not have a quoted market price
- permitting an entity, on initial recognition of investments in equity instruments that are held for purposes other than realising direct investment gains, to make an irrevocable election to present changes in the fair value of those investments in other comprehensive income.

Comments were required by 14 September 2009. It is expected that the new requirements will not be mandatory before January 2012, but earlier application will be permitted.

Proposed amendment on rights issues

The IASB has issued [Exposure draft - Classification of rights issues - Proposed amendment to IAS 32](#) which contains a proposal to amend *IAS 32 Financial instruments: presentation* to clarify the classification of instruments that give the holders the right to acquire an entity's own equity instruments at a fixed price (rights issue) when that price is stated in a currency other than the entity's functional currency.

The proposed amendment specifies that a rights issue offered pro rata to all of an entity's existing shareholders on the exercise of which the entity will receive a fixed amount of cash for a fixed number of the entity's own equity instruments is classified as an equity instrument regardless of the currency in which the exercise price is denominated. It is intended to clarify the circumstances in which the currency the entity will receive on the issue of an instrument does not affect its classification as a liability or an equity instrument.

Comments were required by 7 September 2009. The proposed change would be required to be applied retrospectively with early adoption permitted.



Proposed amendment to international discount rates for employee benefits

The IASB has issued [Exposure draft - Discount rate for employee benefits \(proposed amendments to IAS 19\)](#) which contains proposals to amend the discount rate for measuring employee benefits.

IAS 19 Employee benefits requires an entity to determine the rate used to discount employee benefits with reference to market yields on high quality corporate bonds. However, when there is no deep market in corporate bonds, an entity is required to use market yields on government bonds instead. The global financial crisis has led to a widening of the spread between yields on corporate bonds and yields on government bonds. As a result, entities with similar employee benefit obligations may report them at very different amounts.

The IASB proposes to eliminate the requirement to use yields on government bonds. Instead, entities would estimate the yield on high quality corporate bonds using the guidance on determining fair value in IAS 39.

Comments should be sent via www.iasb.org by 30 September 2009. The IASB intends to permit entities to adopt the amendments that arise from this exposure draft in their December 2009 financial statements.

Proposed new international standard on rate regulated activities

The IASB has issued [Exposure draft – Rate-regulated activities](#) containing a proposed standard on assets and liabilities arising from rate regulation. Rate regulation is a restriction by a regulator on the setting of prices that can be charged to customers for services or products.

The objectives for the proposed standard are to define regulatory assets and regulatory liabilities, set out criteria for their recognition, specify how they should be measured, and require disclosures about their financial effects. The draft standard specifically addresses rate-regulated activities that meet the following two criteria

- An authorised body is empowered to establish rates that bind customers
- The price established by regulation (the rate) is designed to recover the specific costs the entity incurs in providing the regulated goods or services and to earn a specified return (cost-of-service regulation).

When the criteria are met, entities would recognise regulatory assets and regulatory liabilities in addition to the assets and liabilities recognised in accordance with other IFRSs. The effect of this requirement is initially to recognise as an asset (liability) an amount that would otherwise be recognised in that period in the statement of comprehensive income as an expense (income).



On initial recognition and at the end of each subsequent reporting period, regulatory assets and regulatory liabilities would be measured at their expected present value. Regulatory assets would be assessed for impairment when the entity concludes that it is not reasonable to assume that it will be able to collect sufficient revenues from its customers to recover its costs.

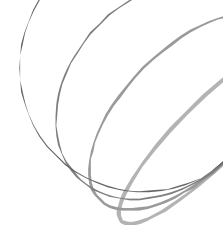
Responses should be made via www.iasb.org.uk by 20 November 2009.

Proposed amendments to other international standards

The IASB has issued [Exposure draft – Improvements to IFRSs](#) which contains proposed amendments to various international standards as part of its annual improvements project. The proposals include

- amending IFRS 1 to clarify the scope of the exemption that permits a first-time adopter to use a revaluation basis as ‘deemed cost’ when an event such as a privatisation triggered a revaluation at or before the date of transition to IFRSs. The proposal is for the exemption to apply to similar revaluations that occurred after the date of transition to IFRSs but during the periods covered by the first IFRS financial statements
- amending IFRS 3 to clarify that the choice of measuring non-controlling interest (i.e. either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s identifiable net assets) applies only to instruments that are currently entitled to a proportionate share of the acquiree’s net assets. Other instruments that meet the definition of non-controlling interest should be measured at fair value or in accordance with applicable IFRSs
- clarifying in IFRS 5 that an entity should classify as held for sale its interest in an associate or a jointly controlled entity when it is committed to a sale plan involving loss of significant influence or joint control
- various amendments to the credit risk disclosure requirements in IFRS 7
- amending IAS 1 to state explicitly that an entity can present the components of changes in equity either in the statement of changes in equity or in the notes
- removing the requirement in IAS 40 to transfer investment property carried at fair value to inventory when it will be developed for sale, adding a requirement for investment property held for sale to be displayed as a separate category in the statement of financial position, and requiring disclosures consistent with IFRS 5.

Comments should be sent via www.iasb.org by 24 November 2009. In most cases, the proposed effective date of the amendments is 1 January 2011.



Draft international guidance on equity instruments

The [International Financial Reporting Interpretations Committee](#) (IFRIC) has issued [D25 Extinguishing financial liabilities with equity instruments](#) which is a draft interpretation that provides guidance on accounting for cases when an entity issues equity instruments to a creditor. This may arise when an entity renegotiates the terms of financial liabilities, and a creditor agrees to accept an entity's shares or other equity instruments to settle the liability. IFRIC D25 proposes that

- the entity's equity instruments are part of any 'consideration paid' to extinguish the financial liability
- the equity instruments are measured at either their fair value or the fair value of the financial liability extinguished, whichever is more reliably determinable
- any difference between the carrying amount of the financial liability extinguished and the initial measurement amount of these equity instruments is included in the entity's profit or loss for the period.

Comment should be sent via www.iasb.org by 5 October 2009.

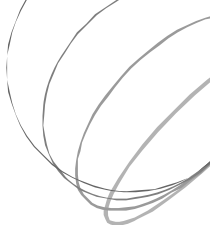
Draft international guidance on management commentary

The IASB has issued [Exposure draft – Management commentary](#) containing proposed guidance on preparing and presenting a management commentary.

The exposure draft sets out a broad framework for the preparation and presentation of management commentary to accompany financial statements prepared in accordance with IFRS. The IASB intends the final framework to be guidance rather than a mandatory standard. It will be for the management of an entity to decide how best to apply it.

The proposed framework sets out the principles, qualitative characteristics and content elements to assist management in preparing useful management commentary to accompany financial statements. It is intended that a management commentary prepared in accordance with this framework would provide users of the financial statements with historical and prospective commentary on the entity's financial position, financial performance and cash flows, and a context for understanding management's objectives and its strategies for achieving those objectives. The commentary should help users understand

- the entity's risk exposures, its strategies for managing risks and the effectiveness of those strategies
- how resources that are not presented in the financial statements could affect the entity's operations

- 
- how non-financial factors have influenced the information presented in the financial statements.

Management commentary should be presented with a focus on the most important information, and should be consistent with its related financial statements. It should include information that is essential to an understanding of

- the nature of the business
- management's objectives and strategies for meeting those objectives
- the entity's most significant resources, risks and relationships
- the results of operations and prospects
- the critical performance measures and indicators that management uses to evaluate the entity's performance against stated objectives.

Comments should be made via www.iasb.org by 1 March 2010.

Consultation on future of UK GAAP

The ASB has issued a consultation paper [Policy proposals – the future of UK GAAP](#) to set out a proposed strategy for the future basis of UK GAAP and its convergence with IFRS.

The proposed approach is to work under the IASB framework and to converge with IFRS to the fullest extent possible consistent with the needs of UK entities. The ASB's current intention is to issue an exposure draft withdrawing UK GAAP material and replacing it with IFRS-based material. Any modifications to the application in the UK of the underlying IFRS would be proposed at that stage. The ASB is planning a 'change' date for financial years beginning on or after 1 January 2012.

In summary, the ASB's proposals for profit-seeking entities set out a differential reporting regime based on public accountability. An entity has public accountability if its debt or equity instruments are traded in a public market, or it is a deposit-taking entity such as banks and insurance companies. The UK framework under the proposals outlined in this paper would be as follows

- Tier 1 – publicly accountable entities would apply IFRS as adopted by the EU.
- Tier 2 – all other UK entities, other than those who can apply the *Financial reporting standard for smaller entities* (FRSSE), could apply the *IFRS for small and medium sized entities* issued by the IASB.
- Tier 3 – small entities could choose to continue to apply the FRSSE.



Entities will have the option to voluntarily adopt a higher tier.

The paper also considers the future role of statements of recommended practice (SORPs). As a general principle, the ASB's view is that SORPs should only remain where there is a need arising from sector specific issues not covered by guidance in accounting standards. The proposal is to restrict the number of SORPs to which the ASB provides any endorsement. The paper sets out the proposed approach for each SORP which includes

- financial reports of pension schemes, which the paper recommends should continue until an appropriate alternative is available
- charities. It is recommended that there should be a public benefit standard but there may still be a need for certain sectors to continue to provide supplementary guidance on how to apply the accounting requirements of such a standard
- local authority accounting. The SORP will be withdrawn and will be replaced from 2010/11 with an IFRS-based Code prepared under the oversight of the Financial Reporting Advisory Board (see Local authority chapter – Accounting developments – Draft 2010 accounting code).

The ASB intends issuing an exposure draft outlining its recommendations for the future of UK GAAP after considering the feedback on this paper.

Comment should be sent to ukgaap@frc-asb.org.uk by 1 February 2010.

Auditing developments

The document referred to in the following article is available free of charge by using the hyperlink, or can be downloaded by auditors from the TSU intranet/extranet.

Updated bulletin on charity auditor's reports

The [Auditing Practices Board](#) (APB) has published [*Bulletin 2009/3 Auditor's reports – Supplementary guidance for auditors of charities with accounting periods commencing on or after 6 April 2008*](#).

The bulletin updates the illustrative auditor's reports for charities contained in Bulletin 2009/1 to apply for accounting periods commencing on or after 6 April 2008.

Corporate governance developments

The documents referred to in the following articles are available free of charge by using the hyperlinks, or can be downloaded by auditors from the TSU intranet/extranet.



Statement on role of chief finance officer

The [Chartered Institute of Public Finance and Accountancy](#) (CIPFA) has issued a statement called [The role of the chief finance officer in public service organisations](#) which sets out a principles-based framework for all public service organisations and their chief finance officers (CFOs).

The statement sets out the following five principles that define the core activities and behaviours that relate to the role of the CFO in public service organisations and the organisational arrangements needed to support them. The CFO should

- be a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest;
- be actively involved in all material business decisions to ensure implications, opportunities and risks are fully considered, and alignment with the organisation's financial strategy
- lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.
- lead and direct a finance function that is resourced to be fit for purpose
- be professionally qualified and suitably experienced.

For each principle, the statement sets out the governance arrangements required within an organisation to ensure that CFOs are able to operate effectively and perform their core duties. The statement also sets out the core responsibilities of the CFO.

CIPFA recommends that organisations use the statement as the framework to benchmark their existing arrangements, and that they should report publicly on compliance to demonstrate their commitment to good practice in both governance and financial management. CIPFA also recommends that organisations should report publicly where their arrangements do not conform with the compliance framework in the statement, explaining the reason for this, and how they deliver the same impact as those in the statement.

Progress report on combined code review

The [Financial Reporting Council](#) (FRC) has issued [Review of the effectiveness of the combined code progress report and second consultation](#) to give a progress report on its review of the *Combined code* and invite views on various matters.



The review has so far identified the generally held view that the Code has contributed to clear improvements in governance standards since it was first introduced. Many commentators consider at least some of the shortcomings in governance in the banking sector are specific to that sector, rather than being replicated in the listed sector as a whole. There is a recognition that the quality of corporate governance ultimately depends on behaviour not process, with the result that there is a limit to the extent to which any regulatory framework can deliver good governance. Market participants have expressed a strong preference for retaining the current approach of 'soft law' underpinned by some regulation, rather than moving to one more reliant on legislation and regulation.

While the general view is that there is no need for a complete overhaul of the content of the Code, there are a number of aspects of the Code which need further review and possibly revision. These include

- the responsibilities of the chairman and non-executive directors, the composition of the board, including finding the right balance of independence and expertise, and the frequency of directors' re-election
- board information, development and support, and the evaluation of the board's effectiveness
- the usefulness of companies' reporting on corporate governance.

Responses should be sent to codereview@frc.org.uk by 9 October 2009.

Other developments

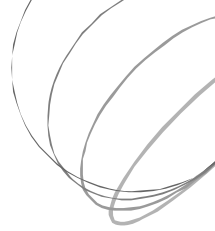
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Procurement

New procurement assessment tool

The [Scottish Government](#) has issued a [Procurement capability assessment](#) tool to provide a single assessment of procurement capability. The assessment tool is intended to promote the sharing of best practice and continuous improvement across the Scottish public sector. Its objective is to assist organisations to improve their structure, capability, processes and ultimately performance, by attaining the best standards that are appropriate to the scale and complexity of their business.

The tool will assess capability in key areas against common criteria and standards which will allow public bodies to identify best practice, any gaps, and where continuous improvements and efficiencies can be implemented. The areas covered include considering whether



- there is clear direction and support for getting best value in procurement
- there is a clear, systematic, holistic and well-researched framework to guide the organisation's purchasing decisions
- the organisation demonstrates a prudent and well-planned approach to defining its supply needs
- the organisation demonstrates a clear understanding of how it can best satisfy its core supply needs
- the organisation manages its suppliers and contracts effectively
- the organisation has efficient and robust processes and systems to support advanced procurement activity
- the organisation has people with sufficient capability to ensure effective performance
- the organisation has a sound approach to assessing and demonstrating its procurement performance.

Organisations will have the opportunity, where appropriate, to develop and implement improvement plans as a result of the assessment.

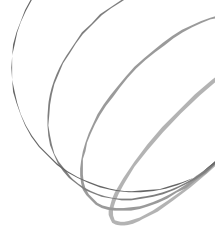
Information management

Draft principles on identity management

The Scottish Government has issued for consultation [Privacy and public confidence in Scottish public services: draft identity management and privacy principles](#) which sets out draft principles on identity management and privacy

The draft principles have been developed to give guidance to public service organisations and they apply to systems which involve identity management (i.e. the enrolment and subsequent verification that gives individuals trusted means to prove who they are or entitlement to a service or benefit). They are intended to help ensure that respect for privacy is central to the way public services prove identity or entitlement and help organisations comply with data protection and human rights legislation.

The draft principles require public service organisations to adopt clear, coherent and verifiable policies on privacy and security which aim to ensure that



- a privacy impact assessment is conducted and published prior to the implementation of a project which involves the collection of personal information
- only the minimum amount of personal information needed for a specific purpose is collected, used or kept; that appropriate consent is obtained where necessary; and that systems used for personal data comply with legal and regulatory requirements;
- the best available techniques are used to ensure the security of personal information
- personal data is only retained as long as is necessary and subsequently destroyed in a secure manner.

They also require public service organisations to

- only ask for the minimum level of information necessary, and should not ask people to prove who they are unless it is necessary
- provide ways for people to confirm that anyone claiming to represent the organisation does in fact do so
- be able to demonstrate that personal information can only be accessed by staff who need access to it, that they keep records of access to personal information, and that there are alerts which prevent or identify inappropriate access.
- avoid creating centralised databases of personal information
- ensure that staff or contractors who handle personal data on their behalf have and maintain, a good working knowledge and understanding of identity management and privacy

Responses should be sent to PrivacyPrinciples2009@scotland.gsi.gov.uk by 23 November 2009.

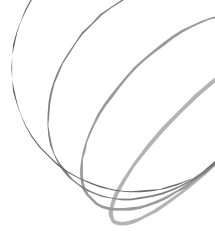
Publications

The following publications are available free of charge by using the hyperlinks.

Audit Scotland

Improving public sector purchasing

This report [Improving public sector purchasing](#) assesses the savings from, and wider benefits of, the Scottish Government's public procurement reform programme. Key messages include the following



- The programme has made significant progress in introducing important changes to improve public sector purchasing, but some changes are taking longer to implement than planned and performance measures are largely incomplete.
- Around £327 million efficiency savings may be attributed to the programme for the two years to 2007/08, which is broadly in line with the target. However, it is unclear how progress towards the third year target of £400 million will be monitored.
- Key risks include maintaining momentum, programme management, the availability of information and shortages of skilled staff.

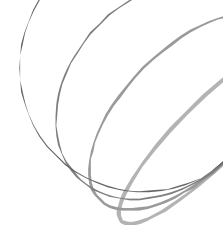
Improving civil contingencies planning

This report [Improving civil contingencies planning](#) looks at the progress made since the *Civil Contingencies Act 2004* was passed. Key messages include the following

- Key organisations work well together, particularly through their Strategic Coordinating Groups (SCG), but barriers to joint working exist including the lack of a standard approach to sharing information and differences in key definitions.
- The Scottish Government has taken an active role in implementing the Act but some local responders find it difficult to keep pace with developments.
- Governance and accountability arrangements for multi-agency working in civil contingencies planning are unclear.
- All SCGs have published a community risk register but these have made a limited contribution to informing civil contingencies planning at a local or national level.
- Most Category 1 responders have a generic emergency plan in place and have been involved in developing multi-agency arrangements for their SCG area. However, planning for business continuity management and recovery is not as well developed.
- Lessons from incidents and exercises are not shared widely or systematically put into practice.

Fraud cases

The following is a selection of fraud cases at audited bodies that have been reported by auditors to the TSU.



Expenditure

An unknown defaulter defrauded a local authority out of nearly £21,000 by presenting a forged cheque to the bank. The cheque was forged using details obtained from an authentic cheque. The fraud was detected when the bank stopped a second cheque for £13,000 and alerted the body. The fraud was possible because daily reconciliations were not carried out. This defect has been remedied, and the matter has been reported to the police.

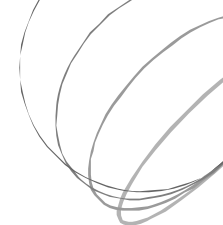
Income

A temporary member of staff misappropriated £9,000 from a council over a two year period by failing to bank income. The fraud was discovered when budget monitoring highlighted the lack of income being posted to the ledger. It was possible by not requiring two people to bank income and by the failure to monitor income returns. These weaknesses have been corrected and the matter was reported to the police.

Auditor action

The following is a summary of items in this chapter of the TB that include specific recommendations or requests that auditors take specific actions

Section	Action
TSU developments – Responses to enquiries – International financial reporting standards	Auditors should confirm that bodies' assessment of the evidence supporting lease classification is adequate.
TSU developments – Responses to enquiries – International financial reporting standards	Auditors should confirm that the evidence available to support the categorisation of assets as being held for sale is adequate.
TSU developments – Responses to enquiries – International financial reporting standards	Auditors should confirm that any internally generated intangible assets recognised by the bodies meet the recognition criteria.
TSU developments – Responses to enquiries – International financial reporting standards	Auditors should confirm that their bodies have arrangements in place to identify cash equivalents.
TSU developments – Responses to enquiries – International financial reporting standards	Auditors should confirm that their bodies have arrangements in place to meet the requirements for reporting segmental information.



Local authority

Introduction

This chapter contains articles on local authority technical matters and should be read by auditors with appointments in that sector. The general chapter contains articles on cross-sectoral technical matters.

The documents referred to in the articles that are available from websites can be obtained by using the hyperlinks. They can also be downloaded by auditors from the TSU intranet/extranet.

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note that the following articles in this chapter relate to 2008/09

- urgent issue notes on the application of the pension reserve to the new police and fire pension schemes
- TSU guidance on the common good, and charity regulations
- HB COUNT.

There are also other articles on the following subjects: 2009 SORP; draft 2010 accounting code; draft 2010 BVACOP; guidance on the valuation of council dwellings under IFRS; consultation on treasury management code and guidance; revised draft investment regulations and code; and proposed amendments to the local government pension scheme.

TSU developments

Publications

In addition to TBs, the TSU publishes other technical publications (i.e. notes for guidance, urgent issue notes and grant notes) to provide auditors with more in-depth guidance on specific matters. The following have been published by the TSU since TB 2009/2 and can be downloaded by auditors from the TSU intranet/extranet. They can be sent to other TB recipients on request.

Grant notes

Grant notes (GNs) are published to provide local authority auditors with guidance on the audit of approved grant claims. The TSU published *GN/BEL/10 Bellwin scheme claim for special financial assistance* since TB 2009/2.



Urgent issue note 2009/1(LA) Application of pension reserve to new police and fire schemes

The TSU published urgent issue note 2009/1(LA) to provide auditors with guidance on the application of the pension reserve to the new police and fire schemes. The local authority SORP requires pension charges to be made to the income and expenditure account (I&E account) in accordance with *FRS 17 Retirement benefits. The Local Government Pension Reserve Fund (Scotland) Regulations 2003* (the 2003 Regulations) provides the statutory basis for local authorities to remove FRS 17 based costs from being a charge to the general fund for specified pension schemes so that only actual pension contributions/payments are charged to that fund. This removal is shown as a reconciling item in the statement of movement in the general fund balance, and the charge is instead made to the pension reserve.

The 2003 Regulations specifically refer to the police and fire schemes set up under *The Police Pensions Regulations 1987* and *The Firemen's Pension Scheme Order 1992*. However, they do not refer to the new pension schemes for police and fire set up by *The Police Pensions (Scotland) Regulations 2007* and *The Fire-fighters Pension Scheme (Scotland) Order 2007* from 6 April 2006. This means there is no statutory basis for reversing the FRS 17 based costs in respect of these new schemes.

The Scottish Government intend to update the 2003 regulations but, without the statutory basis provided by the regulation, police and fire authorities should not have removed the FRS 17 costs from being a charge to the general fund since 2006/07 in respect of the new schemes.

Auditors of police and fire authorities were asked to establish the amounts involved at their bodies and form a judgement on materiality. Auditors of those bodies were also asked to make relevant council auditors aware of any adjustments for group accounts purposes.

Urgent issue note 2009/2(LA) Application of pension reserve to new police and fire schemes

The TSU published urgent issue note 2009/2(LA) to provide auditors with further guidance on the application of the pension reserve to the new police and fire schemes, and suggested wording for a qualified opinion.

The item in the 2008/09 statement of movement in the general fund balance which removes the FRS 17 costs in respect of the new police and fire schemes from being a charge to the general fund should not include the amount that relates to the new schemes. In addition, the removal from the general fund in prior years (i.e. 2006/07 and 2007/08) of FRS 17 costs in respect of the new schemes should be reversed as a prior year adjustment arising from a change in accounting policy. These adjustments will involve debiting the general fund and crediting the pension reserve. The change in accounting policy (i.e. charging FRS 17 costs to the general fund) should be disclosed.



It is expected that police and fire authorities will wish to include a disclosure note to the financial statements explaining the matter. The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) provided suggested wording for authorities to use. It may also be appropriate for there to be a reference on the explanatory foreword.

Auditors of police and fire authorities were asked to confirm that the necessary adjustments, and appropriate disclosures, had been made. Where the adjustments were not made, and the misstatement of the general fund was material, auditors were required to have regard to a suggested form of words for the qualification included at the appendix to the note.

Responses to enquiries

The TSU operates a 'help-desk' for auditors which provides responses to ad hoc technical enquiries. Selected responses are added to the frequently asked questions section of the TSU intranet/extranet and include the following since the issue of TB 2009/2.

Common good and trust funds

How should common good property be treated if it is used by the administering council to deliver services?

There is currently a lack of clarity surrounding the required accounting treatment when councils use common good property to deliver services. However, in the TSU's view, the appropriate accounting treatment depends on whether

- the arrangement meets the finance lease test, i.e. whether all the risks and rewards of ownership of the property (other than legal title) have been transferred to the council
- if it is an operating lease, it meets the criteria to be treated as an investment property by the common good (e.g. there is a market level rental being paid).

This may give rise to one of the following scenarios

- The arrangement does not meet the finance lease test, and therefore it is an operating lease in accounting terms. If a market rent is being paid, the property should appear on the common good balance sheet as an investment property. In the council's group accounts, it should appear as an operational property as from a group perspective it is being used in the direct delivery of services.
- The arrangement does not meet the finance lease test, and a market rent is not being paid. The property should appear on the common good balance sheet as an operational property (as the



criterion for being an investment property is not being met). In the council's group accounts, it should appear as an operational property.

- The arrangement does meet the finance lease test. The property should appear on the council single entity and group balance sheets as an operational property as it is being used in the direct delivery of services.

Auditors should confirm that appropriate accounting arrangements are in place when councils use common good property to deliver services.

Other guidance

Charity accounting regulations

Auditors will be aware of discussions with the Office of the Scottish Charity Regulator (OSCR) that have been ongoing for some time regarding the staged application of *The Charity Accounts (Scotland) Regulations 2006* to local authority trust funds. OSCR's minimum requirements for 2008/09 are for the following to be submitted by 31 December 2009

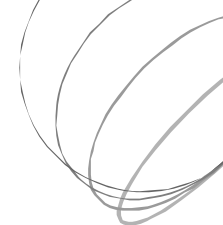
- A copy of the council's 2008/09 financial statements, including the audit certificate.
- For each registered charity with income of less than £100,000, a receipts and payments account and trustees annual report.
- For each registered charity with income in excess of £100,000 or charitable companies, fully accrued accounts in accordance with the *Charities SORP*.

Authorities may take advantage of the connected charity provisions of the 2006 Regulations and therefore a single trustees annual report and set of financial statements would be sufficient. It should be noted that a separate audit of these accounts is not required.

It is still OSCR's intention that councils should achieve full compliance with the 2006 Regulations for 2009/10, including the audit requirement. Further guidance will be issued to auditors in this regard in due course.

Accounting developments

The documents referred to in the following articles are available free of charge by using the hyperlinks, or can be downloaded by auditors from the TSU intranet/extranet.



2009 SORP

[The CIPFA/LASAAC Local Authority SORP Board](#) has published the *Code of practice on local authority accounting in the UK – a statement of recommended practice 2009* (the 2009 SORP) which sets out proper accounting practice for local authority financial statements for 2009/10. The main changes to the SORP that auditors' attention is particular drawn to are summarised in the following paragraphs.

Private finance initiative

The most significant change is in respect of the accounting requirements for the private finance initiative (PFI) and similar contracts which are no longer based on FRS 5 but on an interpretation of *IFRIC 12 Service concession arrangements* contained in the *Government financial reporting manual*. As well as contracts entered into from 1 April 2009, the requirements apply in respect of contracts existing at 31 March 2009 and prior periods adjustments will be needed for these. It is expected that the PFI properties used to deliver services will generally be required to be recognised on local authorities' balance sheets along with a liability for the financing provided by the operator. Statutory guidance to ameliorate any impacts on authorities' funding positions is being prepared.

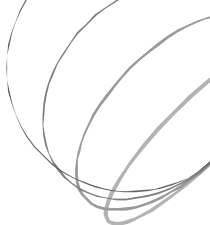
The accounting treatment set out in the 2009 SORP applies to all property acquired, constructed or enhanced by the operator for the purpose of the PFI contract, including property to which the authority gives the operator access, and property provided by the operator that previously appeared on the operator's balance sheet. The following two conditions require to be met

- The local authority controls or regulates the services the operator must provide with the property, to whom it must provide them, at what price, and where.
- The authority controls any significant residual interest in the property at the end of the term of the arrangement. Where there is little or no residual interest, the arrangement falls within the scope of the SORP if the first condition is met.

Property used in a PFI contract requires to be recognised as an asset of the local authority when it is made available for use. Separate assets should be recognised in respect of land and buildings where appropriate. A related liability shall also be recognised at the same time initially measured at the value of the related asset. Once recognised, the asset should be depreciated, impaired and revalued in the same way as for any other fixed asset.

Where possible, a PFI contract should be separated into a service element, which should be expensed as incurred, and a construction element, which should be accounted for as if it were a finance lease. Where it cannot be separated, the total unitary payment should be divided into three components

- the service charge element, which should be estimated

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- the repayment of the liability
 - the interest element, normally using the interest rate implicit in the contract.

An authority may provide the operator with access to existing assets that are not to be used in the PFI contract in exchange for reduced or eliminated payments. The accounting treatment is determined as follows

- Where the contract involves a permanent transfer, the authority should account for the disposal of the asset, and recognise on the balance sheet the consideration received. Any difference between the carrying value of the asset given up and the consideration received should be recognised in the I&E account.
- Where the arrangement does not involve a permanent transfer, the authority should account for the arrangement as a lease.

Where the asset is provided by the authority in the form of

- an operating lease, there is not a disposal of the asset. Over the lease period, the authority should recognise income from the lease in the I&E account along with a corresponding expense in respect of a reduction in the liability to pay for the property.
- a finance lease, the local authority should account in the same way as for a permanent transfer.

Where the PFI contract is structured to require payments to be made before the related property is recognised as an asset, such payments require to be recognised as prepayments. At the point the infrastructure is recognised as an asset, the related liability should also be recognised, and the prepayments should be applied to reduce the outstanding liability.

The steps required in respect of the prior period adjustment and the restatement of corresponding amounts are as follows

- The opening balance sheet as at 1 April 2008 should be restated for PFI contracts that meet the control tests and therefore now require to be recognised as an asset and related liability on the balance sheet. The authority will need to establish the fair value of the asset at the point the asset was made available for use for the purposes of initial measurement. Depreciation will need to be charged from the commencement of the arrangement until 31 March 2008.
- Comparative figures for 2008/09 should be restated for assets recognised as part of step 1, to reflect the accounting arrangements for these assets.

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- Comparative figures for 2008/09 should be restated for PFI contracts taken out during 2008/09.

Non domestic rates

There are also the following amendments at paragraphs 3.87 to 3.92 in respect of accounting for non-domestic rates (NDR). A billing authority is required to include a creditor in its balance sheet for NDR cash collected from taxpayers at the balance sheet date but not yet paid to the Government or a debtor for cash overpaid to the Government. It should not include therefore

- income in its I&E account for the NDR it collects from taxpayers
- NDR taxpayer debtor and creditor balances in its balance sheet
- in the cash flow statement as 'revenue activities' the cash received from NDR debtors and payments into the national pool but should rather include the difference between the two amounts as an increase or decrease in other liquid resources.

This change in accounting policy will require a prior year adjustment.

Council tax

There are also amendments at paragraph 3.37 in respect of accounting for council tax but these simply codify existing practices. It requires

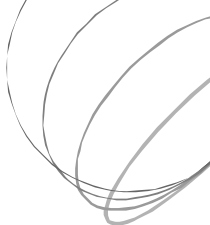
- council tax income for the year to be included as income for each authority
- council tax debtors, creditors and the impairment allowance for doubtful debts to be included in the authority's balance sheet
- the cash inflow for council tax received (i.e. cash collected) to be included in revenue activities in the cash flow statement.

As it is likely that authorities will already be following this approach, prior year adjustments will not usually be required.

Authorised for issue date

Paragraph 3.48 on disclosure of the authorised for issue date has been amended to reflect LASAAC guidance. It states that a statement should be disclosed on the face of the balance sheet in the final published financial statements stating the date

- the unaudited accounts were issued

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- the audited accounts were authorised for issue. This should be consistent with the date the audit certificate is signed.

Reorganisation

Paragraphs 3.83 to 3.86 cover local government reorganisation. They require the combination of existing local authorities into one new authority, or the transfer of functions from the responsibility of one authority to another, to be accounted for using the principles that apply to group reorganisations. Assets and liabilities should normally be transferred at their carrying amount at the transfer date. The opening balance sheet for the current year should be adjusted with the transfers separately disclosed in the statement of total recognised gains and losses.

For new authorities, corresponding amounts are not required but the notes to the accounts should include an opening balance sheet (i.e. transferred assets and liabilities and opening reserve balances). For continuing authorities, functions transferred require to be disclosed separately.

Current liabilities

Paragraph 4.105 has been amended to clarify that current liabilities include: bank overdrafts; the portion of long-term financial liabilities due to be settled within 12 months after the balance sheet date including accrued interest; dividends payable; trade creditors; and other creditors due to be settled within 12 months after the balance sheet date.

Note 9 of paragraph 5.35 which requires disclosure of total members' allowances paid in the year has been amended to clarify that in Scotland this relates to all elements of members remuneration and reimbursement of actual expenditure under the heads of salaries, allowances and expenses.

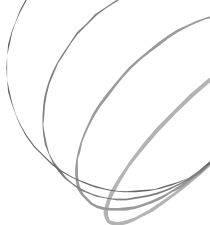
Miscellaneous

The following note disclosures that appeared in the 2008 SORP have been removed as requirements of the 2009 SORP

- note 6 on expenditure on publicity
- note 10 on Business Improvement District Schemes
- note 11 on income under the Local Authorities Goods and Services Act.

Other changes include the following

- Paragraph 4.32 now clarifies that the revised effective interest rate should be used where a financial instrument whose expected cash flows or life has been revised is being accounted for under hedge accounting.

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- Appendix A in respect of the application of FRS 21 has been clarified to explain that dividends declared by a company after the balance sheet date but before the financial statements are authorised for issue, are not recognised as a liability at the balance sheet date because no obligation exists at that time.
 - Paragraph 4.3 has been amended to clarify that authorities should follow FRS 2 and FRS 9 when accounting for investments in subsidiaries, associates and joint ventures in the single entity accounts.

The 2009 SORP can be downloaded by inhouse audit providers from the TSU intranet. Licensing restrictions prevent it from being available from the extranet, but it can be ordered from the [CIPFA shop](#).

Auditor action

Auditors should confirm that their authorities are making the necessary arrangements to comply with the requirements of the 2009 SORP.

Draft 2010 accounting code

[The CIPFA/LASAAC Local Authority Code Board](#) has issued an [Exposure draft of the code of practice on local authority accounting in the UK](#). This is the first edition of the Code prepared based on IFRS and will apply to 2010/11. Responses were required by 11 September 2009.

IFRS has been interpreted or adapted by the draft Code for the local authority context in a number of respects, and some accounting options allowed under IFRS are not permitted under the draft Code. In cases where IFRSs do not provide relevant guidance for the public sector context, international public sector accounting standards (IPSASs) have been used as supplementary guidance. The governance arrangements for the preparation and approval of the Code have also changed as it is no longer prepared under the aegis of the ASB and does not have the status of a SORP. Instead, the external quality oversight role is now being undertaken by the Financial Reporting Advisory Board.

There are a number of changes to accounting practice compared with the 2009 SORP as a result of the move to IFRS. Auditors' attention is drawn to the following areas where the draft Code's requirements differ significantly from the 2009 SORP, or where the invitation to comment is seeking views on the best treatment.

Section 2.3 Government and non-government grants

The invitation to comments sets out two options for the treatment of capital grants and contributions, i.e.

- deferring capital grants/contributions and recognising them over the useful life of the relevant asset to match depreciation, as the current SORP requires; or

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- recognising them immediately as income once any grant conditions have been met.

CIPFA/LASAAC is minded to implement the second option but is seeking views on this point.

Section 3.3 Accounting policies, changes in estimates and errors

The current SORP requires authorities to correct prior period errors where they are fundamental. The draft Code requires only that the prior period errors should be material for them to be corrected.

The draft Code requires authorities to disclose the expected impact of new standards that have been issued that will be adopted by future editions of the Code. The current SORP contains no such requirement.

Section 3.4 Presentation of financial statements

The core financial statements in the draft Code are the

- movement in reserves statement which, along with any related notes, replaces the statement of movement on the general fund balance and the note on the movement in reserves. It shows the movement on reserves, analysed between usable reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves.
- comprehensive income and expenditure statement which replaces the I&E account and the statement of total recognised gains and losses. It shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation.
- balance sheet
- cash flow statement.

The draft Code requires cash and cash equivalents (see General chapter – TSU developments – Responses to enquiries – International financial reporting standards) to be presented in the balance sheet and reported as cash-flows in the cash-flow statement. There are no strict criteria relating to items treated as cash equivalents and authorities will therefore be required to disclose the policy adopted in determining the composition of cash equivalents.

The current SORP does not use the concept of cash equivalents and requires the movement of cash to be reported in the cash flow statement and cash balances to be reported in the balance sheet.

The draft Code requires an authority to present a balance sheet as at the beginning of the earliest comparative period (i.e. a third balance sheet) when it applies an accounting policy retrospectively, makes



a retrospective restatement of items, or when it reclassifies items. The current SORP does not include this requirement. Authorities will also need to produce an opening IFRS-based balance sheet.

The draft Code introduces segment reporting in accordance with IFRS 8 (see General chapter – TSU developments – Responses to enquiries – International financial reporting standards). It is proposed that a segment should be reported where its expenditure is 10% or more of the gross expenditure within the net cost of services; or its income is 10% or more of the gross income within the net cost of services. An authority may report segments that do not meet these criteria, either individually or combined with other segments.

For each reportable segment, the draft Code requires authorities to present an analysis of the income and expenditure (i.e. a subjective analysis) that are reported as part of internal management reporting. A reconciliation between the segment reporting analysis and the net cost of services in the comprehensive income and expenditure statement is also required.

Authorities may elect to present the group accounts alongside the single-entity accounts (i.e. a columnar approach) or as separate statements.

Comparative information presented in the 2010/11 financial statements will need to be restated in line with the requirements of the draft Code.

Section 3.9 Related party disclosures

The draft Code has different requirements to the current SORP in relation to the disclosure of related party transactions and balances. The draft Code does not deem certain parties as related parties i.e. providers of finance in the course of their normal business, trade unions in the course of their normal dealings with an authority, and an entity with which the relationship is solely that of an agency.

Comparative information presented in the 2010/11 financial statements will need to be restated in line with the Code's revised disclosure requirements.

Section 4.1 Property, plant and equipment

The draft Code requires that the cost of an item of property, plant and equipment (formerly referred to as tangible fixed assets) should only be recognised as an asset if it is probable that the future economic benefits or service potential associated with the item will flow to the authority, and the cost or fair value of the item can be measured reliably. It is proposed that this recognition criteria should apply to subsequent expenditure as well as initial expenditure. The current SORP has separate criteria for enhancement expenditure i.e. expenditure can be capitalised where the expenditure 'extends the economic life of the asset'. However, it is not expected that this will result in different accounting treatments.



The draft Code requires that land and buildings should be treated separately for depreciation purposes, and that the only general ground for not charging depreciation is when the residual value of an asset is equal or greater than the asset's carrying amount.

The current SORP requires the separate recognition of two or more significant components of an asset for depreciation purposes where the useful life is substantially different. However, the draft Code requires each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item to be depreciated separately. The requirement for componentisation for depreciation purposes is applicable to enhancement and acquisition expenditure incurred, and revaluations carried out, from 1 April 2010.

The draft code proposes that residual values should be based on current prices at the balance sheet date. The current SORP defines residual values as being based on prices prevailing at the date of the acquisition (or revaluation) of the asset which do not take account of expected future price changes. This may require the restatement of the residual values and depreciation charges of assets carried at historical cost. However, it is anticipated that the residual values of assets carried at historical cost (i.e. community and infrastructure assets) will not be material.

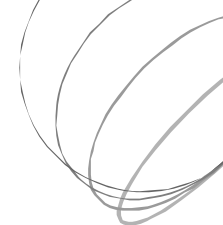
The carrying amount of an item of property, plant and equipment should be derecognised on disposal or when no future economic benefits are expected from its use or disposal. The draft code requires that, where a component is replaced or restored, the carrying amount of the old component should be derecognised to avoid double counting and the new component should be reflected in the carrying amount. This includes the derecognition of parts of an asset not previously recognised as a separate component.

Section 4.2 Leases and lease type arrangements

Under the draft Code, the land and buildings elements of a lease are considered separately for the purposes of classifying between a finance and an operating lease. This requirement does not exist in the current SORP.

When accounting for a lease of land and buildings, the minimum lease payments are allocated between the land and the buildings elements in proportion to their relative fair values. Where the amount that would initially be recognised for the land element is immaterial, the land and buildings may be treated as a single unit for lease classification.

One of the factors that indicates a finance lease in the draft Code is if the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset. Under the current SORP, this is quantified as normally 90% or more of the fair value. It is proposed that this quantitative test should not apply under the Code, meaning authorities would need to use professional judgement when making this assessment.



When the land has an indefinite economic life, the land element is normally classified as an operating lease unless title is expected to pass to the lessee by the end of the lease term.

Under the draft Code, it is proposed that finance income should be calculated so as to produce a constant periodic rate of return on the net investment. Under the current SORP, finance income is calculated so as to give a constant periodic rate of return on the net cash investment. This difference in treatment may lead to income being recognised in different periods.

It is proposed that the draft Code should include a requirement for authorities to assess whether an arrangement contains the substance of a lease. This is not covered by the current SORP.

Section 4.4 Investment property

The draft Code defines an investment property as one that is used solely to earn rentals or for capital appreciation or both; property that is also used to deliver services is not an investment property. The current SORP requires investment property to be carried at the lower of net current replacement cost or net realisable value (effectively market value). The draft Code requires investment property, after initial recognition at cost, to be carried at fair value. However, this is not expected to result in any change to the carrying amount.

The draft Code proposes that changes to fair value should be taken to the surplus or deficit for the period, and then reversed out of the general fund. The current SORP requires revaluations of investment property to be adjusted through the revaluation reserve in the first instance.

The current SORP requires investment property held on a lease to be depreciated when the unexpired term is 20 years or less. This requirement has been removed in the draft Code.

Section 4.5 Intangible assets

The draft Code requires the criteria set out in IAS 38 (see General chapter – TSU developments – Responses to enquiries – International financial reporting standards) to be met before an internally generated intangible asset may be recognised. The current SORP states that internally developed intangible assets should only be capitalised where there is a readily ascertainable market value, which is unlikely to occur in local authorities.

The current SORP states that there is a rebuttable presumption that the economic lives of intangible assets are limited to periods of 20 years or less. No such presumption is included in the draft Code.

Section 4.7 Impairment of assets

The draft Code contains a requirement for an annual assessment of whether there is any indication that an asset may be impaired. If any indication exists, the recoverable amount should be estimated. There is no longer a specific requirement to undertake an impairment assessment of assets when either no



depreciation charge is made on the grounds that it would be immaterial, or the estimated remaining useful life of the fixed asset exceeds 50 years. In addition, the draft Code does not exempt non-depreciable land from impairment reviews.

The current SORP requires an impairment loss due to the clear consumption of economic benefits on a re-valued asset to be recognised in the I&E account. The draft Code makes no distinction between impairments due to the clear consumption of economic benefit and other impairments (i.e. general fall in prices), and requires all impairment losses on re-valued assets to be recognised in the revaluation reserve up to the amount in the reserve for each respective asset. As a result of this change, the accounting entry between the revaluation reserve and the capital adjustment account, to reflect the difference between impairment based on historical cost and the re-valued amount, is no longer required.

The draft Code requires local authorities to classify and account for impairments in their opening IFRS balance sheet (i.e. at 1 April 2009) in accordance with the Code's new requirements. However, no adjustments are required because the current SORP's requirement for an adjustment between the revaluation reserve and the capital adjustment account matches the adjustment that would otherwise be required on transition to the Code.

However, it may be necessary to restate comparative figures for 2009/10. Where an impairment loss due to the clear consumption of economic benefits on a re-valued asset has been charged to the I&E account in 2009/10, the charge will have to be reduced to the amount of the impairment loss that takes the carrying amount below historical cost, with the corresponding entry reducing the revaluation reserve.

Section 4.8 Borrowing costs

The invitation to comment is seeking views on three options for accounting for borrowing costs

- Option 1 is to continue to permit the option of capitalising borrowing costs where the asset is produced over a period of time, and the authority has an accounting policy of capitalising borrowing costs.
- Option 2 is to expense borrowing costs as they are incurred.
- Option 3 is to capitalising borrowing cost directly attributable to qualifying assets (i.e. those that take a substantial period of time to prepare).

CIPFA/LASAAC is minded to implement option 2.

Section 4.9 Non-current assets held for sale and discontinued operations

The draft Code requires assets to be classified as held for sale if their carrying amount will be recovered principally through a sale rather than their continued use. The current SORP does not include any criteria



that have to be met in order to classify an asset as surplus held for disposal. In contrast, the draft Code requires the criteria set out in IFRS 5 to be met (see General chapter – TSU developments – Responses to enquiries – International financial reporting standards).

The draft Code requires an authority to measure an asset classified as held for sale at the lower of its carrying value and fair value less costs to sell. Where the carrying amount is lower, this will lead to a different valuation when compared to the valuation under the current SORP which requires the asset to be measured at market value less expected selling costs.

When the sale is expected to occur beyond one year, authorities will be required to measure the cost to sell at its present value. Any increase in the present value of the costs to sell that arises from the passage of time is a financing cost. The current SORP does not contain such a requirement.

It is proposed that a non-current asset classified as held for sale should not be depreciated (or amortised in relation to intangible assets). The current SORP states that assets held for sale are not exempt from depreciation.

Following reclassification of an asset as held for sale, it is proposed that the subsequent amount of revaluation gains arising from an increase in fair value that can be recognised is limited to the cumulative impairment loss that has been previously recognised. The amount that can be recognised is not limited under the current SORP.

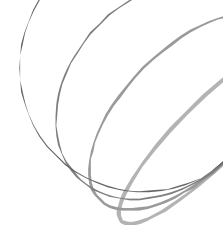
The draft Code introduces the concept of a 'disposal group'. These relate to assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. The criteria and requirements that relate to held for sale individual assets also apply to disposal groups.

In order to qualify as 'discontinued operations', the activities must cease completely; responsibilities transferred from one part of the public sector to another (such as 'machinery of government' changes) are not discontinued operations. In contrast, the definition within the current SORP encompasses local government reorganisation.

The draft Code requires prior periods to be restated for discontinued operations, so that the current and prior periods relate to all operations that have been discontinued by the end of the reporting period being presented. The restatement of prior periods is not required by the current SORP.

Section 6.2 Benefits payable during employment

Under the draft Code, benefits payable during employment include short-term employee benefits and other longer-term employee benefits.



Short-term employee benefits are those (other than termination benefits) that are due to be settled within twelve months after the year end of the period in which the employee renders the service. They are not covered by the current SORP, and there is no UK accounting standard that deals with them. An approach based on the draft Code will necessitate a change in accounting policies for many authorities. A key difference is likely to relate to the treatment of short-term compensated absences that can be carried forward where the current entitlement is not used e.g. annual leave. Short-term accumulating compensated absences require to be

- recognised when employees render services that increases their entitlement to future compensated absences
- measured as the additional amount that the authority expects to pay as a result of unused entitlement that has accumulated at the balance sheet date.

Non-accumulating compensated absences should be recognised when the absence occurs.

Other long-term employee benefits are those (other than post employment benefits and termination benefits) that do not fall due wholly within twelve months after the end of the period in which the employees render the related services. They are accounted for on similar principles to post employment benefits except that actuarial gains and losses and past service costs are recognised immediately in the comprehensive income and expenditure statement.

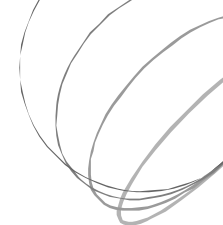
Long-term employee benefits are not covered by the current SORP, except for disability benefits, which are treated as a type of defined benefit pension benefit.

Section 6.3 - Termination benefits

The current SORP only covers termination benefits awarded as an enhancement of pension benefits. It treats these as a retirement benefit and classifies them as one type of 'past service' cost. The draft Code covers all forms of termination benefits and does not treat them as a 'post employment benefits' but as a separate category of employment benefit. Termination benefits are payable as a result of either

- an employer's decision to terminate an employee's employment before the normal retirement date
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Under the current SORP, the pension enhancement is recognised in the I&E account on a straight-line basis over the period in which the increase in benefit vests. The draft Code proposes that termination benefits should be charged to the comprehensive income and expenditure statement immediately.



Section 6.5 Pension fund accounts

The draft Code requirements for pension fund accounts are compatible with the current SORP except that the draft Code requires the pension liabilities of the pension fund as a whole to be disclosed.

Chapter 9 Group accounts

The current SORP permits consolidation of non-coterminous reported financial statements where the subsidiary, associate or joint venture's period end is no more than three months before the authority's reporting year end. The draft Code allows consolidation within three months before or after the period end of the authority.

Under the draft Code, the calculation of the gain or loss on disposal of a subsidiary excludes goodwill previously written off to reserves. Under the current SORP, goodwill previously written off to reserves is included in the calculation of the gain or loss on disposal.

The SORP's definition of an associate focuses on the ability to exercise significant influence whereas under the draft Code the focus is on the power to participate in the financial and operating policy decisions of the investee.

Under the current SORP, joint ventures are defined as an entity in which the reporting authority has an interest on a long-term basis and is jointly controlled by the reporting authority and one or more other entities under a contractual or other binding arrangement. The draft Code defines joint ventures as a contractual or binding arrangement whereby two or more parties undertake an activity which is subject to joint control.

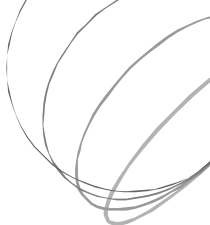
The current SORP requires the use of the gross equity method for the consolidation of jointly controlled entities. The draft Code requires the use of proportionate consolidation or equity method.

Heritage assets

As there is currently no IFRS or IPSAS on accounting for heritage assets, it is proposed to incorporate *FRS 30 Heritage assets* into the published Code. FRS 30 continues existing accounting arrangements, but would require additional disclosures to provide users of the accounts with information about the heritage assets held by the authority and its accounting policies in relation to those assets.

Draft 2010 BVACOP

CIPFA has issued [BVACOP 2010/11 – consultation on proposed changes to section 2](#) which contains proposed changes to the 2010/11 edition of the *Best value accounting code of practice* (BVACOP). Most of the proposed changes are to reflect changes to the draft IFRS-based accounting code. This includes changes in terminology, definitions and treatment of some items. Other proposed changes include

- 
- changing the treatment for the impairment of assets under construction so that it is charged to service revenue accounts rather than non-distributed costs
 - moving the definitions of different types of trading operations to a mandatory section.

There are also the following proposed changes to the recommended standard subjective analysis

- impairment losses and revaluation losses should be recorded separately.
- movements in the fair value of investment properties should be separately identified in the subjective analysis
- members' allowances should be recorded in Group 4 supplies and services.

In addition, CIPFA believes that it would be appropriate to change the name of BVACOP to reflect its current role in providing guidance on costing and on the classification of costs for external reporting. Views on an appropriate name have been requested.

Responses were required by 18 September 2009.

Guidance on valuation of council dwellings

LASAAC has issued guidance on [The valuation of council dwellings under international financial reporting standards](#) which applies from 2010/11.

There is currently no regulatory or legislative requirement for Scottish local government to adhere to one specific valuation methodology for council dwellings in preparing their financial statements. However, the proposed IFRS-based accounting code requires land and buildings to be measured at fair value. Specifically, in regard to council dwellings, the proposed code states that the fair value of council dwellings should be measured using existing use value–social housing (EUV-SH). One of the assumptions under the EUV-SH basis is that the property will continue to be let by a body and used for social housing.

LASAAC considers that the continued use of average discounted 'right to buy' sale prices of council dwellings would be inconsistent with the requirements of the Code. Scottish local authorities should therefore not use this valuation methodology for the measurement of council dwellings from 2010/11, including restatement of values as at 1 April 2009.

Auditors should confirm that their authorities are planning to comply with this guidance.



Other developments

The documents referred to in the following articles are available free of charge by using the hyperlinks, or can be downloaded by auditors from the TSU intranet/extranet.

Treasury management

Consultation on code and guidance

CIPFA has issued a consultation paper called [Revised treasury management code consultation](#) which contains proposed changes to the *Treasury management code* and guidance notes. The key proposed changes to the code are as follows

- It will be a public body's responsibility to identify an appropriate body or individual to have responsibility for the scrutiny of treasury management strategies and procedures which may be a committee such as a finance scrutiny committee or audit committee.
- Currently the treasury management strategy must be approved by full board or council and this is typically done as part of the approval of the budget. The revised code will allow approval from a relevant committee, but the strategy requires to be reported to the full board or council.
- The existing code requires the treasury management strategy to be approved prior to the start of the financial year and a report presented after the end of the financial year detailing operational activity throughout the year. The revised code will also require an interim or mid-year operational report.
- The revised code will require training to be available for relevant board / Council members with responsibility for treasury management. The requirement for ensuring that staff are appropriately qualified and trained is already contained within the existing Code.

The key proposed changes to the guidance notes are as follows

- An emphasis that organisations should not solely rely on credit ratings when choosing a counterparty, but should use all available market information.
- A sound diversification policy should include country, sector and group limits.
- Clarification that officers involved in treasury management must follow the treasury management policies and procedures.

Responses were required by 18 September 2009.



Revised draft investment regulations and code

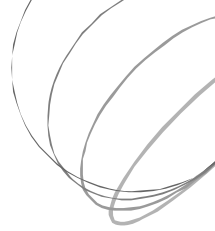
TB 2008/2 (page 30) advised auditors that the Scottish Government has issued for consultation draft investment regulations and an accompanying code to provide a regulatory framework for local authority investments from 1 April 2009. Following the consultation, the Scottish Government has issued revised proposals. The main changes from the original consultation draft are summarised in the following paragraphs.

The original draft required the identification of two types of investment, i.e. specified and non-specified investments. The approach now being proposed is that local authorities are required to identify in their *Annual investment strategy* all the types of investment that they will permit in the financial year; these are to be known as 'permitted investments'. Authorities would be required to set a limit to the amounts that may be held in such investments at any time in the year. They would be required to identify in their strategies the different types of treasury risk that their permitted types of investment are exposed to (i.e. credit or security risk, liquidity risk, and market risk) and describe the controls in place for limiting those risks.

The original draft endorsed Audit Scotland's *Note for guidance 96/5(LA) Borrowing in advance of need*. The revised draft makes no mention of the note for guidance but retains the principle that local authorities should be able to demonstrate that advance borrowing is justified in its own right by undertaking an assessment. The revised draft requires the early borrowing to be justified as representing the best time for borrowing the amount required. It also requires an authority to be able to demonstrate that the savings expected to accrue from borrowing at an advantageous rate outweigh the costs of borrowing early by documenting its assessment of the need to borrow in advance. The assessment would include, for example

- the amount to be borrowed, and the expected date it will be required
- the rate of interest on the advance borrowing, a prudent forecast of the rate of interest expected to apply if the borrowing is deferred until the time the funds are required, and the rate of interest expected to be achieved by investing the sums borrowed in advance
- any independent third party advice
- the reasons why borrowing in advance is justified, an identification of the risks associated with borrowing in advance, and the controls in place to manage that risk.

The original draft included investment properties within the remit of the investment regulations. Although this was challenged by a number of respondents to the consultation, they remain included within the revised proposals. However, it is proposed that the requirement to include investment properties should be deferred a year and not apply until 1 April 2010.



Comments were required by 9 September 2009.

Pension funds

Proposed amendments to local government pension scheme

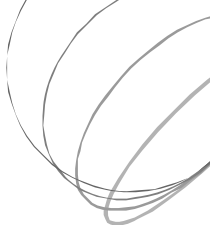
The [Scottish Public Pensions Agency](#) has issued a consultation paper on [Proposed amendments to the local government pension scheme](#).

The proposals include adding a provision to *The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008* which requires administration authorities to publish annually a pension fund annual report which contains

- a report about the management and financial performance during the year of the funds, an explanation of the authority's investment policy, and the statement of investment principles
- the funding strategy statement, and a statement by the actuary of the level of funding
- the governance compliance statement
- the fund account and net asset statement with supporting notes and disclosures prepared in accordance with proper practices
- an annual report dealing with the extent to which the authority has achieved any levels of performance set out in the pension administration strategy
- statements of policy concerning communications with members and employing authorities.

Proposed amendments to *The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 1998* include

- a separate bank account for the pension fund
- giving administering authorities an explicit, limited power to borrow for the purposes of the pension fund for cash-flow purposes. Borrowing in order to invest on behalf of the fund would not be allowed. The ability of administering authorities to borrow from the pension fund would be revoked
- requiring an authority's statement of investment principles to include information about its policy on the lending of stocks or other securities
- extending the existing requirement for an administering authority's statement of investment principles to cover its policy on risk, by adding the words 'including the ways in which risks are to



be measured and managed'. The amendment reflects a similar requirement on private sector pension schemes

The proposals do not include a requirement for a separate audit of pension scheme funds.

Comments should be sent to locgovpensionsreform@scotland.gsi.gov.uk by 9 October 2009.

Benefits

HB COUNT 2008/09

TB 2009/1 (page 32) advised auditors that the Audit Commission had issued modules 1 to 3 of the 2008/09 HB COUNT. The Commission has subsequently issued modules 4 and 5.

Module 4 provides an analytical review tool that enables auditors to compare the 2008/09 subsidy claim forms with 2007/08 and with other authorities. The information is for auditor use only and, if auditors wish to provide authorities with outputs, they should ensure that the data for other authorities is anonymised.

Module 5 provides a software diagnostic tool, the aim of which is to ensure that benefits subsidy claims have been completed using the recognised software version and standard year end claim completion program issued by the software supplier. It seeks to confirm that the benefits system has been internally balanced in terms of benefit 'granted' and benefit 'paid' using the software supplier's standard methodology. Module 5 contains

- a control matrix for each supplier at appendix 1 that requires to be completed by auditors
- non-compliance data return at appendix 2

It should be noted that the data return at appendix 2 should be submitted to Andrew Reddish in the TSU (and not HB leads as incorrectly stated in the module).

Key circulars

The following circulars are available free of charge by using the hyperlink, or can be downloaded by auditors from the TSU intranet/extranet.

Benefits circulars

Adjudication and operations

[HB/CTB circular A17/2009 Total disregard of child benefit income in HB/CTB and technical amendments to reflect The Childcare Act 2006. Amendment to the HB and CTB capital thresholds for customers who have](#)



[reached the qualifying age for state pension credit](#) gives information on the total disregard of child benefit income when calculating HB/CTB and an increase in the capital thresholds from 2 November 2009

- The capital threshold above which a customer who is over state pension credit age is assumed to have income from capital rises from £6,000 to £10,000.
- The limit below which councils have the choice not to verify declared capital for new standard HB/CTB claims has also increased from £6,000 to £10,000.

Publications

The following publications are available free of charge by using the hyperlinks.

Audit Scotland

Audit of best value and community planning

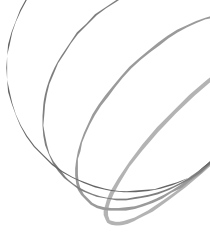
The audit of best value was introduced in response to the *Local Government in Scotland Act 2003*, which gives local authorities responsibilities to continually improve their service delivery, and to report publicly on their performance. Best value audit reports provide an overall picture of each council's performance and give the public an independent view on whether their council is achieving continuous improvement. The following have been published since TB 2009/2

- [West Dunbartonshire Council](#)
- [Aberdeen City Council](#)

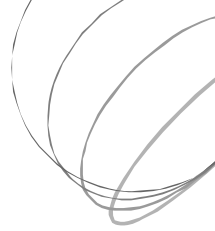
Auditor action

The following is a summary of items in this chapter of the TB that include specific recommendations or requests that auditors take specific actions

Section	Action
TSU developments – Responses to enquiries – Common good and trust funds	Auditors should confirm that appropriate accounting arrangements are in place when councils use common good property to deliver services.
Accounting developments – 2009 SORP	Auditors should confirm that their authorities are making the necessary arrangements to comply with the requirements of the 2009 SORP.
Accounting developments – Guidance on the valuation of council dwellings	Auditors should confirm that their authorities are planning to comply with LASAAC guidance on the valuation of council dwellings from 2010.



Section	Action
Other developments – Benefits – HB COUNT 2008/09	Auditors should submit the non-compliance data return at module 5 appendix 2 to Andrew Reddish in the TSU.



Health

Introduction

This chapter contains articles on health technical matters and should be read by auditors with appointments in that sector. The general chapter contains articles on cross-sectoral technical matters.

The documents referred to in the articles that are available from websites can be obtained by using the hyperlinks. They can also be downloaded by auditors from the TSU intranet/extranet.

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note the following articles in this chapter relate to 2009/10

- TSU guidance on operating segments, and reviewing 2008/09 IFRS-based shadow accounts
- draft annual accounts manual
- draft capital accounting manual
- health board elections
- recruitment of consultants
- payment verification protocols
- pandemic flu guidance
- pharmacy remuneration arrangements
- PWC guidance on preparing 2008/09 shadow accounts
- IFRS budgetary information request
- statement of financial entitlement.

There are also articles on: GP access survey results; one year job guarantee for nurses; and NHS eye examinations.



TSU developments

Responses to enquiries

The TSU operates a 'help-desk' for auditors which provides responses to ad hoc technical enquiries. Selected responses are added to the frequently asked questions section of the TSU intranet/extranet and include the following since the issue of TB 2009/2.

International financial reporting standards

What is an operating segment for NHS bodies?

IFRS 8 Operating segments requires an entity to report financial and descriptive information about its operating segments (see General chapter – TSU developments – Responses to enquiries – International financial reporting standards).

Boards are expected to review the information reported internally and use this as the basis for the segmental information within the accounts. In the TSU's view, while it may be appropriate for a special health board to report as a single segment, it is likely that a territorial health board will have more than one segment.

Auditors should confirm that their boards have assessed their internal reporting and identified appropriate segments for reporting in the financial statements.

Other guidance

2008/09 IFRS-based shadow accounts

Health boards are required to prepare shadow IFRS based accounts for 2008/09. This requires the accounts for 2008/09, which have been prepared under UK GAAP basis, to be converted to an IFRS basis and passed to external auditors for review by 30 September 2009.

Auditors are required to review the shadow accounts and report to their boards in a letter any matters that might prevent the figures being used as comparative amounts in the first set of IFRS-based accounts for 2009/10. This review of the shadow accounts does not constitute a full audit. The formal audit opinion will be given on the first full set of IFRS-based accounts in 2009/10. As part of the review of the shadow accounts, auditors should

- examine the accounting policy changes made to meet IFRS requirements and assess whether all the changes in policy required by IFRS have been made



- examine high risk items (e.g. fixed asset values; leases; PFI; intangible assets; the untaken annual leave accrual; and segmental reporting) and assess whether sufficient evidence has been provided to support either no change or the new treatment
- for each change in accounting treatment, examine the reconciliation from UK GAAP to IFRS, on a sample basis where appropriate
- confirm that all required disclosures have been made.

The review procedures carried out should be included in the letter to the board, as well as the areas examined. The letter should also list the errors found; it is the responsibility of the board to adjust the shadow accounts based on the findings from this review. Auditors should also report the areas where further work is required to enable the board to produce IFRS-based accounts in 2009/10. The audit deadline for submission of the letter is 30 November 2009.

Auditors are requested to send a copy of their letters to the TSU.

Audit Scotland has provided auditors with a suggested template that sets out the information that should be included in such a report which is consistent with this guidance.

Auditors should ensure they pay due regard to this guidance when reviewing the 2008/09 shadow accounts.

Accounting developments

The documents referred to in the following articles can be downloaded by auditors from the TSU intranet/extranet.

Draft 2009/10 annual accounts manual

The SGHD has issued the draft *NHS annual accounts manual 2009/10* to complement the guidance in the *Government financial reporting manual (i-FReM)* and assist boards in the preparation of their IFRS-based accounts. Although the manual is in draft and relates to 2009/10, it should be used for the preparation of the 2008/09 shadow accounts, which require to be submitted for audit by 30 September 2009. The manual will then be amended and issued in final form. The changes to the manual from the previous year are extensive, and are covered in the following paragraphs.

Financial statements

The primary financial statements are the

- operating cost statement



- the balance sheet, the title of which will remain the same, rather than changing to a statement of financial position as required by IAS 1. The format, terminology and items included have however been amended to be IFRS compliant. For example, the manual reflects that IAS 1 requires the balance sheet to present separately non-current assets, current assets, current liabilities and non-current liabilities
- cash flow statement which remains generally the same, although it now covers not only cash but also cash equivalents (see General chapter – TSU developments – Responses to enquiries – International financial reporting standards). In addition, lines have been added to disclose the movement in working capital and separately disclose the capital and interest element of finance leases and PFI contracts
- statement of changes in taxpayers equity which is a new statement that shows the movement in the general fund and reserves. This information was previously disclosed in notes 19 and 20 which have been removed. There is also no longer a requirement for a statement of recognised gains and losses.

Accounting policies

Note 1 on accounting policies has been significantly amended to reflect IFRS requirements, and the changes are summarised in the following paragraphs.

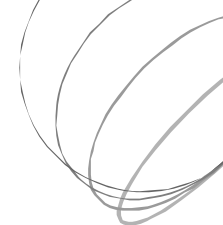
Accounting policies – new standards

There is a reference added to reflect that, where a new international standard has been issued but not yet implemented, boards are required to disclose the nature of the standard and, if possible, an estimate of its likely effect on future financial statements. This requirement does not apply in the first IFRS-based accounts, i.e. 2009/10, but will be required for 2010/11.

Accounting policies - PFI

PFI/PPP transactions are now accounted for in accordance with *IFRIC 12 Service concession arrangements*, rather than FRS 5. PFI transactions which meet the IFRIC 12 definition of a service concession, as interpreted by the i-FReM, should be accounted for as 'on-balance sheet' by the board. The underlying assets are recognised as property, plant and equipment and intangible assets at their fair value. An equivalent liability is recognised in accordance with IAS 17.

Where it is not possible to separate the finance element from the service element of unitary payment streams, they require to be estimated. The annual contract payments are apportioned between the repayment of the liability, a finance cost (calculated using the implicit interest rate) and the charges for services; the two latter elements should be charged in the operating cost statement.



The draft manual states that schemes which do not fall within IFRIC 12 are deemed to be 'off-balance sheet'. Where a board has contributed assets, a prepayment for their fair value should be recognised and amortised over the life of the PFI contract by a charge to the operating cost statement. Where, at the end of the PFI contract, a property reverts to the board, the difference between the expected fair value of the residual and any agreed payment should be built up on the balance sheet over the life of the contract by capitalising part of the unitary charge each year.

Accounting policies – operating segments

The draft manual notes that operating segments are unlikely to directly relate to the analysis of expenditure shown in the notes, the basis of which relates to Scottish Government funding streams and the classification of which varies depending on Scottish Government reporting requirements.

Accounting policies – estimation uncertainty

There is also a requirement for boards to disclose in the notes information about the key assumptions, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to carrying amounts within the next financial year. In respect of those items, boards are required to disclose details of the

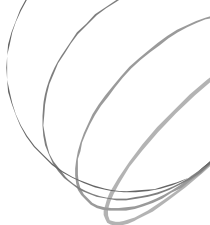
- nature of the assumption or other estimation uncertainty
- sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity
- expected resolution of an uncertainty and the range of possible outcomes within the next financial year in respect of the carrying amounts affected
- explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.

Boards are also required to disclose the judgements that management has made in the process of applying the accounting policies that have the most significant effect on the amounts recognised in the accounts.

Accounting policies – other changes

Other changes to note 1 are in respect of

- the new disclosure note 30 which is required for the first time adoption of IFRS
- the requirement to present property, plant and equipment at fair value

- 
- separating the land component of a lease from the building component and assessing the classification for each separately. Leased land should be treated as an operating lease unless title of the land is expected to transfer.
 - The cost of annual leave and flexible working time entitlement earned but not taken by employees at the end of the year should be recognised in the accounts to the extent that employees are permitted to carry-forward leave into the following year.

Operating costs

Note 3 on other operating costs states that there is no distinction between an impairment arising from a loss of economic benefits and other impairments. All impairments are charged initially to the revaluation reserve, to the extent that there is an available balance for that asset, and only thereafter to operating cost statement if necessary. In addition, lines have been added to the note for

- any loss on re-measuring assets held for sale to the lower of adjusted carrying value and fair value less costs to sell
- non-audit fees payable to the external auditor.

The analysis by service category has been removed from note 4 on hospital and community health services as it is no longer considered meaningful.

Intangible assets

A column has been added to note 10 on intangible assets to record movements in information technology software. This relates to software developed in-house or by third parties (other than software licences which are disclosed separately) which is not integral to the related hardware (e.g. application software). It therefore does not include operating system software which should be included at note 11. A full prior year comparator note has also been added.

Property, plant and equipment

Land is now separately disclosed from buildings in notes 11(a) and 11(b). There are also additional lines to record the transfers to and from non-current assets held for sale and the reversal of impairments. There is also a new requirement for the following narrative disclosure in note 11(d) where an impairment has been recognised

- The amount of impairment losses, and any reversals, recognised in the operating cost statement, and the line item in the income statement in which the losses are included.
- The amount of impairment losses on revalued assets recognised directly in reserves in the year, and any reversals.



A full prior year comparator note has also been added.

Provisions

Note 17 on provisions includes an additional disclosure for the unwinding of discounts and analysis of the expected timing of outflows.

New notes

A number of new notes have been added, and they are summarised in the following paragraphs.

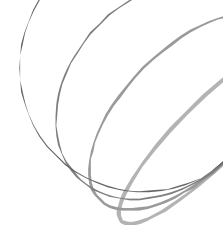
Note 29 is on non-current assets held for sale (see General chapter – TSU developments – Responses to enquiries – International financial reporting standards). In the year in which a non-current asset has been classified as held for sale or sold, the following should be disclosed

- a description of the asset or disposal group
- a description of the circumstances of the sale or those leading to an expected disposal, and the expected method and timing of the disposal
- any gain or loss recognised on initial classification and subsequent measurement following classification as non-current assets held for sale
- the segment that the non-current asset is part of
- an analysis of the movement in the non-current assets held for sale balance during the period.

Note 30 is only required for 2009/10 and provides details on the first time adoption of IFRS. It requires a reconciliation to be disclosed between

- taxpayers' equity as at the date to transition to IFRS (1 April 2008) under UK GAAP and restated taxpayers' equity at 1 April 2008
- taxpayers' equity as at 31 March 2009 under UK GAAP and restated taxpayers' equity at 1 April 2009
- its net operating cost for the year 2008/09 reported under UK GAAP and as reported under IFRS
- its cash flows for the year 2008/09 reported under UK GAAP and as reported under IFRS. In practice, this should relate only to cash equivalents (short-term deposits).

An explanation of the adjustments made on transition to IFRS should also be provided.



Note 31 is on related party transactions. For the purposes of the 2008/09 IFRS shadow accounts, the disclosures provided under UK GAAP in the directors report in respect of related parties should be presented in this note. However, this may change for the 2009/10 IFRS accounts to comply with IAS 24.

Note 32 requires boards to provide information on their operating segments, including net operating costs and total assets by operating segment.

Auditor action

Auditors should confirm that their boards are aware of this guidance and consider the implications for the audit of the 2008/09 IFRS shadow accounts.

Draft 2009/10 capital accounting manual

The SGHD has issued the draft *Capital accounting manual* (the CAM) for 2009/10 which interprets the accounting guidance contained in the iFReM in respect of capital accounting transactions in the NHS.

This edition of the manual incorporates revisions required as a result of the application of IFRS. Similar to the draft accounts manual, it should be used for the preparation of the 2008/09 IFRS-based shadow accounts. The changes to the manual from the previous year are extensive, and the most significant are briefly summarised in the following paragraphs.

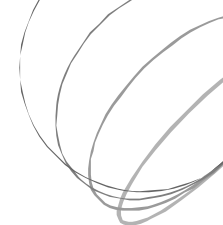
The terminology used has been amended to be IFRS compliant. For example, the manual reflects that property, plant and equipment is the new title for tangible fixed assets.

The subsequent measurement of assets is now based on fair value which may differ from previous methods of valuation although existing use values are expected to be broadly similar to open market value. The revaluation reserve may not hold any negative balances for assets where their valuation has fallen below their historic cost.

Accelerated depreciation will no longer be applied to write down the values of specialised assets. Any fall in the value of an asset resulting from it being declared surplus should be recognised as an impairment to the extent that the specialised value is foregone. This will effectively amount to recognising the accelerated depreciation immediately. Any impairment must be charged to the revaluation reserve to exhaust any credit balance held for that asset.

A government grant reserve has been included for assets funded from specific grant. The EU emissions allowances are likely to be the only asset included here.

The draft manual reflects that accounting for PFI/PPP projects should be considered under IFRIC 12 guidance for service concession arrangements or IAS 17 for leases. The reason the manual remains in



draft is because further clarification is required relating to the fair value at which PFI assets are initially recognised.

Auditors should confirm that their boards are aware of this guidance and consider the implications for the audit of the 2008/09 IFRS shadow accounts.

Other developments

The documents referred to in the following articles are available free of charge by using the hyperlinks, or can be downloaded by auditors from the TSU intranet/extranet

National agenda/direction

Health board elections

[*The Health Board \(Membership and Elections\)\(Scotland\) Act 2009*](#) has changed the constitution of health boards by introducing a system whereby a proportion of the membership will be made of elected members. The total number of elected members and councillors of a health board should be more than half the total number of members.

Health board elections will be on a fixed four year cycle. Each board area will comprise a single electoral ward unless regulations specify otherwise. Individuals will be entitled to vote if they are aged 16 or over and included in the register of local government electors at an address in the health board area.

The Act provides for the elections to be introduced by order on a pilot basis. [*The Health Boards \(Membership and Elections\)\(Scotland\) Act 2009 \(Commencement No 1\) Order 2009*](#) appoints the 24 June 2009 as the day when the Act comes into force for Fife and Dumfries and Galloway Health Boards for the purpose of piloting elections. [*The Health Boards \(Membership\)\(Scotland\) Regulations 2009*](#) specify the following numbers of members in the two pilots

- Fife Health Board will have 12 appointed members, one councillor member and 12 elected members.
- Dumfries and Galloway Health Board will have ten appointed members, one councillor member and ten elected members.

Scottish Ministers are required to publish an evaluation report on the pilot scheme elections. Following that report, the Act provides for Ministers to roll out the scheme by order.



Pay modernisation and workforce planning

Recruitment of consultants

The SGHD issued [CEL\(2009\)25](#) to explain the revised process for the recruitment of consultants which comes into effect for posts advertised on or after 1 July 2009. The revised process entails reduced levels of regulation and is owned and determined by the recruiting board. It allows boards to draw on a range of assessment methods to tailor the recruitment process to the specific requirements of the post.

However, the following elements of the process are still subject to regulation and remain under statutory control

- the inclusion of an external advisor
- the requirement for, and composition of, an assessment panel
- the delegation of authority to make appointments to the Chair.

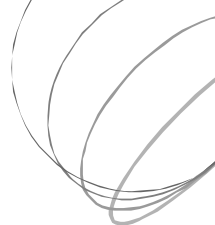
The Academy of Medical Royal Colleges and Faculties in Scotland will develop and manage a list of external advisors. To support the transition, boards are requested to inform the Academy of posts they are planning to recruit over the coming months.

Workforce forecasts

[CEL\(2009\)28](#) provides guidance on the process to be used by boards to forecast medical workforce requirements for the period 2009 to 2014 to replace the projections used in previous planning cycles.

The Scottish Government policy to reduce the reliance on doctors-in training for front-line service delivery requires a clear understanding of likely expansions in career-grade doctors and consequent reductions in junior doctors' numbers and availability. Boards have therefore been asked to identify future medical workforce requirements including the impact of service configuration, clinical activity and the likely reduction in junior doctor numbers. The estimations made by boards will be used to model changes over the next five years.

The reduction in the number of doctors in training is based upon the latest modernising medical career projections of an oversupply in most specialties. The reduction in the number of junior doctors in training will be around 25%, while the reduction in middle grade doctors in training will be around 40%. These changes will result in increases in specialty and consultant doctor grades to fill this gap. To provide clarity on the change in junior doctor numbers over the five year planning period, the Health Workforce Directorate will recommend the numbers of new entrants to training programmes.



GP access survey

The Scottish Government has issued a [GP access survey: results and methodology](#) report which contains the detailed findings from the Scottish GP access survey for 2008/09, including analysis of the results and response rates by GP practice. The survey asked patients about their experience of arranging to see their GP. It was sent to a random sample taken from the lists of patients registered with each GP practice in Scotland and the response rate was 50%. The key findings of the survey included

- 90% of patients could access their GP practice within 48 hours.
- 75% of patients could book an advance appointment.
- Two thirds of GP practices had more than 90% of their patients able to obtain access within 48 hours.
- Almost 40% of practices had over 90% of patients reporting that they could book appointments in advance.

The results from the survey have been used to calculate payments to GP practices as part of the quality and outcomes framework (QOF) payments.

Auditors should confirm that their boards have reviewed the survey results as part of their verification of the QOF payments to GP practices.

One year job guarantee for nurses

The Scottish Government has issued a [One year job guarantee for nurses and midwives](#) leaflet which describes the procedure in place to ensure that every newly qualified nurse and midwife receives an offer of employment.

All newly qualified nurses and midwives with a date of registration between 1 September 2009 and 31 August 2010 are eligible to join this national scheme. They are expected to have applied for jobs during the last three months of training and may be asked to provide evidence of this. To join the national scheme they should contact NHS Education for Scotland to obtain contact information for vacancies. Boards are expected, as much as possible, to take appropriate steps to fill suitable vacancies with newly qualified nurses and midwives.

Newly qualified nurses employed in primary care posts will undertake the standard development programme, but will also be supported through a mentorship programme. It is anticipated that there will be increasing opportunities for new nurses within primary care.



Payment verification protocols

The SGHD has issued [CEL\(2009\)32](#) which announces updated payment verification procedures for the following three family health service payment streams

- [primary medical services](#)
- [general dental services](#)
- [pharmaceutical services](#).

The procedures for general ophthalmic services have not changed.

Where a family health service practitioner refuses to co-operate in the payment verification process, they may be in breach of contract or terms of service and boards are required to take appropriate action. Where a concern relating to a potential fraud arises, a tri-partite meeting between Practitioner Services, the NHS Board and Counter Fraud Services should take place within two weeks.

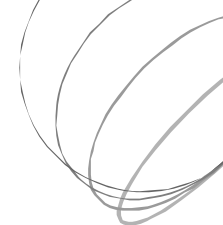
Pandemic flu guidance

The SGHD issued [Pandemic flu – guidance on health workforce issues for NHSScotland boards](#) which provides details of the workforce issues that may arise in a pandemic and gives an overall framework for boards to supplement local plans. The guidance applies with immediate effect and highlights the issues to be considered before, during and after a pandemic.

In preparation for a pandemic, boards are recommended to gather or update the information they hold on staff, including contact details, dependants, skills, and travel arrangements. Boards are also required to identify workforce issues for any contractors providing essential services and ensure that adequate contingency plans are in place.

To cover for absence due to infection, caring responsibilities or transport problems, boards may need to consider internal redeployment, bank staff, sharing staff between NHS organisations and other partners, and volunteers. Each of these options will present issues for boards to ensure they comply with their legal obligations. NHS terms and conditions will remain, however it may be necessary to take a flexible approach at a local level.

The *Working Time Regulations 1998* will also remain in force. Although, some aspects potentially do not apply in exceptional circumstances, boards would still have to demonstrate that they tried to comply with the regulations. It may be necessary to ask individual staff to waive their right to work no more than 48 hours a week. This opt out should be for the duration of the pandemic and be obtained in writing. After a pandemic, staff who have worked beyond contracted hours should be offered compensatory leave where



appropriate. The provisions of the working time regulations would need to be reinstated and any opt outs rescinded.

2009/10 pharmacy remuneration arrangements

The SGHD issued two letters relating to the remuneration arrangements for community pharmacists in 2009/10.

[PCA\(P\)\(2009\)10](#) advises boards on the reimbursement arrangements under the minor ailment service (MAS). Items prescribed under the MAS have been rejected by the Practitioner Services Division (PSD) pricing system because they are outwith the scope of MAS, not counted as medicines or allowable devices, or are contained in the NHS blacklist. The circular advises community pharmacies to not prescribe such items.

Other items have been rejected because they are incorrectly described on the claim form. However, in some cases the legal status of a drug changes with pack sizes. A separate table has therefore been introduced into the drug tariff which is intended to overcome problems when generic titles are used as well as setting a price in common for the products listed.

[PCA\(P\)\(2009\)9](#) amends the drug tariff in respect of the ePharmacy chronic medication service (eCMS) installation incentive payment. Previous guidance advised that a one-off payment to contractors would be made following the successful installation and operation of the required software. The payment was to be made on receipt by the board of written confirmation that the software had been successfully loaded by the contractor. As an additional requirement, the contractor is now required to send an electronic message to the PSD message store using the software. The deadline for claims is 31 March 2010.

The letter also includes a summary of the infrastructure support payments available to contractors.

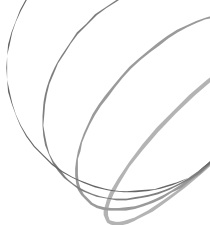
International financial reporting standards

Guidance on 2008/09 shadow accounts

As advisors to the NHS in Scotland on the IFRS transition project, PricewaterhouseCoopers (PwC) issued two documents to assist boards in preparing IFRS shadow accounts for 2008/09.

The first is a letter setting out the key actions and deadlines to deliver an IFRS compliant set of accounts. These include, for all high risk impact areas identified in Phase 1

- identifying and defining the information needed for IFRS financial reporting
- assessing the options and choices of accounting policy

- 
- liaising with external auditors to agree accounting policies and required information for the audit process.

A *Key things to consider for IFRS shadow accounts* checklist was also issued by PWC highlighting issues for consideration in the preparation of the shadow accounts. The actions set out in the checklist include requiring that management should

- consider whether any assets held within property, plant and equipment include components that have a significant cost compared to the total cost of the asset and if so should depreciate them over their individual useful lives
- identify whether any assets meet the criteria to be classified as non-current assets held for sale during 2008/09, re-measure accordingly, and present this amount separately on the face of the balance sheet. Depreciation from the date that the asset was classified as a non-current asset held for sale should be unwound
- review any de-capitalised intangible assets in accordance with the requirements of the revised Scottish Government application note. The revised application note emphasises the criteria of identifiability, control, and future economic benefits. For non-cash generating data assets, such as the content of a database, the term 'future economic benefit' should be interpreted as 'future service potential'. For other assets such as internally generated software, this term should be interpreted as contributing to future cost savings
- identify any new lease agreements that have been entered into during the year and using the guidance in IAS 17 decide on the treatment as a finance or operating lease. Any leases assessed as a finance lease should be accounted for in accordance with IAS 17
- discuss the approach taken to the calculation of the accrual for untaken leave with external audit as soon as possible if this has not already been agreed
- identify balances that were disclosed in deferred income under UK GAAP that need to be reclassified to the government grant reserve.

Auditors should liaise with their boards to ensure that arrangements are in place to deliver draft accounts and supporting papers by the deadline.

Budgetary information requests

The SGHD issued two letters requesting budgetary and funding information from boards arising from the transition to IFRS.



The first letter requests information on the required PPP/PFI budgetary adjustments, and advises that there will be dual reporting for budgeting purposes of PPP/PFI projects that are on balance sheet. PFI transactions will be scored against Treasury budgets according to how they are classified by the *European System of Accounts 1995* (ESA95). This classification may be the same as under UK GAAP but is likely to differ from the accounting treatment under IFRS.

The SGHD propose to present budgets to the Scottish Parliament in line with the treatment of the expenditure in the accounts. This will require adjustments to the budgets where the treatment of PFI transactions differ between IFRS and ESA95. To forecast the budgetary adjustments, information on existing projects and those in the pipeline will be required from boards from 2009/10. A spreadsheet to be populated by boards using the model adopted to determine the impact of IFRS is attached to the letter.

The second letter requests information from boards to advise the SGHD funding requirement to cover NHS impairments and accelerated depreciation. The SGHD require robust forecasts to secure the necessary funding for these items that is deductible from the charge against board's revenue resource limits. Boards are required to complete the template attached to the letter to provide projected capital charges, impairments and accelerated depreciation on a UK GAAP basis covering the five years from 2009/10. This information will assist the IFRS budget conversion.

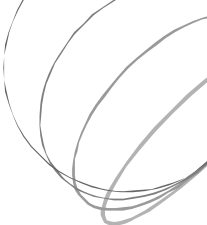
The letter also notes that the cost of capital charge may be removed from 2010/11.

Family health services

2009/10 statement of financial entitlements

The SGHD issued [PCA\(M\)\(2009\)10](#) to provide details of the statement of financial entitlements (SFEs) for GPs providing services under a general medical services (GMS) contract for 2009/10. The amendments compared with the previous version include the following

- The calculation of the global sum is amended to implement the methodology for applying the Doctors and Dentists Review Body (DDRB) recommendations on remuneration for 2009/10. The correction factor for the minimum practice income guarantee has been amended for 2009/10 and subsequent years
- The QOF clinical domain has increased from 19 to 20 clinical areas to include cardiovascular disease – primary prevention.
- The QOF patient experience domain includes a new indicator for the length of patient consultations. The methodology for calculating the number of points earned is based on the achievement of relevant outcomes.

- 
- Where a practice does not participate in the national patient experience survey or the survey does not generate results for the contractor they are not entitled to any points in respect of that indicator.
 - The methodology for calculating the temporary patients' adjustment has been amended. Where a practice has claimed an adjustment in the previous year, this year's payment will be based on that adjustment. Where no payment has previously been claimed the health board is required to determine a reasonable adjustment.

NHS eye examination

[PCA\(O\)\(2009\)4](#) advises boards of a delay in the implementation of proposed changes to the NHS eye examination. The three year fee agreement for optometrists/ophthalmic practitioners provides that, with effect from 1 October 2009, NHS primary eye examinations should be undertaken within agreed timescales, with all other examinations within this timescale being treated as supplementary examinations. The changes cannot now be implemented from that date. Further information about the changes and the revised effective date will be issued in due course.

The letter also advises that

- second opinions following a primary eye examination elsewhere should not be provided free of charge under NHS arrangements
- the income threshold for persons entitled to a voucher towards the cost of glasses/contact lenses has increased from £15,050 to £15,276 with effect from 6 April 2009.

Legislation

The following items of legislation are available free of charge by using the hyperlinks, or can be downloaded by auditors from the TSU intranet/extranet.

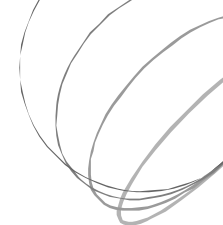
Acts

[Health Board \(Membership and Elections\)\(Scotland\) Act 2009](#). See Other developments – National agenda/direction – Health board elections.

Statutory instruments

National health service

[The Health Boards \(Membership and Elections\)\(Scotland\) Act 2009 \(Commencement No 1\) Order 2009 SSI 242](#). See Other developments – National agenda/direction – Health board elections.



[*The National Health Service \(Optical Charges and Payments\)\(Scotland\) Amendment \(No 2\) Regulations 2009*](#), SSI 288 came into force on 7 August 2009 and amended the principal 1998 regulations to introduce an additional category of person eligible for NHS vouchers. A person from a family where one member is receiving working tax credit and child tax credit or a disability element with an income between £15,050 and £15,276 will be eligible for NHS optical vouchers on or after 6 April 2009.

[*The Health Boards \(Membership\)\(Scotland\) Regulations 2009*](#), SSI 302 came into force on 12 October 2009. See Other developments – National agenda/direction – Health board elections.

[*The National Health Service \(Discipline Committees\)\(Scotland\) Amendment Regulations 2009*](#), SSI 308 came into force on 30 September 2009 and amends the 2006 regulations to increase the term of office of any member of a disciplinary committee from one to three years. The period a health board has to notify a practitioner of their referral to a committee has also been increased from two to five working days.

Public health

[*The Public Health etc \(Scotland\) Act 2008 Designation of Competent Persons Regulations 2009*](#), SSI 309 came into force on 1 October 2009 and provide that each health board must designate a sufficient number of competent persons for the purpose of specified public health functions under the Act. The regulations set out the criteria, qualifications and experience required to be a competent person in terms of the Act.

Key circulars

The following is a brief summary of significant circulars issued since the last TB that auditors' attention is particularly drawn to. They are available free of charge by using the hyperlinks, or can be downloaded by auditors from the TSU intranet/extranet.

Chief executive letters (CEL)

[*CEL\(2009\)25 The National Health Service \(Appointment of Consultants\)\(Scotland\) Regulations 2009*](#). See Other developments – Pay modernisation and workforce planning – Recruitment of consultants.

[*CEL\(2009\)28 Reshaping the medical workforce guidance on projecting future medical requirements within clinical workforce 2009/14*](#). See Other developments – Pay modernisation and workforce planning – Workforce forecasts.

[*CEL\(2009\)32 Payment verification protocol*](#). See Other developments – Pay modernisation and workforce planning – Payment verification protocols.



PCA

[PCA\(2009\)\(O\)4](#) *General ophthalmic services*. See Other developments – Family health services – NHS eye examination.

[PCA\(2009\)\(P\)9](#) *Community pharmacy arrangements: Claim arrangements for eCMS element of infrastructure support payments*. See Other developments – Pay modernisation and workforce planning – 2009/10 pharmacy remuneration arrangements.

[PCA\(2009\)\(P\)10](#) *Additional pharmaceutical services: Minor ailment service items eligible for reimbursement*. See Other developments – Pay modernisation and workforce planning – 2009/10 pharmacy remuneration arrangements.

[PCA\(M\)\(2009\)10](#) *General medical services statement of financial entitlements for 2009/10*. See Other developments – Family health services – 2009/10 statement of financial entitlement.

Dear colleague letters

Dear colleague letter IFRS PPP/PFI budgetary conversion for 2009/10. See Other developments – International financial reporting standards – Budgetary information request.

Dear colleague letter Annually managed expenditure – impairments and accelerated depreciation See Other developments – Internal financial reporting standards – Budgetary information request.

Auditor action

The following is a summary of items in this chapter of the TB that include specific recommendations or requests that auditors take specific actions

Section	Action
TSU developments – Responses to enquiries – International financial reporting standards	Auditors should confirm that their boards have assessed their internal reporting and identified appropriate segments for reporting in the financial statements.
TSU developments – Other guidance – 2008/09 IFRS-based shadow accounts	Auditors should ensure they pay due regard to TSU guidance when reviewing the 2008/09 IFRS-based shadow accounts. Auditors are requested to send a copy of the letters setting out their findings to the TSU.



Section	Action
Accounting developments – Draft 2009/10 annual accounts manual	Auditors should confirm that their boards are aware of this guidance and consider the implications for the audit of the 2008/09 IFRS shadow accounts.
Accounting developments – Draft 2009/10 capital accounting manual	Auditors should confirm that their boards are aware of this guidance and consider the implications for the audit of the 2008/09 IFRS shadow accounts.
Other developments – Pay modernisation and workforce planning – GP access survey results	Auditors should confirm that their boards have reviewed the survey results as part of their verification of the QOF payments to GP practices.
Other developments – International financial reporting standards – Guidance on 2008/09 shadow accounts	Auditors should liaise with their boards to ensure that arrangements are in place to deliver draft accounts and supporting papers by the deadline.



Central government

This chapter contains articles on central government technical matters and should be read by auditors with appointments in that sector. The general chapter contains articles on cross-sectoral technical matters.

The documents referred to in the articles that are available from websites can be obtained by using the hyperlinks. They can also be downloaded by auditors from the TSU intranet/extranet.

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note that the following articles in this chapter relate to 2009/10

- TSU guidance on 2008/09 IFRS-based shadow accounts
- revised IFRS application notes
- changes to SPFM chapters on disposal of property and contingent liabilities
- guidance on pension discount rate
- guidance on comparative information
- proposed amendments to FReM
- revised accountable officer memoranda
- IFRS-based disclosure guide.

There are also articles on proposed amendments to 2010/11 and 2011/12 FReM.

TSU developments

Other guidance

2008/09 IFRS-based shadow accounts

Central government bodies are required to prepare shadow IFRS-based accounts for 2008/09. This requires the accounts for 2008/09, which have been prepared under UK GAAP basis, to be converted to an IFRS basis and passed to external auditors for review. The dates for submission for audit are

- 30 September 2009 for the Scottish Government core
- 30 September 2009 for agencies
- 30 November 2009 for non-departmental public bodies (NDPBs)

- 
- 29 January 2010 for Scottish Government consolidated accounts.

Auditors are required to review the shadow accounts and report to their audited bodies in a letter any matters that might prevent the figures being used as comparative amounts in the first set of IFRS-based accounts for 2009/10. This review of the shadow accounts does not constitute a full audit. The formal audit opinion will be given on the first full set of IFRS based accounts for 2009/10. As part of the review of the shadow accounts, auditors should

- examine the accounting policy changes made to meet IFRS requirements and assess whether all the changes in policy required by IFRS have been made
- examine high risk items (e.g. fixed asset values; leases; PFI; intangible assets; the untaken annual leave accrual; and segmental reporting) and assess whether sufficient evidence has been provided to support either no change or the new treatment
- for each change in accounting treatment, examining the reconciliation from UK GAAP to IFRS, on a sample basis where appropriate
- confirm that all required disclosures have been made.

The review procedures carried out should be included in the letter to the body, as well as the areas examined. The letter should also list the errors found; it is the responsibility of the body to adjust the shadow accounts based on the findings from this review. Auditors should also report the areas where further work is required to enable the body to produce IFRS based accounts in 2009/10. The audit deadlines are as follows

- 11 December 2009 for agencies
- 28 February 2010 for NDPBs
- 28 February 2010 for Scottish Government consolidated (a separate letter is not required for the core accounts).

Auditors are requested to send a copy of their letters to the TSU.

Audit Scotland has provided auditors with a suggested template that sets out the information that should be included in such a report which is consistent with this guidance.

Auditors should ensure they pay due regard to this guidance when reviewing the 2008/09 shadow accounts.



Accounting developments

The documents referred to in the following articles can be obtained free of charge by using the hyperlinks or downloaded by auditors from the TSU intranet/extranet.

Revised IFRS application notes

The Scottish Government has issued revised application notes to provide guidance on the implementation of IFRS from 2009/10, including 2008/09 shadow accounts. There are no substantive changes compared with the previous versions as the changes are mainly intended to refine or clarify some aspects of the notes. However, auditors' attention is drawn to the following points.

The application note on employee benefits now states that those bodies that are unable to access a report that will provide a breakdown of holiday entitlement and flexitime may want to consider whether the extrapolation of data from a representative sample of staff within the organisation would be acceptable. It suggests the early agreement of the methodology with external audit.

The application note on intangible assets has been updated to reflect revisions to the 2009/10 FReM. The FReM originally stated that internally generated intangible assets should only be recognised where they make a direct contribution to the delivery of services to the public. This meant that virtually all IT assets that were previously capitalised would require to be written off. This paragraph has been removed from the FReM and the note reflects this removal.

Changes to SPFM

The [Scottish public finance manual](#) (SPFM) has been amended as a result of adopting IFRS.

Disposal of property

The section on disposal of tangible fixed assets has been re-titled [Disposal of property, plant and equipment](#). Terminology has been updated and guidance provided on the requirement to disclose any non-current assets classified as being held for sale at the balance sheet date as current assets (see General chapter – TSU developments – Responses to enquiries – International financial reporting standards).

Contingent liabilities

The section on [Contingent liabilities](#) has been revised to address the budgetary and accounting impact of any letter of comfort that could be deemed to constitute a financial guarantee.

A financial guarantee is a contract that requires the issuer (e.g. the Scottish Government) to make a specified payment to reimburse the holder (e.g. a bank) for a loss it incurs because a specified debtor (e.g.



a public body) fails to make payment in accordance with the terms of a debt instrument. These contracts can take various legal forms, including a guarantee, letters of credit, or a credit insurance contract.

The section requires that, where active consideration is being given to providing a letter of comfort etc, the relevant portfolio finance team be engaged to advise on whether the arrangement constitutes a financial guarantee contract and, if so, the accounting and budgetary implications.

Guidance on pension discount rates

Treasury has issued a paper called *Guidance on managing the change in the discount rate for pension liabilities* which announces the change in the discount rate from 31 March 2009 and provides departments and pension schemes with guidance on how the impact will be managed in departmental budgets.

The discount rate for pension liabilities will change from 2.5% real to 3.2% real. This will affect the accounting arrangements for bodies that recognise a pension liability on their balance sheets as follows

- The pension liability at 31 March 2009 will be discounted at the new rate, resulting in a decrease in the value of the pension liability shown on the balance sheet. The change in the value of the pension liability will be reflected through reserves (statement of recognised gains and losses) and will not affect the revenue accounts for 2008/09
- There will be an increase in the interest charge to revenue in following years as a result of a lower level of discount being unwound even though applied to a lower starting liability figure
- There will also be a lower current service cost for 2009/10 and following years.

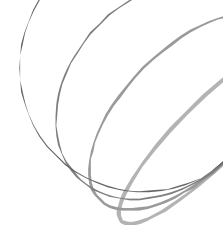
Guidance on 2009/10 comparative information

Treasury has issued a letter which clarifies the comparative information required for the 2009/10 IFRS-based accounts.

IAS 1 Presentation of financial statements requires entities to prepare two statements of financial position, except where applying an accounting policy retrospectively or when retrospectively restating or reclassifying items in its financial statements when three are required. In addition, notes are required for all three statements. *IFRS 1 First time adoption of international reporting standards* requires an entity's first IFRS financial statements to include at least three statements of financial position.

On first time adoption of IFRS, central government bodies are therefore required to present at least three statements of financial position, i.e. for the financial years ending 31 March 2010, 31 March 2009 and as at 1 April 2008, with related notes for each one.

For notes that disclose opening and closing balances, the opening balances prepared for the 31 March 2009 year end may be used to support the opening balance in the 1 April 2008 statement of financial



position. Therefore, it will not be necessary to prepare such notes showing the movement between 1 April 2007 and 31 March 2008.

In addition, Treasury has issued [illustrative statements of financial position and notes](#) for the first time adoption of IFRS. The illustration includes a columnar presentation of the statements of financial position for 31 March 2010, 31 March 2009 and 1 April 2008 to be included in the 2009/10 IFRS-based financial statements. It also includes illustrative notes for balance sheet items.

Proposed amendments to 2009/10 FReM

The Treasury has issued [Exposure draft \(09\)04 Re-measurement of in use non-specialised property under IAS 16 Property plant and equipment](#) which contains a proposed change to FReM paragraph 6.2.5 from 2009/10.

IAS 16 Property plant and equipment does not provide clear guidance as to the valuation basis for in use non-specialised property assets. It is proposed that central government retains value in use as the basis for valuing non-specialised property and that this basis of valuation is later reviewed in light of the requirements of the IASB's fair value measurement standard, which is due to be issued in 2010.

Responses were required by 25 September 2009.

Proposed amendments to 2010/11 FReM

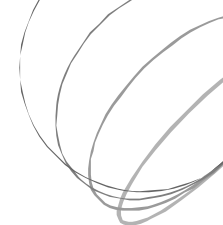
Treasury has issued two exposure drafts which contain proposed changes to the FReM from 2010/11.

[Exposure draft \(09\)03 Aligning budgets estimates and accounts - proposed FReM amendments for 2010/11 re cost of capital charges, impairments and trust accounts](#) contains proposed amendments to

- remove cost of capital charges from accounts
- require impairments of property, plant and equipment to be scored to the operating cost statement if they arise from a clear consumption of economic benefit, with a corresponding transfer from the revaluation reserve to the general fund
- require trust statements to be prepared and published for material amounts of revenue and associated expenditure collected as agent on behalf of the Consolidated Fund.

As a result of these proposals, there will be numerous changes to the FReM, mainly to amend references to cost of capital charges and to adapt IAS 36 regarding impairments.

In addition Chapter 13 *Revenue from taxes and duties* has been amended to encompass fines and penalties under a revised chapter heading *Accounting for consolidated fund revenue*.



Responses were required by 28 August 2009.

[Exposure draft \(09\)06 Heritage assets](#) contains proposed amendments to chapter 6 of the FReM in respect of heritage assets. As there is currently no standard on heritage assets under IFRS, the amendments are to reflect *FRS 30 Heritage assets* recently issued by the ASB. FRS 30 introduces significant new disclosure requirements for reporting heritage assets but retains current recognition and measurement requirements. It defines heritage assets as those assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held principally for their contribution to knowledge and culture. Proposed amendments to the FReM are summarised in the following paragraphs.

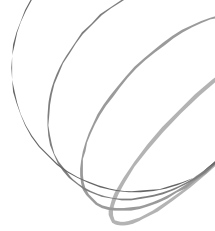
Where information is available on the cost or value of heritage assets, they should be presented in the balance sheet separately from other tangible assets. The balance sheet and notes should identify separately those classes of heritage assets being reported at cost and those at valuation. Where information on the cost or value is not available, the assets should not be recognised in the balance sheet.

Valuations may be made by any method that is appropriate and relevant, and there is no requirement for valuations to be carried out by external valuers. There is not any prescribed minimum period between valuations, but the carrying amount should be reviewed with sufficient frequency to ensure the valuations remain current. Depreciation is not required on heritage assets which have indefinite lives, but the carrying amount should be reviewed where there is evidence of impairment.

The disclosures required for heritage assets (whether they appear in the balance sheet or not) include

- an indication of the nature and scale of heritage assets held
- the entity's policy for the acquisition, preservation, management and disposal of heritage assets
- the accounting policies adopted, including details of the measurement bases
- a summary of transactions for the current period and previous four including: the cost of acquisitions; the value acquired by donation; the carrying amount of disposals and proceeds; and any impairment recognised. This summary should show separately transactions in assets that are reported in the balance sheet and those that are not.

In addition, for heritage assets reported in the balance sheet, the carrying amount at the beginning of the financial period and at the balance sheet date requires to be disclosed, including an analysis between those classes or groups of heritage assets that are reported at cost and those that are reported at valuation. Where assets are reported at valuation, sufficient information should be disclosed to assist in an understanding of the valuations e.g. the date of the valuation, and the methods used.



Where information on the cost or value of heritage assets is not available, the reasons why should be explained and the notes to the financial statements should explain the significance and nature of those assets.

Responses were required by 21 September 2009.

Proposed amendments to 2011/12 FReM

Treasury has issued the following two exposure drafts which contain proposed changes to the FReM from 2011/12.

[Exposure draft \(09\)05 Aligning budgets estimates and accounts - proposed FReM amendments for 2011/12 re the statement of parliamentary supply and changes to the departmental boundary](#) which contains proposed changes to

- align the format of the statement of parliamentary supply with the proposed aligned estimates format based on Parliament's authorisation of departmental budgetary control totals
- revise the departmental resource accounting boundary to include NDPBs.

As a result of the proposals, there will be numerous changes to the FReM, including changes to the formats of the statement of parliamentary supply and the operating cost statement.

Responses were required by 21 September 2009.

[Exposure draft \(09\)07 Sustainability reporting](#) contains proposed changes to the FReM in respect of sustainability reporting. The current edition of the FReM encourages the preparation of sustainability reports to complement the annual report and accounts. The exposure draft proposes making the inclusion of a sustainability report within annual reports mandatory from 2011/12, with a dry run from 2010/11. The report should reflect performance against sustainability targets for

- greenhouse gas emissions
- waste minimisation and management
- use of finite resources.

The exposure draft includes [draft guidance](#) on the reporting methodology and model to be adopted in preparing a sustainability report.

Responses should be sent to FReM.consultation@hm-treasury.gov.uk by 12 November 2009.



Corporate governance developments

The documents referred to in the following article can be obtained free of charge by using the hyperlinks or downloaded by auditors from the TSU intranet/extranet.

Revised Accountable Officer memoranda

The Scottish Government has issued updated memoranda determining the responsibilities of Accountable Officers. The memoranda are published as Annexes 1 & 2 to the section on [Accountability](#) in the SPFM.

The updates do not include any substantive changes to the responsibilities of Accountable Officers. The purpose of the updates is essentially to reflect the new governance structure in the core Scottish Government and to provide some clarification where possible on matters such as regularity and propriety and tendering advice to Ministers or governing bodies.

However, references to intervention by the Principal Accountable Officer or Portfolio Accountable Officers in circumstances where a written authority request is being considered have been deleted.

The main section on SPFM on accountability has also been updated to reflect the new governance structure and to describe better the framework of accountability.

Other developments

The documents referred to in the following article can be obtained free of charge by using the hyperlinks or downloaded by auditors from the TSU intranet/extranet.

International financial reporting standards

Disclosure guide

The [National Audit Office](#) (NAO) has issued its *Disclosure guide 2009 for all entities covered by the FReM* which is designed to help ensure that entities have prepared their 2009/10 accounts in the appropriate form and have complied with disclosure requirements.

While the guide is designed primarily for the NAO's internal use, it also applies to central government bodies in Scotland. It has been modified by Audit Scotland's Technical Services Unit (TSU) to reflect the different guidance and legislative situation in Scotland and the requirements of 2008/09 shadow IFRS accounts to help auditors in Scotland to use it.

Auditors may wish to use the checklist when auditing the 2008/09 shadow accounts. The unmodified guide is available as originally published by the NAO from their website or the modified version can be downloaded by auditors from the TSU intranet/extranet.



Key circulars

The following circulars are available free of charge by using the hyperlink, or can be downloaded by auditors from the TSU intranet/extranet.

Finance guidance notes

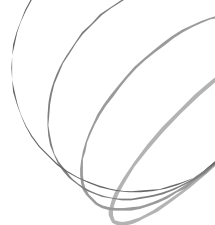
[FGN 2009/4 SPFM amendments](#) announces the following recent substantive amendments to the SPFM

- Amendments have been made to the sections on *Disposal of tangible fixed assets* and *Contingent liabilities* arising from the adoption of international financial reporting standards from 1 April 2009. See Accounting developments – Changes to SPFM.
- The section on [Public private partnerships](#) has been revised to reflect the Scottish Government's commitment to using the non-profit distributing public private partnership model. It also reflects changes in the basis of accounting for PPP arrangements from a risk allocation model (based on FRS 5) to a control based model.
- The section on [Local government finance](#) has been updated to reflect revised processes and procedures following the signing of the Concordat between the Scottish Government and COSLA.

[FGN 2009/5 Responsibilities of Accountable Officers](#) announces the publication of updated memoranda determining the responsibilities of Accountable Officers. See Corporate governance developments – Revised Accountable Officer memoranda.

[FGN 2009/6 SPFM amendments](#) announced the following further recent substantive amendments to the SPFM

- the section on [Acquisition of property](#) has been amended to remove the reference to the relocation policy that had a presumption against locating in Edinburgh. There is also now an emphasis on the need for a post appraisal evaluation to be carried out within six months of acquisition being completed
- the section on [Losses and special payments](#) has been revised to provide clarification on the circumstances in which an ex gratia payment might be appropriate. There must always be good public policy grounds for making such payments. This includes: out of court settlements where the pursuer has no legal case but the government wants to stop the litigation because it is costly in time and resources; payments as compensation for distress or loss arising from a perceived failure of the government but where there was no legal obligation to pay; or awarding a dismissed office holder a gratuity that went beyond any legal entitlement by virtue of their employment as a type of reward for going with good grace and minimum disruption of services.



- the section on [Non-salary rewards](#) now includes a requirement for the Scottish Government's Finance Pay Policy Team to be consulted prior to the implementation of any non-salary reward scheme to determine whether it will require approval under the public sector pay policy for staff pay remits or senior appointments.

Auditor action

The following is a summary of items in this chapter of the TB that include specific recommendations or requests that auditors take specific actions

Section	Action
TSU developments – Other guidance – 2008/09 IFRS-based shadow accounts	Auditors should ensure they pay due regard to TSU guidance when reviewing the 2008/09 IFRS-based shadow accounts. Auditors are requested to send a copy of the letters setting out their findings to the TSU.



Further education

This chapter contains articles on further education technical matters and should be read by auditors with appointments in that sector. The general chapter contains articles on cross-sectoral technical matters.

The documents referred to in the articles that are available from websites can be obtained by using the hyperlinks. They can also be downloaded by auditors from the TSU intranet/extranet.

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note that the following articles in this chapter relate to 2008/09

- TSU guidance on financial statements
- SFC guidance on financial statements
- Early retirement provision discount factor
- Model financial statements.

TSU developments

Publications

In addition to TBs, the TSU publishes other technical publications (i.e. notes for guidance, urgent issue notes and grant notes) to provide auditors with more in-depth guidance on specific matters. The following have been published by the TSU since TB 2009/2 and can be downloaded by auditors from the TSU intranet/extranet. They can be sent to other TB recipients on request.

Note for guidance on 2008/09 further education financial statements

The TSU has published *Note for guidance 2009/5(FE) 2008/09 further education financial statements* to provide auditors with guidance on certain risk areas that they should pay particular consideration to when auditing the 2008/09 financial statements.

Accounting developments

The document referred to in the following article can be obtained free of charge by using the hyperlink or downloaded by auditors from the TSU intranet/extranet.

Guidance on 2008/09 financial statements

The [Scottish Funding Council](#) has issued [Detailed notes for guidance on completion of 2008/09 financial statements](#) to supplement the accounts direction. The guidance covers key disclosures in the financial



statements, including model notes and a report on the accounting treatment of local government pension schemes. In certain cases, the additional disclosures are required to reflect the situation in Scotland.

Auditors' attention is drawn to the following changes since 2007/08

- Paragraph 27 has been added to highlight the requirement, where a tangible fixed asset comprises two or more major components with substantially different economic lives, to depreciate each component separately over its individual useful economic life.
- Paragraph 42 now contains an amended requirement in respect of earmarking funds for a particular purpose. Previous guidance was to show funds set aside in this way as a designated reserve with details given in the notes. Revised guidance is that such designations are considered to be an internal matter for each college and therefore should not be disclosed in the primary statements or notes to the accounts.
- The annex describing the accounting treatment of the different pension schemes no longer provides conclusions regarding whether the appropriate treatment is defined benefit or defined contribution.

2008/09 early retirement provision discount factor

The SFC has advised of the [net interest rate](#) that could be used when preparing the early retirement pension provision in 2008/09. It advises that an appropriate rate is 2.5%.

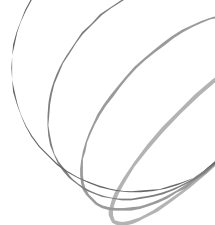
Auditors should confirm their colleges have used an appropriate discount rate when calculating their early retirement pension provision, and that there is reasonable justification if they have used a rate other than the one suggested by the SFC.

The SFC has also issued [pension tables](#) for the purposes of calculating the unfunded early retirement provision. The Government Actuaries Department updated the mortality tables which underpin the pension tables using assumptions which assume a greater level of longevity than the tables issued in previous years. As such, this may have a significant impact on the provision recognised by colleges.

The SFC has clarified that the use of the SFC methodology is not mandatory and that it is the responsibility of each college to decide on the assumptions to be adopted for FRS 17 purposes.

Colleges will in future be able to conduct in-year valuations of the liability using the revised net interest calculation included with the table that can be updated throughout the year which may remove some of the uncertainty.

Auditors should confirm that their colleges unfunded early retirement provision is a reasonable estimate of the liability at the year end.



2008/09 model financial statements

The SFC has issued [model statements](#) for colleges to use in the preparation of their 2008/09 financial statements.

Key circulars

The following circulars are available free of charge by using the hyperlinks, or can be downloaded by auditors from the TSU intranet/extranet.

[SFC/22/2009 Allocation of additional ESOL funding for colleges in academic year 2009/10](#) announces additional funding for increasing *English for speakers of other languages* in 2009/10.

[SFC/23/2009 College knowledge transfer grant 2009/10](#) sets out arrangements for knowledge exchange funding in 2009/10.

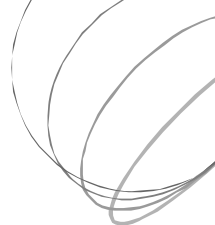
[SFC/24/2009 Economic downturn: additional funding for colleges for academic years 2009/10 and 2010/11 and additional information on funding to support PACE activities](#) announces additional funding in 2009/10 and 2010/11 to help colleges respond better during the economic downturn.

[SFC/25/2009 Educational maintenance allowance 2009/10](#) describes the education maintenance allowance programme for 2009/10.

[SFC/26/2009 Collection of college student activity data: 2008/09 data return and audit guidance, and 2009/10 SUMs guidance](#) asks colleges to provide their 2008/09 student activity data and provides audit guidance, and also announces publication of the guidance notes on the collection of 2009/10 student activity data.

[SFC/27/2009 Economic downturn: additional capital funding for colleges for financial year 2009/10](#) announces additional capital funding for 2009/10 to help colleges respond better during the economic downturn.

[SFC/28/2009 Student support funds: 2008/09 audit guidance](#) describes the guidance on the audit arrangements for 2008/09 student support funds.



Contact points

General comments regarding the TB's structure and contents, particularly suggestions for improvement, should be made to

Paul O'Brien, Senior Manager (Technical)
Tel: 0131 625 1795
E-mail: pobrien@audit-scotland.gov.uk

Specific enquiries or requests for further information relating to items contained in each chapter of this TB should be made to

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	Further education chapter Paul O'Brien

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21 September 2009

Technical bulletin

2009/4



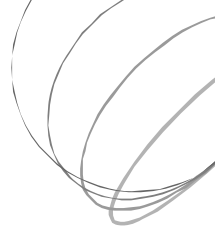
Published by the Technical Services Unit

December 2009



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Foreword

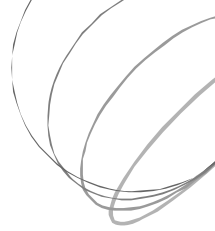
Technical bulletins (TBs) are published by Audit Scotland's Technical Services Unit (TSU) at quarterly intervals onto the TSU intranet/extranet. Their purpose is to summarise technical developments in the quarter for external auditors appointed by the Accounts Commission and Auditor General, and to provide auditors with guidance, where required.

TBs are also e-mailed to audited bodies in order that they may be aware of the guidance that has been issued to auditors. TBs should not be regarded as providing an exhaustive review of all matters relevant to audited bodies.

Audit Scotland makes no representation as to the completeness or accuracy of the contents of TBs or that legal or technical guidance is correct. Points of law, in particular, can ultimately be decided only by the Courts. Audit Scotland accepts no responsibility for any loss or damage caused as a result of any person relying upon anything contained in a TB.

In selecting items for TBs the bias is towards those which are of particular interest to external auditors, and TBs frequently recommend that auditors take, or consider taking, action in certain regards. A summary of these items is provided at the end of each chapter. It is important, therefore, that a mechanism is in place for senior audit staff to review the TB promptly and to ensure that steps are taken to consider such recommendations.

While auditors act independently of Audit Scotland, and are responsible for their own conclusions and opinions, consistency of opinions in similar circumstances is important and **it is expected therefore that auditors will normally follow all TSU guidance. Auditors should advise the TSU promptly if they disagree with, and may intend not to follow, any guidance issued on an important issue** (e.g. a matter that required consideration to be given to the qualification of the accounts of a number of audited bodies).



General

Introduction

This TB covers all the sectors within the Audit Scotland remit. This general chapter contains articles on cross-sectoral technical matters and should be read by all auditors. Matters that are relevant to only one sector are covered in the relevant sector-specific chapter.

The documents referred to in the articles that are available from websites can be obtained by using the hyperlinks. They can also be downloaded by auditors from the TSU intranet/extranet.

The TSU encourages any comments from auditors regarding the TB's structure and contents, particularly suggestions for improvement. Comments and suggestions should be sent to pobrien@audit-scotland.gov.uk.

Auditors may wish to note that the following articles in this chapter are of relevance to 2009/10 audits

- TSU note for guidance on accounting for PPP/PFI arrangements
- TSU guidance on operating lease incentives
- guidance on going concern
- new and revised UK auditing standards
- revised ethical standard on partner rotation
- revised practice note on auditing complex financial instruments
- guidance for audit committees on current economic conditions
- sustainable procurement action plan
- guidance for users of actuarial information.

There are articles in this chapter on the following subjects: new international accounting standard on financial instruments; revised international accounting standard on related parties; amended international accounting standard on rights issues; new international interpretation on extinguishing financial liabilities with equity instruments; amended international interpretation on minimum funding requirements; various revised UK accounting standards; proposed changes on international accounting standard on impairing



financial instruments; proposed amendment to international financial reporting standard on first time adoption; review of narrative reporting in UK companies; guidance for audit committees; consultation on provision of non-audit services; draft international assurance standard on greenhouse gas statements; proposed changes to combined code; consultation on financial management; consultation on role of chief internal auditors; the carbon reduction commitment scheme; report on pensions financial reporting; and consultation on Scottish charitable incorporated organisation.

TSU developments

Publications

In addition to TBs, the TSU publishes other technical publications (i.e. notes for guidance, urgent issue notes and grant notes) to provide auditors with more in-depth guidance on specific matters. The following has been published by the TSU since TB 2009/3 and can be downloaded by auditors from the TSU intranet/extranet. They can be sent to other TB recipients on request.

Note for guidance 2009/6 Accounting for PPP/PFI arrangements under IFRS

The TSU published note for guidance 2009/6 to provide guidance to auditors on the accounting arrangements for PPP/PFI arrangements under international financial reporting standards (IFRS) from 2009/10.

Responses to enquiries

The TSU operates a 'help-desk' for auditors which provides responses to ad hoc technical enquiries. Selected responses are added to the frequently asked questions section of the TSU intranet/extranet and include the following since the publication of TB 2009/3.

International financial reporting standards

How should an operating lease incentive be accounted for under IFRS?

A lessor may provide incentives for a lessee to enter into an agreement e.g. upfront cash payment or rent free periods. Under UK GAAP, *UITF abstract 28 Operating lease incentives* requires the body to recognise the lease incentive over the life of the lease or, where there are periodic reviews, until the next rental review date.

Under IFRS, *SIC 15 Operating lease - incentives* requires the incentive to be accounted for over the term of the lease, regardless of periodic reviews. This treatment represents a change in accounting policy from the date bodies adopt IFRS.



Auditors should confirm that their bodies have reviewed their lease agreements for incentives and are properly accounting for this change in accounting policy.

Accounting developments

The documents referred to in the following articles that are available electronically can be obtained by using the hyperlinks, or can be downloaded by auditors from the TSU intranet/extranet.

New international standard on financial instruments

The [International Accounting Standards Board](#) (IASB) has issued *IFRS 9 Financial instruments* on the classification and measurement of financial assets which applies for annual periods beginning on or after 1 January 2013 but early adoption is permitted. IFRS 9 is intended to enhance the ability of users of financial information to understand accounting for financial assets and reduce complexity.

The standard uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, which replaces the many different rules in *IAS 39 Financial instruments: recognition and measurement*. The new approach is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The standard includes examples of the application of that principle to particular financial assets. If, and only if, an entity's business model changes, it is required to reclassify affected financial assets.

Unquoted equity instruments (and derivatives over such instruments) require to be measured at fair value, although in limited circumstances cost may be an appropriate estimate of fair value. The standard contains guidance on when this may be the case. Also, an entity can elect on initial recognition to present the fair value changes on an equity investment that is not held for trading directly in other comprehensive income.

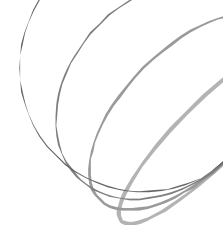
Financial liabilities are not currently in the scope of IFRS 9 but will be included in due course.

IFRS 9 can be ordered from the IASB website.

Revised international standard on related parties

The IASB has issued a revised version of *IAS 24 Related party disclosures* to simplify the disclosure requirements for government-related entities. The revised standard applies for periods beginning on or after 1 January 2011, although earlier application is permitted.

The revisions are in response to concerns that the previous disclosure requirements, and the definition of a 'related party', were too complex and difficult to apply in practice, especially in environments where government control is pervasive.



The revised standard addresses these concerns by providing a partial exemption for government-related entities. Under the previous standard, if a government controlled, or significantly influenced, an entity, the entity was required to disclose information about all transactions with other entities controlled, or significantly influenced, by the same government. The revised standard requires these disclosures only if they are individually or collectively significant.

The IASB has also simplified the definition of a related party and removed inconsistencies.

The revised standard can be ordered from the IASB website.

Amended international standard on rights issues

The IASB has issued *Classification of rights issues (Amendment to IAS 32)* which contains changes to *IAS 32 Financial instruments: presentation*. The amendment addresses the classification of instruments that give the holders the right to acquire an entity's own equity instruments at a fixed price (i.e. a rights issue) when that price is stated in a currency other than the entity's functional currency. It applies for periods beginning on or after 1 February 2010, but earlier application is permitted.

The amendment is concerned with a rights issue offered pro rata to all of an entity's existing shareholders on the exercise of which the entity will receive a fixed amount of cash for a fixed number of the entity's own equity instruments. Previously, such rights issues were accounted for as derivative liabilities. However, the amendment specifies that they should be classified as an equity instrument regardless of the currency in which the exercise price is denominated.

The amended standard can be ordered from the IASB website.

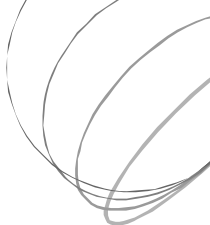
The ASB has published an [exposure draft](#) proposing parallel amendments to *FRS 25 (IAS 32) Financial instruments: Presentation*. Comments were required by 15 December 2009.

New international interpretation on extinguishing financial liabilities with equity instruments

The [International Financial Reporting Interpretations Committee](#) (IFRIC) has issued *IFRIC 19 Extinguishing financial liabilities with equity instruments* to provide guidance on how to account for the extinguishment of a financial liability by the issue of equity instruments. The interpretation is effective for annual periods beginning on or after 1 July 2010 with earlier application permitted.

The interpretation clarifies the following requirements when an entity renegotiates the terms of a financial liability with its creditor, and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability

- The entity's equity instruments are part of the consideration paid to extinguish the financial liability.

- 
- The equity instruments issued should be measured at their fair value. If this cannot be reliably measured, they should be measured to reflect the fair value of the financial liability extinguished.
 - The difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued should be included in the entity's profit or loss for the period.

The new interpretation can be ordered from the IASB website.

Amended international interpretation on minimum funding requirements

IFRIC has issued *Prepayments of a minimum funding requirement* as an amendment to *IFRIC 14 IAS 19 – Defined benefit assets, minimum funding requirements and their interaction* which applies when an entity makes an early payment of contributions to cover minimum employee benefit funding requirements.

The amendment permits the entity to treat the benefit of an early payment of contributions to cover minimum funding requirements as an asset. It applies from 1 January 2011, with early adoption permitted.

The amended interpretation can be ordered from the IASB website.

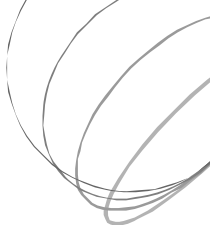
Revised UK standards

The [Accounting Standards Board](#) (ASB) has issued [Improvements to financial reporting standards 2009](#) which contains amendments to various financial reporting standards.

The most significant amendment is to strengthen the disclosure requirements of *FRS 11 Impairment of fixed assets and goodwill*. There is now a requirement that, if an impairment loss is measured by estimating the value in use or the net realisable value of a fixed asset, the key assumptions made in determining those estimated amounts should also be disclosed.

Other amendments include the following

- The scope of *FRS 20 Share-based payment* has changed so that it does not apply to common control transactions or the contribution of a business in the formation of a joint venture.
- *FRS 26 Financial instruments: recognition and measurement* has been amended to address treating loan prepayment penalties as closely related embedded derivatives, providing a scope exemption for business combination contracts and clarifying the operation of hedge accounting.

- 
- *UITF Abstract 42 Reassessment of embedded derivatives* clarifies that it does not apply to embedded derivatives in contracts within the scope of *FRS 6 Acquisitions and mergers* and *FRS 9 Associates and joint ventures*.

The amendments generally apply from periods beginning on or after 1 January 2010, with earlier application permitted.

Proposed changes to international standard on impairing financial instruments

The IASB has issued [Exposure draft – Financial instruments: Amortised cost and impairment](#) which proposes replacing the current amortised cost (including impairment) requirements in IAS 39 with an impairment model for financial assets based on ‘expected loss’.

The current model assumes that all loans will be repaid until evidence to the contrary (known as a loss or trigger event) is identified, and only at that point is the impaired loan written down to a lower value. The global financial crisis has led to criticism of this model for presenting an initial, over-optimistic assessment of no credit losses, only to be followed by a large adjustment once a trigger event occurs.

Under the proposals, expected losses are recognised throughout the life of the loan, and not just after a loss event has been identified. A provision against credit losses would be built up over the life of the financial asset. The draft proposes defining the objective of amortised cost measurement in IAS 39 as providing information about the effective return on a financial asset or financial liability by allocating interest revenue or interest expense over the expected life of the financial instrument. This objective would be underpinned by the following measurement principles that would apply to both fixed rate and variable rate instruments

- Amortised cost should be calculated using the effective interest method.
- The estimates of the cash flows are expected values at each measurement date.
- The effective interest method is the allocation mechanism for interest revenue and interest expense.

The proposed measurement approach would require an entity to take into account the initial estimate of expected credit losses when calculating amortised cost and allocate that amount over the expected life of a financial asset. The proposed presentation requirements reflect that approach and are designed to provide transparency about the different factors that affect interest revenue, interest expense and cash flow estimates. There are also extensive proposed disclosure requirements that would provide investors with an understanding of the loss estimates that an entity has judged necessary.



Comments should be sent via the IASB website by 30 June 2010. The IASB plan to issue a standard in 2010 that would become mandatory about 3 years later with early application permitted.

Proposed amendment to international standard on first time adoption

The IASB has issued [Exposure draft - Limited exemption from comparative IFRS 7 disclosures for first-time adopters \(proposed amendment to IFRS 1\)](#) which proposes amending the transition provisions in *IFRS 1 First time adoption of international financial reporting standards* to make them consistent with the transition provisions in *IFRS 7 Financial Instruments: Disclosures*.

IFRS 7 provides that, in the first year of application, an entity need not provide comparative information for the disclosures required by the recent amendments to that standard. IFRS 1 would be amended so that the same transition provisions would be applicable to the extent that an entity's first IFRS reporting period starts earlier than 1 January 2010.

Comments should be made via the IASB website by 29 December 2009.

Guidance on going concern

The [Financial Reporting Council](#) has issued [Going concern and liquidity risk: Guidance for directors of UK companies 2009](#) which provides updated guidance for directors to assist them with their assessment of going concern for accounting periods ending on or after 31 December 2009.

Directors are required to satisfy themselves that it is reasonable to prepare financial statements on a going concern basis. This involves reaching a conclusion based on the specific facts and circumstances that exist at the date the financial statements are approved. However, accounting standards provide little guidance about the process that should be undertaken or how to link together the various disclosures that are required.

The purpose of this guidance is to bring together all the requirements relating to going concern, and to provide a framework to assist directors in determining whether it is appropriate to adopt the going concern basis and in making balanced, proportionate and understandable disclosures.

Directors are required to plan their assessment of going concern as early as practicable including deciding on the information and analysis that will need to be produced. These plans should also address the evidence to be obtained, including any potential remedial action plan that may be needed, to support their conclusion prior to their approval of the financial statements. Directors need to evaluate the following three potential outcomes and conclude which one is appropriate to the specific circumstances of the organisation



- There are no material uncertainties that lead to significant doubt about the organisation's ability to continue as a going concern. Although going concern is therefore presumed in preparing financial statements, disclosure may need to be made about liquidity risk and other matters necessary to give a true and fair view. The audit report should be unmodified provided the auditor concurs with the directors' assessment and supporting disclosures.
- There are material uncertainties that lead to significant doubt about the entity's ability to continue as a going concern but the going concern basis remains appropriate. Disclosures explaining the specific nature of the material uncertainties are required along with an explanation of why the going concern basis has still been adopted. Assuming auditors concur with the directors' assessment, the audit report should be modified to include an emphasis of matter paragraph highlighting the existence of material uncertainties.
- The use of the going concern basis is not appropriate. Disclosures explaining the basis of the conclusion and the accounting policies applied in drawing up the financial statements on a non-going concern basis are required. The audit report may be unmodified provided the financial statements contain the necessary disclosures and the auditor considers the basis to be appropriate to the specific facts and circumstances.

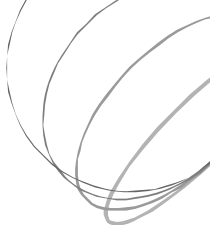
Review of narrative reporting

The ASB has issued [Rising to the challenge – a review of narrative reporting by UK listed companies](#) which sets out findings from a review of companies' narrative reporting. The reviewed focussed on

- how well companies were reporting the content areas set by the new business review requirements of the *Companies Act 2006*
- communication of that content using the *Principles for effective communication* in the FRC's discussion paper *Louder than words*
- identifying sources of immaterial clutter in narrative reporting.

It found that most companies are providing a good standard of information in their financial reviews, the description of objectives and strategies, and the provision of financial key performance indicators (KPIs). However, there are significant opportunities for improvement in

- reporting of principal risks. Organisations should avoid reporting an excessive number of risks or risks that are generic in nature. They should give enough detail to understand the risk, including providing some context (i.e. whether the risk is increasing or decreasing) and an idea of the impact of a risk crystallising

- 
- trends and factors, which should include both macro environment and organisation-specific factors
 - non-financial KPIs, which should explain how the key drivers of the business are monitored, rather than peripheral measures such as number of employees
 - corporate social responsibility, which should explain why sustainability reporting is important to the organisation, but not contain immaterial clutter.

Auditing developments

The documents referred to in the following articles are available free of charge by using the hyperlink, or can be downloaded by auditors from the TSU intranet/extranet.

New and revised UK auditing standards

The [Auditing Practices Board](#) (APB) has published new [international standards on auditing](#) for the UK to replace the existing standards with effect from periods ending on or after 15 December 2010.

All the standards have been 'clarified' and are therefore in a different format from the existing standards. This is intended to improve their overall readability and make them more understandable through structural and drafting improvements, including

- describing an objective for each standard
- separating the requirements in each standard from the application material
- clarifying the obligations imposed on auditors by the requirements of the standard
- reducing the complexity of the existing standards.

The new standards incorporate all but one of the 'clarified' standards issued by the International Auditing and Assurance Standards Board (IAASB), augmented with additional requirements and guidance to address UK regulations and context. The exception is the APB has not adopted the IAASB's ISA 700, and has instead issued a clarified version of the recently revised [ISA \(UK and Ireland\) 700 The auditor's report on financial statements](#). However, requirements and guidance relating to modification of the auditor's report are covered in the following standards that have been adopted by the APB with a small amount of supplementary guidance

- [ISA 705 Modifications to opinions in the independent auditor's report](#)
- [ISA 706 Emphasis of matter paragraphs and other matter paragraphs in the independent auditor's report](#).



In addition, twelve of the standards have been revised and there are two new standards.

The main changes to the revised standards are summarised in the following paragraphs.

[ISA 200 Overall objectives of the independent auditor and the conduct of an audit in accordance with international standards on auditing](#) has been revised to set out the overall objectives of the independent auditor, and explains the nature and scope of an audit. New requirements are for the auditor to use the objectives in other standards to

- determine whether any audit procedures in addition to those required by the standards are necessary
- evaluate whether sufficient appropriate audit evidence has been obtained.

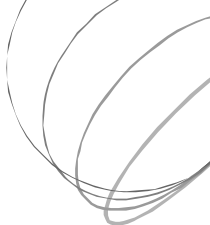
[ISA 210 Agreeing the terms of audit engagements](#) has been significantly revised as a result of conforming changes stemming from the revision of other standards.

[ISA 260 Communication with those charged with governance](#) contains additional requirements including communicating

- an explanation of any significant accounting practices that are not considered the most appropriate in the particular circumstances of the entity
- any significant difficulties encountered during the audit
- any significant matters arising from the audit that were discussed with management.

[ISA 320 Materiality in planning and performing an audit](#) replaces the definition of materiality with a description of the common characteristics of materiality covered in financial reporting frameworks. It is made clearer that materiality depends on the nature of an item as well as its size. The revision has introduced more requirements relating to the determination of materiality and related amounts, but does not specify a methodology (e.g. percentages) that should be applied. The new requirements include

- determining 'performance materiality' which is an amount set at less than materiality to reduce the probability that the aggregate of misstatements exceeds materiality for the financial statements as a whole. The amount set for performance materiality is affected by the auditor's understanding of the entity and the nature and extent of misstatements identified in previous audits, and thereby the auditor's expectations in relation to misstatements in the current period
- determining whether a performance materiality amount is applicable for particular classes of transactions, account balances or disclosures

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- revising materiality in the event of becoming aware of information that would have caused the auditor to determine a different amount initially. If this is appropriate, the auditor is also required to determine whether it is necessary to revise performance materiality
 - specific documentation requirements for the amounts determined and any changes made during the audit.

[ISA 402 Audit considerations relating to an entity using a service organisation](#) has been revised to specify procedures to be performed when the auditor intends to use a service auditor's report as audit evidence.

[ISA 505 External confirmations](#) contains more specification, particularly in relation to

- maintaining control over the external confirmation requests
- obtaining further evidence to resolve doubts about the reliability of responses
- specifying conditions if negative confirmations are used as the sole substantive audit procedure.

[ISA 540 Auditing accounting estimates, including fair value accounting estimates, and related disclosures](#) introduces requirements for greater rigor and scepticism in the audit of accounting estimates. It provides standards and guidance on the auditor's determination and documentation of misstatements and indicators of possible management bias relating to individual accounting estimates. New requirements include

- more specification regarding the matters of which the auditor should obtain an understanding when assessing risks
- reviewing the outcome of accounting estimates included in prior period financial statements
- evaluating estimation uncertainty and determining whether estimates with high levels of uncertainty give rise to significant risks
- requiring substantive procedures to respond to significant risks, including evaluating how management has considered alternative assumptions or outcomes; considering whether management's decisions to recognise the estimates in the financial statements are in accordance with the applicable financial reporting framework; evaluating the adequacy of the disclosure of estimation uncertainty; and reviewing management's judgments and decisions to identify whether there are indicators of possible management bias.

[ISA 550 Related parties](#) places greater emphasis on a risk based approach to the consideration of related parties. It also seeks to improve auditor performance when identifying related party relationships and transactions not disclosed to them by management. New requirements include

- specifying that the auditor should consider the susceptibility of the financial statements to material misstatement that could result from the entity's related party relationships and transactions
- obtaining an understanding of the controls that management has established to identify related party relationships and transactions, and to authorise and approve significant transactions and arrangements outside the normal course of business
- specifying procedures to be performed if the auditor identifies related parties or significant related party transactions that management has not previously disclosed to the auditor
- specifying procedures to be performed for identified significant related party transactions outside the entity's normal course of business.

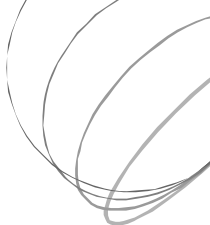
[ISA 580 Written representations](#) has been revised to respond to concerns that auditors may be over-relying on written representations by making it clearer that they support other audit evidence but they are not sufficient on their own. Changes include requiring auditors to obtain written representations about management's responsibilities, including that

- management has fulfilled its responsibility for the preparation of the financial statements
- management has provided the auditor with all relevant information
- all transactions have been recorded and are reflected in the financial statements.

If management does not provide the written representations acknowledging its responsibilities, the auditor is required to disclaim an opinion on the financial statements.

[600 Special considerations – Audits of group financial statements \(including the work of component auditors\)](#) introduces a number of new requirements that the group auditor needs to undertake, particularly when other auditors audit group components. Matters covered by the requirements include

- obtaining an understanding of the group, its components, and their environments, including group-wide controls, and assessing the risks of material misstatement of the group financial statements
- obtaining an understanding of component auditors, including their professional competence
- determining the materiality level for: the group financial statements as a whole; particular classes of transactions, account balances or disclosures; those components where component auditors will perform an audit or a review for purposes of the group audit; and the threshold above which misstatements cannot be regarded as clearly trivial to the group financial statements.

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- determining the work to be performed on the financial information of components, and the level of involvement of the group engagement team in the work performed by component auditors.

[620 Using the work of an auditor's expert](#) has been revised to respond to concerns that the extant standard mainly focuses on the use of experts with respect to substantive procedures regarding the measurement of account balances, whereas experts may be used for other purposes during the audit. The scope of the revised standard is restricted to consideration of the auditor's use of the work of an expert possessing expertise in a field other than accounting or auditing.

Compared to the extant ISA there is more specification of audit procedures, in particular regarding the agreement of work to be performed and evaluating the reasonableness of the expert's findings.

There are also two new standards which are briefly summarised in the following paragraphs.

[ISA 265 Communicating deficiencies in internal control to those charged with governance and management](#) explains that a deficiency in internal control exists when

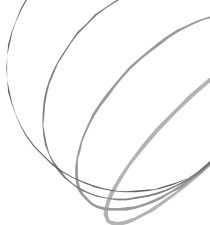
- a control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements on a timely basis; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements on a timely basis is missing.

The standard includes requirements for the auditor to

- determine whether identified deficiencies in internal control constitute significant deficiencies, i.e. one that is of sufficient importance to merit the attention of those charged with governance
- communicate in writing all significant deficiencies to those charged with governance, including a description of the deficiencies and an explanation of their potential effects
- communicate to management, in writing, significant deficiencies that the auditor intends to communicate to those charged with governance, and other deficiencies that in the auditor's professional judgment are of sufficient importance to merit management's attention.

[ISA 450 Evaluation of misstatements identified during the audit](#) has been derived from the revision of ISA 320 on audit materiality. There are a number of new requirements including

- accumulating all misstatements identified other than those that are clearly trivial, and documenting whether they have been corrected

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- determining whether uncorrected misstatements are material, and documenting the basis for that conclusion
 - documenting the amount below which misstatements would be regarded as clearly trivial.

Auditors should ensure they are making the necessary arrangements to be able to comply with the new requirements of the standards.

Revised ethical standard on partner rotation

The APB has published [*Ethical standard 3 \(revised\) Long association with the audit engagement*](#) which becomes effective for audits of financial statements for periods commencing on or after 15 December 2009, although earlier adoption is permitted. The main change is in respect of amended partner rotation requirements.

In circumstances where the audit committee decides that flexibility over the timing of rotation is necessary to safeguard the quality of the audit and the audit firm agrees, the audit engagement partner may continue in this position for an additional period of up to two years, giving a seven year rotation period for this role. This fact, and the reasons for it, are to be disclosed to shareholders as early as practicable and in each of the additional years.

Alternative safeguards require to be applied to reduce any threats to an acceptable level, e.g. ensuring that an expanded review of the audit work is undertaken by the engagement quality control reviewer or an audit partner, who is not involved in the audit engagement.

The period of rotation for the engagement quality control reviewer or a key partner involved in the audit has also been extended from five to seven years.

Revised practice note on financial instruments

The APB has issued [*Practice note 23 \(Revised\) Auditing complex financial instruments – interim guidance*](#) which focuses on financial instruments that are complex. This includes derivatives (including option contracts, futures and swaps), and structured products which may include embedded derivatives. It has been issued as interim guidance because relevant accounting and auditing standards are under review and future changes may have implications for auditors.

The main considerations when auditing complex financial instruments include the following

- The audit engagement team needs to include members with appropriate competence and capabilities to perform audit work in areas that require particular skills and expertise e.g. valuation and the testing of IT controls.



- The auditor is required to obtain an understanding of the purpose for which complex financial instruments are transacted and the risks to which their use exposes the entity. This will help the auditor identify whether important aspects of a transaction are missing or inaccurately recorded, whether a valuation appears appropriate, and whether the risks inherent in them are fully understood and controlled by the entity.
- The auditor is required to obtain an understanding of how the entity manages and controls its exposure to financial instruments, including how the entity ensures that: all instruments are completely and accurately recorded; payments and receipts are monitored and made on time; financial risks are analysed and monitored; valuations are accurate, reviewed and used for monitoring purposes; only competent and trained staff can enter into transactions; and risk limits are applied.
- The audit is required to identify and assess the risks of material misstatement in the financial statements, and design audit procedures in response to those risks. This includes: confirming completeness and accuracy by testing reconciliation, confirmation and booking controls; obtaining evidence to support the prices used; and checking disclosures regarding estimates and related risks and uncertainties.

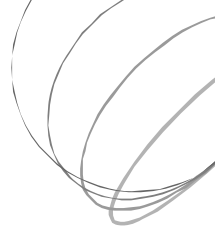
The IAASB intends to use practice note 23 as a starting point for revising its extant *International auditing practice statement (IAPS) 1012 Auditing derivative financial instruments*. It has issued a [Consultation paper- auditing complex financial instruments](#) that seeks views as to whether the practice note is helpful in an international context and should be incorporated into IAPS 1012 or whether it could be further expanded.

Responses to the IAASB consultation paper should be sent to edcomments@ifac.org by 15 January 2010.

Consultation on provision of non-audit services

The APB has issued [Consultation on audit firms providing non-audit services to listed companies that they audit](#) which is seeking views on the appropriateness of the provision of non-audit services by auditors. The paper is in response to the Treasury Select Committee's recommendation that there should be a consultation with stakeholders on its proposal to prohibit audit firms conducting non-audit work for the same entity. As the Committee's recommendation was in the context of investor confidence, the paper focuses primarily on listed companies. For the purposes of this consultation, non-audit services include

- activities arising directly from an audit of a company's financial statements e.g. advice on compliance with accounting standards, adjustments required as a result of the audit, internal controls arising from weaknesses identified in the audit



- services required to be provided by the auditor by law/regulations e.g. reports relating to government grants
- services provided by auditors because of their familiarity with the client
- services provided because of the pool of accounting, consulting and general business skills available to accountancy firms e.g. internal audit, IT systems, management consultancy advice.

The APB is seeking views on whether

- the provision of non-audit services by accounting firms to their audit clients currently impacts on confidence in the independence of auditors
- there are any instances where the provision of non-audit services has adversely affected audit quality
- there needs to be a change in the approach taken to the setting of standards relating to the provision of non-audit services, and whether this should be in the form of: complete or more extensive prohibitions on the provision of non-audit services within the ethical standards; the imposition of other requirements through the ethical standards; more active corporate governance, e.g. prior approval by the board of directors or audit committee; or more extensive disclosure in the financial statements.

If, in the light of the responses to the paper, the APB considers that there may be grounds for making changes to its existing ethical standards, including any further prohibitions on the provision of non-audit services, it will undertake a further consultation.

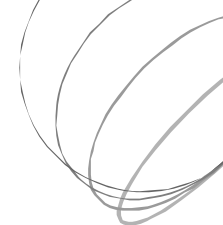
Responses should be sent to h.osullivan@frc-apb.org.uk by 29 January 2010.

Draft international standard on greenhouse gas statements

The IAASB has issued [Consultation paper - Assurance on a greenhouse gas statement](#) to seek views on the development of an international assurance standard on greenhouse gas (GHG) statements.

The IAASB is developing this standard as many entities are quantifying their GHG emissions for internal management purposes, and an increasing number are also preparing a GHG statement either as part of an emissions trading scheme or on a voluntary basis.

The draft standard requires the engagement partner to be a professional accountant who has sufficient specialist skills, knowledge and experience both in assurance concepts and processes, developed through extensive training and practical application, and in GHG quantification and reporting. Most complex



engagements will be undertaken by a multidisciplinary team comprising experts in, for example, engineering or environmental science, as well as professional accountants who are assurance specialists. The engagement partner requires to be satisfied that the engagement team and any practitioner's external experts collectively have the appropriate competence and capabilities.

The draft standard requires the use of assertions at various stages of the engagement to consider the different types of potential misstatements that may occur. These assertions are different from those for financial statement audits in that they do not include the assertions about account balances at period end and they include an additional presentation and disclosure assertion, i.e. consistency and comparability. There are also differences that need to be considered before aspects of the materiality concept can be adopted for GHG engagements. For example, although a GHG statement might include a figure for net emissions, there is no direct GHG statement equivalent of a profit or a loss or balance sheet.

The draft standard highlights that the fixed nature of the relationships between particular emissions and other measurable factors can allow for the design of powerful analytical procedures. Analytical procedures may be particularly effective when disaggregated data is readily available, and when the data is extracted from a well-controlled source e.g. the financial reporting information system.

A vital part of any assurance engagement is the assurance report, and the draft standard includes an example in its Appendix.

Comments should be made via www.ifac.org by 19 February 2010.

Corporate governance developments

The documents referred to in the following articles are available free of charge by using the hyperlinks, or can be downloaded by auditors from the TSU intranet/extranet.

Guidance for audit committees

The FRC has issued a document called [Challenges for audit committees arising from current economic conditions](#) which highlights for audit committees the risks that the accounts may be misstated due to the current economic conditions. The document does not establish any new requirements but identifies issues that will be relevant to the work of audit committees over the next few months.

Organisations may have found it necessary to change their business models in order to improve cash flow including amendments to terms of trade or the way in which goods and services are processed and delivered. These are likely to necessitate reconsideration of accounting policies and the effectiveness of the system of internal control.



Many organisations will require to consider a wider than normal range of reasonably possible outcomes when performing sensitivity and scenario analysis on the cash flow projections supporting both asset valuations and impairment assessments. This places additional pressure on the judgments needed to evaluate asset values. Audit committees are likely to want a clear understanding of these judgments and may require more detailed information and analysis.

Audit committees are likely to want to be convinced that key judgments are supported by a greater degree of rigour and analysis than in more normal circumstances and to consider how such matters have been explained in the annual report.

Audit committees may need to consider the possible impact of an increased risk of error or omission or manipulation of the annual financial information. Effective systems are particularly vital in order to manage this increased risk, including a re-examination of systems and controls over key reporting areas.

Proposed changes to combined code

The FRC has issued [2009 review of the combined code: final report](#) which sets out the findings from its review of the *Combined code on corporate governance*. The FRC is proposing a number of changes to the content and structure of the Code which are summarised in the report. It is also changing the title of the Code to the *UK Corporate governance code*. A [consultation document](#), including a draft revised Code, has also been issued.

It was concluded that the current structure of the Code encourages a focus on detail and process rather than the overall purpose which is to promote appropriate behaviour by boards and good communication between boards and shareholders. There is also a concern that stakeholders pay more attention to the detailed provisions of the Code than the high-level principles, and that there is a view that explaining a non-compliance rather than complying means something is necessarily wrong.

The FRC has therefore sought to change the tone of the Code, including making changes to signal the importance of board behaviours. These proposed changes include restructuring the former Section A (Directors) into two sections dealing with board leadership and board effectiveness, and adding new principles on

- the roles of the chairman and non-executive
- directors
- the need for the board to have an appropriate mix of skills, experience and independence,
- the commitment levels expected of directors



- the board's responsibility for setting the company's risk appetite and tolerance.

The FRC is not proposing to remove any of the current disclosure requirements in the Code. However, it is seeking views on whether to amend the Code so that organisations can make the full corporate governance statement available on their website and include only an edited version in the annual report.

The following limited but significant changes to the provisions of the Code are proposed

- The chairman should agree and regularly review a development plan with each director.
- Annual board reviews should be externally facilitated at least every three years.
- Companies should describe their business model and overall financial strategy.

The FRC is also consulting on whether the Code should recommend that companies should move to annual re-elections either for all directors or for just the chairman of the board.

Comments on the proposed changes should be made to codereview@frc.org.uk by 5 March 2010. It is intended that the revised Code will apply to accounting periods beginning on or after 29 June 2010.

Financial management consultation

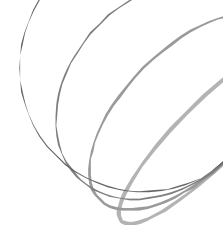
The [Chartered Institute of Public Finance and Accountancy](#) (CIPFA) has issued a consultation paper called [Public financial management and the PFM international architecture – A whole system approach – Consultation draft](#) which proposes a definition of public financial management (PFM) and describes model processes that enable it to function.

The paper proposes to define public financial management as the system by which the financial aspects of the public services' business are directed, controlled and influenced, to support the delivery of the sector's goals. The paper describes CIPFA's whole system approach to financial management in the public sector context. It also sets out a model of the PFM process, with a description of the elements and components that contribute to the whole system operating successfully, including its execution and its checks and balances.

Responses were required by 30 November 2009.

Consultation on role of chief internal auditor

CIPFA is preparing a statement on the role of the chief internal auditor (CIA) in public service organisations. It is intended that this will be principles based and be relevant to all parts of the public services. The aim will be to clarify the role of the CIA and raise the profile of internal audit.



CIPFA is [asking for views](#) on the key principles that should be set, the issues that should be covered (e.g. reporting lines and internal audit's role in corporate governance and risk management) and on what the role of the CIA should be.

Comments should be sent to clive.darracott@cipfa.org.uk.

Other developments

The documents referred to in the following articles are available free of charge by using the hyperlinks, or can be downloaded by auditors from the TSU intranet/extranet.

Sustainability

Carbon reduction commitment scheme

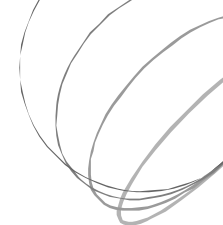
CIPFA has issued a paper called [Carbon reduction commitment \(CRC\) energy efficiency scheme](#) which examines the financial aspects of the CRC scheme and raises issues for consideration. The CRC scheme is a mandatory carbon emissions trading scheme for large public and private sector organisations in the UK and commences in April 2010. It is part of a package of measures within the *Climate Change Act* which aims to reduce carbon emissions.

The scheme uses reputational and financial incentives to secure commitment from participating organisations in achieving this objective. Organisations qualify to participate in the scheme if they have met certain criteria. If however 25% or more of an organisation's emissions are covered by a climate change agreement, the organisation is wholly exempt. The scheme comprises the following two phases

- The introductory phase covers the period April 2010 to March 2013. No allowances will be required for year one but allowances for year two and three will be available for purchase at a fixed price.
- The next phase covers a five year period from April 2013 and will involve a 'cap and trade' scheme whereby a capped number of allowances are sold by auction.

Both phases allow for a 'secondary market' where organisations can buy and sell allowances.

From year two, organisations purchase allowances in April to cover their projected CO₂ emissions. They will be ranked in a league table according to their performance in reducing energy use relative to other participants. Participating organisations will therefore require strategies to encourage their various departments, tenants and subsidiaries to undertake energy efficiency measures.



Organisations will be required to complete a self-certificated evidence pack to the Environment Agency (EA) (likely to be the Scottish Environment Protection Agency for Scottish bodies) in July of the following year to demonstrate compliance. Allowances are then surrendered in proportion to the emissions stated in the annual report. The income from the sale of the allowances will then be recycled back to the participants in October based on their position in the league table.

The EA will conduct a risk-based rolling audit during the first five years. If the audit shows that there is a variation greater than 5% between reported and audited actual energy use, organisations could receive a fine. Other potential fines are for failure to register by the deadline, submitting annual reports late, and for an incomplete or not up-to-date evidence pack.

There is not currently an accounting standard on emissions trading schemes, but organisations can refer to the accounting treatment proposed in the UITF Abstract on emission rights issued for consultation in 2003.

Procurement

Sustainable action plan

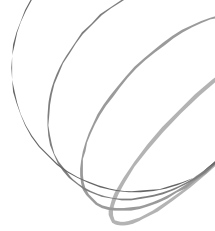
The [Scottish Government](#) has issued a [Sustainable procurement action plan for Scotland](#) which is intended to assist the public sector take proper account of sustainability in procurement activity.

The action plan defines sustainable procurement as a process whereby organisations meet their procurement needs in a way that achieves value for money on a whole life basis and generates benefits not only to the organisation, but also to society, the economy and the environment. The action plan is intended to assist public sector bodies to build sustainable procurement into their corporate culture, take proper account of sustainability in procurement activity, and to be able to demonstrate how this is being achieved.

This action plan is not intended to replace the reporting on sustainable procurement activity that public bodies are already undertaking, but rather to support and reinforce that reporting by setting out standards of good practice and providing a framework and common language within which organisations can demonstrate their achievements in sustainable procurement.

A number of steps are set out with illustrative timescales, and bodies are expected to produce their own delivery plans to set out how improvements in sustainable procurement will be made, including a timetable, and to make them publicly available. The actions associated with each step are for bodies to

- nominate a senior management champion for sustainable procurement who will be responsible for implementing the body's delivery plan by 30 November 2009



- add a public commitment to sustainable procurement by the Chief Executive to websites and relevant internal and external communications by 31 December 2009
- by 31 January 2010: sign up to the *Suppliers charter* (which is a joint statement agreed between public sector procurement and business to facilitate access to public sector procurement opportunities) establish published supplier engagement programme; ensure the *Public contracts Scotland* portal is adopted across the organisation; measure performance against sustainable procurement criteria in the best practice Indicators and the *Procurement capability assessment* model
- amend organisational procedures to emphasise the ability to specify sustainable options, and reinforce the need to do so in policy documents and delivery plans, by 28 February 2010
- by 31 March 2010: develop an awareness raising and training plan on sustainability in procurement; undertake a self-assessment against the 'flexible framework' described in the action plan; incorporate local priorities and requirements into the delivery plan
- establish a formal 'sustainability test' which confirms customer requirements have been tested for sustainable social, economic and environmental factors by 30 April 2010
- establish procedures for publicising successes in sustainable procurement by 30 June 2010.

Retirement benefits

Report on pensions financial reporting

The ASB has issued a report called [The financial reporting of pensions: Feedback and redeliberations](#) which sets out recommendations arising from its earlier discussion paper (see TB 2008/1 – page 9) on the financial reporting of pensions. The recommendations are aimed at the IASB on matters it might consider in developing a future financial reporting standard on pensions.

The paper reaffirms the views of the ASB set out in the discussion paper that

- recognition should be based on the principles of reflecting only present obligations as liabilities, and that the liability to pay benefits should be based on current salaries plus any future non-discretionary increases
- pension plans should be subject to the same principles of consolidation that are usually applied in determining whether one entity controls another
- the liability to pay pension benefits should not be reduced to reflect an entity's credit risk. It is not possible to make a reliable estimate of the risk arising from the size and variability of the liability to



pay pension benefits. Consequently, the ASB affirms its view that users of financial statements are better served by disclosure regarding the sensitivity of assumptions than by adjusting the estimated cash flows, the discount rate or by inclusion of a risk margin.

- different components of changes in liabilities and/or assets should be presented separately.

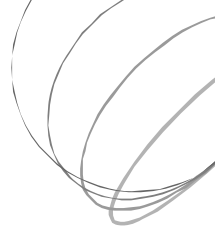
However, the ASB has decided not to affirm its view that the actual return on assets held to fund pension liabilities should be presented separately as financing income in the statement of comprehensive income. Although this is a conceptually pure approach, it may not meet the needs of users. The ASB considers that research is required in this area and alternative approaches should be evaluated before development of a new financial reporting standard.

Guidance for users of actuarial information

The FRC has issued a statement called [*Challenges for users of actuarial information arising from current market conditions 2009 update*](#) which discusses some of the key issues that governing bodies (i.e. directors or trustees) should consider in respect of actuarial information.

There are significant economic risks which could present challenges for users of actuarial information. This statement advises governing bodies to take special care to ensure that they fully understand the assumptions on which actuarial information is based, and to form a view on how appropriate they are. The FRC has identified a number of areas of particular concern and the statement advises governing bodies to

- look at the assumptions concerning business strategy and operations, including whether the business model will remain effective under changed circumstances
- consider whether new risks require financial recognition or revisions to systems, and reconsider the results of scenario analysis or stress testing in the light of revised judgements and new information about adverse events that are considered sufficiently likely
- consider whether the assumptions concerning investment returns and discount rates remain appropriate
- consider potential cash flows carefully in order to understand the real implications of discounted values.
- consider the terms of reference agreed with the actuaries and consider the quality controls over their work including the extent to which they may be subject to conflicts of interest or other undue pressure.



Charities

Consultation on Scottish charitable incorporated organisation

The Scottish Government has issued [Consultation on options for the implementation of the Scottish charitable incorporated organisation](#) which seeks views on the development of a Scottish charitable incorporated organisation (SCIO) which is a new legal form of incorporation specifically for charities introduced by the *Charities and Trustee Investment (Scotland) Act 2005*.

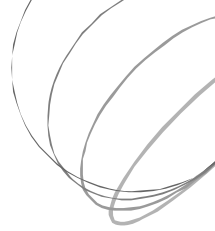
Scottish charities are most commonly constituted as

- trusts, which obligate trustees to deal with property in a particular way for the benefit of specified beneficiaries, but does not deliver limited liability for charity trustees
- unincorporated associations, which are simpler than companies to set up and run, but do not provide the benefits of limited liability for members or a separate legal identity for the charity
- companies limited by guarantee, which provide members with more protection from exposure to financial liabilities than the other models. It also allows the charity itself to own property and enter into contracts, including employment contracts, rather than requiring the trustees to do so in a personal capacity. However, there is a significant administrative burden, not least because they are subject to dual regulation and have to report to both the Registrar of Companies and the Office of the Scottish Charity Regulator (OSCR).

This paper sets out a number of options for the development of the SCIO which is intended to help charities enjoy the benefits of incorporation without being subject to the complex requirements of being a company. The SCIO regime will be designed to provide a new incorporation mechanism specifically for charities that will remove the need to register with, and report to, the Registrar of Companies. OSCR will be responsible for operating the regime and regulating SCIOs. While this applies to a charity of any size, the regime is particularly focussed on small-to-medium sized charities with annual incomes between £25,000 and £1m.

The paper focuses on the policy principles which will determine the structure of the SCIO and the design of the regulatory framework within which it will operate. It identifies the following three possible models for the SCIO

- Option 1 (the preferred model) involves a relatively simple regulatory framework with the members of the charity playing a key role in shaping the SCIO and its governance, under the regulatory oversight of OSCR. This model would carry significantly less administrative burden than company law, with fewer publication requirements e.g. a requirement for OSCR to publish a SCIO's constitution and accounts on its website.



- Option 2 (the company model) is based on the model of the company limited by guarantee but with the removal of dual registration and reporting.
- Option 3 (the minimalist model) - starts from the existing position for charities but limits the administrative requirements associated with the application process, and has no additional constitutional requirements.

Comments should be sent to charityact@scotland.gsi.gov.uk by 26 February 2010.

Publications

The following publications are available free of charge by using the hyperlinks.

Audit Scotland

Scotland's public finances - Preparing for the future

This report from Audit Scotland [Scotland's public finances - Preparing for the future](#) contains an overview of the financial environment in Scotland and the pressures and challenges facing the public sector. It also looks at the Scottish Government's financial management arrangements. Key messages include the following

- The public sector is under the greatest financial pressure since devolution, and it will be very challenging to maintain current levels of public services and meet new demands.
- The Scottish Government has strengthened its financial management, but more could still be done to evaluate how well money is being spent. The Scottish Government's annual budget is largely developed on an incremental basis, but this approach is not suitable for budgeting in a financial downturn because it does not easily allow informed choices to be made about priorities.
- The public sector needs to work together to develop better activity, cost and performance information to enable informed choices between competing priorities, and to encourage greater efficiency and productivity.
- Better information linking spending to costs, activities and service performance, and a rolling programme of performance reviews, would support the Scottish Parliament in scrutinising the government's spending plans.



Commonwealth Games 2014 Progress report on planning for the delivery of the XXth Games

This report from Audit Scotland [Commonwealth Games 2014 Progress report on planning for the delivery of the XXth Games](#) provides an early assessment of management arrangements for the 2014 Commonwealth Games in Glasgow. Key messages include

- There is a clear high-level governance structure, and the strategic partners understand their responsibilities and are working together.
- The strategic partners are developing independent programme plans to manage their responsibilities which are at different stages of completion, and they are adopting a structured approach to risk management.
- The estimated cost of delivering the Games has not been updated since 2007 and may not be sufficient to deliver the current plans.

Scottish budget

Scotland's budget documents – the 2009/10 autumn budget revision

This publication from the Scottish Government [Scotland's budget documents – the 2009/10 autumn budget revision](#) provides information in support of the 2009/10 autumn budget revision.

Efficient government

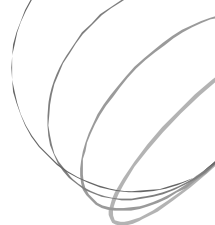
This publication from the Scottish Government [Efficiency outturn report for 2008/09](#) is the first outturn report for the 2008-11 efficient government programme.

Fraud cases

The following is a fraud case at an audited body that has been reported by auditors to the TSU.

Expenditure

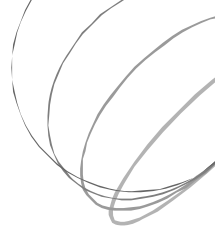
Individuals defrauded over £50,000 from a council by claiming to be the supplier of B&B accommodation services to the homelessness unit. The defaulters submitted fraudulent invoices overstating the amounts due by the council. They were neither the owner nor the tenant of the property but internal controls did not check for this. Subsequent spot checks on invoices by management highlighted the issue and internal audit were advised. Internal audit's review highlighted deficiencies in the system, including finding that the method of confirmation of placements was not in line with the financial regulations. An agreed action plan to address the deficiencies has been put in place and the matter has been reported to the police.



Auditor action

The following is a summary of items in this chapter of the TB that include specific recommendations or requests that auditors take specific actions

Section	Action
TSU developments – Responses to enquiries – International financial reporting standards	Auditors should confirm that their bodies have reviewed their lease agreements for incentives and are properly accounting for this change in accounting policy.
Auditing developments – New and revised UK auditing standards	Auditors should ensure they are making the necessary arrangements to be able to comply with the requirements of the new auditing standards.



Local authority

Introduction

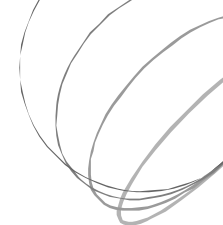
This chapter contains articles on local authority technical matters and should be read by auditors with appointments in that sector. The general chapter contains articles on cross-sectoral technical matters.

The documents referred to in the articles that are available from websites can be obtained by using the hyperlinks. They can also be downloaded by auditors from the TSU intranet/extranet.

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note that the following articles in this chapter relate to 2009/10 audits

- TSU note for guidance on 2009/10 local authority final accounts
- TSU guidance on common good asset registers
- TSU guidance on accounting for components under IFRS
- TSU guidance on reviewing the restated opening IFRS based balance sheet
- TSU guidance on application of FRS 17 to community justice authorities
- final draft of the 2010 accounting code
- draft IFRS transition guidance
- draft IFRS transition guidance on investment property and termination benefits
- consent to borrow for equal pay
- extension of new fire commutation factors.

There are also other articles on the following subjects: draft transport infrastructure assets code; proposed amendments to councillors' code of conduct; 2010/11 capital financing charge; and review of unaudited 2008/09 whole of government account returns.



TSU developments

Publications

In addition to TBs, the TSU publishes other technical publications (i.e. notes for guidance, urgent issue notes and grant notes) to provide auditors with more in-depth guidance on specific matters. The following have been published by the TSU since TB 2009/3 and can be downloaded by auditors from the TSU intranet/extranet. They can be sent to other TB recipients on request.

Note for guidance 2009/7(LA) 2009/10 local authority final accounts

The TSU published note for guidance 2009/7(LA) to provide auditors with guidance on subjects where the risk of non-compliance with the *Code of practice on local authority accounting in the UK 2009 – a statement of recommended practice* (the 2009 SORP) is considered to be particularly high in the audit of the 2009/10 accounts.

Grant notes

Grant notes (GNs) are published to provide local authority auditors with guidance on the audit of approved grant claims. The TSU published *GN/NDR/09 Non domestic rate income returns* since TB 2009/3.

Responses to enquiries

The TSU operates a 'help-desk' for auditors which provides responses to ad hoc technical enquiries. Selected responses are added to the frequently asked questions section of the TSU intranet/extranet and include the following since the publication of TB 2009/3.

Common good and trust funds

Are authorities required to have asset registers in place for the common good assets they administer?

TB 2008/1 (page 21) referred to LASAAC guidance on accounting for the common good. The guidance contains a recommendation that authorities take reasonable steps to ensure that asset registers to support the fixed assets presented in the common good balance sheet are in place by March 2009.

The guidance does not appear to purport to be proper accounting practice and therefore does not have the mandatory force of the SORP, but nevertheless the TSU considers that it represents good practice in this area and auditors should encourage their authorities to follow it. Where authorities do not have accurate and complete asset registers for common good assets, auditors should assess whether all reasonable steps to prepare one have been taken, and should report to management and/or members where they have not. The absence of an asset register, however, is not in itself an issue for the auditor's report on the accounts.



However, the absence of an accurate asset register creates the risk that some common good assets may be included in the authority's single-entity balance sheet, leading to the authorities' assets and depreciation charge being overstated and the common goods' assets and depreciation charge being understated. Given the relative amounts involved, the misstatement is unlikely to be material to the authority's financial statements. It may be material to the common good financial statements but it is expected that auditors will not conclude that this has a material affect on their opinion on the accounts overall.

International financial reporting standards

How do the requirements in respect of accounting for components of tangible fixed assets differ between the SORP and the IFRS Code?

The 2009 SORP requires the separate recognition of major components of an asset for depreciation purposes (i.e. to treat each component as a separate asset in its own right) where the useful lives are substantially different. It also requires expenditure on replacing or restoring such a component to be capitalised. There are no explicit requirements in respect of derecognition of an old component when it is replaced, though the SORP guidance notes recommend this approach.

The IFRS-based *Code of practice on local authority accounting in the UK* (the Code) (see Accounting developments – Draft 2010 accounting code) contains similar requirements but in effect defines a major component as one with a cost that is significant in relation to the total cost of the asset. The TSU's view is that authorities will need to develop local policies to define significance in this regard and have arrangements in place to ensure they are followed.

Also, the Code contains an explicit requirement that, where a component is replaced or restored, the carrying amount of the old component should be derecognised to avoid double counting and the new component reflected in the carrying amount. This includes the derecognition of parts of an asset not previously recognised as a separate component. If it is not practicable to determine the carrying amount of the replaced part, authorities may use the cost of the new part as an indication of the cost of the replaced part adjusted for depreciation and impairment, if required. This recognition and derecognition takes place regardless of whether the replaced part had been depreciated separately.

The Code's requirements apply for expenditure incurred from 1 April 2010.

Other guidance

Restated opening IFRS-based balance sheet

TB 2009/1 (page 23) advised that CIPFA had published *LAAP bulletin 80 Implementation of IFRS – outline project plan* to provide an outline project plan for complying with the IFRS-based Code from 2010/11. The outline plan sets out recommended completion dates for a number of major milestones. Authorities are



expected to use this to develop their own detailed plans, and auditors were asked by the TSU to confirm that they were doing so.

One of the key milestones is restating the opening 1 April 2009 balance sheet onto an IFRS basis. Auditors may wish to review the restated opening balance sheets prepared by their authorities and report their findings. As part of their review, auditors should

- examine the accounting policy changes made to meet the Code's requirements and assess whether they have all been made
- examine high risk items and assess whether sufficient evidence has been provided to support the new treatment
- for each change in accounting treatment, examining any reconciliation from the SORP to the Code, on a sample basis where appropriate
- confirm that all required disclosures have been made.

The balance sheet presentation requirements of the Code differ from those required by the SORP as follows

- The heading of tangible fixed assets has been replaced with property, plant and equipment.
- The heading of cash and bank has been replaced with cash and cash equivalents.
- There should be a line for assets which meet the criteria of being held for sale.
- The heading of government grants deferred account has been replaced with the donated assets account (for donated assets where any conditions have not been met) and capital grants receipts in advance (for capital grants where the conditions have not yet been met)
- Reserves should be analysed between those that can be used to provide services (usable) and those that cannot (unusable).

The main accounting policy changes that auditors will wish to examine when reviewing the restated opening balance sheet are summarised in the following paragraphs.

Grants and contributions for capital purposes are required by the Code to be recognised immediately in the comprehensive income and expenditure statement, unless any conditions have not been met in which case they should be treated as receipts in advance (the SORP treats them as deferred income recognised in the income and expenditure account over the useful life of the relevant asset). The amounts recognised in the



comprehensive income and expenditure statement is then removed from the general fund and credited to the capital adjustment account. When restating the opening balance sheet, any balances on the government grants deferred account should be transferred to the capital adjustment account.

Cash equivalents are a new concept. They are short-term highly liquid investments that are readily convertible to known amounts of cash which are subject to an insignificant risk of changes in value. When restating the opening balance sheet, authorities should reclassify short term investments as cash equivalents in accordance with their policy for this item.

A revaluation decrease charged to the comprehensive income and expenditure statement requires to be reversed under the Code where there is a subsequent revaluation gain on the same asset. Under the SORP, the reversal of a revaluation decrease (i.e. fall in prices not specific to an asset) was conditional on the events that resulted in the decrease and the subsequent gain being linked. When restating the opening balance sheet, where a revaluation gain has been recognised in the revaluation reserve prior to 1 April 2009 on an asset where a previous revaluation loss was recognised in the income and expenditure account (and not previously reversed), an adjustment is required between the revaluation reserve and the capital adjustment account.

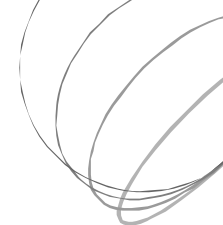
The land and building elements of property leases require to be considered separately for classification purposes. When restating the opening balance sheet, authorities will therefore need to review lease contracts. Authorities may also need to recognise a lease that was previously recognised as an operating lease as a finance lease, or vice versa. These requirements apply when accounting both as a lessee and as a lessor.

Assets classified currently as investment property may not meet the definition of an investment property under the Code; such assets require to be reclassified as property, plant and equipment. There is also different treatment required when recognising changes in the fair value of investment property (see following article Draft IFRS transition guidance – Investment property).

The Code requires a provision to be recognised for accumulating short term compensated absences (e.g. annual leave and flexitime) which are untaken at the year end. When restating the opening balance sheet, authorities will need to recognise a provision for the amount by which the expenditure that would have been recognised had the Code always been in force exceeds the expenditure actually recognised.

It is recommended that auditors report the review findings in a letter to the authority. This could set out matters such as the areas examined and any errors found, and possibly highlight any areas where further work may be required. Auditors are requested to send a copy of their letters to the TSU.

Auditors should ensure they pay due regard to this guidance when reviewing the restated 1 April 2009 opening balance sheet.



Community justice authorities

TB 2008/3 (page 14) provided auditors with guidance on the application of *FRS 17 Retirement benefits* to community justice authorities (CJAs). Auditors were advised that CJAs are members of the local government pension scheme (LGPS) and that the SORP requires the LGPS to be accounted for as a defined benefit scheme.

However, the requirement for defined benefit accounting applies only to principal authorities and to those non-principal authorities that pay an employer's contribution rate specific to their own circumstances. Minor non-principal authorities subject to a non-specific employer's contribution rate are unable to identify their share of the underlying assets and liabilities on a consistent and reasonable basis and may account for the LGPS as if it was a defined contribution scheme. It would be reasonable for CJAs to take advantage of this exemption and account for the LGPS on a defined contribution basis.

Accounting developments

The documents referred to in the following articles are available free of charge by using the hyperlinks, or can be downloaded by auditors from the TSU intranet/extranet.

Draft 2010 accounting code

TB 2009/3 (page 29) advised that [CIPFA/LASAAC Local Authority Code Board](#) had issued the exposure draft of the first edition of the IFRS-based Code. CIPFA/LASAAC has considered a final draft which contains further changes arising from the consultation process, and the Code will be published shortly. Auditors' attention is drawn to the following areas where the final draft of the Code has changed significantly from the exposure draft as a result of the consultation process.

Section 1.1 Objective of the Code

Paragraph 1.1.6 states that, on the few occasions where it was considered appropriate to adapt IFRS, the accounting treatment in standards lower in the hierarchy of standards (i.e. international public sector standards and UK GAAP) was used to inform decisions regarding the appropriate treatment to be adopted.

Section 1.2 Applicability of the Code

Paragraph 1.2.4 states that where a section 106 body complies with the accounting requirements of the *Charities and Trustee Investment (Scotland) Act 2005* and associated regulations, it should follow the *Charities SORP*. Where a common good fund (or other trust fund) is a registered charity, it should follow the financial reporting requirements of the OSCR. Where the fund is not a registered charity, it should follow the requirements of the Code.



Section 2.1 Concepts

Paragraph 2.1.2.27 clarifies that the Code does not require infrastructure assets (e.g. roads) to be carried at fair value. Infrastructure is carried at depreciated historical cost although this will be reconsidered in future once the CIPFA project on infrastructure assets has been completed (see following article on draft transport infrastructure assets code).

Section 2.3 Government and non-government grants

The invitation to comments sets out two options for the treatment of capital grants and contributions. It has been decided that the Code should require grants and contributions relating to capital expenditure to be charged to the comprehensive income and expenditure statement once any conditions of the grant has been satisfied.

The Code requires a donated assets account to be used in relation to donated assets transferred to the authority, where conditions of the transfer have not been met. The 2009 SORP treated donated assets as deferred income credited to the government grants deferred account and charged to the income and expenditure account over the useful life of the relevant asset.

Section 2.4 Landfill allowance and other 'cap and trade' schemes

The Code explains that if the CRC scheme (see General chapter – Other developments – Sustainability – Carbon reduction commitment scheme), which is expected to apply from 1 April 2010, is implemented in line with current proposals, it would not be a 'cap and trade' scheme during 2010/11. However, trading of allowances may occur during the first phase of CRC, and authorities are required to follow the general provisions for 'cap and trade' schemes.

Section 3.1 Explanatory foreword

Additional recommended topics for inclusion in the explanatory foreword include an explanation of the impact of the current economic climate on the authority, and the recommended topic regarding changes of accounting policy has been expanded to include, for 2010/11, the transition to an IFRS-based accounting basis.

Section 3.3 Accounting policies, changes in estimates and errors

Paragraph 3.3.4.3 has been amended in respect of the requirement to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. It clarifies that the requirement applies to accounting standards that come into effect for financial years commencing on or before 1 January of the financial year in question (i.e. on or before 1 January



2011 for 2010/11). Disclosure requirements are expected to be included in a subsequent edition of the Code.

Section 4.1 Property, plant and equipment

Paragraph 4.2.3.4 distinguishes a revaluation loss from an impairment loss by describing the former as a significant decline in an asset's carrying amount that is not specific to the asset.

Paragraph 4.1.2.40 states that the requirement for each part of an item of property, plant and equipment with a significant cost to be depreciated separately can only be achieved in practice by separately accounting for significant components that have different useful lives and/or depreciation methods.

Paragraph 4.1.4.4 clarifies that surplus assets are those assets that are surplus to service needs that do not meet the criteria to be classified as either investment property or assets held for sale.

Section 4.2 Leases and lease type arrangements

Paragraph 4.2.2.9 of the exposure draft stated that the land element of a lease is normally classified as an operating lease unless title is expected to pass to the lessee by the end of the lease term. This has been amended to state that the land element may be a finance lease even where the title does not pass to the lessee if consideration of all the factors leads to this conclusion.

Section 4.3 PFI and PPP arrangements

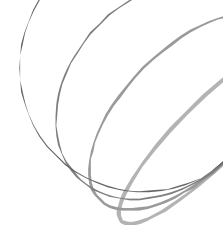
Paragraph 4.3.6.2 highlights that the adoption of IFRS means that the accounting arrangements for group accounts have changed. The operator for a PFI/PPP arrangement may be a special purpose entity (SPE), and *SIC 12 Consolidation - special purpose entities* requires an authority to consolidate an SPE where there is control.

Section 4.8 Borrowing costs

The invitation to comment set out three options for accounting for borrowing costs. It has been decided that the Code should permit authorities to expense these costs. There are therefore no changes from the 2009 SORP.

Section 4.9 Non-current assets held for sale and discontinued operations

Paragraph 4.9.2.22 requires an impairment loss or revaluation loss for any initial or subsequent decrease to fair value less costs to sell following reclassification to be recognised in the surplus or deficit on provision of services, even where there is balance on the asset's revaluation reserve. The 2009 SORP requires the losses to be recognised in the revaluation reserve.



Section 8.2 Provisions, contingent liabilities and contingent assets

Provisions under the 2009 SORP were classified as long-term liabilities. Under the Code, provisions are presented on the face of the balance sheet as either current or non-current liabilities.

The Code states that the provisions should be measured at the present value of the expenditure required to settle the obligation, where the time value of money is significant. This requirement was not explicit in the SORP.

Draft IFRS transition guidance

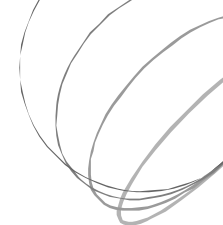
CIPFA is preparing guidance on the transition to the IFRS-based Code which will be made available in draft as each part is developed. Draft guidance is currently available on investment property and termination benefits, and they are summarised in the following articles.

Investment property

The [guidance](#) highlights that under the 2010/11 Code, assets have to be held solely to earn rentals and/or for capital appreciation, and not used to deliver services or for administrative purposes, to be classified as investment property. The definition under the 2009 SORP is less prescriptive (i.e. assets held for investment potential with any rental income at arms length) and it is possible that authorities had classified some assets as investment property when they were being held partially for service or policy reasons. Assets classified currently as investment property may not therefore meet the definition of an investment property under the Code. Authorities will need to review their assets as at 1 April 2009 to identify those that meet the definition of an investment property. Assets classified as investment property under the SORP which do not meet the definition of an investment property under the Code should be reclassified as property, plant and equipment.

The Code requires changes in the fair value of investment properties to be recognised in the comprehensive income and expenditure statement and reversed using the capital adjustment account (the SORP required recognition in the revaluation reserve). This means that

- when restating the opening balance sheet, authorities should transfer any balances on the revaluation reserve in respect of investment property as at 1 April 2009 to the capital adjustment account
- any loss on revaluation at 1 April 2009 in excess of the balance on the revaluation reserve for an asset classified as an investment property under the SORP but reclassified as property, plant and equipment under the Code should be transferred to the capital adjustment account
- when restating comparative figures for investment property, any revaluation during 2009/10 effected through the revaluation reserve will need to be reversed and recognised in line with the Code.



Under the Code, investment property that an authority decides to sell should not be reclassified as held for sale, but remains investment property until the sale. Authorities that have reclassified investment property as surplus assets under the SORP will need to reclassify the assets as investment property under the Code. Any property classified as surplus under the SORP that does not meet the definition of held for sale should be transferred to investment properties if it meets that definition.

Termination benefits

The [guidance](#) advises that unless, exceptionally, termination benefits awarded as a pension enhancement are subject to a vesting period no transitional adjustment to the opening IFRS balance sheet at 1 April 2009 will be required.

Draft transport infrastructure assets code

CIPFA has issued for consultation a [Draft transport infrastructure assets code](#) (infrastructure code) which provides guidance on financial information to support asset management and reporting of local authority transport infrastructure assets. The intention of the draft infrastructure code is that each authority should develop a single set of financial management information about transport infrastructure assets which is robust and supports

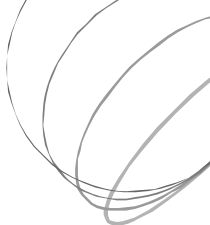
- asset management, capital planning, and resource allocation
- delivery of efficiency savings, service improvements, performance assessment and benchmarking
- production of transparent information for stakeholders, and robust financial information.

The infrastructure code is intended to be best practice guidance for those who are responsible for the assets. Primary users are expected to be highway engineers and finance staff but it will also act as a tool for those who audit their performance.

A key principle that underpins the infrastructure code is that the same data should be used for asset management, financial management, budgeting and financial reporting. The approach taken is different from the way in which infrastructure assets have previously been valued and depreciated. In particular, it is based on current values rather than historic costs, and the information used for financial reporting is derived from the authority's asset management plans. It is proposed that the infrastructure code uses a depreciated replacement cost basis which is a method of valuation that provides the current cost of replacing an asset with its modern equivalent asset less deductions for all physical deterioration and impairment.

The draft infrastructure code has three classification levels for grouping assets which are defined as the following

- level 1 is asset types which are broad categories based on the general function of the assets

- 
- level 2 is asset groups which are used to distinguish between assets that have a similar function and form
 - level 3 is components which distinguish between those that are likely to require individual depreciation and impairment models

The systematic application of componentisation is fundamental to the way in which the infrastructure code generates financial information. It will require a more detailed approach than would be needed simply to satisfy IFRS accounting requirements, and should be based on what is necessary to support detailed maintenance planning and associated budgeting over the life cycle of the assets. The draft infrastructure code requires that management and maintenance strategies should be life cycle plan based and designed to optimise value over the life cycle. The life cycle plan identifies and costs all the capital works and their projected timing to provide the information needed to undertake long term expenditure forecasting and to undertake a variety of financial modelling. As the financial information is produced and aggregated across the life cycle, it supports (and the infrastructure code requires) a whole life cost approach, rather than simply looking at the cost of the next treatment.

The draft infrastructure code generates asset management data in a form that can be readily used to report the assets on a current value basis in whole of government accounts. HM Treasury has set a timetable for a gradual transition to reporting on this basis, starting with limited, unaudited data submissions for 2009/10, building up to a full audited dry run in 2011/12 and the withdrawal of historic cost based reporting from 2012/13.

Responses were required by 14 December 2009.

Corporate governance developments

The document referred to in the following article is available free of charge by using the hyperlinks, or can be downloaded by auditors from the TSU intranet/extranet.

Proposed amendments to councillors' code of conduct

The Scottish Government has issued [Proposal for amendments to be made to the councillors' code of conduct - consultation paper](#) which sets out proposals for amendments to the *Councillors' code of conduct*. The code is a comprehensive statement of the principles and rules of conduct for local authority councillors when performing their duties. The proposed changes arise from a limited review of the code which was undertaken to address the implications of the recent legislative reform of the Scottish planning system, and to identify any areas which would benefit from clarification or reconsideration.

The amendments are therefore largely of a technical nature intended to bring the code up to date and to make it more easily understood. The majority of the amendments are in section 5 on the declaration of interests and section 7 on taking decisions on individual applications.



Comments should be sent to address councillorscodemailbox@scotland.gsi.gov.uk by 18 February 2010.

Other developments

The documents referred to in the following articles are available free of charge by using the hyperlinks, or can be downloaded by auditors from the TSU intranet/extranet.

Equal pay

Consent to borrow

The Scottish Government has issued a guidance note called [Revenue expenditure funded from capital resources under statute - Consent to borrow to finance equal pay - Policy and procedures 2009/10 - A guidance note issued by the Scottish Government](#) which sets out a scheme to allow local authorities to borrow to meet equal pay costs.

The Local Government (Scotland) Act 1975 provides Scottish Ministers with the power to consent to a local authority borrowing to meet costs that they would not otherwise be able to meet from borrowing. Under the scheme, authorities may apply for consent to borrow for equal pay. The Scottish Government requires applications in the form of a business case which provides information set out in a checklist at Annex A. This includes

- details of the progress of the local authority in implementing single status and settle equal pay claims
- details of equal pay back pay costs for which the application to borrow applies
- the financial circumstances of the local authority which supports the need to borrow.

The scheme is intended to assist authorities in financial difficulty and therefore a need to borrow requires to be demonstrated. The only expenditure for which consent is likely to be given is the one-off lump sum back-pay payments to present or former employees in respect of equal pay. The consent may only be applied to actual payments incurred, rather than any provision that have been made. The local authority may not utilise this borrowing consent where revenue contributions to the capital programme exist in the year the borrowing is undertaken.

The consent to borrow is valid for the financial year in which it is issued, plus one further financial year. If the consent to borrow has not been used by this time the local authority may apply to the Scottish Government to extend the validity of the consent.

Within three months of each financial year end, the Director of Finance is required to advise the Scottish Government of the actual borrowing undertaken in respect of the consent, and to confirm that such borrowing has been used only for the expenditure as detailed in the consent letter.



Authorities are required to include in their business case the period for the repayment of the loans fund advance that they consider to be appropriate. The actual period to be used will be set out in the consent letter, and will not exceed 20 years. Capital receipts may be used to meet the cost of the principal element of the loans fund advance.

Expenditure, for which consent is provided, should be charged to the income and expenditure account. This consent permits the general fund to be credited in the statement of movement in the general fund balance with the capital adjustment account being debited. This may include equal pay costs incurred in previous years, and therefore a prior year adjustment is not required.

Local authorities were required to apply for consent by 30 November 2009, and the Scottish Government intends to issue any consents by 31 December 2009.

Significant trading operations

2010/11 interest rates

CIPFA has issued [LAAP bulletin 83 – Capital interest rates 2010/11](#) which specifies the notional interest rate prescribed by CIPFA to be applied in calculating the capital financing charge for 2010/11.

Although the SORP no longer has a requirement to make a capital financing charge to services, some authorities may wish to continue to include such a charge for management accounting purpose. The main application of these rates in Scotland is in respect of charges to the accounts of significant trading operations.

The rates are as follows

- For assets carried at current value, the rate of interest to be applied is 3.5%.
- For assets carried at historical cost, the rate is 4.32%.

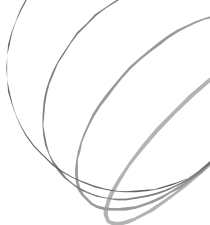
Auditors should confirm that a capital financing charge is being made to trading accounts.

Whole of government accounts

Unaudited 2008/09 returns

The Scottish Government has issued notes from their review of the unaudited 2008/09 WGA returns. The notes explain why certain error messages have arisen and provide guidance on removing them. A number of spreadsheet errors will be forwarded to HM Treasury for updating next year's guidance.

The notes also highlight variances from what was expected for Scottish Government grants and entries where values were expected in the counterparty sheet. They include

- 
- a document which identifies Scottish central government bodies and, unless they are minor bodies, their associated counterparty identifier (CPID) e.g. the CPID for all agencies and health boards is SCT075
 - a spreadsheet which identifies the cells in the counterparty data sheet for which an entry is expected
 - a spreadsheet which details the variances from expectations in respect of capital and revenue grants.

Pension schemes

Extension of new fire commutation factors

TB 2008/3 (page 23) advised of new actuarial factors for the commutation of firefighters pension into a lump sum in the old fire scheme backdated to 1 October 2007. The [Scottish Public Pensions Agency](#) (SPPA) has issued [Scottish fire and rescue service circular 2009/10 Firefighters pensions scheme backdating commutation factors](#) which advises that the effective date has been backdated further to 22 August 2006.

This means that the new factors apply to any firefighter who retired with an immediate pension on that date or later (i.e. whose last day of service was 21 August 2006 or later) or whose deferred pension came into payment on 22 August 2006 or later. This will require the payment of interest in all cases.

Firefighters who retired on or after 1 October 2007 will already have been covered by the previous backdating exercise. Fire authorities are now required to identify those firefighters who retired between 22 August 2006 and 30 September 2007, or whose deferred pension came into payment between those dates, and who commuted some of their annual pension for a lump sum. The lump sum to which the firefighters are entitled must be recalculated using the new factors.

All commutation lump sum payments, including interest, made under this exercise will be more than a year after entitlement arose and will therefore attract an unauthorised payment charge. These charges will be met by central government and will not be payable by retired firefighters or fire authorities.

Key circulars

The following circulars are available free of charge by using the hyperlink, or can be downloaded by auditors from the TSU intranet/extranet.

Finance circulars

[Finance circular 11/2009 Consent to borrow under para 1\(2\) of Schedule 3 of the Local Government \(Scotland\) Act 1975](#) attaches *Equal pay Revenue expenditure funded from capital resources under statute*



- *Consent to borrow to finance equal pay - Policy and procedures 2009/10 - A guidance note issued by the Scottish Government.* See Other developments – Equal pay – Consent to borrow.

[Finance circular 12/2009 Local government finance settlement 2010/11](#) provides details of the updated, provisional total funding allocations for each council for 2010/11.

Benefits circulars

[HB/CTB circular A22/2009 future provision of performance data for the right benefit indicator](#) outlines plans to replace by the end of the year the housing benefit operational database in respect of information on the right benefit indicator with spreadsheets sent to local authorities. This information will also be made available to Audit Scotland.

Pension circulars

[Scottish fire and rescue service circular 2009/10 Firefighters pensions scheme backdating commutation factors](#). See Other developments - Pension schemes - Extension of new fire commutation factors.

Publications

The following publication is available free of charge by using the hyperlinks.

Audit Scotland

An overview of audits of best value and community planning 2004-09: Making an impact

This report [An overview of audits of best value and community planning 2004-09: Making an impact](#) provides an overview of all the audits of best value and community planning in Scotland. The audit of best value was introduced in response to the *Local Government in Scotland Act 2003*, which gives local authorities responsibilities to continually improve their service delivery, and to report publicly on their performance. Best value audit reports provide an overall picture of each council's performance and give the public an independent view on whether their council is achieving continuous improvement. Key messages in the overview report include the following

- Effective political and managerial leadership is central to good performance.
- Councils work well with partners at a local level, but need to show what this is achieving.
- Effective performance management is essential to improve services. Good councils scrutinise performance, challenge existing ways of doing things and demonstrate value for money. Best value councils manage their people, property and money in a way that improves services and



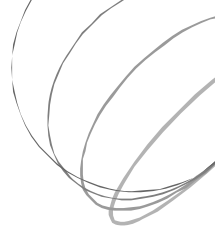
delivers value for money. Good customer care, listening to and working with local people helps improve services.

- The impact of equalities activity needs to be demonstrated, and sustainable development activity needs to be more coordinated.

Auditor action

The following is a summary of items in this chapter of the TB that include specific recommendations or requests that auditors take specific actions

Section	Action
TSU developments – Responses to enquiries – Common good and trust funds	Where authorities do not have accurate and complete asset registers for common good assets, auditors should assess whether all reasonable steps to prepare one have been taken, and should report to management and/or members where they have not.
TSU developments – Other guidance – Restated opening IFRS-based balance sheet	Auditors may wish to review the restated 1 April 2009 opening balance sheets prepared by their authorities and report their findings in a letter. Auditors are requested to send a copy of their letters to the TSU. Auditors should ensure they pay due regard to the TSU guidance when reviewing the restated opening balance sheet.
Other developments – Significant trading operations – 2010/11 interest rates	Auditors should confirm that a capital financing charge is being made to trading accounts.



Health

Introduction

This chapter contains articles on health technical matters and should be read by auditors with appointments in that sector. The general chapter contains articles on cross-sectoral technical matters.

The documents referred to in the articles that are available from websites can be obtained by using the hyperlinks. They can also be downloaded by auditors from the TSU intranet/extranet.

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note the following articles in this chapter are of relevance to 2009/10 audits

- guidance on charitable donations
- health board elections
- pandemic flu guidance
- 2009/10 statement of financial entitlements
- 2009/10 non-executive remuneration.

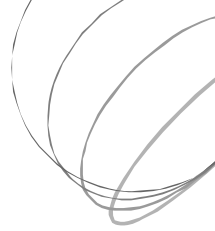
There are also articles on: recruitment and retention premia; changes to contractual length of service; and guidance on 2010/11 local delivery plans.

Governance developments

Guidance on charitable donations

The [Scottish Government Health Directorate](#) (SGHD) has issued [CEL\(2009\)40](#) to provide additional guidance on accepting donations and the associated risks. NHS boards should not normally refuse to accept donations unless it is considered inappropriate e.g.

- onerous conditions are attached which are not acceptable or cannot be met
- acceptance would place the board under any inappropriate obligation
- it would be wrong to accept it on ethical grounds.



Boards usually arrange for trustees of an endowment fund, established in terms of the *National Health Service (Scotland) Act 1978*, to manage their charitable donations. Donations held on trust must be managed separately from the normal running costs of the board. NHS endowment trusts are charities for HM Revenue and Customs purposes although they are not required to register with the OSCR. The trustees should be appointed from the board directors ex officio, and their duties include

- administering the trust effectively
- ensuring they act in accordance with the conditions of the donation and charity law
- maintaining a distinction between their responsibilities as trustees and their exchequer functions.

Other developments

The documents referred to in the following articles are available free of charge by using the hyperlinks, or can be downloaded by auditors from the TSU intranet/extranet

National agenda/direction

Health board elections

[The Health Boards \(Membership\)\(Scotland\) Regulations 2009](#) set out the arrangements for health board elections. The first election in each of the pilot health board areas is to be held on 10 June 2010.

A local authority returning officer will be responsible for conducting the election. The health board is required to pay the returning officer's expenses and may pay an appropriate fee for conducting the election.

Voters will be eligible if they are aged 16 or over and entitled to vote at a local government election within the health board area. The same criteria apply to candidates, although the regulations include specific disqualifications. For any posts unfilled during the first stage of the count, a transferrable voting system will be used to elect the required number of members.

After the declaration of the result, the documentation requires to be sealed and returned to the health board chairman. These should not be opened without an order from a sheriff principal or the Court of Session. The electronic copy of the election results should be retained for four years and the other election documentation retained for one year.



Pay modernisation and workforce planning

Recruitment and retention premia

The SGHD has issued [CEL\(2009\)41](#) to provide a revised and updated protocol and policy relating to applications for recruitment and retention premia.

Applications require to be signed off by the area partnership forum, and submitted to the Scottish Terms and Conditions Committee (STAC). Boards are required to submit evidence to support the need for new or continuing awards to STAC who will review the case. The outcome of the review will be notified to boards and it will be the boards' responsibility to advise employees of the outcome. Employees should be given at least six months notice if the payment is to cease.

Changes to contractual length of service

[PCS\(AFC\)\(2009\)7](#) informs boards of changes to the *Agenda for change terms and conditions handbook* relating to continuity of service and the working time regulations effective from 14 October 2009.

Employees returning to NHS employment from non-NHS employers, who provide NHS funded services, will be able to count that service as reckonable service in respect of sick pay, annual leave and incremental credit.

The working time regulations limit the hours worked in a seven day period to forty eight hours averaged over a 17 week period. For the duration of the flu pandemic, and subject to local agreement with trade unions, this reference period may be extended to a maximum of 52 weeks.

Pandemic flu guidance

The SGHD has issued two letters on the arrangements for GP services during the flu pandemic.

[PCA\(M\)\(2009\)14](#) provides guidance on how boards should plan for, and respond to, issues that may affect GP services in a pandemic. Boards are required to consider the measures necessary to support GP practices to allow them to concentrate on continuing to deliver services.

NHS employers and the GP committee of the British Medical Association have agreed arrangements to protect practice income in the event of serious and sustained pressure from the pandemic. The general principle is that if routine work has to be suspended, practice income for quality and outcomes framework and directed enhanced services will be in line with the previous year's achievement and the agreed uplift. Scottish Ministers will issue directions to bring in these emergency measures if required.

Boards are required to monitor the situation to determine whether they need to directly employ locum GPs to support GP services. They will need to ensure any locum is competent and provide a contract to ensure



indemnity cover. They may need to prepare a database of active locums and consider the need to employ retired medical practitioners.

Boards are required to develop an escalation strategy to implement a structured local approach to the suspension of services. This may comprise the following three levels

- The suspension of non-core activities such as local enhanced services and non-clinical activities.
- The managed suspension of services such as booked appointments and changes to surgery opening times.
- The full suspension of services and closure of the practice.

The relevant committee of the board should consider all requests to close a practice and consider alternative arrangements prior to accepting the request.

[PCA\(M\)\(2009\)13](#) provides details of the pandemic flu vaccination scheme. GPs are being paid a fee of £5.25 for each dose administered to patients in the priority groups since 29 October 2009.

2009/10 non-executive remuneration

[CEL\(2009\)47](#) advises boards of revised annual rates of remuneration payable to chairs and non-executive members to apply from 1 April 2009. In accordance with agreed central guidance, the annual uplift applied to the remuneration payable is 1.5%. The rates applicable for each board's chair and non-executive members is set out in the letter.

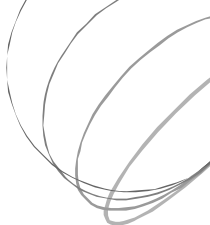
The remuneration for chairs is based on an annual time commitment of 156 days, and 52 days for non executive members. The rates for chairs of divisional management teams and community health partnerships are also included.

Family health services

2009/10 statement of financial entitlements

The SGHD has issued [PCA\(M\)\(2009\)15](#) to introduce a revised statement of financial entitlements (SFE) for GPs for 2009/10 which takes account of the pandemic flu vaccination arrangements. The SFE relates to payments to be made by health boards to a contractor under a general medical services contract with effect from 29 October 2009. The amendments compared with the previous version include the following

- The percentage thresholds to be used in the calculation of the patient experience of access points have been amended to a minimum of 50% and a maximum of 80% for those practices participating in the pandemic flu vaccination scheme

- 
- The cut off date for calculating childhood immunisation scheme payments has been amended to reflect the possible disruption practices providing the pandemic flu vaccination scheme services may experience.

Performance management

Guidance on 2010/11 local delivery plan

The SGHD has issued [Local delivery plan 2010/11 - Priorities for NHSScotland - Guidance](#) to set out the HEAT (Health improvement Efficiency Access Treatment) targets and performance measures for NHSScotland for 2009/10.

For 2010/11, there are 24 HEAT targets, which is five fewer than last year. The details of the target and the policy aim behind them are set out in the guidance. The key themes for this years HEAT targets are

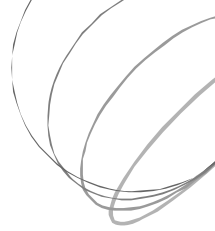
- health improvement challenges relating to obesity, alcohol, smoking and children's start in life
- efficiency targets to support the best value principles and NHSScotland's efficiency and productivity framework to deliver financial balance and 2% efficiency savings. There are also new carbon emissions and energy consumption targets
- new access targets for maximum waiting times for drugs misuse and mental health services
- treatment targets to improve patient safety by reducing healthcare associated infections and emergency attendances and admissions.

The LDPs for 2010/11 will cover a three year period and should follow the template attached to the guidance. The LDPs should include delivery trajectories and risk narrative for each target, supported by a workforce narrative and financial plans.

From April 2010, the number of HEAT standards will reduce from 14 to seven.

Legislation

The following items of legislation are available free of charge by using the hyperlinks, or can be downloaded by auditors from the TSU intranet/extranet.



Statutory instruments

National health service/ Representation of the people

[The Health Boards Elections\(Scotland\) Regulations 2009](#), SSI 352 came into force on 12 October 2009.

See Other developments – National agenda/direction – Health board elections.

Public health

[The Public Health etc. \(Scotland\) Act 2008 \(Commencement No. 2, Savings and Consequential Provisions\) Order 2009](#), SSI 319 came into force on 1 October 2009 and brings into force certain provisions under the Act including those related to the public health responsibilities, investigations and functions of health boards.

[The Public Health etc. \(Scotland\) Act 2008 \(Commencement No. 3, Consequential Provisions and Revocations\) Order 2009](#), SSI 404 brings into force further provisions under the Act on 1 December 2009 and 1 January 2010 including provisions on the list of notifiable diseases and organisms.

[The Mental Health Tribunal for Scotland \(Appointment of Medical Members\) Amendment Regulations 2009](#), SSI 359 came into force on 16 November 2009 and amended the principal regulations to allow medical practitioners to be appointed whether or not they hold a licence to practice.

Key circulars

The following is a brief summary of significant circulars issued since the last TB that auditors' attention is particularly drawn to. They are available free of charge by using the hyperlinks, or can be downloaded by auditors from the TSU intranet/extranet.

Chief executive letters (CEL)

[CEL\(2009\)40](#) *Guidance for NHS boards on accepting charitable donations*. See Governance developments – Guidance on charitable donations.

[CEL\(2009\)41](#) *Recruitment and retention premia policy*. See Other developments – Pay modernisation and workforce planning – Recruitment and retention premia.

[CEL\(2009\)47](#) *NHS health boards and special health boards remuneration increase 2009/10: for chairs and non-executive members*. See Other developments – Pay modernisation and workforce planning – 2009/10 non-executives remuneration.



PCA

[PCA\(M\)\(2009\)13](#) *The Primary Medical Services (Directed enhanced services – pandemic influenza (H1N1)vaccination scheme(Scotland) Directions 2009*. See Other developments – Pay modernisation and workforce planning – Pandemic flu guidance.

[PCA\(M\)\(2009\)14](#) *Pandemic influenza – guidance on planning and responding to primary care GP practice capacity challenges*. See Other developments – Pay modernisation and workforce planning – Pandemic flu guidance.

[PCA\(M\)\(2009\)15](#) *General medical services statement of financial entitlements for 2009/10*. See Other developments – Family health services – 2009/10 statement of financial entitlement.

PCS

[PCS\(AFC\)\(2009\)7](#) *Contractual continuity of service and working time regulations*. See Other developments – Pay modernisation and workforce planning – Changes to contractual length of service.

Publications

The following publication is available free of charge by using the hyperlinks.

Audit Scotland

Overview of the NHS in Scotland's performance 2008/09

This report *Overview of the NHS in Scotland's performance 2008/09* provides an overview of the performance of the NHS in Scotland in 2008/09 and examines the financial challenges and risks from 2009/10. The key messages include the following

- The financial performance was good with an overall revenue underspend of £58 million by boards being balanced by a planned central overspend, and a capital underspend of £4million. All bodies met their financial targets.
- Some boards were reliant on non-recurring funding with the underlying recurring deficit increasing from £16 million in 2007/08 to £23 million in 2008/09.
- The NHS continues to face cost pressures, including pay modernisation and the cost of achieving full compliance with the European Working Time Directive. The NHS is likely to face a challenging period ahead and there is likely to be a decrease in funding in real terms across the Scottish public sector. Bodies need to examine how they deliver services and ensure they make best use of resources.



Central government

Introduction

This chapter contains articles on central government technical matters and should be read by auditors with appointments in that sector. The general chapter contains articles on cross-sectoral technical matters.

The documents referred to in the articles that are available from websites can be obtained by using the hyperlinks. They can also be downloaded by auditors from the TSU intranet/extranet.

Accounting developments

Amendment to 2009/10 FREM

[HM Treasury](#) has issued an amendment to the [2009/10 Government financial reporting manual](#) (the FReM) to clarify that the existing use basis should continue to be used for valuing non-specialised property.

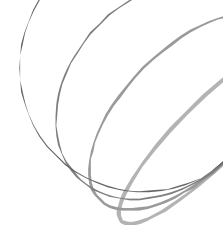
Paragraph 6.2.5 now states that for 'in use' non-specialised property assets fair value should be interpreted as market value for existing use. In the valuers' Red book, this is defined as 'market value on the assumption that property is sold as part of the continuing enterprise in occupation'.

Guidance on IFRS

The Scottish Government has issued a guidance note for 2009/10 which complements the application notes on IFRS and gives an overview of the key conversion issues.

The note primarily provides guidance to the Scottish Government Finance Directorate but also applies to agencies and non departmental public bodies. It gives an overview of IFRS adoption, and provides some accounting examples and a summary of the budgetary implications. The note covers

- employee benefits
- finance leases
- accounting for PPP/PFI contracts
- website costs
- financial guarantee contracts.



Section 22 reports

Under [section 22\(3\) of the Public Finance and Accountability \(Scotland\) Act 2000](#), the Auditor General may prepare a report to Scottish Ministers on the accounts sent to him by auditors. The following reports have been prepared since TB 2009/3 and are available by following the hyperlinks.

The 2008/09 audit of the Royal Botanic Garden Edinburgh

The Auditor General issued this report on the [2008/09 audit of The Royal Botanic Garden Edinburgh](#) to bring to Parliament's attention the potential loss of public funds relating to the Icelandic banking crisis.

The body had £1.09 million deposited with Kaupthing Singer and Friedlander (KSF) in October 2008 when the bank went into administration. As a wholesale depositor, the body was not covered by guarantees for retail deposits nor did it qualify for small charity guarantees. KSF's Administrators expect distributions of at least 50p in the £ which suggests that a minimum of £0.545 million of the deposits could be expected to be returned. It is likely that the potential loss of funds invested with KSF will have a significant impact on aspects of the body's future operations.

The report also highlighted that the body did not obtain approval from the Scottish government at the time the account with KSF was opened in 2005 but retrospective approval was granted in 2009.

The body has conducted an internal review of its decision to place cash on deposit with KSF and has made a number of changes to its treasury management arrangements e.g. cash deposits may only be placed with UK clearing banks, there is a limit on the amount of cash that may be deposited, and there are monthly reports on cash balances and institutional credit ratings.

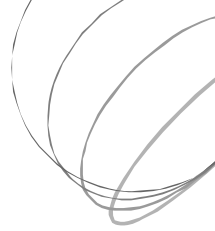
The Auditor General has asked the body's external auditors to monitor progress in recovering the funds and report back in due course.

2008/09 audit of Registers of Scotland

The Auditor General issued this report on the [2008/09 Audit of Registers of Scotland](#) to bring to the Parliament's attention the effect of the economic downturn on the body's financial position and its future income and expenditure plans.

The body incurred a large operating deficit in 2008/09 and it forecasts further deficits in future. The deficits are larger than expected as a result of the economic downturn but the body intends to use its accumulated reserves, and plans to continue to develop and improve its services in line with its corporate plan.

The body will need to continue to manage its income and expenditure plans in the light of future market movements to ensure that its plans remain realistic and supportable. The Auditor General will continue to monitor performance and may consider a further report in due course.



Publications

The following publications are available free of charge by using the hyperlinks.

Audit Scotland

Review of Cairngorm funicular railway

This report [Review of cairngorm funicular railway](#) examines Highlands and Islands Enterprise (HIE) involvement with the funicular railway project over a 17-year period. Key messages include the following

- The business case was subject to appraisal by HIE, the Scottish Office and the EU, and met requirements at the time. However, a number of changes took place in the early stages of the project but HIE did not review and adjust the business case before construction started, to take account of the increased risks.
- The public sector funded the entire cost of building the funicular, with HIE paying 87% of the final cost of £19.54 million.
- Consultants report that the funicular has delivered the anticipated employment and wider benefits to the Strathspey area. HIE is working with Cairngorm Mountain Limited to develop a new model for the business.



Further education

This chapter contains articles on further education technical matters and should be read by auditors with appointments in that sector. The general chapter contains articles on cross-sectoral technical matters.

The documents referred to in the articles that are available from websites can be obtained by using the hyperlinks. They can also be downloaded by auditors from the TSU intranet/extranet.

Accounting developments

The document referred to in the following article can be obtained free of charge by using the hyperlink or downloaded by auditors from the TSU intranet/extranet.

Guidance on operating and financial review

The [Scottish Funding Council](#) (SFC) has issued [guidance notes](#) on the preparation of the operating and financial review (OFR) from 2008/09. It should reflect the governing body's view of the college and should be

- focussed on the interests of funders and financial supporters
- forward-looking
- complementary as well as supplementary to the financial statements
- comprehensive, understandable, balanced and neutral, and comparable over time.

Colleges are expected to include an OFR as part of their financial statements. The OFR should provide an overview of the college's finances and operations and should take account of the good practice set out in the ASB's reporting statement on the OFR. It should explain the nature, objectives and strategy of the college including relevant key performance indicators and other performance indicators. The guidance sets out core performance indicators that colleges may use. It should also explain

- current and future developments and performance
- resources, principal risks and uncertainties, and relationships
- the financial position including long-term financing, treasury policies and objectives and liquidity.

A [disclosure checklist](#) is included as an appendix to the guidance.



Other developments

The document referred to in the following article can be obtained free of charge by using the hyperlink or downloaded by auditors from the TSU intranet/extranet.

Efficient government

Information request

The SFC has requested in circular [SFC/35/2009](#) that colleges submit information on their contribution to the Scottish Government's efficient government objectives.

The efficiency targets for colleges (and universities) are £32 million in 2008/09, £64 million by the end of 2009/10 and £96 million by the end of 2010/11. The targets require to be represented by 'cash-releasing' efficiencies (i.e. those realised because the organisation delivers the same service at a reduced cost) which differs from the previous efficient government initiative where the emphasis was on 'time-releasing' efficiencies. Colleges are required to send their 2008/09 outturn figures and revised plans for 2009/10 and 2010/11 to the SFC by 31 January 2010.

Colleges are expected to have appropriate internal management and governance arrangements in place for efficient government, and are recommended to include reviewing the underlying processes within the scope of their audit committee's remit.

The circular also suggests that a section on improvements reported through the efficient government programme be included in the OFR.

Funding

Guidance on sustainability framework

The SFC has issued guidance on developing a sustainability framework under cover of [SFC/31/2009](#) *Guidance for developing a framework to support institutional sustainability and scenario planning*. The circular highlights that colleges are now relatively financially stable and the SFC is focussing its effort on supporting longer-term sustainability. It is encouraging colleges to look more holistically at their activities and key resources as part of medium to longer-term planning.

The circular defines a sustainable college as one which continually develops the quality of its learning activities to meet changing needs, controls its costs, and secures sufficient income to resource its activities and maintain its assets. Annex C provides a checklist setting out the characteristics of a sustainable college.



The sustainability framework is a statement endorsed by the governing body to explain how and why they consider the college to be sustainable. It should incorporate performance measures presented in the form of a balanced scorecard using the listing of the core performance indicators provided at Annex D. The SFC hopes that colleges will also include these indicators within their operating and financial review. An illustrative sustainability framework and balanced scorecard is provided at Annex B. The framework requires to be produced as supplement to the main strategic plan.

The circular also requires colleges to confirm that they have conducted appropriate scenario planning in light of possible reductions in public funding and the wider implications of changing economic conditions. This should include the key assumptions used and the main actions taken.

Colleges are required to submit to the SFC the confirmation of scenario planning by 15 January 2010 and the sustainability framework by 31 March 2010.

Key circulars

The following circulars are available free of charge by using the hyperlinks, or can be downloaded by auditors from the TSU intranet/extranet.

[SFC/30/2009 In-year management of student support funds](#) invites colleges to confirm whether they wish to relinquish or request additional bursary funds for 2009/10.

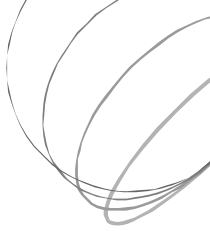
[SFC/31/2009 Guidance for developing a framework to support institutional sustainability](#). See Other developments – Funding – Sustainability framework.

[SFC/34/2009 Financial statements and returns 2008/09](#) requests colleges to submit copies of audited 2008/09 financial statements and supporting information to the SFC by 31 December 2009.

[SFC/35/2009 Efficient government](#). See Other developments – Efficient government – Information request.

[SFC/37/2009 Transparent approach to costing \(TRAC\) returns for academic year 2008/09](#) requests completion of the TRAC return for 2008/09.

[SFC/38/2009 Student support funds: result of the in-year management of funds 2009/10](#) announces the outcome of the in-year management of student support funds for 2009/10.



Contact points

General comments regarding the TB's structure and contents, particularly suggestions for improvement, should be made to

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16 December 2009