

Technical bulletin 2013/1 January to March



Prepared by the Technical Services Unit
19 March 2013

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Contents

Foreword	5
Headlines.....	6
Cross-sectoral chapter	12
Introduction	12
Accounting developments	12
Auditing developments	15
Corporate governance developments.....	17
Legislation.....	17
Publications.....	18
Fraud cases	18
Local authority chapter	20
Introduction	20
TSU developments.....	20
Accounting developments	22
Other developments	24
Legislation.....	30
Section 102 reports	32
Publications.....	33
Auditor action	34
Central government chapter	35
Introduction	35
TSU developments.....	36
Accounting developments	36
Corporate governance.....	41
Other developments	42
Auditor action	43
Health chapter	45
Introduction	45
Accounting developments	45
Governance developments.....	47

Other developments	48
Legislation	51
Publications.....	52
Auditor action	52
Further education chapter.....	54
Introduction	54
TSU developments.....	54
Contact points.....	56

Foreword

Informing judgement, Improving quality

Audit Scotland's Technical Services Unit (TSU) informs the professional judgement of appointed external auditors on technical matters to improve the quality of the audit delivered to the Accounts Commission and Auditor General for Scotland. The TSU provides authoritative guidance and practical assistance to support appointed auditors in carrying out their responsibilities under the *Code of audit practice* to

- provide an opinion on audited bodies' financial statements and, where required, the regularity of transactions
- review and report on other information published with the financial statements, including governance statements (and equivalent statements) and remuneration reports
- examine and report on approved grant claims and other returns submitted by local authorities
- review and report on whole of government accounts returns.

Authoritative guidance includes technical bulletins (TBs) prepared by the TSU at quarterly intervals, which are approved by the Assistant Auditor General for Scotland. They are available to external auditors from Audit Scotland's *Technical reference library* and published on the Audit Scotland website. TBs provide a composite of technical developments in the quarter that are relevant to external auditors' responsibilities referred to above, and provide auditors with guidance on any emerging issues.

TBs contain information which is of importance to the conduct of audits and frequently recommend that auditors take certain actions, and a summary of these actions is provided at the end of each chapter. It is important 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, and are responsible for their own conclusions and opinions, consistency in similar circumstances is important and **the *Code of audit practice* therefore states that auditors should normally follow all such guidance. Auditors should advise the TSU promptly if they intend not to follow, any guidance on an important issue** (e.g. a matter that requires consideration to be given to modifying the audit opinion on the financial statements of a number of audited bodies).

TBs are published on the Audit Scotland website so that audited bodies and other stakeholders can be aware of the guidance that has been provided to auditors. TBs should not be regarded as necessarily 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.

Headlines

The table in this chapter provides brief headlines for the content of this TB, referenced to the paragraphs containing the main article.

Cross-sectoral chapter	Reference
<p>The International Accounting Standards Board has issued</p> <ul style="list-style-type: none"> proposed amendments to the international financial reporting standard on impairment revised proposals on accounting for expected credit losses. 	<p>Paragraph 1</p> <p>Paragraph 5</p>
<p>The Financial Reporting Council has issued</p> <ul style="list-style-type: none"> proposed revised guidance on going concern proposed revisions to the auditing standard on the auditor's report a consultation paper on prohibiting direct assistance from internal auditors. 	<p>Paragraph 11</p> <p>Paragraph 21</p> <p>Paragraph 25</p>
<p>The International Public Sector Accounting Standards Board has issued the first phase of its new international conceptual framework for public sector entities.</p>	<p>Paragraph 18</p>
<p>The International Auditing and Assurance Standards Board has issued a proposed framework for audit quality.</p>	<p>Paragraph 29</p>
<p>The Relevant Internal Audit Standard Setters have issued public sector internal audit standards.</p>	<p>Paragraph 33</p>
<p>Audit Scotland has published a report on health inequalities.</p>	<p>Paragraph 37</p>

Cross-sectoral chapter	Reference
The TSU has provided a summary of some reported fraud cases.	Paragraph 38
Local authority chapter	Reference
<p>The TSU has published a</p> <ul style="list-style-type: none"> • note for guidance on auditing 2012/13 local authority financial statements • note for guidance on auditing 2012/13 local authority pension fund financial statements • 2011/12 audited analytical review database for pension funds. 	<p>Paragraph 44</p> <p>Paragraph 47</p> <p>Paragraph 50</p>
<p>The Chartered Institute of Public Finance and Accountancy has issued a</p> <ul style="list-style-type: none"> • handbook on property asset valuation • local government pension scheme fund accounts 2012/13 example accounts and disclosure checklist. 	<p>Paragraph 52</p> <p>Paragraph 68</p>
The CIPFA/LASAAC Local Authority Code Board has issued a consultation paper on accounting for business rates retention in 2013/14.	Paragraph 64
The Audit Commission has issued modules 2 and 3 of the 2012/13 HBCOUNT.	Paragraph 74
<p>The following Acts have received Royal Assent</p> <ul style="list-style-type: none"> • Local Government Finance (Unoccupied Properties etc.) (Scotland) Act 2012 • The Local Government Finance (Unoccupied Properties etc.) (Scotland) Act 2012. 	<p>Paragraph 71</p> <p>Paragraph 82</p>

Local authority chapter	Reference
<p>The Department for Works and Pensions has issued circulars on</p> <ul style="list-style-type: none"> • additional 2012/13 funding to meet welfare reform costs • using social security data for the council tax reduction scheme • transitional arrangements for abolishing council tax benefit • changes to support the abolition of council tax benefit • supported exempt accommodation and the benefits cap • 2013/14 discretionary housing payments • 2013/14 benefits uprating. 	<p>Paragraph 83</p> <p>Paragraph 93</p> <p>Paragraph 95</p> <p>Paragraph 97</p> <p>Paragraph 101</p> <p>Paragraph 102</p> <p>Paragraph 104</p>
<p>The Scottish Government has issued a finance circular on <i>The Local Government Finance (Scotland) Order 2013</i>.</p>	<p>Paragraph 106</p>
<p>Statutory instruments have been passed on</p> <ul style="list-style-type: none"> • unoccupied properties • welfare reform • the council tax reduction scheme • the benefits cap • police and fire reform • the local government pension scheme • rating and valuation. 	<p>Paragraph 73</p> <p>Paragraph 84</p> <p>Paragraphs 86, 90, 92 and 94</p> <p>Paragraph 100</p> <p>Paragraph 117</p> <p>Paragraph 119</p> <p>Paragraph 120</p>
<p>The Controller of Audit has issued statutory reports on</p> <ul style="list-style-type: none"> • the 2011/12 audit of City of Edinburgh Council • Shetland Islands Council. 	<p>Paragraph 128</p> <p>Paragraph 129</p>

Local authority chapter	Reference
Audit Scotland has issued reports on <ul style="list-style-type: none"> • protecting consumers • major capital investment in councils. 	Paragraph 130 Paragraph 131

Central government chapter	Reference
The TSU has published notes for guidance on <ul style="list-style-type: none"> • auditing 2012/13 central government financial statements • auditing 2012/13 charitable non departmental public body financial statements. 	Paragraph 132 Paragraph 132
Treasury has issued <ul style="list-style-type: none"> • amendments to the 2012/13 <i>Government financial reporting manual</i> • a guide on accounting for business combinations under common control • the 2013/14 <i>Government financial reporting manual</i> • a guide on accounting standards issued in 2012/13 • a paper on the new methodology for calculating the discount rates for general provisions from 2012/13 • a paper setting out the discount rates for general provisions for 2012/13 • a paper setting out the discount rate for post-employment benefits from 31 March 2013. 	Paragraph 135 Paragraph 140 Paragraph 144 Paragraph 157 Paragraph 162 Paragraph 165 Paragraph 169
The National Audit Office has issued the <ul style="list-style-type: none"> • 2012/13 disclosure guide for central government bodies • 2012/13 disclosure guide for charitable non-departmental public bodies. 	Paragraph 172 Paragraph 172

Central government chapter	Reference
<p>The Scottish Government has issued</p> <ul style="list-style-type: none"> proposed amendments to the model code of conduct for members a strategy on the delivery of digital services a finance guidance note on adoption of the public sector internal audit standards amendments to the <i>Scottish public finance manual</i>. 	<p>Paragraph 175</p> <p>Paragraph 179</p> <p>Paragraph 184</p> <p>Paragraph 185</p>

Health chapter	Reference
<p>The Scottish Government Health and Social Care Directorates has issued</p> <ul style="list-style-type: none"> the 2012/13 accounts manual guidance on governance statements 2012/13. 	<p>Paragraph 190</p> <p>Paragraph 201</p>
<p>The Scottish Government has issued a</p> <ul style="list-style-type: none"> telehealth and telecare delivery plan report on the evaluation of health board elections good practice guide to performance management. 	<p>Paragraph 208</p> <p>Paragraph 212</p> <p>Paragraph 216</p>
<p>The Scottish Advisory Committee on Distinction Awards has issued its 2012 annual report.</p>	<p>Paragraph 220</p>
<p>NHSScotland has issued</p> <ul style="list-style-type: none"> 2013/14 local delivery plan guidance the 2012 report on the NHS estate. 	<p>Paragraph 224</p> <p>Paragraph 229</p>

Health chapter	Reference
Statutory instruments have been issued in <ul style="list-style-type: none"> • injury benefits • personal injuries. 	Paragraph 232 Paragraph 234
Audit Scotland has published reports on <ul style="list-style-type: none"> • prescribing in general practice • management of waiting lists. 	Paragraph 235 Paragraph 236

Further education chapter	Reference
The TSU has issued guidance on the basis of college financial years.	Paragraph 239

Cross-sectoral chapter

Introduction

This chapter contains articles on cross-sectoral technical developments and authoritative guidance relevant to external auditors' responsibilities under their audit appointment. It should be read by all external auditors. Developments and guidance that are relevant to only one sector are covered in the relevant sector-specific chapter. More in-depth and extensive guidance on particular subjects or themes is provided in separate guidance notes published by the TSU (i.e. notes for guidance, urgent issue notes and, for local authorities, grant notes).

The articles in this chapter are intended to highlight the main points that the TSU considers auditors require to be aware of in respect of each development. In many cases, it may still be necessary for auditors to read the source material. The documents referred to in the articles can be obtained by using the hyperlinks. They are also available to external auditors from Audit Scotland's *Technical reference library*.

The TSU encourages feedback on this TB. Comments should be sent to alewis@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 there are no articles in this chapter that relate to 2012/13 audits.

Accounting developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library* (except where indicated).

Proposed amendments to standard on impairment

1. The [International Accounting Standards Board](#) (IASB) has issued [Exposure draft 2013/1 Recoverable amount disclosures for non-financial assets](#) which proposes modifications to the disclosures in *IAS 36 Impairment of assets* for measuring the recoverable amount of impaired assets.
2. When developing *IFRS 13 Fair value measurement*, IAS 36 was amended to require the disclosure of information on the recoverable amount of impaired assets. However, some of the amendments have resulted in broader application than was intended. The exposure draft therefore proposes removing the requirement to disclose the recoverable amount of each cash-generating unit for which the carrying amount of goodwill or intangible assets is significant when compared to the total carrying amount of these items

3. It also proposes adding the requirement to disclose the recoverable amount and valuation technique of an individual asset measured at fair value less costs of disposal for which the entity has recognised or reversed an impairment loss during the reporting period.
4. Comments were required by 19 March 2013. It is proposed that the amendments should be applied retrospectively for annual periods beginning on or after 1 January 2014, with earlier application permitted provided IFRS 13 is also applied.

Revised proposals on accounting for expected credit losses

5. The IASB has issued [Exposure draft 2013/3 Financial instruments expected credit losses](#) which contains revised proposals on accounting for expected credit losses when impairing financial instruments.
6. Under the proposals, it would no longer be necessary for a credit event (e.g. a payment default) to have occurred before credit losses are recognised. Instead, expected credit losses, and changes in those expectations, would be recognised. Expected credit losses are an estimate of losses that an entity expects will result from a credit event. The amount of expected credit losses would be updated at each reporting date to reflect changes in credit quality (or increase in credit risk).
7. In addition, when credit losses are currently measured, an entity may only consider those losses that arise from past events and current conditions. The proposals would require an entity to base its measurement of expected credit losses on relevant information about past events, current conditions and reasonable and supportable forecasts.
8. The proposals result in lifetime expected credit losses being recognised when the credit quality of a financial instrument is worse than that anticipated when the financial instrument was first originated or purchased. Lifetime expected credit losses are an expected present value measure of credit losses that arise if a borrower defaults on their obligation throughout the life of a financial instrument.
9. Once the proposals are finalised, they will be added to *IFRS 9 Financial instruments*. The existing 'incurred loss' model for credit losses delays the recognition of the loss until there is evidence of a credit loss event.
10. Comments should be made via the IASB website by 5 July 2013.

Proposed revised guidance on going concern

11. The [Financial Reporting Council](#) (FRC) has issued [Revised guidance on going concern and revised international standards on auditing \(UK and Ireland\) - consultation paper](#) which is intended to implement the recommendations of the Sharman Panel of Inquiry into going concern and liquidity risks. The consultation proposes revised guidance on going concern to apply to bodies which comply with the *UK corporate governance code*.
12. Under the current guidance, an assessment of whether an entity is a going concern is made on a periodic basis to assess whether a going concern basis of accounting is appropriate.

The revised guidance proposes that the assessment should be integrated with ongoing business planning and risk management, and the primary purpose would be to reinforce responsible behaviour in the management of going concern risks.

13. The guidance proposes that boards should have regard to the foreseeable future, i.e. what the board knows or should reasonably be expected to know about the future. The board's active consideration should be sufficient to obtain a high level of confidence that the solvency and liquidity risks can be managed effectively over a period of at least twelve months from approval of the financial statements.
14. In relation to disclosing material uncertainties in respect of the entity's ability to continue as a going concern, the threshold is currently linked to whether the going concern basis of accounting is appropriate. The draft revised guidance states that the threshold should be when, for the foreseeable future, there is a high level of confidence that it will have the necessary liquid resources to meet its liabilities as they fall due, and will be able to sustain its business model, strategy and operations while remaining solvent.
15. The annual report should discuss the work of the audit committee in relation to the going concern assessment. It should give the board's conclusion as to the robustness of its assessment, and discuss the significant solvency and liquidity risks that the entity faces and how they are managed.
16. It is proposed that the auditor's report explicitly addresses whether the auditor has anything to add, or to emphasise, in relation to these disclosures.
17. Comments should be sent to m.grabowski@frc.org.uk by 28 April 2013.

New international conceptual framework for public sector entities

18. The [International Public Sector Accounting Standards Board](#) has issued the first phase of [The conceptual framework for general purpose financial reporting by public sector entities](#) to establish a framework for developing international public sector accounting standards.
19. Although all the components of the conceptual framework are interconnected, it is being developed in phases. Phase 1 has now been completed, and comprises the first four chapters that deal with the
 - role and authority of the framework
 - objectives and users of financial reporting
 - qualitative characteristics
 - reporting entity.
20. In addition to being used to develop standards, the framework can provide guidance in dealing with financial reporting issues not dealt with by standards. In these circumstances, preparers and auditors can refer to, and consider the applicability of, the definitions, recognition criteria, measurement principles, and other concepts identified in the framework.

Auditing developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

Proposed revisions to standard on auditor's report

21. The FRC has issued [Revisions to ISA \(UK\) 700 - consultation paper](#) which proposes changes to *ISA 700 The auditor's report on financial statements* in respect of the auditor's report on bodies that report on compliance with the *UK Corporate governance code*.
22. There are proposals to require the auditor's report to
 - describe those assessed risks of material misstatement that were identified by the auditor which had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team
 - provide an explanation of how the auditor applied the concept of materiality in planning and performing the audit
 - provide a summary of the audit scope, including an explanation of how the scope was responsive to the assessed risks of material misstatement and the auditor's application of the concept of materiality, as disclosed in the auditor's report.
23. It is also proposed to rename ISA 700 to add the word 'independent' before 'auditor'.
24. Comments should be sent to sleonard@frc.org.uk by 30 April 2013.

Prohibiting direct assistance from internal auditors

25. The FRC has issued a [consultation paper](#) on prohibiting direct assistance from internal auditors in the audit of the financial statements. The current ISA 610 provides guidance on using internal auditors to provide direct assistance to the external audit team.
26. However, the FRC has now concluded that it would not be appropriate to allow the use of direct assistance as it is undertaken by individuals that are not independent of the audited body and because the risk to audit quality is heightened. The FRC has therefore decided to amend ISA 610 to state that the use of internal auditors to provide direct assistance is prohibited.
27. The FRC proposes an effective date of audits of financial statements for periods ending on or after 15 March 2014. However, before finalising the timing of the prohibition, the FRC is consulting to obtain a fuller understanding of the possible impact.
28. Comments should be sent to k.billing@frc.org.uk by 12 April 2013.

Proposed framework for audit quality

29. The [International Auditing and Assurance Standards Board](#) (IAASB) has issued [A framework for audit quality - consultation paper](#) which sets out a proposed framework that describes the factors that contribute to audit quality.
30. The paper states that a quality audit is likely to be achieved when the auditor's opinion on the financial statements can be relied upon as it was based on sufficient appropriate audit evidence obtained by an engagement team that
 - exhibited appropriate values, ethics and attitudes
 - was sufficiently knowledgeable and experienced and had sufficient time allocated to perform the audit work
 - applied a rigorous audit process and quality control procedures
 - provided valuable and timely reports
 - interacted appropriately with a variety of different stakeholders.
31. The framework describes four elements of a quality audit (i.e. inputs, outputs, interactions among key stakeholders, and context) and sets out a number of quality attributes for each element. For example, quality attributes for the 'inputs' element include the following
 - The engagement team exhibits objectivity and integrity, professional competence, due care, and professional scepticism.
 - The firm emphasizes the importance of providing partners and staff access to high-quality technical support, and promotes a culture of consultation on difficult issues.
 - Partners and staff have the necessary competences, understand the entity's business, and make reasonable judgments.
 - Staff who perform audit work have sufficient experience, their work is appropriately directed, supervised and reviewed, and there is a reasonable degree of staff continuity.
 - The audit engagement partner and other experienced members of the audit team are accessible to management and those charged with governance.
 - The audit methodology is adapted to developments in professional standards and to findings from internal quality control reviews and external inspections.
 - Rigorous quality control procedures are established and audit quality is monitored and appropriate consequential action is taken.
32. Comments should be made via the IAASB website by 15 May 2013.

Corporate governance developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

Public sector internal audit standards

33. The Relevant Internal Audit Standard Setters (including the [Scottish Government](#) in respect of central government and health, and the [Chartered Institute of Public Finance and Accountancy](#) in respect of local authorities) have issued [Public sector internal audit standards](#) (PSIAS) to be applicable to all areas of the public sector from 1 April 2013.
34. The PSIAS is based on the mandatory elements of the Institute of Internal Auditors' (IIA) *International professional practices framework* which comprises
 - a definition of internal auditing
 - a code of ethics
 - international standards for the professional practice of internal auditing.
35. Public sector requirements and interpretations have been included where additional sector-specific detail is needed
 - in order to achieve consistent application in the public sector
 - where the issue is not addressed adequately by the current IIA standards
 - where the IIA standard would be inappropriate or impractical in the context of public sector governance.

Legislation

The following legislation can be obtained by using the hyperlink and is available to external auditors from Audit Scotland's *Technical reference library*.

Public finance and accountability

36. [The Budget \(Scotland\) Act 2012 Amendment Order 2012](#) (SSI 346) came into force on 13 December 2012 and amended the *Budget (Scotland) Act 2012*.

Publications

The following publication published since TB 2012/4 can be obtained by using the hyperlink.

Audit Scotland

Health inequalities in Scotland

37. This report [Health inequalities in Scotland](#) assesses how well public sector bodies are working together to target resources at health inequalities. Key messages include the following
- Deprivation is a major factor in health inequalities, but the distribution of primary care services across Scotland does not fully reflect the higher levels of ill health found in deprived areas. It is not clear how health boards and councils allocate resources to target areas with the greatest needs.
 - Reducing health inequalities requires effective partnership working across a range of organisations, but greater clarity is needed about their respective roles and responsibilities.
 - National policies and strategies which aim to reduce health inequalities have so far shown limited evidence of impact. Many initiatives have lacked a clear focus on cost effectiveness and outcome measures.
 - Current performance measures do not provide a clear picture of progress.

Fraud cases

External auditors are required to submit to the TSU information on cases of reportable fraud that arise at audited bodies. The following is a summary of fraud cases that have been reported by auditors to the TSU since TB 2012/4.

Expenditure

Change of bank details

38. An unknown third party attempted to defraud £120,000 from a non-departmental public body (NDPB) by re-directing payments intended for a legitimate supplier. The fraudster sent a forged letter on headed paper to the NDPB purporting to be from the supplier requesting a change in bank details. Finance staff observed procedures by following up the request with a phone call to the supplier, which appeared to confirm the change.
39. The attempted fraud was only discovered when the bank phoned to verify payments. The NDPB is pursuing recovery of the money and is reviewing its procedures.

Income

Failure to bank cash income

40. An employee defrauded £9,000 from a council over a 15 month period by not banking income related to environmental services. The fraud was identified following a request from the budget holder for a budget monitoring report that identified a level of income significantly less than expected.
41. The fraud was possible due to control weaknesses in the collection and banking of income including no separation of duties, inadequate budgetary monitoring arrangements, inadequate financial management training, and poor security for income.
42. The police were informed and disciplinary action is currently underway against the employee. An internal audit review has been undertaken and control weaknesses have been addressed.

Local authority chapter

Introduction

This chapter contains articles on local authority technical developments and authoritative guidance relevant to external auditors' responsibilities under their audit appointment. It should be read by external auditors with appointments in the local authority sector. Auditors should also read the cross-sectoral chapter which covers developments and guidance that are relevant to all sectors. More in-depth and extensive guidance on particular subjects or themes is provided in separate guidance notes published by the TSU (i.e. notes for guidance, urgent issue notes and grant notes).

The articles in this chapter are intended to highlight the main points that the TSU considers auditors require to be aware of in respect of each development. In many cases, it may still be necessary for auditors to read the source material. The documents referred to in the articles can be obtained by using the hyperlinks. They are also available to external auditors from Audit Scotland's *Technical reference library*.

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 article in this chapter relates to 2012/13 audits

- Note for guidance on auditing 2012/13 local authority financial statements.
- Note for guidance on auditing 2012/13 local authority pension fund financial statements.
- 2011/12 analytical review database for pension funds.
- New handbook on property asset valuation.
- Local government pension scheme fund accounts 2012/13 example accounts and disclosure checklist.

TSU developments

Guidance notes

The following guidance notes have been published by the TSU since TB 2012/4. They can be obtained by using the hyperlinks and are available to external auditors from Audit Scotland's *Technical reference library*.

Note for guidance on auditing 2012/13 local authority financial statements

44. The TSU has published [Note for guidance 2013/1\(LA\) Audit of 2012/13 local authority financial statements](#) to provide auditors with guidance on planning and performing the audit of the 2012/13 local authority financial statements.

45. The note for guidance provides guidance on the areas that the TSU considers represent a generic risk of material misstatement in the 2012/13 financial statements. The note also provides guidance on auditors' responsibilities to
 - audit and express an opinion on elements of the remuneration report
 - express an opinion on the consistency of the explanatory foreword with the financial statements
 - report on other matters such as the annual governance statement.
46. Auditors should use this note for guidance when planning and performing the audit of the 2012/13 local authority financial statements.

Note for guidance on auditing 2012/13 local authority pension fund financial statements

47. The TSU has published [Note for guidance 2013/2\(LA\) Audit of 2012/13 local authority financial statements \(pension funds\)](#) to provide auditors with guidance on planning and performing the audit of the 2012/13 local authority pension fund financial statements.
48. The note for guidance provides guidance on the areas that the TSU considers represent a generic risk of material misstatement in the 2012/13 financial statements. The note also provides guidance on auditors' responsibilities to
 - express an opinion on the consistency of the explanatory foreword with the financial statements
 - report on other matters such as the governance compliance statement.
49. Auditors should use this note for guidance when planning and performing the audit of the 2012/13 local authority pension fund financial statements.

Analytical review databases

The TSU provides auditors with practical assistance to support its authoritative guidance. Practical assistance includes the production of analytical review databases. The following database has been published by the TSU since TB 2012/4. It is available to external auditors from Audit Scotland's *Technical reference library*.

2011/12 analytical review database for pension funds

50. The TSU has published a database of local authority pension fund financial information for 2011/12. This is the first year that a database of pension fund information has been prepared, and it is based on information in the 2011/12 audited financial statements. The database is intended to inform local and national overview reporting and to assist auditors with analytical review procedures when planning the 2012/13 audits.
51. Auditors should use this database when planning the audit of the 2012/13 pension fund financial statements.

Accounting developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library* (except where indicated).

New handbook on property asset valuation

52. CIPFA has published a handbook called *Property asset valuation* which can be ordered from the CIPFA website and is intended to help authorities comply with the accounting requirements of the *Code of practice on local authority accounting in the UK* (the Code) in relation to valuing property assets. The handbook examines the valuation of local authority property assets and provides practical examples. It reflects the requirements of the *RICS Valuation - professional standards* (the red book), and has been designed primarily for use by valuers but may also be used by accountants and auditors.
53. The handbook highlights that a comprehensive and up-to-date asset register is a prerequisite for sound asset management and external financial reporting. Each asset held on the register that is required to be valued should have a valuation undertaken in accordance with the requirements of the Code. The handbook provides guidance on the bases of value, and valuation approaches and methodologies.
54. The red book requires all members of the Royal Institution of Chartered Surveyors (RICS) to comply with *Valuation statement 1* when undertaking any instruction that requires a written valuation. Local authority asset valuations should follow *UKVS 1.12* of the red book, which requires that such valuations are in accordance with the Code. Therefore on any issue where there might appear to be a difference between the red book and the Code, the Code should always take precedence. For example, the red book requires that surplus assets are valued at market value, but the Code requires that they are valued on the basis of the existing use value of the asset.
55. Any RICS member involved in undertaking valuation services that are subject to RICS valuation standards is required to be a member of the *Valuer registration scheme* (VRS). Any person who is responsible for calculating and ascribing a written opinion of value is deemed to be 'undertaking valuation services'.
56. As part of the asset valuation process, the valuer should provide a detailed valuation report for each individual property valued. VS6 of the red book provides detailed information on the minimum content of a valuation report, although the precise detail is subject to agreement with each authority.
57. It is essential that the accountant and the valuer understand their respective roles in the valuation process and recognise the skills and expertise required for each stage. In many authorities, the respective roles of the valuer and the accountant have become blurred.
58. Where an external valuer is appointed to carry out the valuations, instructions should be formally agreed. If the same firm has carried out the valuations for the authority for a number

of years, there is a danger that their independence and objectivity could be impaired. The red book therefore recommends that responsibility for signing the valuation report should be reassigned at least every seven years.

59. It is not necessary to instruct in-house valuers in the same way as an external valuer. However, in many authorities the only instruction the internal valuer receives is a request to 'carry out the asset valuations in accordance with the red book'. Such an instruction will not properly address the precise nature of the authority's requirements or of any changes to accounting requirements. Where in-house valuers carry out valuations and produce the valuation report, it is therefore advisable to have an exchange of correspondence or a service level agreement between appropriate managers which formally records the arrangements.
60. It is important that a full audit trail exists which records the valuer's assumptions and how they have arrived at the valuation of the authority's various assets. The lack of a clear audit trail is common, meaning that it is often difficult to verify the valuation figures provided.
61. The handbook also provides guidance in respect of the Code's requirement that each component of an asset with a cost that is significant in relation to the total cost should be depreciated separately. There is no fixed definition of a 'component', and this is a matter to be determined locally by each authority and may vary from asset to asset. There should be a process for identifying the main constituent parts of each material asset that may have a significant cost and separate useful lives or methods of depreciation relative to that asset.
62. The significance of a component relative to an overall asset should be determined by comparing the cost of a component with the overall cost of the asset and comparing the result against the agreed significance de minimis threshold, which should have been predetermined by the accountant. The significance of a component is generally expressed in percentage terms (i.e. the cost of the component is x% of the total cost of the material item) rather than the absolute amount.
63. Auditors should confirm that authorities are aware of this guidance and are taking the necessary steps to comply.

Consultation on accounting for business rates in 2013/14 Code

64. The [CIPFA/LASAAC Local Authority Code Board](#) has issued a supplementary single issue consultation on the 2013/14 Code [Accounting for business rates retention](#) which proposes amendments in respect of accounting for non-domestic rates income growth.
65. It is proposed to amend the Code to state that, where an authority is able to retain an element of its non-domestic rating income growth for the purposes established under a *Tax incremental financing* scheme, it should determine the extent to which it is acting as principal and recognise income where that is the case.
66. It is also proposed to amend the Code to require authorities to recognise in the comprehensive income and expenditure statement non-domestic rating income retained under the *Business rates incentivisation scheme*.

67. Comments were required by 15 February 2013.

Other developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

Pension funds

2012/13 example accounts and disclosure list

68. CIPFA has issued the *Local government pension scheme fund accounts 2012/13 example accounts and disclosure checklist* to illustrate the 2012/13 financial statements of local government pension scheme funds.
69. The publication provides an example set of accounts that meet the minimum requirements of the 2012/13 Code. It sets out a fund account and a net assets statement as well as information to be disclosed in the notes. The publication also includes a disclosure checklist that identifies the Code's requirements in relation to pension funds. There are no significant changes from last year.
70. Auditors may find it helpful to refer to this publication when auditing the 2012/13 pension fund financial statements.

Non-domestic rates and council tax

New legislation on unoccupied properties

71. The [Local Government Finance \(Unoccupied Properties etc.\) \(Scotland\) Act 2012](#) came into force on 5 December 2012 and amended the law regarding non-domestic rates and council tax in respect of unoccupied properties.
72. The Act allows the Scottish Ministers greater flexibility to vary the relief that applies in relation to the non-domestic rates payable in respect of unoccupied properties and formerly unoccupied properties. For council tax, the Act enables an increase in the tax payable where a property is unoccupied, and amends powers in respect of the ability of councils to require provision of information.
73. The following amendment regulations have been issued arising from the Act
 - [The Council Tax \(Administration and Enforcement\) \(Scotland\) Amendment Regulations 2012](#) amend the principal 1992 regulations, particularly those which allow for an increase in council tax liability where a dwelling is unoccupied for a period of time.
 - [The Council Tax \(Exempt Dwellings\) \(Scotland\) Amendment Order 2012](#) amends the principal 1997 exempt dwellings order in respect of dwellings classed as empty from 2013/14. Dwellings which are both unoccupied and unfurnished are exempt from council tax liability for a period of up to 6 months. The amendment provides that a second claim for the exemption will only be possible after a property has been occupied for a period of

at least three months. This replaces the requirement of occupation or furnishing for a period of at least six weeks.

- [The Non-Domestic Rating \(Unoccupied Property\)\(Scotland\) Amendment Regulations 2013](#) amend the principal 1994 non-domestic rating regulations in respect of unoccupied property. Amendments include the following
 - The liability for certain unoccupied properties has increased from 50% to 90%.
 - A new relief has been added for property that has been unoccupied for at least a year before becoming occupied in certain circumstances (e.g. property used as an office or shop with a rateable value less than £45,000) to be deemed to be unoccupied for up to a year.
 - A new exemption from rates has been added for new build property that is first entered in the valuation roll in the 2013/14 to 2015/16 financial years.

Benefits

2012/13 HB COUNT modules

74. The [Audit Commission](#) has issued modules 2 and 3 of the 2012/13 HB COUNT approach to the certification of housing and council tax benefit (HB/CTB) subsidy claims for 2012/13. HB COUNT was designed by the Audit Commission but external auditors in Scotland should also use the HB COUNT testing and reporting approach when certifying HB/CTB subsidy claims.
75. HB COUNT is set out in modules that are updated and agreed with the DWP each year. The HB COUNT approach for 2012/13 consists of six modules, and the following have been issued
 - 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.
76. Module 1 has also been issued and provides an overview of the approach, but this is superseded in Scotland by guidance from the TSU. Module 4 is an analytical review tool and module 5 is a software diagnostic tool but these have not yet been issued. Module 6 has also not yet been issued but relates only to England.
77. A key element of the HB COUNT approach involves taking a sample of benefit cases from the audit trails supporting the headline cells on an authority's subsidy claim form and undertaking detailed testing on these cases using the Module 3 workbooks. The approach to sampling under HB COUNT is summarised in the following paragraphs
 - Auditors select initial samples of 20 cases at random from the audit trail supporting the headline cells for rent rebates, rent allowances and council tax benefit (CTB) as appropriate, giving up to 60 cases. Each sample case is defined by its case reference number. All benefit transactions in the year against the case reference number require to be tested. The testing required is set out in the Module 3 workbooks, which record

whether each case selected passes or fails each test. Where testing identifies issues that can be resolved, auditors agree amendments with the authority.

- 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. If authorities do not wish to carry out the additional testing, auditors will do so and reflect this additional work in the audit fee.

78. For 2012/13, the key changes to HB COUNT are to reflect changes to the regulations and subsidy order. The most significant of these are

- the introduction of risk-based verification from April 2012, on a voluntary basis, and the introduction of a new error type (error type 6), for failure to apply a risk-based verification policy where an authority has opted to adopt one (see paragraph 92 of TB 2011/4)
- changes to local housing allowances (LHA) shared accommodation rate (see paragraph 131 of TB 2012/1)
- a change to the definition of Department for Work and Pensions (DWP) error overpayments caused by duplicate automated transfers to local authority systems (see paragraph 157 of TB 2012/2).

79. Module 3 contains further guidance on the above changes under the relevant cell headings.

80. An [e-learning package](#) setting out the principles of the HB COUNT approach is available. The package has been designed for those new to benefits work or HB COUNT, and those who wish to refresh their understanding of elements of the HB COUNT approach.

81. Auditors should use the HB COUNT modules for the certification of the 2011/12 subsidy claim. Guidance on applying the HB COUNT testing and reporting approach will be provided by the TSU in the grant note on certifying the 2012/13 subsidy claim.

Welfare reform

82. [The Welfare Reform \(Further Provision\) \(Scotland\) Act 2012](#) has been passed to enable Scottish Ministers to make regulations in consequence of the *Welfare Reform Act 2012*. The Act requires Scottish Ministers to prepare an initial report on the impact of the UK Act on Scotland by 30 June 2013. Thereafter, annual reports are required between 2014 and 2017.

83. The DWP has issued [HB/CTB circular S2/2013 Additional funding to meet the costs of implementing welfare reform changes in 2012/13](#) to announce additional funding to support the costs of implementing welfare reform changes in 2012/13. The funding is intended to

meet new burdens incurred by local authorities as a result of the implementation of the areas of welfare reform, i.e. changes to local housing allowance, the social sector size criteria, and the benefit cap (see paragraph 100).

84. The following three sets of regulations have been passed in respect of welfare reform
- [The Housing Benefit \(Amendment\) Regulations 2012](#)
 - change the timing for reviewing LHA benefit cases from 2013/14. Maximum rent should be determined on 1 April each year or when the claimant's rent changes rather than on the anniversary of the last determination of the claim as was previously the case
 - introduce a new method of calculating eligible rent for use in calculating HB for claimants in the social rented sector. The maximum rent will be determined based on the number of bedrooms required for the claimant's household. Claimants with excess bedrooms will have their maximum rent reduced by 14% for under-occupation by one bedroom and 25% for under-occupation by two or more bedrooms.
 - [The Universal Credit Regulations 2013](#) provide for the introduction of universal credit (UC) and a benefit cap. UC consists of a standard allowance, a child element, amounts for housing costs, and amounts for special needs and circumstances such as caring responsibilities. The regulations determine the people in each household to be included in each award of UC and the conditions these claimants require to meet, e.g. residency and age.
 - [The Welfare Reform \(Consequential Amendments\) \(Scotland\) Regulations 2013](#) amend various statutory instruments arising from the introduction of the personal independence payment allowance introduced by the *Welfare Reform Act 2012*.

Abolition of council tax benefit from 2013/14

85. Five sets of regulations have been passed in respect of the new *Scottish council tax reduction scheme* which will replace council tax benefit (CTB) from 1 April 2013.

Individuals qualifying for state pension credit

86. [The Council Tax Reduction \(State Pension Credit\) \(Scotland\) Regulations 2012](#) provide for a reduction in liability for council tax for individuals who have reached the qualifying age for state pension credit.
87. Applications require to be made to the relevant local authority with supporting evidence. Weekly applicable amounts for each claimant (i.e. a sum representing the needs of the applicant and their family) require to be calculated by the authority, and compared with a claimant's income.
88. The regulations set out how income should be calculated, and a formula for calculating the maximum amount of council tax reduction to which a person is entitled. No council tax

reduction will be awarded if a person has capital exceeding £16,000, and the regulations set out how capital should be calculated.

89. Entitlement to the reduction commences from the Monday following the date on which an application is made. Changes of circumstances normally take effect from the day when the change occurs.
90. [The Council Tax Reduction \(State Pension Credit\)\(Scotland\) Amendment Regulations 2013](#) make a number of amendments to the principal regulations. This includes making provision for those entitled to CTB on 31 March 2013 to be deemed to have made an application for council tax reduction on 1 April 2013.

Individuals not qualifying for state pension credit

91. TB 2012/4 (at paragraph 116) advised of council tax reduction regulations for persons who have not reached the qualifying age for state pension credit. Those regulations have been amended by [The Council Tax Reduction \(Scotland\) Amendment Regulations 2013](#) to
- change the amount of non-dependent deductions, personal allowances, family premium, disability premiums and components to be taken into account when calculating entitlement to council tax reduction
 - increase the amount of gross income to be taken into account when calculating the amount of alternative maximum council tax reduction.

Information sharing

92. [The Social Security \(Information-sharing in relation to welfare services etc.\) Amendment Regulations 2013](#) have been passed to allow the DWP to share social security benefit details with local authorities for *Scottish council tax reduction scheme* purposes and allow authorities to access CTB claims to assess whether individuals are entitled to help under the reduction scheme. The regulations allow authorities to use the information themselves or to share it with another authority.
93. The DWP has issued [HB/CTB circular A3/2013 Using social security data for council tax purposes](#) to provide further information on the regulations.
94. [The Council Tax \(Information-sharing in relation to Council Tax Reduction\) \(Scotland\) Regulations 2013](#) enable the supply and use of HM Revenue and Customs data (e.g. tax credit information) in specified circumstances, including the determination of a council tax reduction application.

Transitional and supporting arrangements

95. In addition, the DWP has issued [HB/CTB circular A1/2013 Transitional arrangements during the abolition of council tax benefit](#) to explain what will happen once CTB is abolished. Local authorities are required to close CTB cases on 31 March 2013 and migrate claims to the *Scottish council tax reduction scheme* from 1 April 2013. No subsidy will be payable on CTB awards made from that date. However, authorities will still have to consider CTB in the following scenarios

- Where a new claim or change of circumstances is received prior to 1 April, but the decision is not made until after that date, authorities should proceed as if it was dealt with at the time it was received.
 - If there is entitlement to backdating of any period of CTB, this should be calculated and paid in accordance with the relevant CTB regulations. Any entitlement must end on 31 March 2013.
96. Where an authority is notified about a relevant change of circumstances after 1 April 2013 that affects a period of CTB entitlement, the decision covering the period affecting CTB entitlement should be made in line with the relevant CTB regulations.
97. The DWP has also issued [HB/CTB circular A4/2013 DWP changes to support the abolition of council tax benefit](#) to provide details of the changes being made by the DWP who will continue to collect some data which will be relevant for council tax reduction purposes. Claimants contacting the DWP will be advised to contact their authority to claim a council tax reduction but that any information supplied to the DWP will be shared with authorities.
98. The DWP will continue to send social security benefit information to authorities for housing benefit administration purposes. From 1 April 2013, this information can also be used by local authorities for council tax reduction purposes.
99. Local authorities will continue to have access to individual CTB claims on the DWP customer information system to allow an assessment to be made as to whether a claimant is entitled to council tax reduction.

Benefit cap from 2013/14

100. [The Benefit Cap \(Housing Benefit\) Regulations 2012](#) have been passed to provide for a cap to be applied on the total amount of welfare benefits to which claimants are entitled from 2013/14. The benefit cap is to be applied as a reduction to housing benefit entitlement.
101. The DWP has issued [HB/CTB urgent bulletin U5/2012 Announcement on supported exempt accommodation and the benefit cap](#) to clarify that housing benefit paid to households in supported exempt accommodation will be disregarded from the benefits cap calculation. The disregard will apply to both housing benefit from April 2013 and universal credit.

2013/14 discretionary housing payments

102. The DWP has issued [HB/CTB circular S1/2013 Discretionary housing payments government contribution for 2013/14](#) to provide details of each local authority's contribution and expenditure limit for discretionary housing payments (DHP) for 2013/14.
103. The government's annual contribution for DHP has increased significantly to help local authorities manage the impact of welfare reforms. Arrangements are to be introduced to record how authorities use the DHP allocations to support those affected by welfare reforms.

2013/14 benefits rates

104. The DWP issued [HB/CTB circular A2/2013\(revised\) Housing benefit: 2013/14 uprating](#) to advise of changes to the benefits rates from April 2013. The basis of uprating has changed from previous years and different rates are used for different benefits including HB. In view of its abolition, references to CTB have been removed from the circular.
105. The completion of Module 2 of the HB COUNT (see paragraph 75) will help auditors ensure that local authorities are using the correct parameters.

Finance

106. The Scottish Government has issued [Finance circular 1/2013 Local Government Finance \(Scotland\) Order 2013 etc](#) to provide a summary of the figures in [The Local Government Finance \(Scotland\) Order 2013](#).
107. The order determines the amount of the revenue support grant (RSG) payable and non-domestic rate income distributed to each local authority for 2013/14, and redetermines the amount of the RSG payable to each authority in respect of 2012/13.

Legislation

The following legislation can be obtained by using the hyperlinks and are available to external auditors from Audit Scotland's *Technical reference library*.

Acts

Local Government Finance (Unoccupied Properties etc.) (Scotland) Act 2012

108. The [Local Government Finance \(Unoccupied Properties etc.\) \(Scotland\) Act 2012](#) received Royal Assent on 5 December to amend the law regarding non-domestic rates and council tax in respect of unoccupied properties (see paragraph 71).
109. It also abolishes housing support grant from April 2013.

Welfare Reform (Further Provision) (Scotland) Act 2012

110. The [Welfare Reform \(Further Provision\) \(Scotland\) Act 2012](#) has been passed to enable the Scottish Ministers to make provision by regulations in consequence of the *Welfare Reform Act 2012* (see paragraph 82).

Statutory instruments

Council tax

111. [The Council Tax Reduction \(State Pension Credit\) \(Scotland\) Regulations 2012](#) (SSI 319) came into force on 28 January 2013 (see paragraph 86).
112. [The Council Tax \(Administration and Enforcement\) \(Scotland\) Amendment Regulations 2012](#) (SSI 338) came into force on 9 February 2013 (see paragraph 73).

113. [The Council Tax \(Exempt Dwellings\) \(Scotland\) Amendment Order 2012](#) (SSI 339) comes into force on 1 April 2013 (see paragraph 73).
114. [The Council Tax Reduction \(Scotland\) Amendment Regulations 2013](#) (SSI 48) came into force on 18 March 2013 (see paragraph 91).
115. [The Council Tax Reduction \(State Pension Credit\)\(Scotland\) Amendment Regulations 2013](#) (SSI 49) came into force on 18 March 2013 (see paragraph 90).
116. [The Council Tax \(Information-sharing in relation to Council Tax Reduction\) \(Scotland\) Regulations 2013](#) (SSI 87) come into force on 1 April 2013 (see paragraph 94).

Fire and rescue services and police

117. [The Police and Fire Reform \(Scotland\) Act 2012 \(Commencement No. 2, Transitory and Transitional provisions, etc\) Order 2012](#) (SSI 333) brings into force various provisions of the *Police and Fire Reform (Scotland) Act 2012* on 1 January 2013. It also contains a number of transitory and transitional provisions.

Local government

118. [The Local Government Finance \(Scotland\) Order 2013](#) (SSI 44) comes into force on 8 February (see paragraph 106).

Pensions

119. [The Local Government Pension Scheme \(Miscellaneous Amendments\) \(Scotland\) Regulations 2012](#) (SSI 347) came into force on 1 February 2013 and make various amendments to the principal 2008 local government pension scheme regulations.

Rating and valuation

120. [The Non-Domestic Rate \(Scotland\) \(No.2\) Order 2012](#) (SSI 352) comes into force on 1 April 2013 and prescribes a rate of 46.2 pence in the pound as the non-domestic rate to be levied 2013/14.
121. [The Non-Domestic Rates \(Levying\) \(Scotland\) \(No. 3\) Regulations 2012](#) (SSI 353) come into force on 1 April 2013 and provide for the amount payable in certain circumstances as non-domestic rates in 2013/14. The regulations provide
 - for the general reduction in rates for properties with a rateable value of £18,000 or less on a sliding scale of between 25% and 100%.
 - a formula for the additional amount payable as rates for properties with a rateable value exceeding £35,000.
122. [The Non-Domestic Rating \(Unoccupied Property\)\(Scotland\) Amendment Regulations 2013](#) (SSI 37) come into force on 1 April 2013 (see paragraph 73).

Social security

123. [The Benefit Cap \(Housing Benefit\) Regulations 2012](#) (SI 2994) come into force on 15 April 2013 (see paragraph 100).
124. [The Housing Benefit \(Amendment\) Regulations 2012](#) (SI 3040) come into force on 1 January 2013 (see paragraph 84).
125. [The Social Security \(Information-sharing in relation to welfare services etc.\) Amendment Regulations 2013](#) (SI 41) came into force on 11 February 2013 (see paragraph 92).
126. [The Universal Credit Regulations 2013](#) (SI 376) come into force on 29 April 2013 (see paragraph 84).
127. [The Welfare Reform \(Consequential Amendments\) \(Scotland\) Regulations 2013](#) (SSI 65) come into force on 8 April 2013 (see paragraph 84).

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 2012/4 and can be obtained by using the hyperlinks.

The 2011/12 audit of City of Edinburgh Council

128. This report on the [2011/12 audit of City of Edinburgh Council](#) brings to the Commission's attention the 2011/12 annual audit report prepared by the external auditors of City of Edinburgh Council. The Commission's attention was drawn to a number of points in the report, including the following
 - The auditor concludes that contractor relations in respect of the trams are on a firmer footing and the project continues in line with the revised timetable and budget.
 - An investigation into the statutory repairs service has been ongoing for about 18 months. The auditor highlights the challenge in restoring service reputation and the financial uncertainty in recovering amounts billed and unbilled.
 - There are on-going, fundamental reviews of key aspects of governance.
 - The council has already recognised the key issues and work is being undertaken to address them.

Shetland Islands Council - statutory follow-up report

129. This [follow up report on Shetland Islands Council](#) concludes that the council has continued to make good progress on its improvement agenda
 - It has appointed a permanent chief executive and a chief financial officer and agreed a medium-term financial plan which clearly sets out the challenges facing the council, together with actions to address these.

- The council's 2011/12 financial statements were of good quality and the auditor's opinion on them was not qualified.
- The council needs to continue to sustain its positive direction of travel and knows that it will need to take some difficult decisions to address the significant financial challenges it faces.

Publications

The following publications published since TB 2012/4 can be obtained by using the hyperlinks

Audit Scotland

Protecting consumers

130. This report from Audit Scotland [Protecting consumers](#) considers councils' trading standards and food safety services. Key messages include the following

- The long-term viability of councils' trading standards services is under threat.
- Councils are targeting their resources at the highest risk areas and reducing work on the lowest risks.
- Trading standards services lack national standards and priorities and have no national system of performance reporting.

Major capital investment in councils

131. This report [Major capital investment in councils](#) focuses on capital projects over £5 million and assesses how well councils direct, manage and deliver capital investments. Key messages include the following

- Councils increased borrowing in recent years to maintain investment. Councils anticipate they will spend less on capital investment in future years, although borrowing will remain the main source of finance.
- Early estimates of the expected costs and timetable for most of the completed major capital projects reviewed have proved to be inaccurate, but estimating improved significantly as projects advanced.
- Councils have improved governance structures for investment decision-making in recent years. However, weak processes for developing and using business cases were identified and monitoring information is insufficient.

Auditor action

The following is a summary of items in this chapter of the TB that recommend that auditors take certain actions

Section and paragraph	Action
TSU developments - Guidance notes - paragraph 46	Auditors should use note for guidance 2013/1(LA) when planning and performing the audit of the 2012/13 local authority financial statements.
TSU developments - Guidance notes - paragraph 49	Auditors should use note for guidance 2013/2(LA) when planning and performing the audit of the 2012/13 local authority pension fund financial statements.
TSU developments - Analytical review databases - paragraph 51	Auditors should use the pension fund analytical review database when planning the audit of the 2012/13 pension fund financial statements.
Accounting developments - paragraph 63	Auditors should confirm that authorities are aware of this guidance and are taking the necessary steps to comply.
Other developments - Pension fund - paragraph 70	Auditors may find it helpful to refer to the pension fund publication when auditing the 2012/13 pension fund financial statements.
Other developments - Benefits - paragraph 81	Auditors should use the HB COUNT modules for the certification of the 2011/12 subsidy claim.

Central government chapter

Introduction

This chapter contains articles on central government technical developments and authoritative guidance relevant to external auditors' responsibilities under their audit appointment. It should be read by external auditors with appointments in the central government sector. It should also be read by auditors with appointments in the health sector as most of the articles also apply to that sector. Auditors should also read the cross-sectoral chapter which covers developments and guidance that are relevant to all sectors. More in-depth and extensive guidance on particular subjects or themes is provided in separate guidance notes published by the TSU (i.e. notes for guidance and urgent issue notes).

The articles in this chapter are intended to highlight the main points that the TSU considers auditors require to be aware of in respect of each development. In many cases, it may still be necessary for auditors to read the source material. The documents referred to in the articles can be obtained by using the hyperlinks. They are also available to external auditors from Audit Scotland's *Technical reference library*.

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 relates to 2012/13 audits

- Note for guidance on auditing the 2012/13 central government financial statements.
- Note for guidance on auditing the 2012/13 charitable NDPB financial statements.
- Amendments to the 2012/13 FReM.
- Guide on international financial reporting standards issued in 2012/13.
- 2012/13 discount rate for general provisions.
- Discount rate for post-employment benefits liabilities from 31 March 2013.
- 2012/13 disclosure guide.
- Amendments to the SPFM.

TSU developments

Guidance notes

The following guidance notes have been published by the TSU since TB 2012/4. They can be obtained by using the hyperlinks and are available to external auditors from Audit Scotland's *Technical reference library*.

Notes for guidance on auditing 2012/13 central government financial statements

132. The TSU has published [Note for guidance 2013/3\(CG\) Audit of 2012/13 central government financial statements](#) and [Note for guidance 2013/4\(CG\) Audit of 2012/13 central government financial statements \(charitable NDPBs\)](#) to provide auditors with guidance on planning and performing the audit of the 2012/13 central government financial statements.
133. The notes for guidance provide guidance on the areas that the TSU considers represent a generic risk of material misstatement in the 2012/13 financial statements. The notes also provides guidance on auditors' responsibilities to
- audit and express an opinion on the regularity of expenditure and income
 - audit and express an opinion on elements of the remuneration report
 - express an opinion on the consistency of the directors' report/trustees' annual report with the financial statements
 - report on other matters such as the governance statement.
134. Auditors should use the appropriate note for guidance when planning and performing the audit of the 2012/13 central government financial statements.

Accounting developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

Amendments to 2012/13 FReM

135. [HM Treasury](#) has issued amendments to [chapter 4](#) and [chapter 7](#) of the 2012/13 *Government financial reporting manual* (the FReM).

Chapter 4

136. The amendment to chapter 4 is in respect of accounting for business combinations under common control. The FReM has been amended to allow most business combinations under common control to be accounted for as a transfer by absorption rather than a transfer by merger. Transfers by merger accounting will continue at group level, i.e. for transfers of functions between departments in central government (but not between a Westminster department and the Scottish Government).

137. All other transfers of function within the public sector should be accounted for as a transfer by absorption. This includes transfers to and from local government, to and from public corporations; between the Scottish Government and UK departments; within a departmental boundary; and for all transfers reported by NDPBs.
138. Under transfers by absorption
- there should be no restatement of comparatives in the financial statements
 - the recorded amounts of the net assets should be brought into the financial statements of the transferee from the date of the transfer
 - the net asset/liability should be recorded as a non-operating gain/loss from the transfer of function, through net expenditure, with the transferor recording symmetrical entries
 - revaluation reserves should be transferred in full, with the remaining balance transferred to the general fund.
139. Any departure from the accounting treatments set out in the FReM must be agreed with the Scottish Government and applied symmetrically by the transferor and transferee.
140. The Treasury has also issued [Guidance on accounting for business combination under common control](#) to outline the verification work necessary to ensure that accounting data transferred under either approach is complete and accurate. The guidance also provides a decision-making flowchart to clarify when a transfer should be accounted for as a transfer by merger or by absorption, and explain the treatment where a transfer does not meet the definition of a function or is not under common control.

Chapter 7

141. The change to chapter 7 is in respect of the application of accounting for the *Carbon reduction commitment* (CRC) energy efficiency scheme. FReM paragraphs 7.2.8 to 7.2.10 now require bodies participating in the CRC scheme to recognise
- a liability for the surrender of allowances to the CRC Registry
 - a current or non-current intangible asset for any allowance held (or current asset if held for trading).
142. The asset should be measured initially at cost. Where there is evidence of an active market scheme assets should be re-valued at fair value. Where no active market exists, allowances should be measured at cost, as a proxy for fair value.

Auditor action

143. Auditors should confirm that audited bodies are aware of the changes to the 2012/13 FReM and are taking the necessary steps to comply.

2013/14 FReM

144. Treasury has issued the [2013/14 FReM](#). Changes from 2012/13 that auditors' attention is particularly drawn to are discussed in the following paragraphs.

Chapter 5

- 145. *IAS 1 Presentation of financial statements* prescribes the basis for presentation of general purpose financial statements. The FReM currently interprets IAS 1 by prescribing the form of primary financial statements for specific groups of bodies.
- 146. In line with a recent amendment to IAS 1, the FReM chapter 5 has been amended to require that items in other comprehensive net expenditure should be grouped on the basis of whether they might at some point be reclassified from the other comprehensive net expenditure to net operating costs.
- 147. The option has been retained to report operating costs in a separate statement from other comprehensive expenditure, with agreement of the Scottish Government, where this is required to improve understanding of the body's financial performance.

Chapter 6

- 148. Chapter 6 has been amended to reflect the guidance in *IPSAS 32 Service concession arrangements: Grantor* in respect of the timing of asset recognition. The FReM currently suggests that grantors (i.e. public sector bodies) should not recognise assets being constructed by operators for use in service concession arrangements until they come into use.
- 149. FReM Paragraph 6.2.54 has been amended to remove that suggestion, and replace it with a statement that it is asset recognition criteria, together with the specific terms and conditions of the arrangement, that need to be considered in determining whether to recognise the service concession asset during the period in which the asset is constructed or developed.
- 150. The amendment proposed in the exposure draft in respect of accounting for arrangements that do not only involve a unitary payment (see paragraph 75 of TB 2012/3) has not been made due to different views on the appropriate treatment.

Chapter 12

- 151. The FReM requires the application of *IAS 19 Employee benefits* as adapted for the public sector. Amendments to the FReM have arisen from a recently issued amended version of IAS 19. The amended IAS 19 requires no changes to accounting for defined contribution plans so employer financial statements will be mostly unaffected by the amendments, as the FReM requires the main public service unfunded pension schemes to be accounted for on a defined contribution basis.
- 152. The amendments will, however, affect employers with employees in defined benefit schemes. Bodies will be required to recognise service cost and net interest in profit and loss, and remeasurements in other comprehensive income.
- 153. The amendments to IAS 19 also eliminate the corridor approach, which allowed bodies to defer the recognition of some gains and losses on defined benefit plans. The interpretation in the FReM that does not allow the corridor approach has therefore been removed.

154. The amended IAS 19 contains increased disclosure requirements, including an explanation of the characteristics of the defined benefit plans and risks associated. The FReM does not require to be amended for the new disclosure requirements, but all bodies will be required to comply with them. The magenta proforma has been updated for the additional disclosures that will be required for pension schemes.
155. The amended IAS 19 requires termination benefits to be recognised at the earlier of the date the offer cannot be withdrawn or when the related restructuring costs are recognised under IAS 37 *Provisions, contingent liabilities and contingent assets* (rather than when the body is demonstrably committed to providing those benefits). The FReM has been amended to reflect this change.

Auditor action

156. Auditors should confirm that audited bodies are aware that the 2013/14 FReM has been issued and are taking the necessary steps to comply.

Guide on IFRSs issued in 2012/13

157. Treasury has issued an [Analysis of new IFRS issued in 2012/13](#) to set out international financial reporting standards (IFRS) issued in 2012/13.
158. The guide lists the standards that have been issued but not yet effective in 2012/13 that require disclosure in accordance with *IAS 8 Accounting policies, changes in accounting estimates and errors*. They include the amendments to IAS 1 (see paragraph 146) and IAS 19 (see paragraph 151).
159. The guide also includes standards that have not yet been approved by the EU, the application of which to the FReM is being reviewed by Treasury. They include the following
- *IFRS 10 Consolidated financial statements, IFRS 11 Joint arrangements and IFRS 12 Disclosure of interests in other entities* which affect the consolidation and reporting of subsidiaries, associates, joint ventures and investment entities.
 - *IFRS 9 Financial instruments* which will introduce a number of changes to address classification, measurement and impairment issues. The standard is being produced in three stages and the changes cannot be reviewed until the final standard has been issued.
 - *IFRS 13 Fair value measurement* which has been issued to provide consistent guidance on fair value measurement. Although initial consultation on changes to the FReM has taken place, further consultation is required.
160. Auditors should confirm that their audited bodies are planning on making appropriate disclosures under IAS 8 for standards issued but not yet effective.

2012/13 discount rates for general provisions

161. Treasury has issued two public expenditure system (PES) papers on the discount rates for general provisions from 2012/13.

162. [PES\(2012\)11](#) announced changes in the methodology for determining the discount rate for general provisions. The general provision discount rate applies to provisions that are accounted for in accordance with *IAS 37 Provisions, contingent liabilities and contingent assets*. IAS 37 requires that where the effect of the time value of money is material the amount of a provision should be the present value of the expenditure expected to be required to settle the obligation. The FReM requires bodies to use the real discount rate set by HM Treasury.
163. The old methodology for determining the discount rate did not reflect current market assessments of a risk free time value of money, and the rate has been set at 2.20% since April 2005.
164. The new methodology has been developed to ensure compliance with IAS 37, and is based on the provision of three rates.
165. [PES\(2012\)15](#) announced that the real discount rates to be applied to provisions recognised in accordance with IAS 37 as at 31 March 2013 are as follows
- The short term rate (for cash-flows up to 5 years from the statement of financial position date) is minus 1.80%.
 - The medium term rate (between 5 and 10 years) is minus 1.00%.
 - The long term rate (more than 10 years) is unchanged at 2.20%.
166. The short term and medium term discount rates have been determined under the new methodology. This is a change in accounting estimate and therefore no changes are required to comparative figures. As they are negative real rates, provisions may decrease as the discount is unwound in 2013/14, which will mean interest income rather than expense.
167. The new methodology will not apply to the long term discount rate until the next spending review period, and will remain at 2.20% until then.
168. Auditors should confirm that audited bodies are applying the appropriate discount rate for calculating general provisions from 2012/13.

Discount rate for post-employment benefits liabilities from 31 March 2013

169. Treasury has issued [PES\(2012\)16](#) which advises that the discount rate for post-employment benefits will change from 2.8% real to 2.35% real from 31 March 2013.
170. The increase in the pension liability at 31 March 2013 arising from the lower rate should be recognised in other comprehensive net expenditure in 2012/13. There will be a change to the interest to the statement of comprehensive net expenditure in 2013/14 as a result of a lower level of discount being unwound. There will also be a higher current service cost for 2013/14.
171. For early departure provisions, the movement in liabilities arising from the change in discount rate should be recognised in the main body of the statement of comprehensive net expenditure.

2012/13 disclosure guides

172. The [National Audit Office](#) (NAO) has issued the [2012/13 disclosure guide](#) which is designed to ensure that entities covered by the FReM have prepared their 2012/13 financial statements in the appropriate form and have complied with all disclosure requirements. The NAO has also issued the [2012/13 disclosure guide for charitable non-departmental public bodies](#) for charitable NDPBs.
173. The guides are cross-referenced to the 2012/13 FReM, individual financial reporting standards, the charities SORP, and the *Companies Act 2006*. In order to ensure that the guide is applied correctly, auditors may need to follow the cross-references to ascertain the full nature of the requirements and any expectations.
174. While the guide is designed primarily for the NAO's internal use, auditors in Scotland may also find it helpful. Auditors may therefore wish to use the guide when auditing the 2012/13 financial statements.

Corporate governance

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

Proposed amendments to the model code of conduct for members

175. The Scottish Government has issued a [Consultation paper on ethical standards in public life: proposals for amendments to be made to the model code of conduct for members of devolved public bodies](#) to propose amendments to the members' model code of conduct.
176. *The Ethical Standards in Public Life etc. (Scotland) Act 2000* requires the Scottish Ministers to issue model code of conduct for councillors and for members of devolved public bodies. This consultation sets out proposals to bring the members' code into line with recent changes to the code for councillors.
177. The main proposed changes include the following
- Clarification to emphasise that the key principles should be used for guidance and interpretation only.
 - A monetary ceiling of £50 has been introduced for declaring gifts.
 - An 'objective' test has been added as to whether a member of the public, with knowledge of the relevant facts, would reasonably regard an interest as so significant that it is likely to prejudice a member's discussion or decision-making.
178. Responses should be made to Gordon.Quinn@scotland.gsi.gov.uk by the 26 April 2013. The amendments will apply from 2013/14.

Strategy on delivery of digital services

179. The Scottish Government has issued [Scotland's digital future - delivery of services, central government strategy](#) to set out the central government strategy for delivering digital public services. The strategy emphasises that the preferred channel for delivering services will be digital for all those that can usefully and efficiently be delivered in this way.
180. The strategy is intended to encourage collaboration, reduce duplication, and make appropriate use of sharing services. The Scottish Government has initiated the *Scottish wide area network* (SWAN) programme to deliver a single, holistic telecommunications network service for the use of all central government bodies.
181. Governance is delivered through the Strategic Corporate Services Board which will be advised by the Information Systems Investment Board on relevant ICT investment decisions across central government. Central government bodies' own boards are required to embed the delivery of outcomes from the action plan set out in the strategy in their own governance arrangements.
182. By early in 2013/14, bodies are expected to have
- nominated a business champion for digital services
 - reviewed their business strategy in light of the key principles in the strategy to align the overall aims and objectives
 - identified their total current ICT costs to provide an initial baseline figure
 - identified current online delivery and expected priorities for new or redesigned online delivery.
183. The lifespan of the strategy is ten years, with an end date of September 2022.

Other developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

Finance guidance notes

Public sector internal audit standards

184. The Scottish Government has issued [Finance guidance note 2012/05](#) to advise that the *Public sector internal audit standards* (see paragraph 33) replace the *Government internal audit standards* in central government from 1 April 2013.

Amendments to SPFM

185. The Scottish Government has issued [Finance guidance note 2013/01](#) to advise of the amendments to the *Scottish public finance manual* (SPFM), including those summarised in the following paragraphs.

186. The model management statement and financial memoranda at Annex 3 of the section on [accountability](#) has been replaced by a model framework document. The document sets out the broad framework within which an NDPB will operate and defines key roles and responsibilities which underpin the relationship between the NDPB and the Scottish Government. The model should be used as the starting point for updating all existing framework documents as they fall due for revision.
187. The section on [severance, early retirement and redundancy terms](#) has been updated to clarify Scottish Government approval requirements for proposals to offer a financial consideration to secure the voluntary resignation of an employee outwith any existing scheme. The section now states that the scheme must be approved by the Scottish Government before any offer is made, rather than having been only referred for approval as was previously stated. It also now states that ministerial clearance must also be obtained, when appropriate, including in relation to any potentially high profile cases.
188. The [overpayments](#) section has been amended to clarify that it is not the role of public sector bodies to advise individuals who have received overpayments of the defences they may claim against recovery action being taken.

Auditor action

189. The following is a summary of items in this chapter of the TB that recommend that auditors take certain actions.

Section and paragraph	Action
TSU developments Paragraph 134	Auditors should use note for guidance 2013/3(CG) when planning and performing the audit of the 2012/13 central government financial statements.
TSU developments Paragraph 134	Auditors should use note for guidance 2013/4(CG) when planning and performing the audit of the 2012/13 financial statements of charitable NDPBs.
Accounting developments - Paragraph 143	Auditors should confirm that audited bodies are aware of the changes to the 2012/13 FReM and are taking the necessary steps to comply.
Accounting developments - Paragraph 156	Auditors should confirm that audited bodies are aware that the 2013/14 FReM has been issued and are taking the necessary steps to comply.

Section and paragraph	Action
Accounting developments - Paragraph 160	Auditors should confirm that their audited bodies are planning on making appropriate disclosures under IAS 8 for standards issued but not yet effective.
Accounting developments - Paragraph 168	Auditors should confirm that audited bodies are applying the appropriate discount rate for calculating general provisions from 2012/13.

Health chapter

Introduction

This chapter contains articles on health technical developments and guidance relevant to external auditors' responsibilities under their audit appointment. It should be read by external auditors with appointments in the health sector. Auditors should also read the central government chapter and cross-sectoral chapter which cover developments and guidance that are relevant to all sectors. More in-depth and extensive guidance on particular subjects or themes is provided in separate guidance notes published by the TSU (i.e. notes for guidance and urgent issue notes).

The articles in this chapter are intended to highlight the main points that the TSU considers auditors require to be aware of in respect of each development. In many cases, it may still be necessary for auditors to read the source material. The documents referred to in the articles can be obtained by using the hyperlinks. They are also available to external auditors from Audit Scotland's *Technical reference library*.

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 2012/13 audits

- 2012/13 accounts manual.
- 2012/13 guidance on governance statements.
- Good practice guide on performance management.
- 2012 consultant distinction awards report.

Accounting developments

The document referred to in the following article is available to external auditors from Audit Scotland's *Technical reference library*.

2012/13 accounts manual

190. The [Scottish Government Health and Social Care Directorates](#) (SGHSCD) has issued the *2012/13 NHS boards accounts manual for directors' reports and accounts* (the accounts manual). The accounts manual interprets the accounting guidance contained in the FReM for the NHS in Scotland for 2012/13. The main changes to the accounts manual from the previous year are summarised in the following paragraphs.

Property, plant and equipment

191. The accounting policies note on property plant and equipment measurement on page 49 has been amended to reflect that permanent decreases in assets value and impairments should

be charged gross to the statement of comprehensive net expenditure, with any related balance on the revaluation reserve transferred to the general fund.

Intangible assets

192. In the 2011/12 accounts manual, when allowances were issued on cap and trade schemes for less than their fair value, the difference between the amount paid and fair value was required to be charged to the general fund. The general fund was credited with the same proportion of the amount of the revaluation which the amount of the deferred income bore to the acquisition cost of the asset, and the remainder of the revaluation was credited to the revaluation reserve.
193. The 2012/13 accounts manual has been amended on page 79 and now states that the difference between the amount paid and fair value represents a government grant that is subject to a condition, in accordance with the FReM interpretation of IAS 20 Accounting for government grants. The income element should be deferred and released to the statement of comprehensive net expenditure as the liability to emit greenhouse gases is recognised in that statement.
194. The 2012/13 accounts manual has also been amended to state that allowances intended to be held for use on a continuing basis should be classified as current or non-current intangible assets.
195. In addition, the same amendment in respect of permanent decreases in value and impairments referred to at paragraph 191 has been made on page 51 in respect of intangible assets.

Provisions

196. Page 102 has been updated to reflect that the discount rate for post-employment benefits will change from 2.80% real to 2.35% real with effect from 31 March 2013.
197. The manual also refers to PES(2012)15 which sets out the discount rates for general provisions from 2012/13 (see paragraph 165).

Remuneration report

198. Clarification that the full salary should be disclosed for all non-executive and executive directors, not just the employee director, has been included in the remuneration report narrative on page 19.
199. A suggested methodology for establishing the median pay multiples has been included on page 22. It suggests that the gross pay cost for the year (excluding superannuation, non-pay expenses and allowances, and any arrears of pay) plus availability supplements, discretionary points and distinction awards should represent total pay for the purposes of calculating the median. The pay for part time employees should generally be grossed up, but agency staff should be excluded.

Auditor action

200. Auditors should confirm that their boards are aware that the 2012/13 accounts manual has been issued, and are taking steps to comply.

Governance developments

The document referred to in the following article is available to external auditors from Audit Scotland's *Technical reference library*.

Corporate governance

2012/13 guidance on governance statements

201. The SGHSCD has issued guidance on the preparation of governance statements for inclusion with the 2012/13 financial statements. The guidance is intended to assist boards identify sources of assurance and evidence of compliance to be considered when preparing the governance statement. The format of the governance statement and the extant guidance on governance issues are set out in annexes to the letter.
202. It is for the Accountable Officer to decide how to organise the governance statement but the guidance sets out the essential features. It states that the governance statement should provide an overview of
- the governance framework, including information on the board's committee structure. While a summary of the work of the audit committee is mandatory, disclosure on the work of other committees should only be included if they have had a significant governance issue.
 - an assessment of the effectiveness of board's performance
 - an assessment of the board's compliance with the *UK Corporate governance code*, with explanations for any departures
 - information about the quality of data used by the board, and why the board finds it acceptable, as a new requirement from 2012/13
 - risk management, including the board's risk profile. While avoiding lengthy descriptions of process, the statement should comment on the effectiveness of risk management and internal control
 - any significant control weaknesses for significant risks that have materialised or are anticipated. The guidance sets out factors to be considered when assessing significance
203. The guidance also 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 governance, risk management and internal control arrangements.
 - sources of assurance, including the work of internal and external audit

- the role of the audit committee for reviewing the disclosures included in the governance statement. The audit committee should receive the information provided to the chief executive in support of the governance statement 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.
204. The governance statement requires to be approved by the each board's chief executive, and endorsed by its audit committee along with the financial statements.
205. The guidance highlights that boards should have in place a framework that provides overt assurance on best value for 2012/13.
206. Boards are required to 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. 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 governance statement.
207. Auditors should confirm that their boards are aware of this guidance, and that they are taking the necessary steps to comply. Guidance for auditors on reviewing the governance statement will be provided by the TSU in due course.

Other developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

National agenda/direction

Telehealth and telecare delivery plan

208. The Scottish Government has published a [National telehealth and telecare delivery plan for Scotland 2015](#) to set out the contribution that telehealth and telecare will make to implement health, care and housing strategies over the next three years.
209. Telehealth and telecare is the provision of health and care services at a distance using a range of digital and mobile technologies. This includes teleconsultations where technology (e.g. email, telephone, video conferencing) are used to support consultations.
210. The delivery plan sets out six workstreams, each with specific actions to be delivered by 2015. These include the following
- Improving health and care integration by helping people with long term conditions live independently and embedding telehealth and telecare in whole system pathways.
 - Improving sustainability and value by establishing a baseline and developing indicators to track the impact of telehealth and telecare.

- Developing and embedding good practice by recognising and meeting the needs for new skills, education and training.

211. The National Telehealth and Telecare Advisory Board will review the progress being made and report on an annual basis.

Report on evaluation of health board elections

212. The Scottish Government has issued [Health board elections and alternative pilots: final report of the statutory evaluation](#) on the statutory evaluation of the health board elections and alternative pilot projects arising from the *Health Boards (Membership and Elections)(Scotland) Act 2009*.

213. NHS Fife and NHS Dumfries and Galloway held elections for board members, and the evaluation concludes that it is possible to successfully hold direct elections. It also notes that the elections have impacted on the way the boards business has been conducted, e.g. votes became more common, and members were more likely to ask for their specific views to be recorded in the minute.

214. NHS Grampian and NHS Lothian explored alternative ways of recruiting and selecting members, but the impact of the alternative pilots has been more subtle, probably as a result of the low number of members being appointed.

215. The report highlights the advantages and disadvantages of three possible ways forward, i.e.

- the current system of appointment
- broadening the recruitment process
- direct elections.

Pay and workforce planning

Good practice guide on performance management

216. The Scottish Government has issued *Performance management - good practice guide* to provide guidance for staff in the mandatory executive and senior management pay arrangements.

217. The performance management process supports the remuneration policy for executive and senior managers, overseen by each board's remuneration committee. Staff within the executive cohort should be formally reviewed at least twice each year, and it is good practice for this to also apply to senior managers.

218. The process should result in agreed objectives, with each objective assigned a weighting to reflect the relative importance and difficulty. A total of 40 points should be allocated as weighting across all objectives. When performance against the agreed objectives is being assessed, an achievement rating should be allocated to each objective which ranges from 5 (substantially exceeded) down to 1 (substantially short of full achievement).

219. The weighting for each objective should be multiplied by the agreed achievement rating and these scores added together to give a total score. This score is then used to indicate an overall performance rating from unacceptable (70 or less) up to outstanding (171 or more).

2012 consultant distinction awards report

220. The [Scottish Advisory Committee on Distinction Awards](#) (SACDA) has issued its [Annual report 2012](#) which sets out the results of the 2012 awards round for distinction awards to consultants in NHS Scotland.

221. The awards budget for 2012 was frozen and no new awards were made in the year. SACDA instead reviewed existing awards in line with the five yearly review procedures, and recommended the continuation of all 98 awards.

222. The report includes a list of all distinction award holders as at 30 September 2012. There were a total of 440 consultants holding distinction awards, 8.9% of all consultants. Retirements among consultants in 2012 have resulted in a reduction of 54 in the number of awards held.

223. The rates for distinction awards remain those set out in PCS(DD)2010/5.

Planning and performance management

2013/14 local delivery plan guidance

224. [NHSScotland](#) has issued [Local delivery plan guidance 2013/14](#) to provide guidance on the preparation of local delivery plans (LDPs) for the three years from 2013/14. The guidance sets out the key operational targets and performance measures, and reiterates the purpose, format, and content of LDPs, and the timescales for completing them.

225. LDPs are required to include the boards' quality ambitions and contributions to single outcome agreements, financial plans and efficiency savings and workforce issues. They are required to cover a period of three years, but may be subject to review each year. Boards are required to develop their LDPs in consultation with stakeholders.

226. As part of the financial plans to be included in the LDP, efficiency savings require to be categorised by six themes including clinical productivity, workforce, drugs and prescribing, and procurement.

227. The guidance also sets out the key *Health improvement, efficiency, access and treatment* (HEAT) themes. For 2013/14, there are 15 HEAT targets, including three new targets on post diagnostic support for patients with dementia, reducing healthcare acquired infection, and IVF treatment. The targets set out the performance contract between the Scottish Government and boards, and therefore the Scottish Government will continue to monitor them.

228. The LDPs are expected to be signed off by the boards and Scottish Government by 31 March 2013.

Capital

2012 report on NHS estate

229. NHSScotland has issued the [Annual state of NHSScotland assets and facilities report for 2012](#) to highlight best practice and areas for improvement in the management of the NHS estate. This second annual report covers all NHSScotland-owned and leased physical assets (i.e. property, vehicles, medical equipment, and technology) and reviews asset and facilities management performance. Key points include the following
- The NHS asset base is valued at approximately £5 billion, with approximately 26% more than fifty years old. Leased assets, including public private partnership projects, amount to a further £1.5 billion.
 - Annual property and facilities service costs amount to £638 million, with property maintenance accounting for 34% and PFI facilities management 16% of this spend. On average, the total costs represent around 11% of each board's total hospital sector operating costs.
 - The total backlog maintenance costs are estimated at around £948 million, which is a reduction of £62 million from 2011. Investment in new facilities, disposals and planned maintenance expenditure is intended to further reduce this backlog.
 - Approximately 66% of accommodation is reported as functionally suitable and results of patient satisfaction surveys are positive.
230. The report includes a number of case studies illustrating best practice.
231. The Scottish Government and Health Facilities Scotland are currently procuring a new framework to deliver publicly-funded health and social care projects across Scotland.

Legislation

The following legislation can be obtained by using the hyperlinks and are available to external auditors from Audit Scotland's Technical reference library.

Statutory instruments

National health service

232. [The National Health Service \(Scotland\)\(Injury Benefits\) Amendment Regulations 2013](#) (SSI 52) come into force on 31 March 2013 and amend the principal 1998 injury benefits to apply only to a person who sustains a relevant injury or contracts a relevant disease before 31 March 2013. From that date, there will be new arrangements for an injury allowance that will be included within NHS staff terms and conditions.
233. There is provision for protection for staff whose claim for an injury or disease occurred on or before 30 March 2013. There is a five year transitional period for late claims and an additional period up to 30 March 2038 where there has been late onset of a disease which can be

related back to an incident on or before 30 March 2013, subject to the provision of compelling evidence.

234. [The Personal Injuries \(NHS Charges\) \(Amounts\) \(Scotland\) Amendment Regulations 2013](#), SSI 53 come into force on 1 April 2013 and amend the principal regulations to increase the charges in respect of which a person who pays compensation to an injured person must pay for NHS treatment.

Publications

The documents referred to in the following articles can be obtained by using the hyperlink.

Audit Scotland

Prescribing in general practice in Scotland

235. This report [Prescribing in general practice in Scotland](#) looks at the value for money of prescribing in general practice. Key messages include the following
- The national health service has improved its management of GP prescribing. For example, spending fell by 11% in real terms between 2004 and 2011, despite the volume of prescriptions rising by a third.
 - There is scope to make significant annual savings without affecting patient care by reducing waste and cutting the use of less suitable medicines.

Management of patients on NHS waiting lists

236. This report on the [Management of patients on NHS waiting lists](#) published the findings of the review carried out following the discovery of manipulation of waiting lists and misreporting of performance by NHS Lothian during 2011.
237. Audit Scotland's review covered April to December 2011, the period during which lists were known to be manipulated at NHS Lothian, and aimed to identify whether NHS Lothian's manipulation of waiting lists was an indication of widespread problems. Key messages include the following
- The systems used to manage waiting lists have inadequate controls and audit trails, and the information recorded in patient records is limited.
 - Most patients' records reviewed did not include enough information to verify that social unavailability codes had been applied properly.
 - Sampling found a small number of instances in which unavailability codes were used inappropriately, though it is not possible to determine the cause.

Auditor action

238. The following is a summary of items in this chapter of the TB that recommend that auditors take certain actions.

Section and paragraph	Action
Accounting developments Paragraph 200	Auditors should confirm that their boards are aware that the 2012/13 accounts manual has been issued and that they are taking the necessary steps to comply.
Governance developments - Paragraph 207	Auditors should confirm that their boards are aware of the guidance on governance statements, and that they are taking the necessary steps to comply.

Further education chapter

Introduction

This chapter contains articles on further education technical developments and guidance relevant to external auditors' responsibilities under their audit appointment. It should be read by external auditors with appointments in the further education sector. Auditors should also read the cross-sectoral chapter which covers developments and guidance that are relevant to all sectors. More in-depth and extensive guidance on particular subjects or themes are provided in separate guidance notes published by the TSU (i.e. notes for guidance and urgent issue notes).

The articles in this chapter are intended to highlight the main points that the TSU considers auditors require to be aware of in respect of each development. In many cases, it may still be necessary for auditors to read the source material. The documents referred to in the articles can be obtained by using the hyperlinks. They are also available to external auditors from Audit Scotland's *Technical reference library*.

TSU developments

Guidance

The following article provides authoritative guidance from the TSU.

Financial year

239. TB 2012/4 (paragraph 162) updated auditors on an issue in respect of the statutory basis of the financial year covered by colleges' financial statements. While directions issued by the Scottish Funding Council require colleges to prepare their financial statements using the financial year from 1 August to 31 July, paragraph 18(3) of Schedule 2 to the *Further and Higher Education (Scotland) Act 1992* (the 1992 Act) specifies that the financial year of colleges is from 1 April to 31 March.
240. Paragraph 18(4) of the 1992 Act gives Scottish Ministers the power to provide by order that colleges should have a different financial year to that specified at section 18(3). At the time of preparing TB 2012/4, it had not been possible to locate a statutory instrument that specified a change to the financial year. There was therefore a preliminary view that the financial statements were not being prepared in accordance with the 1992 Act.
241. However, it has subsequently been established that section 60(2) of the 1992 Act disappplies the requirement for the order to be in the form of a statutory instrument. The TSU understands that there is no prescribed format for such orders, but there is however evidence that Ministers intended to change the year end to 31 July and this is supported by the subsequent actions of all parties. In the case of the 2011/12 financial year, an order has been issued to amend the

year end of the dissolving Elmwood College, Oatridge College, and The Barony College to 30 September 2012. It is therefore reasonable to conclude that the 2011/12 financial statements of all colleges have been prepared in accordance with the 1992 Act in this regard.

Contact points


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

Contact	Chapter
Paul O'Brien, Senior Manager (Technical) 0131 625 1795 pobrien@audit-scotland.gov.uk	Cross-sectoral and local authority
Tim Bridle, Technical Adviser (Local Government) 0131 625 1793 tbridle@audit-scotland.gov.uk	Local authority (Non-benefits developments)
Anne Cairns, Manager – Benefits (Technical) 0131 625 1926 acairns@audit-scotland.gov.uk	Local authority (Benefits developments only)
Alison MacDonald, Technical Adviser (Central Government & Further Education) 0131 625 1759 almacdonald@audit-scotland.gov.uk	Central government and Further education
Neil Cameron, Manager - Health (Technical) 0131 625 1797 ncameron@audit-scotland.gov.uk	Health

Feedback on this TB should be sent to alewis@audit-scotland.gov.uk

Technical Services Unit
Audit Scotland
110 George Street
EDINBURGH
EH2 4LH

19 March 2013



Technical bulletin 2013/2

April to June



Prepared by the Technical Services Unit
18 June 2013

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Contents

Foreword	5
Headlines	6
Cross-sectoral chapter	11
Introduction	11
TSU developments.....	11
Accounting developments	12
Auditing developments	14
Legislation.....	15
Publications.....	15
Fraud cases	16
Auditor action	18
Local authority chapter	19
Introduction	19
TSU developments.....	20
Accounting developments	23
Corporate governance developments.....	31
Other developments	31
Legislation.....	43
Publications.....	44
Auditor action	45
Central government chapter	47
Introduction	47
Accounting developments	47
Health chapter	49
Introduction	49
Accounting developments	49
Other developments	50
Legislation.....	52
Further education chapter	54
Introduction	54

Developments	54
Contact points.....	55

Foreword

Informing judgement, Improving quality

Audit Scotland's Technical Services Unit (TSU) informs the professional judgement of appointed external auditors on technical matters to improve the quality of the audit delivered to the Accounts Commission and Auditor General for Scotland. The TSU provides authoritative guidance and practical assistance to support appointed auditors in carrying out their responsibilities under the *Code of audit practice* to

- provide an opinion on audited bodies' financial statements and, where required, the regularity of transactions
- review and report on other information published with the financial statements, including governance statements (and equivalent statements) and remuneration reports
- examine and report on approved grant claims and other returns submitted by local authorities
- review and report on whole of government accounts returns.

Authoritative guidance includes technical bulletins (TBs) prepared by the TSU at quarterly intervals, which are approved by the Assistant Auditor General for Scotland. They are available to external auditors from Audit Scotland's *Technical reference library* and published on the Audit Scotland website. TBs provide a composite of technical developments in the quarter that are relevant to external auditors' responsibilities referred to above, and provide auditors with guidance on any emerging issues.

TBs contain information which is of importance to the conduct of audits and frequently recommend that auditors take certain actions, and a summary of these actions is provided at the end of each chapter. It is important 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, and are responsible for their own conclusions and opinions, consistency in similar circumstances is important and **the *Code of audit practice* therefore states that auditors should normally follow all such guidance. Auditors should advise the TSU promptly if they intend not to follow any guidance on an important issue** (e.g. a matter that requires consideration to be given to modifying the audit opinion on the financial statements of a number of audited bodies).

TBs are published on the Audit Scotland website so that audited bodies and other stakeholders can be aware of the guidance that has been provided to auditors. TBs should not be regarded as necessarily 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.

Headlines

The table in this chapter provides brief headlines for the content of this TB, referenced to the paragraphs containing the main article.

Cross-sectoral chapter	Reference
<p>The TSU has</p> <ul style="list-style-type: none"> published a note for guidance on 2012/13 model auditor's reports provided a summary of some reported fraud cases. 	<p>Paragraph 1</p> <p>Paragraph 28</p>
<p>The International Accounting Standards Board has issued</p> <ul style="list-style-type: none"> an amendment to IAS 36 a proposed amendment to IAS 19 a revised exposure draft on accounting for leases. 	<p>Paragraph 6</p> <p>Paragraph 10</p> <p>Paragraph 14</p>
<p>The Financial Reporting Council has issued a revised standard on auditor's reports.</p>	<p>Paragraph 20</p>
<p>Statutory instruments have been passed on the</p> <ul style="list-style-type: none"> 2013/14 budget pension increase for 2013/14. 	<p>Paragraph 24</p> <p>Paragraph 25</p>
<p>Audit Scotland has published reports on</p> <ul style="list-style-type: none"> improving community planning managing early departures. 	<p>Paragraph 26</p> <p>Paragraph 27</p>

Local authority chapter	Reference
<p>The TSU has</p> <ul style="list-style-type: none"> published a note for guidance on auditing 2012/13 local authority charity financial statements 	<p>Paragraph 37</p>

Local authority chapter	Reference
<ul style="list-style-type: none"> • published a grant note providing general guidance on the certification of 2012/13 grant claims • published 2012/13 grant notes on certifying claims for <ul style="list-style-type: none"> – education maintenance allowance – benefits subsidy – Bellwin scheme – safety camera programme – criminal justice social work services. • provided guidance on accounting for obligations relating to landfill sites. 	<p>Paragraph 42</p> <p>Paragraph 470</p> <p>Paragraph 51</p> <p>Paragraph 56</p> <p>Paragraph 59</p> <p>Paragraph 62</p> <p>Paragraph 65</p>
<p>The Chartered Institute of Public Finance and Accountancy has issued</p> <ul style="list-style-type: none"> • guidance on 2012/13 financial statements • updated guidance on impairing deposits in Icelandic banks • a new application note for public sector internal audit standards. 	<p>Paragraph 69</p> <p>Paragraph 105</p> <p>Paragraph 110</p>
<p>The CIPFA/LASAAC Local Authority Code Board has issued the <i>2013/14 Code of practice on local authority accounting</i>.</p>	<p>Paragraph 71</p>
<p>The Local Authority (Scotland) Accounts Advisory Committee has issued guidance on</p> <ul style="list-style-type: none"> • presenting non-domestic rates in 2012/13 • significant trading operations. 	<p>Paragraph 99</p> <p>Paragraph 141</p>
<p>The Scottish Government has issued</p> <ul style="list-style-type: none"> • a finance circular on police and fire accounts for 2012/13 	<p>Paragraph 115</p>

Local authority chapter	Reference
<ul style="list-style-type: none"> • guidance on transferring police and fire finance functions • draft guidance on the operation of the housing revenue account • a finance circular on 2013/14 non-domestic rate interest rates • a finance circular on 2013/14 funding • a revised financial memorandum for community justice authorities. 	<p>Paragraph 127</p> <p>Paragraph 147</p> <p>Paragraph 150</p> <p>Paragraph 190</p> <p>Paragraph 192</p>
<p>PricewaterhouseCoopers has issued a report on IAS 19 reporting in 2012/13.</p>	<p>Paragraph 134</p>
<p>The Department for Works and Pensions has issued</p> <ul style="list-style-type: none"> • a letter and guidance on the 2012/13 subsidy claim • circulars on <ul style="list-style-type: none"> – universal credit – size criteria – information sharing – personal independence payments – armed forces independence payments – additional 2013/14 funding – the benefits cap – miscellaneous amendments to housing benefit regulations. 	<p>Paragraph 153</p> <p>Paragraph 158</p> <p>Paragraph 165</p> <p>Paragraph 170</p> <p>Paragraph 174</p> <p>Paragraph 179</p> <p>Paragraph 185</p> <p>Paragraph 187</p> <p>Paragraph 188</p>
<p>The Audit Commission has issued module 5 of HB COUNT.</p>	<p>Paragraph 155</p>
<p>Statutory instruments have been passed on</p> <ul style="list-style-type: none"> • police and fire reform 	<p>Paragraphs 113 and 125</p>

Local authority chapter	Reference
<ul style="list-style-type: none"> • the postponement of non-domestic rate revaluation • universal credit • information sharing for welfare services • the benefits cap • miscellaneous amendments to housing benefit regulations • 2013/14 funding. 	<p>Paragraph 152</p> <p>Paragraphs 158 and 163</p> <p>Paragraph 170</p> <p>Paragraph 187</p> <p>Paragraph 188</p> <p>Paragraph 190</p>
<p>Audit Scotland has issued reports on</p> <ul style="list-style-type: none"> • an overview of local government • maintaining roads. 	<p>Paragraph 207</p> <p>Paragraph 208</p>

Central government chapter	Reference
<p>The Cabinet Office has issued guidance on</p> <ul style="list-style-type: none"> • 2012/13 remuneration reports • disclosure of compensation information. 	<p>Paragraph 209</p> <p>Paragraph 211</p>
<p>Treasury has issued a consultation paper on simplifying central government accounts.</p>	<p>Paragraph 213</p>

Health chapter	Reference
<p>The Scottish Government Health and Social Care Directorates has issued</p> <ul style="list-style-type: none"> • the 2012/13 <i>Capital accounting manual</i> • guidance on the 2013/14 <i>Quality and outcomes framework</i>. 	<p>Paragraph 217</p> <p>Paragraph 221</p>
<p>The Scottish Government has issued</p> <ul style="list-style-type: none"> • two letters on executive and senior managers' pay and performance 	<p>Paragraph 224</p>

Health chapter	Reference
<ul style="list-style-type: none"> • a circular on the 2013/14 pay award for those on the <i>Agenda for change</i> agreement • two letters on 2013/14 medical and dental staff pay award • a circular on the 2012/13 medical directors pay award. 	<p>Paragraph 226</p> <p>Paragraph 230</p> <p>Paragraph 234</p>
<p>Statutory instruments have been passed on the superannuation scheme and pension scheme.</p>	<p>Paragraph 236</p>

Further education chapter	Reference
<p>Statutory instruments have been passed on college mergers.</p>	<p>Paragraph 240</p>

Cross-sectoral chapter

Introduction

This chapter contains articles on cross-sectoral technical developments and authoritative guidance relevant to external auditors' responsibilities under their audit appointment. It should be read by all external auditors. Developments and guidance that are relevant to only one sector are covered in the relevant sector-specific chapter. More in-depth and extensive guidance on particular subjects or themes is provided in separate guidance notes published by the TSU (i.e. notes for guidance, urgent issue notes and, for local authorities, grant notes).

The articles in this chapter are intended to highlight the main points that the TSU considers auditors require to be aware of in respect of each development. In many cases, it may still be necessary for auditors to read the source material. The documents referred to in the articles can be obtained by using the hyperlinks. They are also available to external auditors from Audit Scotland's *Technical reference library*.

The TSU encourages feedback on this TB. Comments 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 article in this chapter relates to 2012/13 audits

- Note for guidance on 2012/13 model auditor's reports on the financial statements.

TSU developments

Guidance notes

The following guidance note has been published by the TSU since TB 2013/1. It can be obtained by using the hyperlink and is available to external auditors from Audit Scotland's *Technical reference library*.

Note for guidance on 2012/13 model auditor's reports on the financial statements

1. The TSU has published [Note for guidance 2013/7 2012/13 model independent auditor's reports on the financial statements](#) to provide auditors with model forms of auditor's reports on the 2012/13 financial statements, and guidance on their use.
2. The wording of the model reports for each type of body is based on the illustrative examples contained in the Auditing Practices Board (APB) *Bulletin 2010/2 (Revised) Compendium of illustrative auditor's reports on United Kingdom private sector financial statements*. The

wording in the APB bulletin has been amended by the TSU to reflect public sector legislation and the requirements of Audit Scotland.

3. The note for guidance provides guidance on the application of the model reports. It also provides guidance on modifications to the audit opinions, and the consequent changes that require to be made to wording in each case, as well as guidance on 'emphasis of matter' paragraphs and 'other matter' paragraphs.
4. The note refers to the other relevant sources of guidance for the opinion on the financial statements and the other reporting requirements provided by the TSU, e.g. regularity opinion, remuneration reports, governance statements etc. It also includes guidance and clarification in respect of the other information in a document containing financial statements.
5. Auditors should use these model reports and the application guidance when reporting on the 2012/13 financial statements.

Accounting developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library* (except where indicated).

Amendment to IAS 36

6. The [International Accounting Standards Board](#) (IASB) has issued *Recoverable amount disclosures for non-financial assets (Amendments to IAS 36)* which contains modifications to the disclosures in *IAS 36 Impairment of assets* for measuring the recoverable amount of impaired assets.
7. When developing *IFRS 13 Fair value measurement*, IAS 36 was amended to require the disclosure of information about the recoverable amount of impaired assets. However, some of the amendments have resulted in broader application than was intended. This amendment to IAS 36 therefore removes the requirement to disclose the recoverable amount of each cash-generating unit for which the carrying amount of goodwill or intangible assets is significant when compared to the total carrying amount of these items.
8. It also adds the requirement to disclose the recoverable amount and valuation technique of an individual asset measured at fair value less costs of disposal for which the entity has recognised or reversed an impairment loss during the reporting period.
9. The amendments apply retrospectively for annual periods beginning on or after 1 January 2014, with earlier application permitted provided IFRS 13 is also applied. The amendment is currently only available to subscribers to the IASB website but will be added to the *Technical reference library* in due course.

Proposed amendment to IAS 19

10. The IASB has issued [Exposure draft ED/2013/4 Defined benefit plans: employee contributions](#) which proposes amendments to *IAS 19 Employee benefits* in respect of employee contributions.
11. It proposes that contributions from employees set out in the formal terms of a defined benefit plan may be recognised as a reduction in the service cost in the same period in which they are payable only if they are linked solely to the employee's service rendered in that period. An example would be contributions that are a fixed percentage of an employee's salary, so the percentage of the employee's salary does not depend on the employee's number of years of service to the employer.
12. If this condition is not met, the contributions should be attributed to periods of service on a straight line basis.
13. Responses are required via the IASB website by 25 July 2013. Inhouse auditors should contact the TSU if they have any comments they would like considered for inclusion in a corporate response.

Revised exposure draft on accounting for leases

14. The IASB has issued [Exposure draft ED/2013/6 Leases](#) which contains revised proposals for a new standard on leases. The exposure draft proposes a new approach to lease accounting that would require a lessee to recognise assets and liabilities for the rights and obligations created by leases. The model reflects that the lessee obtains a right to use the underlying asset for a period of time, and the lessor provides that right.
15. A lessee would recognise a right-of-use asset and a lease liability for all leases of more than 12 months, and can choose to do so for leases of 12 months or less.
16. Both the asset and the liability would initially be measured at the present value of lease payments. Variable lease payments would not be included in the measurement of lease assets and liabilities unless those payments are in substance fixed payments or linked to an index or a rate. Lease payments payable in optional renewal periods are also not included unless the lessee has a significant economic incentive to exercise the option.
17. The exposure draft proposes a dual approach to the recognition, measurement and presentation of expenses and cash flows arising from a lease. The principle for determining which approach to apply is based on the amount of consumption of the underlying asset as follows
 - A lessee typically consumes a part of any equipment or vehicle that it leases. The lessor prices the lease to recover the value of the part of the asset consumed as well as obtaining a return on its investment. The lessee, in effect, acquires the part of the underlying asset that it consumes, which is paid for over time in the form of lease payments. The lessee would present amortisation of the right-of-use asset in the same

line item as other similar expenses, and interest on the lease liability in the same line item as interest on similar financial liabilities.

- In property leases, the lessee uses the underlying asset without consuming more than an insignificant part of it. The lease payments represent a charge for the use of the asset and are expected to be relatively even over the lease term. Those payments would be presented as one amount in a lessee's income statement and recognised on a straight-line basis.
18. There are few changes proposed to the accounting applied by lessors of finance leases or, where the underlying asset is property, for operating leases. For operating leases of equipment or vehicles, however, lessors would recognise
- a lease receivable and a retained interest in the underlying asset (the residual asset), and derecognise the underlying asset
 - interest income on both the lease receivable and the residual asset over the lease term.
19. Comments should be made via the IASB website by 13 September 2013. Inhouse auditors should contact the TSU if they have any comments they would like considered for inclusion in a corporate response.

Auditing developments

The document referred to in the following article can be obtained by using the hyperlink, and is available to external auditors from Audit Scotland's *Technical reference library*.

Revised standard on auditor's reports

20. The [Financial Reporting Council](#) has issued a revised version of [ISA 700 \(UK & I\) The independent auditor's report on the financial statements](#) which contains changes to the auditor's report for bodies that report on compliance with the *UK Corporate governance code*. The revisions are effective for periods commencing on or after 1 October 2012.
21. The changes require the auditor's report to
- describe those assessed risks of material misstatement that were identified by the auditor which had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team
 - provide an explanation of how the auditor applied the concept of materiality in planning and performing the audit, and specify the threshold used by the auditor as being materiality for the financial statements
 - provide a summary of the audit scope, including an explanation of how the scope was responsive to the assessed risks of material misstatement and the auditor's application of the concept of materiality.
22. The explanations of these matters are required to be described in a manner that

- enables a user to understand their significance in the context of the audit of the financial statements as a whole and not as discrete opinions on separate elements of the financial statements
 - directly relates to the specific audited body and not generic matters expressed in standardised language
 - complements the description of significant issues relating to the financial statements which is required to be set out in the separate section of the annual report describing the work of the audit committee in discharging its responsibilities as required by the *UK corporate governance code*.
23. In addition, ISA 700 has been renamed to include the word 'independent' to describe the auditor.

Legislation

The following legislation can be obtained by using the hyperlinks and are available to external auditors from Audit Scotland's *Technical reference library*.

Statutory instruments

Public finance and accountability

24. [The Budget \(Scotland\) Act 2012 Amendment Order 2012](#) (SSI 117) came into force on 31 March 2013 and amended the *Budget (Scotland) Act 2012*.

Pensions

25. [The Pensions Increase \(Review\) Order 2013](#) (SI 604) came into force on 8 April 2013 and prescribes the increase in the rates of public service pensions for 2013/14 as follows
- For pensions which began before 9 April 2012, the increase is 2.2%.
 - For pensions which began on or after that date the increases are set out in the Order.

Publications

The following publications published since TB 2013/1 can be obtained by using the hyperlinks.

Audit Scotland

Improving community planning in Scotland

26. This report from Audit Scotland [Improving community planning in Scotland](#) considers how community planning can be improved. Findings include the following
- Community planning partnerships (CPPs) are not able to show that they have had a significant impact in delivering improved outcomes across Scotland.

- Individual partner organisations have not been routinely or robustly held to account for their performance as a member of the CPP.
- CPPs have not been clear enough about the key priorities for improvement in their area.
- Community planning has had little influence over how the significant sums of public money available are used.
- Governance and accountability arrangements for community planning have been weak.

Managing early departures from the Scottish public sector

27. This report from Audit Scotland [Managing early departures from the Scottish public sector](#) aims to remind public sector bodies of the principles of good practice in managing early departure costs. Good practice includes the following
- Early departure schemes should be driven by the needs of organisations and their workforce plans, and there should be clear policies and procedures which are consistently applied. Alternatives to early departures should be considered such as redeployment, natural turnover and service redesign.
 - Proposals should be supported by business cases, showing the full additional costs of early departures and their anticipated savings. There should be restrictions on staff who have accepted an early departure package from being re-employed.
 - Councillors or board members should approve early departure schemes to ensure that proposals represent value for money, and proposals affecting senior managers to ensure each application is independently authorised.
 - Senior managers, as well as councillors or board members, should monitor progress to help ensure that planned savings are being made, and should use lessons learned from past and existing schemes and apply these accordingly to future proposals.
 - Organisations should be open in their annual reports and accounts about the costs of early departures and the savings they have generated. Compromise agreements should not be used to limit public accountability, for example by hiding the full cost of departures.

Fraud cases

External auditors are required to submit to the TSU information on cases of reportable fraud that arise at audited bodies. The following is a summary of fraud cases that have been reported by auditors to the TSU since TB 2013/1.

Expenditure

28. A finance officer misappropriated over £26,000 from a non-departmental public body (NDPB) by amending the bank details of suppliers on the *Banks' automated delivery services* (BACS) pay run files to divert payments to the defaulter's bank account.
29. The fraud was facilitated by the BACS payment file being in a text file format before it was encrypted for sending to the bank which meant it was capable of being amended. The NDPB

was not aware of this weakness and therefore had no mitigating controls in place. The perpetrator also used a number of methods to conceal the change, such as further diversion of funds, fictitious unpresented cheques and fictitious rejected BACS payments.

30. The fraud was discovered when a supplier queried an invoice which had not been paid. Although the perpetrator always ensured he followed up non-payment queries, in this case, another employee was suspicious of the explanation for the failed payment and reported this to the internal audit section who then initiated an investigation.
31. The employee was suspended and the matter has been reported to the police. The NDPB has undertaken a review of staff roles and responsibilities, increased supervision of employees and improved controls around BACS pay run files, including a software change to lock down the file.

Payroll

32. A payroll officer misappropriated over £6,000 from a council by
 - creating false telephone banking requests that were paid to the perpetrator's account
 - amending the payroll records of two members of staff who had left the council's employment so that the records included the perpetrator's bank details.
33. The fraud was discovered after finance officers raised concerns regarding a telephone banking payment. The perpetrator admitted the misappropriation when he was interviewed by a supervisor.
34. The police were informed and disciplinary action taken which led to dismissal and the recovery of the funds. The council has addressed control weaknesses identified by internal audit in the authorisation of telephone banking payments, the change of bank details and the termination of leavers.

Income

35. A head teacher of a council family centre/nursery defrauded £21,000 by providing a free place to a relative who did not meet residency conditions. The fraud was facilitated by control weaknesses in the process for allocating places at the centre and in the billing arrangements.
36. The fraud was discovered following an anonymous letter sent to the Director of Education, who initiated an internal audit investigation. Procedures have been put in place to address the control weaknesses. The head teacher has repaid the sum and has left the council's employment.

Auditor action

The following is a summary of items in this chapter of the TB that recommend that auditors take certain actions

Section and paragraph	Action
TSU developments - Guidance notes - paragraph 5	Auditors should use the model reports and the application guidance in note for guidance 2013/7 when reporting on the 2012/13 financial statements.

Local authority chapter

Introduction

This chapter contains articles on local authority technical developments and authoritative guidance relevant to external auditors' responsibilities under their audit appointment. It should be read by external auditors with appointments in the local authority sector. Auditors should also read the cross-sectoral chapter which covers developments and guidance that are relevant to all sectors. More in-depth and extensive guidance on particular subjects or themes is provided in separate guidance notes published by the TSU (i.e. notes for guidance, urgent issue notes and grant notes).

The articles in this chapter are intended to highlight the main points that the TSU considers auditors require to be aware of in respect of each development. In many cases, it may still be necessary for auditors to read the source material. The documents referred to in the articles can be obtained by using the hyperlinks. They are also available to external auditors from Audit Scotland's *Technical reference library*.

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 relates to 2012/13 audits

- Note for guidance on auditing 2012/13 charity financial statements.
- 2012/13 grant notes.
- Guidance on accounting for obligations relating to landfill sites.
- Guidance on 2012/13 financial statements.
- Guidance on presentation of non-domestic rates.
- Updated guidance on impairing Icelandic bank deposits.
- Guidance and statutory instruments on police and fire reform.
- Report on actuaries.
- Guidance on significant trading operations.
- 2012/13 benefits subsidy claim guidance.
- Module 5 of HB COUNT.
- Revised financial memorandum for community justice authorities.

TSU developments

Guidance notes

The following guidance notes have been published by the TSU since TB 2013/1. They can be obtained by using the hyperlinks and are available to external auditors from Audit Scotland's *Technical reference library*.

Note for guidance on auditing 2012/13 local authority charity financial statements

37. Technical bulletin 2012/4 (at paragraph 58) advised auditors that a separate auditor's report for local authority trust funds is required under *The Charities Accounts (Scotland) Regulations 2006* where they are registered as charities with the Office of the Scottish Charity Regulator (OSCR) and, for 2012/13, where financial limits set out in the regulations are breached. Auditors were advised to accept any requests by authorities to provide an auditor's report for 2012/13, and that further guidance would be provided by the TSU in due course.
38. The TSU has therefore published [Note for guidance 2013/5\(LA\) Audit of 2012/13 local authority financial statements \(charitable funds\)](#) to provide auditors with guidance on planning and performing the audit of the 2012/13 financial statements of local authority charities.
39. The note for guidance provides guidance on the areas that the TSU considers represent a generic risk of material misstatement in the 2012/13 financial statements. The note also provides guidance on auditors' responsibilities to
 - express an opinion on the consistency of the trustees' annual report with the financial statements
 - report on other prescribed matters to trustees and to OSCR.
40. Auditors should use this note for guidance when planning and performing the audit of the 2012/13 financial statements of local authority registered charities.
41. A separate auditor's report will be required from 2013/14 for all local authority registered charities, regardless of size. Audit Scotland is currently considering how that requirement should be met.

Guidance on the certification of approved local authority 2012/13 grant claims and returns

42. The TSU has published [Grant note GN/GEN/13 General guidance on the certification of approved local authority grant claims and returns](#) to provide general guidance to auditors on the certification of approved grant claims and other returns submitted to grant-paying bodies by local authorities.
43. Although carried out under the overall audit appointment, the certification of grant claims and other returns is not technically an audit of the financial statements, but rather it is an engagement to provide reasonable assurance that claims and returns are fairly stated and in accordance with specified terms and conditions. The list of grant claims and other returns

which external auditors are required to certify in 2012/13 under their audit appointment is provided at Appendix 1 to the grant note.

44. The TSU also separately publishes a grant note on each significant approved claim to provide auditors with specific guidance on certifying that claim.
45. In summary, appointed external auditors are required to
 - examine the claim or return and related accounts and records of the authority in accordance with the general grant note and the claim-specific grant note
 - direct work to those matters that, in the auditor's view, significantly affect the claim or return
 - plan and complete their work in a timely fashion so that deadlines are met
 - form a conclusion as to whether the claim or return is fairly stated and in accordance with the relevant terms and conditions
 - complete the appointed auditor's certificate, qualified as necessary, in accordance with the guidance in this grant note and submit it to the grant-paying body.
46. Auditors should use GN/GEN/13 when examining and reporting on 2012/13 grant claims.

Guidance on certifying 2012/13 education maintenance claims

47. The TSU has published a grant note [GN/EMA/13](#) to provide guidance on certifying 2012/13 education maintenance allowance (EMA) grant claims. EMA is a means tested weekly allowance payable to young people from low income families to encourage them to remain in full time education beyond the minimum school leaving age.
48. The year end statement contains an auditor's certificate; however, this should not be used. Auditors should instead use the format and wording shown at Appendix 3 to the grant note.
49. The deadline for the submission of the auditor certified claim is 31 July 2013.
50. Auditors should use GN/EMA/13 when examining and reporting on 2012/13 EMA grant claims.

Guidance on certifying 2012/13 benefits subsidy claims

51. The TSU has published a grant note [GN/HBS/13](#) to provide guidance on certifying 2012/13 housing and council tax benefit (HB/CTB) subsidy claims. This is a scheme by which local authorities claim funding from the Department for Work and Pensions (DWP) towards the cost of paying HB/CTB in their local areas.
52. It is a condition of the DWP that external auditors in Scotland should use the testing and reporting approach set out in the Audit Commission's HB COUNT approach. This grant note therefore provides guidance on the application of HB COUNT to the certification of subsidy claims of Scottish authorities.
53. Where the testing does not allow agreed amendments to be made, the results should be set out in a covering letter. Appendix 4 provides examples of how the results of testing should be reported to the DWP in covering letters.

54. The auditor's certificate to be used is incorporated in the claim. The certified copy of the claim form should be submitted by 30 November 2013. Auditors should send a copy of the certified claim form and their covering letter to the TSU.
55. Auditors should use GN/HBS/13 when examining and reporting on 2012/13 benefits subsidy claims.

Guidance on certifying 2012/13 Bellwin scheme claims

56. The TSU has published a grant note [GN/BEL/13](#) to provide guidance on certifying 2012/13 Bellwin scheme claims. This is a scheme to provide special financial assistance to authorities who would otherwise incur an undue financial burden as a result of providing relief and carrying out immediate work resulting from large-scale emergencies.
57. The claim form contains an external auditor's report; however, this should not be used. Auditors should instead use the format and wording shown at Appendix 3 to the grant note.
58. Auditors should use GN/BEL/13 when examining and reporting on 2012/13 Bellwin scheme claims.

Guidance on certifying 2012/13 safety camera scheme claims

59. The TSU has published grant note [GN/FPN/13](#) to provide guidance on certifying 2012/13 safety camera programme claims. This programme is aimed at accident and casualty reduction through the use of speed and red light enforcement cameras.
60. The deadline for the submission of the auditor certified claim is 31 July 2013.
61. Auditors should use GN/FPN/13 when examining and reporting on 2012/13 safety camera programme claims.

Guidance on certifying 2011/12 criminal justice social work services returns

62. The TSU has published grant note [GN/CJS/13](#) to provide guidance on certifying 2012/13 criminal justice social work services returns. This is a scheme to fund local authority expenditure on the provision, management and administration of criminal justice social work services.
63. Auditors should use the format and wording for their certificate shown at Appendix 4 to the grant note. The deadline for the submission of the certified claim is 30 September 2013.
64. Auditors should use GN/CJS/13 when examining and reporting on 2012/13 criminal justice social work services returns.

Other guidance

The following article provides guidance from the TSU.

Accounting for obligations relating to landfill sites

65. Auditors will be aware that paragraph 274 of note for guidance 2013/1(LA) includes the restoration and aftercare of landfill sites as a matter that may require a provision to be recognised under *IAS 37 Provisions, contingent liabilities and contingent assets*.
66. A recent survey by the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) has identified that, although a number of Scottish authorities currently operate landfill sites, they did not recognise a provision in 2011/12 for their obligations relating to the restoration and aftercare of the sites.
67. Authorities have an obligation to undertake restoration and aftercare work at the point where they commence depositing refuse in the site and therefore it is expected that they should be recognising a provision no later than that stage. Auditors should therefore confirm that authorities are recognising a provision in 2012/13 where the criteria in IAS 37 are met, and have made a prior year adjustment where necessary. Where an authority has formed the view that the criteria in IAS 37 are not met (e.g. because a reliable estimate of the cost cannot be made), auditors should consider whether that view is valid.
68. It is also worth highlighting that *IAS 16 Property, plant and equipment* includes in the cost of an asset the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which the body incurs when the item is acquired or as a consequence of having used the item. IAS 16 therefore requires the costs of restoration and aftercare to be capitalised.

Accounting developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library* (except where indicated).

Guidance on 2012/13 financial statements

69. The [Chartered Institute of Public Finance and Accountancy](#) (CIPFA) has issued [LAAP bulletin 96 Closure of the 2012/13 accounts and related matters](#) to provide guidance and clarification on the 2012/13 financial statements. Key points include the following
 - The change in terms and conditions for teachers during 2011/12 (i.e. where 26 of the previous annual leave entitlement of 66 days became non-accumulating 'school closure' days) resulted in an unexpected impact on the teachers' annual pay costs charged to the comprehensive income and expenditure statement. Authorities should consider whether there are any implications for the 2012/13 financial statements arising from the change.

- [The Community Care \(Joint Working etc.\)\(Scotland\) Amendment Regulations 2012](#) have amended the principal regulations to remove the statutory disclosure requirements included in paragraph 3.4.5.1(4) of the *Code of practice on local authority accounting in the UK* (the Code) in respect of financial information of partnership schemes under the *Community Care and Health (Scotland) Act 2002*.
- Additional funding in 2012/13 to support set up costs for welfare reform is provided as part of general revenue grant and should be shown as a general grant in the comprehensive income and expenditure statement rather than as a specific grant. However, the bulletin suggests that related expenditure should be charged to the social work service.

70. Auditors should confirm that authorities are aware of this guidance and are paying it due regard.

2013/14 code

71. The [CIPFA/LASAAC Local Authority Code Board](#) has issued the edition of the Code which specifies local authority accounting requirements for 2013/14. It sets out the principles and practices of accounting required to give a 'true and fair' view of the financial position and transactions of a local authority, including group financial statements where the authority has material interests in subsidiaries, associates or joint ventures. In Scotland, the Code constitutes proper accounting practice under section 12 of the *Local Government in Scotland Act 2003*.
72. The Code's financial reporting framework is based on the following hierarchy of standards
- international financial reporting standards (IFRS) as adopted by the European Union
 - international public sector accounting standards
 - UK generally accepted accounting practice.
73. The 2013/14 Code has been prepared on the basis of accounting standards and interpretations in effect for accounting periods commencing on or before 1 January 2013. This is with the exception of *IFRS 13 Fair value measurement* where adoption has been deferred until 2014/15.
74. Auditors should confirm that their authorities are making the necessary arrangements to comply with the new requirements in the Code. Significant changes to the Code include the following
- Non-domestic rates (NDR - see paragraph 75).
 - Property, plant and equipment (see paragraph 78).
 - Leases (see paragraph 81).
 - Service concession arrangements (see paragraph 84).
 - Employee benefits (see paragraph 87).

Sections 2.8 and 3.6 non-domestic rates

75. Paragraph 2.8.2.11 has been added for cases where authorities are able to retain an element of NDR income growth for the purposes established under a *Tax incremental financing scheme*. The Code requires an authority to determine the extent to which it is acting as principal for these sums and recognise that element as income.
76. Similarly, paragraph 2.8.2.12 has been added to reflect the *Business rates incentivisation scheme* (BRIS) which allows authorities that exceed their annual business rates target to retain 50% of any additional income for the revaluation period. As this is the income of the authority and it bears all the risks of non-collection, this element of NDR income should be recognised in the comprehensive income and expenditure statement as income.
77. Paragraph 3.6.3.3 has been amended to include a line in the NDR account for income retained by the authority, reported separately for each scheme.

Section 4.1 property, plant and equipment

78. Section 4.1 has been amended to include clarification of the recognition and measurement principles in relation to accounting for property, plant and equipment.
79. In order to clarify the requirements in respect of the frequency of revaluations of assets measured at fair value, paragraph 4.1.2.35 has been amended to state that
 - revaluations should be undertaken with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period
 - the items within a class of property, plant and equipment should be revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates
 - a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and the revaluations are kept up to date
 - valuations should be carried out at intervals of no more than five years
 - the fair value of land and buildings is usually determined by appraisal of appropriate evidence that is normally undertaken by professionally qualified valuers.
80. In addition, the term 'enhancement' is no longer used in the Code, and is replaced by 'adding to' an item of property, plant and equipment which is the term used in IAS 16.

Section 4.2 leases

81. The provisions in respect of leases and lease-type arrangements in section 4.2 have been enhanced.
82. Definitions have been added for the following terms
 - The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. As at this date, a lease is classified as either an operating or a finance lease, and in the case of a finance

lease, the amounts to be recognised at the commencement of the lease term are determined.

- The commencement of the lease term is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease, i.e. the recognition of the assets, liabilities, income or expenses resulting from the lease.
- The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

83. Paragraph 4.2.2.10 has been amended to refer to cases where leases are provided on non-commercial terms. CIPFA/LASAAC is of the view that it is likely that the situation set out at point 4 of that paragraph (i.e. the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset) will not apply to an authority's analysis of the classification of the lease where lease payments are nominal or at a peppercorn. This exception is only relevant for transactions on non-commercial terms and does not apply where lease arrangements also include a substantial lease premium.

Section 4.3 service concession arrangements

84. The provisions and guidance in section 4.3 in relation to service concession arrangements have been augmented by the new guidance in *IPSAS 32 Service concession arrangements: Grantor*. IPSAS 32 mirrors IFRIC 12 on relevant accounting issues from the local authorities view.
85. The new guidance includes clarification at paragraph 4.3.2.9 on the recognition of assets under construction. The paragraph states that the recognition criteria and the specific terms and conditions of the arrangement should be considered in determining whether to recognise the service concession asset during the period in which the asset is constructed or developed. Similar to an asset constructed or developed for its own use, an authority should determine, at the time the costs are incurred, whether the economic benefits and/or service potential of the service concession asset flow to the authority at that time.
86. The section has also been amended to reflect that the service concession asset may be intangible.

Chapter 6 employee benefits

87. There are changes to chapter 6 of the Code to reflect amendments to *IAS 19 Employee benefits*.

Section 6.4 post employment benefits

88. The most significant changes are to section 6.4 where the components of defined post-employment benefits have been reclassified into

- service cost, which comprises the current service cost, past service cost (which now includes curtailments), and any gain or loss on settlement, and is recognised in the surplus or deficit on the provision of services
 - net interest on the net defined benefit liability, which is recognised in the surplus or deficit on the provision of services
 - remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, return on plan assets, and any change in the effect of asset ceiling (i.e. refunds or reductions in future contributions), and is recognised in other comprehensive income and expenditure.
89. Explicit disclosure objectives have been introduced along with more of a principle-based approach. The new disclosure requirements are also more detailed for many of the disclosures than required previously.
90. There are also new disclosure requirements for defined benefit schemes that are accounted for on a defined contribution basis. These include more description of the funding arrangements and the risks and obligations of the authority, and additional requirements relating to the expected contributions and a comparison of the level of participation that an authority might have in the plan in comparison with other entities.

Section 6.3 termination benefits

91. In addition, section 6.3 has been revised to set out more precisely when a liability and expense for termination benefits should be recognised. In particular, the recognition point should be based on the earlier of the date an authority
- can no longer withdraw an offer of termination benefits (rather than the previous test of being demonstrably committed to terminations)
 - recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.
92. For termination benefits payable as a result of an employee's decision to accept an offer of benefits in exchange for the termination of employment, the time when an authority can no longer withdraw the offer of termination benefits is the earlier of the date when
- the employee accepts the offer
 - a legal, regulatory or contractual requirement or other restriction on the authority's ability to withdraw the offer takes effect (this would be when the offer is made, if the restriction existed at the time of the offer).
93. For termination benefits payable as a result of an authority's decision to terminate an employee's employment, the authority can no longer withdraw the offer when the authority has communicated to the affected employees a plan of termination meeting all of the following criteria
- Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made.

- The plan identifies the number of employees whose employment is to be terminated, their job classifications or functions and their locations (but the plan need not identify each individual employee) and the expected completion date.
- The plan establishes the termination benefits that employees will receive in sufficient detail that employees can determine the type and amount of benefits they will receive when their employment is terminated.

94. Paragraph 6.3.1.3 has been added to clarify that termination benefits do not include employee benefits resulting from termination of employment at the request of the employee without an authority's offer, or as a result of mandatory retirement requirements, because those benefits are post-employment benefits.

Section 6.2 benefits payable during employment

95. IAS 19 now uses the term 'paid' absences rather than 'compensated' absences in respect of benefits payable during employment, and section 6.2 has been amended to reflect this change. However, CIPFA/LASAAC is of the view that this does not represent a difference in accounting terms and a footnote has been added on page 171 to clarify this point.

Section 6.5 pension fund accounts

96. Paragraph 6.5.2.8 has been amended to state that CIPFA/LASAAC's preferred approach is for the actuarial present value of promised retirement benefits to be presented in the net assets statement, in order that the assets and liabilities in the pension fund are disclosed at the end of the reporting period. However, the Code permits disclosure in the notes to the accounts or by reference to this information in an accompanying actuarial report though neither of these options requires the assets and liabilities to represent the position at the end of the reporting period.

Other changes

97. Other changes to the Code for 2013/14 include the following
- A requirement at paragraph 3.4.2.50 has been added for authorities to group items in accordance with an amendment to *IAS 1 Presentation of financial statements* where they have items in other comprehensive income and expenditure that are reclassifiable to the surplus or deficit on the provision of services (e.g. gains or losses on available for sale financial assets).
 - Paragraph 3.4.2.73 (previously 3.4.2.34) has been amended to clarify that, in the cash flow statement (rather than the balance sheet as the Code previously indicated), bank overdrafts should be presented separately from cash and cash equivalents where they are not an integral part of an authority's cash management. Where they are an integral part of an authority's cash management (i.e. the bank balance often fluctuates from being positive to overdrawn), they are shown as part of cash and cash equivalents.
 - Paragraph 3.4.2.20 has been added to state that fair presentation of the financial statements requires an authority to

- select and apply accounting policies in accordance with section 3.3 of the Code and IAS 8
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- provide additional disclosures when compliance with the specific requirements in the Code is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the authority's financial position and financial performance.
- The presentation of the criteria which must be met for an asset to be classified as held for sale has been amended at paragraph 4.9.2.14 to bring the wording closer to that used in IFRS 5. CIPFA/LASAAC consider that this is merely a matter of emphasis.
- Paragraph 7.4.2.4 has been added requiring authorities to disclose information that will enable users to evaluate the effect of netting financial assets and financial liabilities in accordance with an *Amendment to IFRS 7 Offsetting financial assets and liabilities*.
- The term 'exceptional items' has been removed from the Code.

Auditor action

98. Auditors should confirm that authorities are making necessary arrangements to comply with the new requirements.

Guidance on presenting non-domestic rates in 2012/13

99. [LASAAC](#) has issued [Example presentation of non-domestic rates in 2012/13 financial statements](#) to provide an example of the presentation of NDR income, cash and balances in 2012/13 financial statements.
100. The example is intended to illustrate various aspects of NDR presentation including
- NDR income retained by an authority under the BRIS
 - a disclosure note analysing the NDR income included within the 'Taxation and non-specific grant income line' of the comprehensive income and expenditure statement
 - the NDR income distributed by the Scottish Government to authorities from the national NDR pool.
101. The BRIS allows councils to retain 50% of the NDR collected over a set target, which is based on the audited contributable amount figure reported in the NDR return for 2012/13. As an authority is not entitled to retain the income until the target has been exceeded, there should be no recognition of BRIS income until the authority is satisfied that it has exceeded the target.
102. An authority's contribution to the national pool will include only the pool's 50% share of the 'above target' NDR. In line with current practice, rather than that sum being paid to the Scottish Government, the monthly revenue grant payments (in the following financial year) will take into account the BRIS adjusted amount to ensure the authority and pool each receive

their share. The pool's share should be recognised as an adjustment to the net balance with the pool for NDRI in 2012/13.

- 103.** Any analysis of NDR debtors into amounts owing related to the authority (income as principal) and those relating to the pool (agency income) needs to be undertaken at an aggregate level. This is considered to require a notional prioritisation method for 'cash allocation' to assign total cash collected between the relevant income streams. The paper recommends that NDR debtor balances at the end of the financial year are identified and assigned in the following order
- Income above the agreed BRIS target should be split between the authority share (50%) and the pool share (50%). Cash collected should initially be notionally allocated to the pool so that, where any balance of NDR debtors exists on the balance sheet, it can be notionally regarded as relating to the authority.
 - Where there are further NDR debtor balances, they may appropriately be regarded as relating to the pool.
- 104.** Auditors should confirm that authorities are aware of this guidance and are paying it due regard.

Updated guidance on impairing Icelandic bank deposits

- 105.** CIPFA has issued [LAAP bulletin 82 Guidance on the impairment of deposits with Icelandic banks](#) to provide updated guidance on impairments of deposits in Icelandic banks in 2012/13.
- 106.** The total amount to be received for Heritable Bank continues to be estimated at between 86% and 90% of the claim. However residential mortgages, which are likely to impact on future recoveries, have been sold to a third party. The bulletin therefore recommends that the estimate of the recoverable amount should continue to be based on a total repayment of 88%, but notes that an amended recommendation may be needed in due course.
- 107.** At the time of the last update, the total amount to be received for Kaupthing Singer & Friedlander Ltd was estimated to be in a range of between 81% to 86% of the claim. This range has been increased to between 84% to 86.5%. The bulletin therefore recommends that the estimate of the recoverable amount remains based on the mid-point, which has now increased to 85.25%.
- 108.** For the two Icelandic-domiciled banks, the element of the claim paid in Icelandic kroner continues to be held in an escrow account, pending permission from the Central Bank of Iceland to release the payments. The amounts held in escrow should continue to be treated as an investment and accounted for accordingly. The balances are earning interest at a rate which reflects market rates in Iceland, and which should be recognised in the comprehensive income and expenditure statement.
- 109.** Auditors should confirm that authorities are accounting for impairments in Icelandic banks in 2012/13 in accordance with this guidance.

Corporate governance developments

The document referred to in the following article will be available to external auditors from Audit Scotland's *Technical reference library* in due course.

New application note for public sector internal audit standards

110. CIPFA has issued an application note for the *Public sector internal audit standards* (PSIAS). TB 2013/1 (paragraph 33) advised of the publication of the PSIAS which is applicable to all areas of the UK public sector from 1 April 2013, and is based on the mandatory elements of the Institute of Internal Auditors' *International professional practices framework*.
111. Public sector requirements and interpretations have been included in the PSIAS where needed. However, this application note provides sector-specific requirements for local authorities. It will be added to the *Technical reference library* in due course, but can be ordered from the CIPFA website.

Other developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

Police and fire

112. Guidance and statutory instruments have been issued in respect of the final year of police and fire and rescue authorities covering
- responsibilities for 2012/13 accounts and reports (see paragraph 113)
 - 2012/13 accounting guidance (see paragraph 115)
 - 2012/13 remuneration reports (see paragraph 125)
 - transfer of the finance function (see paragraph 127).

Responsibility for 2012/13

113. [The Police and Fire Reform \(Scotland\) Act 2012 \(Supplementary, Transitional, Transitory and Saving Provisions\) Order 2013](#) provides that the statutory responsibilities for the 2012/13 accounts and reports of the police and fire joint boards should be discharged by a nominated constituent local authority (named the 'accounting authority').
114. The schedule to the order sets out the accounting authority for each board.

2012/13 accounting guidance

115. The [Scottish Government](#) issued [Finance circular 4/2013 Police and fire reform - statutory accounts 2012/13](#) to provide guidance to police and fire authorities on the statutory accounts for 2012/13. The guidance confirms that the Code and relevant statutory guidance should be applied as usual to produce the accounts.

- 116.** The guidance also covers the distribution of usable reserves as follows
- Committed reserves (capital and revenue) are to be made available to the new Scottish Police Authority (SPA) and the new Scottish Fire and Rescue Service (SFRS) to enable them to meet those commitments.
 - Uncommitted reserves of the police authorities will be shared between the Scottish Government (51%) and constituent authorities (49%). The distribution to the Scottish Government will be achieved by making an adjustment to each authority's general revenue and capital grant in 2013/14. However, for the purposes of the financial statements, all reserves should be presented as being distributed back to the constituent authorities.
 - All the uncommitted fire reserves are to be distributed to constituent authorities.
- 117.** There should be a zero balance on the revenue reserves as at 31 March 2013. Police and fire authorities are to achieve this by
- transferring any balance on the insurance fund and the renewal and repair fund to the general fund
 - reducing the amount of requisition income by the consequent balance on the general fund, and recognising a creditor for the amount due to each constituent authority
 - meeting the deficit from reserves which will reduce the balance on the general fund to zero.
- 118.** The constituent authorities will also need to account for a reduced requisition payment in 2012/13 which will increase their general fund balances. The value of committed reserves and any Scottish Government share of uncommitted police reserves will be reflected in the calculation of general revenue grant in 2013/14.
- 119.** There should also be a zero balance on the capital fund and the capital receipts reserve. Capital expenditure in 2012/13 should be funded from capital receipts and the capital fund before any capital grant. Any capital grant remaining from constituent authorities after the capital programme has been funded should be returned to them.
- 120.** Constituent authorities will also need to account for the reduced capital grant payment. They should ensure that any returned general capital grant is applied to their own capital programmes to comply with the conditions which require all grant to be used in the year paid.
- 121.** The guidance covers funding for police voluntary redundancy and early retirement schemes as follows
- Grant of £4 million has been provided to police authorities in 2012/13 to fund voluntary redundancy and early retirement schemes. It should be treated as additional police grant, rather than being treated as specific grant and matched to the service expenditure.
 - A further £3.4 million of expenditure is to be met from the share of uncommitted reserves that would otherwise have been returned to the Scottish Government. This will increase the expenditure on the comprehensive income and expenditure statement, which if

greater than the requisition and other income, will create a deficit to be met from the general fund balance.

122. The guidance clarifies that injury benefits and the short term accumulated absences adjustment still require to be held in an employee statutory mitigation account in 2012/13. However, it requires the notes to the accounts to clearly identify the different statutory adjustments made, and the balance for each type.
123. In addition, the guidance requires an accrual to be made for fees relating to the external audit of the 2012/13 accounts.
124. Auditors should confirm that authorities are aware of this guidance and are making arrangements to comply.

2012/13 remuneration reports

125. [The Police and Fire Reform \(Scotland\) Act 2012 \(Consequential Modifications and Savings\) Order 2013](#) makes consequential changes to legislation and saving provisions in relation to the transfer of the functions.
126. The changes include removing the references to police officers from the Schedule to the *Local Authority Accounts (Scotland) Regulations 1985* in respect of remuneration reports. However, there is a saving provision for them to continue to apply for the remuneration report to be included with the 2012/13 financial statements.

Transfer of finance function

127. The Scottish Government issued *Police and fire reform - Guidance on year end and operational financial transition* on the transfer of the finance function from police and fire authorities to the new bodies.
128. Although legal responsibility for debtors, creditors and cash transferred from the joint boards and two unitary authorities to the SPA and SFRS on 1 April 2013, a 'business as usual' approach was adopted for dealing with 2012/13 transactions for the period to 31 May 2013. After that date, all transactions are dealt with by SPA/SFRS.
129. Debtors and creditors as at 31 March 2013 should have been settled through existing bank accounts during the period to 31 May 2013. A position statement at that date requires to be prepared outlining the movement in balances from the position at 31 March 2013. From 1 June 2013, all activity, including the settlement of any residual debtors/creditors as at 31 May 2013, should be in accordance SPA/SFRS banking arrangements
 - For boards with their own bank account the account should have been closed on 31 May 2013 and the balance transferred to SPA/SFRS.
 - For boards who bank through the council and the two unitary authorities, a transfer to SPA/SFRS should have been made in early June 2013.
130. Model cash flows are provided at appendices 1 and 2 to the guidance.

131. The two unitary authorities are required to prepare extract balance sheets for police and fire and rescue services at 31 March 2013, and these will require some audit work. Guidance has been provided to the relevant auditors by Audit Scotland.
132. Joint boards and the unitary authorities are able to reclaim VAT, but SPA and SFRS are not. HM Revenue and Customs (HMRC) has advised that where an invoice has a tax point after 31 March 2013, VAT may not be reclaimed. VAT on invoices with a tax point of 31 March 2013 or earlier will therefore be eligible for reclaim, where goods have been received. In the 2012/13 financial statements of the joint boards, and the extract balance sheets of the unitary authorities, HMRC will be shown as a year-end debtor.
133. For the supply of services, the guidance states clarification is being sought as to whether VAT is recoverable where
- invoices cover a supply of services starting in 2012/13 and ending in 2013/14, and the invoice has a tax point on or before 31 March 2013
 - the invoice is received and dated prior to end March 2013 for supplies to start post 31 March 2013.

Retirement benefits

2012/13 report on actuarial information

134. [PricewaterhouseCoopers](#) has prepared a report called *Review of IAS 19 reporting* to provide support to auditors when assessing the actuaries who produce retirement benefits figures under IAS 19 as at 31 March 2013. The report was commissioned by Audit Scotland (and the other UK audit agencies) and covers the local government, police and fire pension schemes. The work carried out for the report involved assessing the competence and objectivity of, and assumptions and approach adopted by, the relevant actuaries.
135. The work found that actuaries signing-off the calculation of the figures are appropriately qualified, and the actuarial firms are experienced and well-reputed. There are no known circumstances which would impair their objectivity to produce the figures.
136. The main findings in respect of the assumptions are as follows
- The actuarial assumptions proposed by the actuaries are considered to be reasonable in most cases. However, the report recommends further investigation where an employer has requested different assumptions than those proposed by the actuary.
 - Each actuary has taken a reasonable approach to the most material assumptions for each employer.
137. However, there is concern that accurate cashflows and details of significant events may not always be communicated to the actuaries. The report recommends that auditors consider extra tests on the cashflow data provided by employers, and satisfy themselves that any special events that they are aware of have been communicated to the actuaries.

138. Most actuaries follow a process of requesting redundancy and exit data in advance of the year end to allow more time for the calculations and reporting. This approach is reasonable provided there is a procedure to check for significant movements or employer decisions occurring in the final months of the year. If auditors are aware of material volumes of redundancies, particularly in the last few months, they should ensure that details of these have been passed onto the relevant actuary.
139. It should be noted that the report does not cover
- the precise scope of the actuary's work as this is specific to each authority . Auditors will need to consider the instructions issued locally by admitted bodies, whether local issues have been covered adequately by those instructions and what additional audit procedures they will need to undertake
 - accounting policies or any disclosures.
140. Auditors should use this report as evidence when assessing their authorities' retirement benefit information provided by actuaries in respect of 2012/13.

Significant trading operations

New guidance on identification

141. LASAAC and the CIPFA Directors of Finance (Scotland) Section has issued [Significant trading operations consolidated guidance](#) to provide updated guidance on the identification of significant trading operations. The first part of the three-part document represents new guidance and provides details of the conclusions of the Trading Operations Review Group.
142. The most noteworthy aspect of the guidance is that it advises that the identification of a significant trading operation should focus only on those services or activities which are external to the local authority as a single entity. This should exclude activities that are statutory in nature such as care home services. Any internal trading would be subject to the duty to secure best value but not the legislation relating to trading operations and accounts.
143. The guidance also considers the impact of state aid rules. Generally any measure such as grant, subsidy or the non-competitive awarding of work to a non-governmental body has the potential to be considered as state aid. Evidence should therefore be retained to demonstrate compliance with state aid rules.
144. Evidence should also be retained with reference to shared services, including legal advice where appropriate, to demonstrate compliance with procurement legislation and regulations.
145. Part 1 of the document modifies the 2003 guidance note *A best value approach to trading accounts*, which is provided at part 3. The second part of the document replicates guidance issued in 2010 on the impact of IFRS.
146. Auditors should confirm that their authorities are aware of this guidance and are taking steps to comply.

Housing

Draft guidance on operation of HRA

147. The Scottish Government has issued [Consultation draft guidance on the operation of HRAs in Scotland](#) to set out the role of the housing revenue account (HRA) and how it should operate. The final guidance will supplement the statutory requirement for authorities to account for the costs associated with the HRA as set out in the *Housing (Scotland) Act 1987*, and seek to ensure that costs charged to the HRA ultimately benefit tenants.
148. The draft guidance aims to reflect the following six key principles that local authority landlords are required to observe
- Compliance with HRA legislation. The statutory framework requires the HRA to be a 'landlord account' within the general fund. Any costs that are not landlord-related should not be charged to the HRA unless there is a clear rationale for the HRA paying a proportion of the costs.
 - HRA assets should principally benefit HRA tenants either in direct usage or as investment properties providing a financial return. Authorities should regularly review the role of HRA assets to determine whether they continue to provide tenants with exclusive or substantial benefits. If an HRA asset does not provide such benefits, the authority should consider options for that asset which include disposal to a third party or transfer to the general fund (with a financial adjustment to reflect the transfer of value).
 - Properly recording the methodology for calculating and allocating HRA costs systematically and in sufficient financial detail to know who benefits from the services these costs relate to. Costs should be allocated on the basis of whether the tenants are the exclusive beneficiaries (100% of costs charged) or partial beneficiaries (less than 100% of costs charged to HRA) using an evidenced-based method of cost allocation.
 - Updating the HRA cost allocation process regularly to reflect market and other changes. This includes the methodology for calculating any trading account surpluses that should be returned to the HRA as client.
 - Where legally entitled, charging non-council tenants benefiting from HRA-provided services that are currently only charged to council tenants. There are situations where the HRA should seek separate individual contributions from groups of individuals who live in the vicinity of council housing and who benefit from the services that may be being paid for by the HRA, e.g. grass-cutting of common areas or maintenance of paths around flatted properties which contain a mixture of council tenants and non-council tenants.
 - Regular discussions on the level and nature of HRA financial transparency take place with tenants or their representatives in relation to the income and expenditure of the HRA.
149. Comments should be sent to hraguidance@scotland.gsi.gov.uk by 5 July 2013.

Non-domestic rate

2013/14 interest on overpaid rates

150. The Scottish Government has issued [Finance circular 3/2013 The non-domestic rating etc interest rate for 2013/14](#) to set a rate of 0% to be applied for 2013/14 when calculating the interest due on overpaid NDR.

Revaluation postponement

151. The Scottish Government has postponed the next NDR revaluation from 2015/16 to 2017/18.
152. [The Valuation \(Postponement of Revaluation\) \(Scotland\) Order 2013](#) revokes the 1982 order which provided that the quinquennial revaluations should run from 1985/86.

Benefits

2012/13 subsidy claim

153. The [Department for Work and Pensions](#) (DWP) has issued a letter providing information and guidance on the 2012/13 housing and council tax benefit final subsidy claim. The letter also shows the amounts paid for 2012/13 in respect of administration subsidy and interim benefit subsidy received.
154. The DWP has issued *Notes on the completion of form MPF720B - final subsidy claim for 2012/13* setting out how the subsidy claim should be completed.

2012/13 HB COUNT

155. The [Audit Commission](#) has issued module 5 of the HB COUNT approach to the certification of 2011/12 benefit subsidy claims. Module 5 provides the software diagnostic tool component which aims 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
 - the benefits system has been internally balanced in terms of benefit 'granted' and benefit 'paid' using the supplier's standard methodology
 - the claim form has been completed in accordance with the requirements of the subsidy order on a relevant financial year basis
 - deviations from the software supplier's standard claim completion methods are identified and assessed so that appropriate action can be taken.
156. The module contains a control matrix for each software supplier at Appendix 1 that requires to be completed by auditors. Where control questions fail, auditors should complete the non-compliance data return at Appendix 2 and submit it to the TSU.
157. Auditors should complete module 5 as part of the certification of the 2012/13 benefit subsidy claims.

Universal credit

158. [The Universal Credit \(Transitional Provisions\) Regulations 2013](#) have been passed to provide for the replacement of housing benefit by universal credit (UC) under the *Universal Credit Regulations 2012* (see paragraph 84 of TB 2013/1).
159. Claims for UC may initially only be made by a limited group of claimants who are in the 'pathfinder group'. Claimants fall into this group if they meet certain conditions relating to age, relationship status, availability for work and financial position. Once in receipt of UC, claimants are not entitled to housing benefits.
160. The DWP has issued [HB circular A13/2013 Universal credit: change of circumstances affecting housing benefit](#) to provide guidance on cases where a UC claimant and a housing benefit claimant have a change of circumstance that requires the closure of a housing benefit claim. Once a claimant is in receipt of UC they will remain a UC claimant even if their circumstances change, e.g. if they gain a partner, or move away from the Pathfinder area.
161. If a partner moves in with the UC claimant and is a housing benefit claimant (referred to as a 'new claimant partner'), they will become part of the existing UC claim and the couple will receive one monthly payment. The new claimant partner should have their housing benefit entitlement ended the day before the first day of the existing UC claimant's monthly assessment period. However, the housing benefit claimant may have a genuine rental liability that would otherwise have been eligible for housing benefit beyond that date. This may result in a housing benefit overpayment being created which the DWP has agreed, for the pathfinder period, can be classed as departmental error.
162. Where an UC claimant moves into a household in receipt of housing benefit outside of the pathfinder area, the housing benefit entitlement will also end the day before the first day of the UC assessment period. Any housing benefit paid from the start of the first, joint UC assessment period will duplicate the housing element paid as part of UC and therefore should not be classed as departmental error.
163. The DWP has also issued [HB/CTB A8/2013 The Universal Credit \(Consequential, Supplementary, Incidental and Miscellaneous\) Regulations 2013](#) to advise of the provisions included in [The Universal Credit \(Consequential, Supplementary, Incidental and Miscellaneous\) Regulations 2013](#) relating to housing benefit.
164. The key changes include the following
- UC is not to be taken into account as income or capital for housing benefit purposes.
 - Non-dependants who are aged under 25, entitled to universal credit and have no earned income should not attract a non-dependant deduction.
 - Someone receiving UC cannot be treated as a 'young person' and therefore part of the housing benefit assessment unit.

Size criteria

165. The DWP has issued an urgent bulletin and two circulars on the local housing allowance size criteria.
166. [HB/CTB urgent bulletin U2/2013 Court of Appeal judgement: Burnip, Trengove and Gorry](#) advises of the outcome of a Court of Appeal judgement which allows an extra bedroom
- where the claimant, or the claimant's partner, need overnight care and require a bedroom for a carer's use. Housing benefit regulations already reflect this court judgement with application from April 2011.
 - for children with severe disabilities unable to share a room from 15 May 2012.
167. [HB/CTB circular A10/2013 Changes to the size criteria for approved foster carers and parents of armed forces personnel](#) provides details about provisions contained in [The Housing Benefit \(Amendment\) Regulations 2013](#) which
- allow an extra bedroom for housing benefit purposes for a foster child or children of an approved foster carer or kinship carer
 - provide that the parents of armed forces personnel who are away from home on operations will continue to have them included in the household when applying the size criteria for HB purposes. In addition, the non-dependant deduction should be removed when the adult child is away on operations and only reinstated when they return home.
168. [HB circular A12/2013 Removal of spare room subsidy - joint tenants](#) provides clarification regarding the removal of the spare room subsidy for joint tenants. It clarifies that under-occupancy is determined using the same formula for a joint tenancy as for any other tenancy with no account being taken of how joint tenants divide the rooms up among themselves.
169. Where under-occupancy is established, the standard 14% or 25% reduction will be applied to the whole eligible rent which will then be apportioned between the joint tenants. The division of the rent between tenants may be taken into account.

Information sharing

170. The DWP has issued [HB/CTB circular A9/2013 Using social security data for local purposes](#) to provide information regarding [The Social Security \(Information-sharing in relation to Welfare Services etc.\) Amendment and Prescribed Bodies Regulations 2013](#).
171. The regulations further amend the principal 2012 data sharing regulations. Under the amendment regulations, local authorities can use social security information supplied to them by the DWP
- to prevent, detect, or prosecute an offence relating to council tax reductions (CTR)
 - in presentations to valuation appeal committees relating to CTR proceedings
 - to determine eligibility for a disabled person's badge, housing support, certain disability grants, and discretionary housing payments

- to determine whether a person in receipt of certain welfare services is liable to contribute to their cost.
172. Following the introduction of UC, there is also provision for the DWP to supply relevant information to local authorities
- in relation to claimants affected by the benefits cap or under-occupancy rules
 - to help local authorities prevent or reduce homelessness.
 - for *Scottish welfare fund* purposes.
173. There is also provision for authorities to share their information with DWP in regard to people living in supported accommodation.

Personal independence payments

174. The DWP has issued [HB/CTB circular A6/2013 Personal independence payment - impact for local authorities](#) to advise of the impact of [The Social Security Personal Independence Payment \(Consequential and Supplementary Provisions\) Regulations 2013](#) on housing benefit regulations.
175. *Personal independence payment* (PIP) replaces *Disability living allowance* (DLA) for people aged 16 to 64 from April 2013. PIP is intended to help towards some of the extra costs arising from having a long term condition (i.e. ill-health or disability expected to last at least 12 months).
176. PIP is fully disregarded as income in housing benefit calculations for both claimants and non-dependants. No non-dependant deductions apply where a claimant or their partner is in receipt of the daily living component of PIP.
177. When determining the number of bedrooms a person requires for the purposes of housing benefits, an additional room can be allowed for an over-night carer in certain circumstances.
178. Claimants receiving PIP qualify for various premiums, including the disability premium, the disabled child premium, and the carer premium.

Armed forces independence payment

179. The DWP has issued [HB/CTB circular A5/2013 Information on the introduction of armed forces independence payment](#) to advise of the treatment of the new *Armed forces independence payment* (AFIP) for housing benefit purposes.
180. AFIP is a new benefit introduced by the Ministry of Defence to provide financial support to service personnel and veterans seriously injured as a result of service to cover the extra costs they may have as a result of their injury.
181. AFIP is fully disregarded as income in housing benefit calculations. For AFIP claimants of state pension age, £20 can be disregarded from earnings where the claimant or partner is in receipt of AFIP. AFIP is fully disregarded in the calculation of non-dependants' gross income.

Non-dependant deductions will not apply where a claimant or their partner is in receipt of AFIP.

182. An additional bedroom is allowed, when determining the number for housing benefit purposes, for a non-residential over-night carer where the claimant or their partner is in receipt of AFIP.
183. Recipients of AFIP will not be eligible for PIP, DLA or attendance allowance at the same time. However, they will qualify for certain housing benefit disability premiums depending on individual circumstances.
184. [The Welfare Reform \(Consequential Amendments\) \(Scotland\)\(No. 3\) Regulations 2013](#) amend the 2012 council tax reduction regulations to provide for the new AFIP.

Additional 2013/14 funding

185. The DWP has issued HB circular [HB circular S4/2013 Additional funding to meet the costs of implementing welfare reform changes in 2013/14](#) to announce additional funding to support the costs of implementing welfare reform changes in 2013/14.
186. The funding is intended to meet new burdens incurred by local authorities as a result of the implementation of changes to local housing allowance, the removal of the spare bedroom subsidy, the benefit cap and universal credit.

Benefits cap

187. [The Benefit Cap \(Housing Benefit\)\(Amendment\) Regulations 2013](#) have been issued to amend the principal 2012 benefits cap regulations from 5 April 2013 to provide that
 - housing benefit paid in relation to exempt accommodation is excluded for the purposes of calculating the benefit cap
 - claimants in receipt of UC, which will already have been subject to the benefits cap, are exempt from the benefits cap for housing benefit purposes.

Miscellaneous amendments

188. [The Social Security \(Miscellaneous Amendments\) Regulations 2013](#) have been issued to amend various different regulations relating to housing benefit, mostly from 2 April 2013. The amendments include the following
 - Support provided to claimants through the *Council tax reduction scheme* and the *Scottish welfare fund* should be disregarded as income and/or capital when assessing eligibility for housing benefits.
 - Arrears of *Social fund* awards should be fully disregarded for people of pension age.
 - Certain prisoners that are required to live away from their home as a condition of bail and prisoners who have not been sentenced but have been detained should receive housing benefit for a maximum of 13 weeks.

189. Claimants who are entitled to employment and support allowance credits only and are in the work-related activity group or the support group are entitled to the corresponding component in housing benefit.

Finance

190. The Scottish Government has issued [Finance circular 2/2013 Local Government Finance \(Scotland\) Amendment Order 2013 etc.](#) to provide a summary of the figures in [The Local Government Finance \(Scotland\) Amendment Order 2013](#).
191. The order redetermined the amount of the general revenue grant payable and NDR income distributed to each local authority for 2013/14. It also redetermined the amount of the general revenue grant payable to each authority in respect of 2012/13.

Community justice authorities

Revised financial memorandum

192. The Scottish Government has issued a revised financial memorandum to set out the management and financial procedures to be followed by community justice authorities (CJAs). The guidance given is intended to assist the CJAs in carrying out their functions under the *Management of Offenders etc (Scotland) Act 2005* and associated Orders.
193. It requires CJA financial statements to be prepared in accordance with the principles contained in the Code and guidance issued by Scottish Ministers (including this financial memorandum). The recommended format for the financial statements is attached at Annex B.
194. Although there is no statutory requirement, the financial memorandum states that it is helpful to include a remuneration report, prepared in accordance with the regulations and guidance applicable to councils, with the financial statements.
195. CJAs are required to complete an annual financial return detailing expenditure incurred in the provision and administration of criminal justice social work services which should be submitted to the Scottish Government. There is no requirement for a separate audit of the financial returns, although the information requires to be included in the notes to the accounts and therefore is included in the audit of financial statements.
196. The financial memorandum has been amended to reflect changes to CJA funding from 2013/14. CJAs will be provided with one single funding allocation and there will no longer be a distinction between core and non-core funding at the point of allocation. While funding is provided as one allocation, spend on services requires to be reported against the service headings used in previous years.

Legislation

The following legislation can be obtained by using the hyperlinks and are available to external auditors from Audit Scotland's *Technical reference library*.

Statutory instruments

Fire and rescue services and police

197. [The Police and Fire Reform \(Scotland\) Act 2012 \(Consequential Modifications and Savings\) Order 2013](#) (SSI 119) came into force on 1 April 2013 (see paragraph 125).
198. [The Police and Fire Reform \(Scotland\) Act 2012 \(Supplementary, Transitional, Transitory and Saving Provisions\) Order 2013](#) (SSI 121) came into force on 1 April 2013 (see paragraph 113).

Local government

199. [The Local Government Finance \(Scotland\) Amendment Order 2013](#) (SSI 107) came into force on 20 March 2013 (see paragraph 190).

Rating and valuation

200. [The Valuation \(Postponement of Revaluation\) \(Scotland\) Order 2013](#) (SSI 113) came into force on 28 March 2013 (see paragraph 152).

Social security

201. [The Welfare Reform \(Consequential Amendments\) \(Scotland\)\(No. 3\) Regulations 2013](#) (SI 142) comes into force on 11 June 2013 (see paragraph 184).
202. [The Universal Credit \(Transitional Provisions\) Regulations 2013](#) (SI 386) came into force on 29 April 2013 (see paragraph 158).
203. [The Social Security \(Miscellaneous Amendments\) Regulations 2013](#) (SI 443) mostly came into force on 2 April 2013 (see paragraph 188).
204. [The Social Security \(Information-sharing in relation to Welfare Services etc.\) Amendment and Prescribed Bodies Regulations 2013](#) (SI 454) came into force on 1 April 2013 (see paragraph 170).
205. [The Benefit Cap \(Housing Benefit\)\(Amendment\) Regulations 2013](#) (SI 546) came into force on 15 April 2013 (see paragraph 187).
206. [The Housing Benefit \(Amendment\) Regulations 2013](#) (SI 665) came into force on 1 April 2013 (see paragraph 167).

Publications

The following publications published since TB 2013/1 can be obtained by using the hyperlinks

Audit Scotland

Responding to challenges and change - an overview of local government in Scotland 2013

207. This report from Audit Scotland [Responding to challenges and change - an overview of local government in Scotland 2013](#) sets out the challenges authorities face in 2013 and consider their use of resources in 2012. Key findings in respect of the use of resources include the following

- All 2011/12 financial statements were presented for audit on time and signed off by auditors without any qualifications to their opinion. However, there are an increasing number of adjustments identified by auditors, often arising from issues such as accounting for capital assets, and more can be done to improve the financial information presented in the explanatory foreword.
- There is wide variation across councils in the change in net indebtedness in the years since the prudential code came into effect. There would be merit in examining the reasons for the wide variation and in producing benchmark data.
- Some councils have not reviewed reserves policies for many years and so they may no longer reflect the council's overall financial approach.
- There is increasing evidence of large variances of actual expenditure against budgets, sometimes only becoming apparent during the closing months of the financial year. Councillors need to understand the reasons for the variances, including whether the root cause is over-spending or under-budgeting.
- There is further evidence of under-resourcing of internal audit and cases where the internal audit approach could include more focus on financial controls and risk management. There are also increasing reports by auditors of weaknesses in some councils' basic accounting systems and controls, including failure to perform bank reconciliations.

Maintaining Scotland's roads - An audit update on councils' progress

208. This report from Audit Scotland [Maintaining Scotland's roads - An audit update on councils' progress](#) is on the progress authorities have made in responding to the recommendations in the previous 2011 report. Conclusions and recommendations include the following

- The national roads maintenance review has resulted in a detailed action plan to improve roads maintenance activity. The percentage of local roads in acceptable condition has increased marginally to 66.7% over the last two years, despite a 21% reduction in roads maintenance spending.

- All councils now have roads asset management plans in place, but they need to ensure that the plans are of sufficient quality and monitor them effectively.
- Councils need to do further work to improve the quality and consistency of the data for performance indicators to enable meaningful benchmarking to take place.

Auditor action

The following is a summary of items in this chapter of the TB that recommend that auditors take certain actions

Section and paragraph	Action
TSU developments - Guidance notes - paragraph 40	Auditors should use note for guidance 2013/5(LA) when planning and performing the audit of 2012/13 local authority registered charities.
TSU developments - Guidance notes - paragraph 46	Auditors should use GN/GEN/13 when examining and reporting on 2012/13 grant claims.
TSU developments - Guidance notes - paragraph 50	Auditors should use GN/EMA/13 when examining and reporting on 2012/13 EMA grant claims.
TSU developments - Guidance notes - paragraph 55	Auditors should use GN/HBS/13 when examining and reporting on 2012/13 benefits subsidy claims.
TSU developments - Guidance notes - paragraph 58	Auditors should use GN/BEL/13 when examining and reporting on 2012/13 Bellwin scheme claims.
TSU developments - Guidance notes - paragraph 61	Auditors should use GN/FPN/13 when examining and reporting on 2012/13 safety camera programme claims.
TSU developments - Guidance notes - paragraph 64	Auditors should use GN/CJS/13 when examining and reporting on 2012/13 community justice social work services
TSU developments - Other guidance - paragraph 67	Auditors should confirm that authorities are recognising a provision in 2012/13 for landfill restoration and aftercare costs where the criteria in IAS 37 are met, and have made a prior year adjustment where necessary.

Section and paragraph	Action
Accounting developments - paragraph 70	Auditors should confirm that authorities are aware of the guidance on the 2012/13 financial statements and are paying it due regard.
Accounting developments - paragraph 98	Auditors should confirm that authorities are making necessary arrangements to comply with the new requirements in the 2013/14 Code.
Accounting developments - paragraph 104	Auditors should confirm that authorities are aware of the guidance on NDR and are paying it due regard.
Other developments - Police and fire - paragraph 124	Auditors should confirm that authorities are aware of the guidance on 2012/13 police and fire accounting and are making arrangements to comply.
Other developments - Retirement benefits - paragraph 140	Auditors should use the IAS 19 report as evidence when assessing their authorities' retirement benefit information provided by actuaries in respect of 2012/13.
Other developments - Significant trading operations - paragraph 146	Auditors should confirm that their authorities are aware of the guidance on significant trading operations and are taking steps to comply.
Other developments - Benefits - paragraph 157	Auditors should complete module 5 of HBCOUNT as part of the certification of the 2012/13 benefit subsidy claims.

Central government chapter

Introduction

This chapter contains articles on central government technical developments and authoritative guidance relevant to external auditors' responsibilities under their audit appointment. It should be read by external auditors with appointments in the central government sector. It should also be read by auditors with appointments in the health sector as most of the articles also apply to that sector. Auditors should also read the cross-sectoral chapter which covers developments and guidance that are relevant to all sectors. More in-depth and extensive guidance on particular subjects or themes is provided in separate guidance notes published by the TSU (i.e. notes for guidance and urgent issue notes).

The articles in this chapter are intended to highlight the main points that the TSU considers auditors require to be aware of in respect of each development. In many cases, it may still be necessary for auditors to read the source material. The documents referred to in the articles can be obtained by using the hyperlinks. They are also available to external auditors from Audit Scotland's *Technical reference library*.

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 relates to 2012/13 audits

- Guidance on 2012/13 remuneration reports.
- Guidance on disclosing compensation information.

Accounting developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

Guidance on 2012/13 remuneration reports

209. The [Cabinet Office](#) has issued [EPN 359 Disclosure of salary, pension and compensation information for 2012/13](#) which provides guidance on the preparation of a remuneration report for 2012/13.
210. Remuneration reports contain information about the pay and pension packages of Ministers and the senior management team. They should include information about remuneration policy and the individuals' contract of employment. As well as salary and pension information, they should also include detailed information about compensation paid to senior management.
211. EPN 359 states that where there is a compromise agreement with an individual which contains a confidentiality clause, disclosure of information about their compensation would

require their express permission. However, [EPN 360 Disclosure of compensation information where there is a compromise agreement](#) provides further guidance in this regard. It states that permission is not required where the confidentiality clause expressly states that it does not prevent disclosure of information about the individual's compensation where this is required by law or where inclusion of the details of compensation paid is required in the financial statements.

212. An example remuneration report is provided at [Annex 13C](#) of EPN 359. There are no new disclosure requirements for 2012/13.

Consultation on simplifying accounts

213. HM Treasury has issued [Central government annual reports and accounts: consultation on simplifying and streamlining the presentation of annual reports and accounts](#) on simplifying central government accounts.
214. In view of the 'cutting the clutter' agenda in the private sector, Treasury considers this to be an opportune time to consider whether the disclosure requirements of IFRS best meet the needs of users of public sector financial statements.
215. This consultation is aimed at understanding who is currently using public sector financial statements, the purpose to which the information is put, information that users would get most value from that is not currently reported, and the requirements that are considered are most burdensome.
216. Responses should be made to accountsconsultation@hmtreasury.gsi.gov.uk by the 30 August 2013.

Health chapter

Introduction

This chapter contains articles on health technical developments and guidance relevant to external auditors' responsibilities under their audit appointment. It should be read by external auditors with appointments in the health sector. Auditors should also read the central government chapter and cross-sectoral chapter which cover developments and guidance that are relevant to all sectors. More in-depth and extensive guidance on particular subjects or themes is provided in separate guidance notes published by the TSU (i.e. notes for guidance and urgent issue notes).

The articles in this chapter are intended to highlight the main points that the TSU considers auditors require to be aware of in respect of each development. In many cases, it may still be necessary for auditors to read the source material. The documents referred to in the articles can be obtained by using the hyperlinks. They are also available to external auditors from Audit Scotland's *Technical reference library*.

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 2012/13 audits

- 2012/13 capital accounting manual.
- Executive and senior managers pay and performance.
- 2012/13 medical directors pay award.

Accounting developments

The document referred to in the following article is available to external auditors from Audit Scotland's *Technical reference library*.

2012/13 capital accounting manual

217. The [Scottish Government Health and Social Care Directorates](#) (SGHSCD) has issued the *2012/13 Capital accounting manual* which interprets the accounting guidance contained in the *2012/13 Government financial reporting manual (FReM)* on capital accounting issues in the NHS.
218. The main change from the previous version of the manual is the removal of references to the donated asset reserve, and chapter 10 has been amended to provide guidance on accounting for donated assets. Acquisition of a donated asset should be included as capital expenditure in note 9 with a corresponding nominal entry to reverse the impact on the net capital expenditure.

219. The impact on income recognised in the statement of comprehensive net expenditure should be reversed through the statement of resource outcome. Accounting entries to record the depreciation, revaluation and disposal of donated assets are the same as for other non-current assets.
220. Chapter 7 has been amended to clarify that any loss in value of an asset held for sale may be treated as an impairment.

Other developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

National agenda/direction

2013/14 guidance on quality and outcomes framework

221. The SGHSCD has issued [PCA\(M\)\(2013\)2](#) to introduce guidance on the *Quality and outcomes framework* (QOF) for the 2013/14 General Medical Services Contract in Scotland.
222. The QOF rewards GP contractors for the provision of quality care and helps to standardise improvements in the delivery of primary medical services. The guidance sets out the principles relating to the QOF that have been agreed and provides information on the indicators for 2013/14.

Pay and workforce planning

Executive and senior managers' pay and performance management

223. The Scottish Government has issued two letters relating to the executive and senior managers' pay arrangements.
224. [PCS\(ESM\)\(2013\)1](#) brings together in one document all existing guidance and documentation on executive and senior managers' performance management arrangements. The arrangements are mandatory and apply from the 2011/12 performance year. Key points include the following
- It is the responsibility of the boards' Remuneration Committees to ensure that personal objectives are linked to organisational objectives in a systematic and consistent manner and that proper records are maintained.
 - There are five overall individual performance ratings of outstanding, superior, fully acceptable, incomplete and unacceptable. Ratings are provisional until signed off by the National Performance Management Committee.
 - The review cycle runs from 1 April to 31 March.
 - The performance appraisal arrangements are intended to support the current remuneration policy for the executive pay grades.

225. The second letter [PCS\(ESM\)\(2013\)2](#) announces interim arrangements for 1 October 2012 to 31 March 2013. They include the following

- There is no change to the pay ranges under the executive and senior management arrangements for grades A to I.
- The consolidated pay progression for employee grades A to C should be applied with effect from 1 October 2012, based on their 2011/12 performance. Employees will not receive more than the maximum consolidated salary for their pay range.
- Consolidated pay progression for employees on grade D to I will be set at zero.
- The settlement date for the executive and senior management cohort will be moved from 1 October to 1 April to align the pay year with the performance year.

2013/14 pay award for those on agenda for change agreement

226. The Scottish Government has issued [PCS\(AFC\)\(2013\)2](#) to advise of changes in the pay and terms and conditions for staff covered by the *Agenda for change* agreement from 1 April 2013.

227. National salary scales will increase by 1%. The rates specified in Annex A have been calculated on a cumulative basis using the pay rates applicable on 1 October 2004 as the baseline.

228. Other key changes include the following

- Staff on pay protection should have their protected earnings increased by 1%.
- Pay points under £21,000 will receive an additional £250 non-consolidated non-pensionable sum for 2013/14.
- The transitional protection arrangements following the removal of national recruitment and retention premia ceased on 31 March 2013.

229. Spine point 1 on the pay matrix continues to be unavailable for use as it is below the Scottish living wage.

2013/14 medical and dental staff pay award

230. The Scottish Government has issued

- [PCS\(DD\)\(2013\)1](#) to announce the pay rates for hospital and community medical and dental staff for 2013/14
- [PCS\(DD\)\(2013\)2](#) to authorise changes in the pay and terms and conditions of service of administrative dental officers, community clinical dental officers and salaried general dental practitioners.

231. Salary scales, fees and, where applicable, allowances for these staff groups have been increased by 1% from 1 April 2013. The revised allowances and salary points set out in annexes to the circular are calculated on a cumulative uplift on 2003/04 baseline figures.

232. Pay arrangements for consultants in dental public health, who accepted the new consultant contract, are covered by PCS(DD)(2013)1, which also includes revised progression tables for those covered by the 2004 consultant contract.

233. The value of distinction awards and discretionary points remain unchanged for 2012/13.

2012/13 medical directors pay award

234. The Scottish Government has issued [PCS\(MD\)\(2013\)1](#) to confirm that the existing pay arrangements for medical directors that relate to the 2011/12 performance year have been extended a further six months to 31 March 2013.

235. The management fee to apply for medical directors, and former directors on protection, are set out in a schedule attached to the circular.

Legislation

The following legislation can be obtained by using the hyperlinks and are available to external auditors from Audit Scotland's *Technical reference library*.

Statutory instruments

National health service

236. [The National Health Service \(Superannuation and Pension Scheme\)\(Scotland\) Amendment Regulations 2013](#) (SSI 70) came into force on 1 April 2013 and amended the pensionable pay bands, earnings bands and employee contribution percentage rates for the 2013/14 scheme year.

237. [The National Health Service Superannuation Scheme\(Miscellaneous Amendments\) \(Scotland\) Regulations 2013](#) (SSI 109) came into effect on 20 May 2013, unless otherwise stipulated, and made miscellaneous amendments to the principal superannuation scheme and pension scheme regulations, including

- provision that auto enrolment will include a person who has previously opted out, but that they may opt out on auto-enrolment
- the removal of an employer's option to pay, in five annual instalments, certain additional contributions in relation to a redundancy pension
- a requirement to provide certain material (including evidence of entitlement) by a person in receipt of a benefit and for an employer to certify entitlement to a redundancy pension
- the removal of requirements to prepare actuarial reports.

238. Regulation 15 reflects the fact that protected rights in relation to the 1995 scheme were abolished by the *Pensions Act 2008* with effect from 6 April 2012.

239. [The National Health Service Superannuation Scheme etc \(2008 Section\) \(Scotland\) Regulations 2013](#) (SSI 174) come into force on 1 July 2013 and consolidate the provisions of *The National Health Service Pension Scheme (Scotland) Regulations 2008* which provide for

the superannuation of persons other than those subject to *The National Health Service Superannuation Scheme (Scotland) Regulations 2011*.

Further education chapter

Introduction

This chapter contains articles on further education technical developments and guidance relevant to external auditors' responsibilities under their audit appointment. It should be read by external auditors with appointments in the further education sector. Auditors should also read the cross-sectoral chapter which covers developments and guidance that are relevant to all sectors. More in-depth and extensive guidance on particular subjects or themes are provided in separate guidance notes published by the TSU (i.e. notes for guidance and urgent issue notes).

The articles in this chapter are intended to highlight the main points that the TSU considers auditors require to be aware of in respect of each development. In many cases, it may still be necessary for auditors to read the source material. The documents referred to in the articles can be obtained by using the hyperlinks. They are also available to external auditors from Audit Scotland's *Technical reference library*.

Developments

The documents referred to in the following article can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

Mergers

240. The Scottish Government has issued Orders to dissolve the boards of management of five colleges on 1 August 2013. The orders also transfer the whole property, rights, liabilities and obligations of the board to specified colleges, and provides for the staff to transfer without a break in their employment.

241. The Orders and relevant affected colleges are as follows

- [The Adam Smith College, Fife \(Transfer and Closure\) Order 2013](#) which provides for transfers to Carnegie College.
- [The Anniesland College and Langside College \(Transfer and Closure\) \(Scotland\) Order 2013](#) which provides for transfers to Cardonald College.
- [The James Watt College \(Transfer and Closure\) \(Scotland\) Order 2013](#) which provides for transfers to Ayr College and Clydebank College.
- [The Kilmarnock College \(Transfer and Closure\) \(Scotland\) Order 2013](#) which provides for transfers to Ayr College.
- [The Reid Kerr College \(Transfer and Closure\) \(Scotland\) Order 2013](#) which provides for transfers to Clydebank College.

Contact points

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

Contact	Chapter
Paul O'Brien, Senior Manager (Technical) 0131 625 1795 pobrien@audit-scotland.gov.uk	Cross-sectoral and local authority
Tim Bridle, Technical Adviser (Local Government) 0131 625 1793 tbridle@audit-scotland.gov.uk	Local authority (Non-benefits developments)
Anne Cairns, Manager – Benefits (Technical) 0131 625 1926 acairns@audit-scotland.gov.uk	Local authority (Benefits developments only)
Alison Turner, Technical Adviser (Central Government & Further Education) 0131 625 1759 aturner@audit-scotland.gov.uk	Central government and Further education
Neil Cameron, Manager - Health (Technical) 0131 625 1797 ncameron@audit-scotland.gov.uk	Health

Feedback on this TB should be sent to pobrien@audit-scotland.gov.uk

Technical Services Unit
Audit Scotland
110 George Street
EDINBURGH
EH2 4LH

18 June 2013



Technical bulletin

2013/3

July to September



Prepared by the Technical Services Unit
13 September 2013

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Contents

Foreword	5
Headlines.....	6
Cross-sectoral chapter	11
Introduction	11
Accounting developments	11
Auditing developments	14
Corporate governance developments.....	16
Other developments	17
Publications.....	18
Fraud cases	19
Local authority chapter	21
Introduction	21
TSU developments.....	21
Accounting developments	24
Other developments	32
Legislation.....	35
Auditor action	35
Central government chapter	37
Introduction	37
TSU developments.....	37
Accounting developments	38
Other developments	41
Publications.....	42
Auditor action	43
Health chapter	44
Introduction	44
TSU developments.....	44
Other developments	45
Legislation.....	48
Publications.....	48

Further education chapter	50
Introduction	50
TSU developments.....	50
Accounting developments	51
Publications.....	52
Auditor action	53
Contact points	54

Foreword

Informing judgement, Improving quality

Audit Scotland's Technical Services Unit (TSU) informs the professional judgement of appointed external auditors on technical matters to improve the quality of the audit delivered to the Accounts Commission and Auditor General for Scotland. The TSU provides authoritative guidance and practical assistance to support appointed auditors in carrying out their responsibilities under the *Code of audit practice* to

- provide an opinion on audited bodies' financial statements and, where required, the regularity of transactions
- review and report on other information published with the financial statements, including governance statements (and equivalent statements) and remuneration reports
- examine and report on approved grant claims and other returns submitted by local authorities
- review and report on whole of government accounts returns.

Authoritative guidance includes technical bulletins (TBs) prepared by the TSU at quarterly intervals, which are approved by the Assistant Auditor General for Scotland. They are available to external auditors from Audit Scotland's *Technical reference library* and published on the Audit Scotland website. TBs provide a composite of technical developments in the quarter that are relevant to external auditors' responsibilities referred to above, and provide auditors with guidance on any emerging issues.

TBs contain information which is of importance to the conduct of audits and frequently recommend that auditors take certain actions, and a summary of these actions is provided at the end of each chapter. It is important 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, and are responsible for their own conclusions and opinions, consistency in similar circumstances is important and **the *Code of audit practice* therefore states that auditors should normally follow all such guidance. Auditors should advise the TSU promptly if they intend not to follow any guidance on an important issue** (e.g. a matter that requires consideration to be given to modifying the audit opinion on the financial statements of a number of audited bodies).

TBs are published on the Audit Scotland website so that audited bodies and other stakeholders can be aware of the guidance that has been provided to auditors. TBs should not be regarded as necessarily 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.

Headlines

The table in this chapter provides brief headlines for the content of this TB, referenced to the paragraphs containing the main article.

Cross-sectoral chapter	Audit year	Paragraphs
The International Accounting Standards Board has issued a discussion paper on revising the conceptual framework.	Not yet known	1
The International Public Sector Accounting Standards Board has issued guidance on <ul style="list-style-type: none"> reporting on a body's long-term financial sustainability the management commentary. 	2013/14 2013/14	8 12
The Financial Reporting Council has issued <ul style="list-style-type: none"> a revised standard on using internal audit a revised practice note on auditing financial instruments 	2014/15 2013/14	15 19
The International Auditing and Assurance Standards Board has issued proposed new international standards on auditor reporting.	Not yet known	22
The Chartered Institute of Public Finance and Accountancy and the International Federation of Accountants has issued a consultation paper on an international governance framework.	Not yet known	28
The Office of the Scottish Charity Regulator has issued a proposed <i>Statement of recommended practice: Accounting reporting by charities</i> .	2015/16	34

Cross-sectoral chapter	Audit year	Paragraphs
Audit Scotland has published reports on <ul style="list-style-type: none"> developing financial reporting housing. 	2013/14	42
	2013/14	43
The TSU has provided a summary of some reported fraud cases.	2013/14	45

Local authority chapter	Audit year	Paragraphs
The TSU has <ul style="list-style-type: none"> published a note for guidance on certifying 2012/13 whole of government accounts returns published the 2012/13 local authority unaudited analytical review database provided guidance on the audit of charities from 2013/14 provided guidance on the need to prepare group financial statements in 2013/14. 	2012/13	54
	2012/13	59
	2013/14	61
	2013/14	67
The Scottish Government has issued <ul style="list-style-type: none"> proposed changes to the local authority accounts regulations guidance on insurance receipts. 	2013/14	74
	2013/14	110
The CIPFA/LASAAC Local Authority Code Board has issued the draft 2014/15 <i>Code of practice on local authority accounting in the UK</i> .	2014/15	84

Local authority chapter	Audit year	Paragraphs
The Chartered Institute of Public Finance and Accountancy has issued <ul style="list-style-type: none"> proposed revisions to the transport infrastructure code a consultation paper on simplifying the financial statements the 2013/14 disclosure checklist 	2014/15	115
	Not yet known	118
	2013/14	122
The Audit Commission has issued module 4 of the 2012/13 HB COUNT.	2012/13	125
The Department for Work and Pensions has issued circulars on <ul style="list-style-type: none"> the benefits cap additional 2013/14 funding local housing allowance from 2014. 	2013/14	128
	2013/14	137
	2013/14	143
Statutory instruments have been passed on <ul style="list-style-type: none"> local housing allowance council tax reduction. 	2013/14	143
	2013/14	144

Central government chapter	Audit year	Paragraph
The TSU has published a note for guidance on certifying 2012/13 whole of government accounts returns.	2012/13	147
The Scottish Government has issued revised guidance on sustainability reporting.	2012/13	151

Central government chapter	Audit year	Paragraph
<p>HM Treasury has issued</p> <ul style="list-style-type: none"> proposed changes to the 2014/15 Government financial reporting manual instructions for completing 2012/13 whole of government accounts returns 	<p>2014/15</p> <p>2012/13</p>	<p>155</p> <p>177</p>
Audit Scotland has published a report on renewable energy.	2012/13	180

Health chapter	Audit year	Paragraph
The TSU has published the 2012/13 health analytical review database	2013/14	181
The Scottish Government Health and Social Care Directorates has issued three letters on 2013/14 general medical services contract.	2013/14	183
<p>The Scottish Government has issued</p> <ul style="list-style-type: none"> the waste management action plan for 2013-2016 terms and conditions for consultants and other medical and dental staff a circular on changes to parental leave national standards for medical staff bank arrangements a progress report on reducing management posts 2013/14 workforce forecasts a circular on 2013/14 payment verification arrangements. 	<p>2013/14</p> <p>2013/14</p> <p>2013/14</p> <p>2013/14</p> <p>2012/13</p> <p>2013/14</p> <p>2013/14</p>	<p>189</p> <p>190</p> <p>193</p> <p>194</p> <p>195</p> <p>197</p> <p>199</p>

Health chapter	Audit year	Paragraph
Statutory instruments have been passed on <ul style="list-style-type: none"> • optical charges • the superannuation and pension schemes • prescription charges • the Common Services Agency. 	2013/14 2013/14 2013/14 2013/14	200 201 202 203
The National Audit Office has published reports on <ul style="list-style-type: none"> • financial sustainability • the reformed health system. 	2012/13 2013/14	204 206
The Wales Audit Office has published a report on health finance in Wales	2012/13	208

Further education chapter	Audit year	Paragraph
The TSU has published a note for guidance on auditing 2012/13 financial statements.	2012/13	209
The Scottish Finding Council has issued guidance on the 2012/13 financial statements.	2012/13	212
The Further and Higher Education SORP Board has issued an exposure draft of the <i>Statement of recommended practice: Accounting for further and higher education</i> .	2015/16	219
Audit Scotland has published a report on the college sector.	2012/13	226

Cross-sectoral chapter

Introduction

This chapter contains articles on cross-sectoral technical developments and authoritative guidance relevant to external auditors' responsibilities under their audit appointment. It should be read by all external auditors. Developments and guidance that are relevant to only one sector are covered in the relevant sector-specific chapter. More in-depth and extensive guidance on particular subjects or themes is provided in separate guidance notes published by the TSU (i.e. notes for guidance, urgent issue notes and, for local authorities, grant notes).

The articles in this chapter are intended to highlight the main points that the TSU considers auditors require to be aware of in respect of each development. In many cases, it may still be necessary for auditors to read the source material. The documents referred to in the articles can be obtained by using the hyperlinks. They are also available to external auditors from Audit Scotland's *Technical reference library*.

The TSU encourages feedback on this TB. Comments should be sent to pobrien@audit-scotland.gov.uk

Accounting developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

Discussion paper on revising the conceptual framework

1. The [International Accounting Standards Board](#) (IASB) has issued a [Discussion paper A review of the conceptual framework for financial reporting](#) which proposes changes to the *Conceptual framework for financial reporting*.
2. The primary purpose of the conceptual framework is to assist the IASB by identifying concepts that it will use consistently when developing and revising international financial reporting standards (IFRS). However, the IASB has identified a number of problems with the existing framework in practice that these proposed changes are intended to address.
3. The IASB believes that the definitions of assets and liabilities could be clarified. For example, it is proposed to amend the definitions to confirm more explicitly that an asset must be capable of generating inflows of economic benefits, but those inflows need not be certain. The discussion paper therefore proposes the following definitions
 - An asset is a present economic resource controlled by the entity as a result of past events.

- A liability is a present obligation of the entity to transfer an economic resource as a result of past events.
 - An economic resource is a right, or other source of value, that is capable of producing economic benefits.
4. The paper also discusses when an entity's statement of financial position should report an economic resource as an asset or an obligation as a liability. An entity should recognise all its assets and liabilities, unless the IASB decides when developing a particular standard that an entity should not recognise it because
- recognising the item would provide users of financial statements with information that is not sufficiently relevant to justify the cost; or
 - no measurement basis would result in a faithful representation, even if all necessary descriptions and explanations were disclosed.
5. The existing framework does not address when an entity should remove an asset or a liability from its statement of financial position. The discussion paper proposes that an entity should derecognise an asset or a liability when it no longer meets the recognition criteria.
6. The existing framework provides little guidance on measurement and when particular measurements should be used. The discussion paper proposals include the following
- The selection of a measurement for a particular asset should depend on how that asset contributes to future cash flows; and for a particular liability should depend on how the entity will settle or fulfil that liability.
 - Unnecessary measurement changes should be avoided and necessary measurement changes should be explained.
7. Comments should be made via the IASB website by 14 January 2014.

Guidance on reporting on long-term financial sustainability

8. The [International Public Sector Accounting Standards Board \(IPSASB\)](#) has issued a [Recommended practice guideline \(RPG\) 1 Reporting on the long-term sustainability of an entity's finances](#) to provide guidance on reporting on a public sector body's long-term financial sustainability.
9. The aim of the RPG is to provide an indication of the projected financial sustainability of an body's finances over a specified time period. This is defined as the ability of the body to meet service delivery and financial commitments both now and in the future.
10. Financial sustainability information includes projected inflows and outflows related to the provision of goods and services using current policy assumptions. It is broader than information derived from the financial statements as it takes into account decisions made by the body that will give rise to future inflows and outflows that do not meet the recognition criteria for assets and liabilities.

11. The projections can be displayed in tabular statements or graphical formats, along with a narrative explanation. It will also include discussion of the following three dimensions of financial sustainability
 - The service dimension considers the volume and quality of services, given current policy assumptions on revenue, while remaining within debt constraints.
 - The revenue dimension considers taxation levels and other revenue sources, given current policy assumptions on the provision of services, while remaining within debt constraints.
 - The debt dimension considers debt levels, given current policy assumptions on the provision of services to recipients and revenue from taxation and other sources.

Guidance on management commentary

12. The IPSASB has issued [RPG 2 Financial statement discussion and analysis](#) to provide guidance on preparing financial statement discussion and analysis. Financial statement discussion and analysis is defined in the RPG as an explanation of the significant items, transactions, and events presented in an entity's financial statements and the trends, conditions, and factors that influenced them. In the UK, it is usually described as a management commentary.
13. The RPG recommends that the management commentary should be issued with an entity's annual financial statements, and that it should
 - be consistent with those financial statements
 - be clearly identified, and distinguished from the financial statements and from other information
 - be based on currently-known facts and supportable assumptions
 - meet the same qualitative characteristics as financial statements.
14. The management commentary should include the following minimum content
 - An overview that helps users understand the entity and how the environment in which it operates affect its financial statements.
 - Information on the entity's objectives and strategies that enables users of the financial statements to identify the resources that must be managed to achieve its objectives.
 - An analysis of the entity's financial statements including a description of the significant events, trends, conditions, and factors that affected the current period, and changes in financial position and performance over a period of time.
 - Information on the entity's risks and uncertainties to help users evaluate their impact in the current period, as well as expected outcomes.

Auditing developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

Revised standard on using internal audit

15. The [Financial Reporting Council](#) (FRC) has issued a revised [ISA \(UK&I\) 610 Using the work of internal auditors](#) which has been amended to prohibit the use of internal auditors to provide direct assistance in the audit of the financial statements for periods ending on or after 15 June 2014.
16. Direct assistance is the use of internal auditors to perform audit procedures under the direction, supervision and review of the external auditor. This is distinct from using the work of internal auditors, which is instead subject to direction, supervision and review by the internal audit function.
17. The scope of the ISA has been amended to explicitly state that the use of internal auditors to provide direct assistance is prohibited. For a group audit, this prohibition extends to the work of any component auditor which is relied upon by the group auditor.
18. Accordingly, the requirements set out in paragraphs 27 to 35 and 37, and related application material at paragraphs A32 to A41 relating to direct assistance, are no applicable.

Revised practice note on auditing financial instruments

19. The FRC has issued [Practice note 23 Special considerations in auditing financial instruments](#) which contains updated background information on financial instruments, as well as related discussion of audit considerations.
20. Auditing financial instruments is particularly challenging as it may be difficult to understand their nature and use, and the risks to which the entity is exposed. Auditors' focus in planning the audit of financial instruments should therefore be on understanding
 - the accounting and disclosure requirements
 - the financial instruments to which the entity is exposed, and their purpose and risks
 - management's process for valuing financial instruments.
21. Once the detailed evidence has been gathered and valuations have been made on an instrument by instrument basis, it is important for auditors to review the overall result and consider whether there are residual uncertainties not taken into account by the valuation process that require further adjustment. Professional scepticism is necessary to the critical assessment of audit evidence and assists auditors in remaining alert for possible indications of management bias.

Proposed new international standards on auditor reporting

22. The International Auditing and Assurance Standards Board (IAASB) has issued [Reporting on audited financial statements Proposed new and revised ISAs - exposure draft](#) which sets out proposals to enhance auditor reporting.
23. The exposure draft includes a proposed new *ISA 701 Communicating key audit matters in the independent auditor's report* which establishes requirements and guidance for the auditor's determination and communication of key audit matters. Key audit matters are required to be communicated in auditor's reports for listed entities, but may also be communicated for other entities. They are selected from matters communicated with those charged with governance.
24. The exposure draft also includes the following proposed revised ISAs
 - *ISA 700 (Revised) Forming an opinion and reporting on financial statements* to establish new required reporting elements, including a requirement for the auditor to include an explicit statement of auditor independence and disclose the source of relevant ethical requirements, and to illustrate these new elements in example auditor's reports.
 - *ISA 260 (Revised) Communication with those charged with governance* to reflect the proposed ISA 700, e.g. to include communication about the significant risks identified by the auditor.
 - *ISA 570 (Revised) Going concern* to establish auditor reporting requirements relating to going concern, and to illustrate this reporting within the auditor's report in different circumstances.
 - *ISA 705 (Revised) Modifications to the opinion in the independent auditor's report* to clarify how the new required reporting elements of proposed ISA 700 are affected when the auditor expresses a modified opinion, and to update the illustrative auditor's reports accordingly.
 - *ISA 706 (Revised) Emphasis of matter paragraphs and other matter paragraphs in the independent auditor's report* to clarify the relationship between emphasis of matter paragraphs, other matter paragraphs and the key audit matters section of the auditor's report.
25. Comments should be submitted via the IAASB website by 22 November 2013.
26. The FRC has issued a separate [consultation paper](#) which requests comments on the IAASB's exposure draft. The FRC believes that the proposals are consistent, in principle, with recent amendments to audit committee reporting under the *UK Corporate governance code* and auditing standards issued by the FRC in October 2012 (see TB 2012/4 - paragraph 25) and further changes to its auditing standards in June 2013 (see TB 2013/2 - paragraph 20).
27. In developing its response to the IAASB, the FRC will be considering how it would approach the adoption of the proposed new ISA 701 and the proposed amendments to other ISAs, having regard to the inter-relationship between the changes the FRC has introduced and the proposed changes to the ISAs. The FRC is inviting comments to assist in developing its response which should be submitted to s.leonard@frc.org.uk by 1 November 2013.

Corporate governance developments

The document referred to in the following article can be obtained by using the hyperlink, and is available to external auditors from Audit Scotland's *Technical reference library*.

Consultation on international governance framework

28. The [Chartered Institute of Public Finance and Accountancy](#) (CIPFA) and the [International Federation of Accountants](#) (IFAC) has issued [Good governance in the public sector - consultation draft for an international framework](#) which sets out a proposed international governance framework for the public sector.
29. The aim of the proposed international framework is to encourage better service delivery and improved accountability by establishing a benchmark for good governance in the public sector. The framework is not intended to replace national and sectoral governance codes, but is intended to be used when updating and reviewing these codes.
30. For the purpose of the framework, governance is defined as comprising the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved. These include political, economic, social environmental, administrative, legal, and other arrangements
31. Good practice is encapsulated within seven fundamental principles. For example
 - A strong commitment to integrity, ethical values, and the rule of law.
 - Managing risks and performance through robust internal control and strong public financial management.
 - Implementing good practices in transparency and reporting to deliver effective accountability.
32. The framework considers the underlying rationale for each principle and provides supporting commentary on the key elements, expressed through sub-principles. It also provides examples and questions for bodies to consider when assessing how they live up to the framework as well as when developing action plans to make necessary improvements.
33. Comments were required by 17 September 2013.

Other developments

The document referred to in the following article can be obtained by using the hyperlink, and is available to external auditors from Audit Scotland's *Technical reference library*.

Charities

Draft revised SORP

34. The [Office of the Scottish Charity Regulator](#) (OSCR) has issued [Charities SORP consultation - exposure draft](#) which sets out proposals for revising the *Statement of recommended practice: Accounting and reporting by charities* (the charity SORP) from 1 January 2015. OSCR and the Charity Commission for England and Wales are the joint SORP-making body for charities.
35. The charity SORP applies to charities preparing financial statements under UK GAAP to give a 'true and fair view' and is based on accounting standards issued by the FRC. The FRC has recently issued FRS 102 which is based on IFRS modified for UK reporting needs. A new charity SORP therefore requires to be developed to be consistent with the new accounting and reporting framework.
36. The exposure draft of the charity SORP is set out in a modular format and contains a number of core modules that are relevant to all charities and specialist modules that only apply to particular charities according to their constitution, structure and activities. Some significant proposed changes to the current SORP are discussed in the following paragraphs.
37. The exposure draft proposes a significant simplification to the analysis provided within the statement of financial activities with four incoming resources headings (donations, earned income split between income earned from charitable activities and other activities, and investment and other income) replacing the current six income analysis headings. Similarly, three expenditure headings (fundraising costs, expenditure on charitable activities and other expenditure) are to replace the current seven headings.
38. There are new proposed disclosures on institutions that are supported by a charity's grant-making activities. Where material grants are made, the exposure draft requires the disclosure of a sufficient number of institutional grants made so that the user of the financial statements can develop an understanding of the range of institutions supported. The disclosure required includes the name of the institution in receipt of grants and the total value of grants made to each one. This approach is a change from the current charity SORP, which allowed this information to be provided in a separate publication.
39. FRS 102 allows income from government grants to be recognised either under the 'performance model' or under the 'accruals model'. The exposure draft requires charities to adopt the 'performance model'. This is consistent with the current charity SORP and requires income subject to performance related conditions to be recognised only when those conditions are met.

40. There are proposals to remove, or make optional, a number of disclosure requirements of the current charity SORP, e.g.
- The disclosure of numbers of staff analysed by activity is clarified as being optional.
 - The disclosure of ex-gratia payments is required only where regulatory consent for payment is required.
 - The recommendation that a liquidity statement is prepared, where a statement of cash flow is not prepared, has been dropped.
41. Comments should be submitted to SORP.thefuture@charitycommission.gsi.gov.uk by 4 November 2013.

Publications

The following publications published since TB 2013/2 can be obtained by using the hyperlinks.

Audit Scotland

Developing financial reporting in Scotland

42. This report from Audit Scotland [Developing financial reporting in Scotland](#) illustrates the importance of publically reported information on the devolved Scottish public sector's assets and liabilities for accountability and decision-making, and discusses some of the issues raised for public finances. It is based largely on information contained in the audited 2011/12 financial statements and is in the following three parts
- Part 1 of the report sets out why recent developments increase the importance of good-quality financial reporting.
 - Part 2 examines some of the issues and risks for future budgets associated with the more significant assets and liabilities held by Scottish public bodies.
 - Part 3 identifies areas where better commentary within the financial statements and other reports could make financial information more comprehensive and transparent.

Housing in Scotland

43. This report from Audit Scotland [Housing in Scotland](#) considers how the housing sector works, how much public money is spent and what that money delivers. It assesses how well the Scottish Government and councils plan to meet housing needs and the main challenges in the future. Key messages include the following
- The recession has affected the availability of housing and the sector is now working with constraints on lending, competing and increasing demands on capital resources, and reduced government subsidies.
 - The supply of housing is not meeting current levels of need. Analysis suggests that it could be more than 20 years before there are enough new homes to meet the projected increase in households in any one year.

- The Scottish Government is encouraging increased borrowing and alternative models of finance to maximise private investment in housing. However, their use has been limited to date and the extent to which they can compensate for reduced levels of subsidy is not clear.
- Effective leadership is required at a national and local level to ensure housing is well planned and linked to other policy areas.

Fraud cases

External auditors are required to submit to the TSU information on cases of reportable fraud that arise at audited bodies. The following is a summary of fraud cases that have been reported by auditors to the TSU since TB 2013/2.

Expenditure

Award of contracts

44. A senior employee in a council's private sector housing team misappropriated an unknown sum of money by inappropriately awarding contracts for work. The employee advised property owners to default on works notices to enable the council to take over the management of the project. Work was then awarded to a particular contractor and surveyor.
45. The fraud was possible due to weaknesses in the review and scrutiny of works notice reports. Previous reports were placed in the members' library instead of being discussed and scrutinised. The fraud was discovered following a review of procedures and a director starting to scrutinise and question the reports.
46. An internal audit review was undertaken, and investigations have identified
 - an inappropriate relationship between the employee, contractor and surveyor
 - repair work performed was above and beyond the council's statutory duties
 - grants were awarded in excess of what is permitted for construction costs, mainly due to higher than expected surveyor costs
 - some works notice costs were not invoiced back to owners.
47. Revised processes have been implemented to address control weaknesses, and the finance team are reviewing works notices to ensure invoicing is up to date. The case has been passed to the police and an investigation is on-going.

Private funds

School trip funds

48. A principal teacher misappropriated over £5,000 of cash collected from pupils to pay for school residential trips. The teacher was solely responsible for the collection and recording of the cash received and sent for banking. The fraud was facilitated by a lack of regular monitoring of income or examination of records by management.

49. The fraud was identified when a school clerk identified there were insufficient funds in the bank account to pay for a school trip.
50. The theft has been reported to the police and internal audit have recommended that regular reconciliations between expected amounts and amounts banked are undertaken.

Equipment and stores

Vehicle theft

51. An employee stole three vehicles valued at £17,000 from a council depot and workshop. The theft was facilitated by the keys to the vehicles not being stored securely so they could be easily accessed by all repairs workshop staff. In addition, the external security of the depot was inadequate as the barrier to the depot was routinely left open to allow free access to the yard where the vehicles were parked.
52. Improvements have been made to the security of keys and the security company responsible for the depot and workshop has been replaced.
53. The thefts were reported to the police and disciplinary hearings have been held.

Local authority chapter

Introduction

This chapter contains articles on local authority technical developments and authoritative guidance relevant to external auditors' responsibilities under their audit appointment. It should be read by external auditors with appointments in the local authority sector. Auditors should also read the cross-sectoral chapter which covers developments and guidance that are relevant to all sectors. More in-depth and extensive guidance on particular subjects or themes is provided in separate guidance notes published by the TSU (i.e. notes for guidance, urgent issue notes and grant notes).

The articles in this chapter are intended to highlight the main points that the TSU considers auditors require to be aware of in respect of each development. In many cases, it may still be necessary for auditors to read the source material. The documents referred to in the articles can be obtained by using the hyperlinks. They are also available to external auditors from Audit Scotland's *Technical reference library*.

TSU developments

Guidance notes

The following guidance note has been published by the TSU since TB 2013/2. It can be obtained by using the hyperlink and is available to external auditors from Audit Scotland's *Technical reference library*.

Note for guidance on certifying 2012/13 WGA returns

54. The TSU has published [Note for guidance 2013/9\(LA\) Auditor certification of 2012/13 whole of government accounts returns](#) to provide auditors with guidance on certifying 2012/13 local authority whole of government accounts (WGA) returns.
55. WGA is the consolidated financial statements for all components of government in the UK. Local authorities (and central government bodies) are required to provide information for the preparation of WGA. New consolidation software called the *Online system for central accounting and reporting* (OSCAR) has been implemented for WGA in 2012/13. This replaces the previous COINS-based system which used an Excel document commonly called an L-pack. The OSCAR-based consolidation also uses a similar, though more sophisticated, Excel document known as the data collection tool (DCT).
56. External auditors are required to certify DCTs where either gross assets (excluding property, plant and equipment, intangibles and investment properties), or gross liabilities (excluding pension liabilities), or gross income or gross expenditure are above a set threshold. For 2012/13, the threshold has increased from more than £100 million to more than £300 million.

57. Auditors should plan to 'lock' the DCT by 12 October 2013 and complete the WGA certification by 26 October. The results of auditors' work require to be reported in an assurance statement which accompanies the note for guidance.
58. Auditors should use this note for guidance when reviewing and reporting on 2012/13 local authority WGA returns.

Analytical review databases

The following analytical review database has been published by the TSU since TB 2013/2. It is available to external auditors from Audit Scotland's *Technical reference library*.

Unaudited 2012/13 database

59. The TSU has issued the *2012/13 Analytical review database - unaudited (local authorities)* which contains financial information for auditors to use for analytical review comparisons.
60. The financial information is taken from the 2012/13 unaudited financial statements, and the database also includes additional contextual information, including population figures and numbers of households.

Other guidance

The following articles provide guidance from the TSU.

Audit of charities from 2013/14

61. Technical bulletin 2013/2 (paragraph 37) advised auditors that a separate auditor's report for each local authority trust fund and common good fund is required under *The Charities Accounts (Scotland) Regulations 2006* (the charity regulations) from 2013/14 where they are registered as charities with OSCR.
62. A separate auditor's report is required because the charity regulations require an auditor's report on a registered charity's financial statements where an audit of the charity is required by another enactment. Section 106 of the *Local Government (Scotland) Act 1973* (the 1973 Act) requires an audit of any charity where an authority, or some members of the authority, is the sole trustee. A separate auditor's report under the charity regulations is therefore required for these local authority charities. OSCR will 'fail' the submission of 2013/14 financial statements of any local authority charity that is not accompanied by an auditor's report.
63. Given the statutory requirement for separate auditor's reports, technical bulletin 2013/2 also advised that Audit Scotland was considering how that audit requirement should be met. It has been concluded that the most appropriate solution is to extend the appointment of the existing external auditor of each local authority to include the audit of all registered charities. Audit Scotland is, however, considering whether any transitional arrangements would be appropriate. For the avoidance of doubt, these audit arrangements do not apply to any trusts

or common good funds which are not registered charities or where a local authority is not the sole trustee.

64. Chapter 5 of the *Charities Act 2005* provides for the reorganisation of charities, including amalgamation or winding up. Authorities have traditionally administered a significant number of very small charities, and reorganisation would have the benefit of reducing the number of charities that authorities require to have audited. While there has been progress in authorities making use of this provision, there are a number who have not yet done so. Auditors should encourage authorities to consider the benefits of reorganisation and engage with OSCR in this regard.
65. Authorities may also wish to consider whether they can use the connected charities provisions under Regulation 7 of the charity regulations which permit connected charities to prepare a single set of accounts. This would reduce the number of separate reports and accounts required to be submitted to OSCR.
66. Auditors should establish the number and size of charities to be audited as part of the planning of the 2013/14 audits and discuss the likely cost with their authorities. A note for guidance on auditing charity 2013/14 financial statements will be provided by the TSU in due course.

Preparation of group financial statements from 2013/14

67. Paragraph 9.1.1.6 of the Code requires local authorities with interests in subsidiaries, associates and/or joint ventures to prepare group financial statements in addition to their single entity financial statements, unless their interest is not considered material.
68. As a result of the transfer of police and fire functions to central government, 2013/14 is the first year that authorities will not be including the former joint boards for these services in their group financial statements. In light of this, it is likely that authorities will be reconsidering the materiality of their remaining interests to determine whether group financial statements are still required. The following paragraphs provide auditors with guidance on judging the materiality of authorities' interests in other entities on a consistent basis.
69. The Code discusses materiality at paragraph 2.1.2.9. Some particularly relevant key principles include the following
 - An authority need not comply with the Code if the information is not material to the financial statements giving a true and fair view and to the understanding of users.
 - The focus of materiality is on the potential effect of an omission on the decisions or assessments of users made on the basis of the financial statements. Consideration of materiality should therefore take into account the potential users and their interests.
 - Potential omissions need to be considered collectively as well as individually. It could be the case that none of the interests that an authority has in other entities would be material but that together they would be.

- It is not only the size of an item that is important, but also its nature judged in the surrounding circumstances. Qualitative factors can be as significant as quantitative factors.
70. If an authority is considering not preparing group financial statements, the authority should satisfy itself that the principal users of the financial statements would be able to see the complete economic activities of the authority and its exposure to risk, and that the authority's overall financial position or performance would not be misrepresented.
71. Auditors should expect authorities to first of all make an assessment of qualitative factors of materiality. Authorities will need to consider the circumstances that surround their involvement in the other group entities. The existence of any of the following situations is an indication that the interests are material
- The authority depends on these entities for the continued provision of its statutory services, e.g. leisure trusts
 - There are user expectations that would fail to be met if group information was not provided.
 - The additional information concerns aspects of the authority's activity that have been identified as particularly significant in its strategic objectives.
 - There is political concern about the level to which the authority is exposed to commercial risk.
 - There have been concerns about the extent to which the authority has passed on control of its assets to other parties.
72. The second step in deciding whether interests are material is to assess the quantitative impact of including their activities on the authority's results and financial position. The quantitative assessment should be made by reference to all elements of the authority's financial statements and should not concentrate solely on the balance sheet. Possible impacts on service revenue accounts may also be particularly important.
73. Auditors should confirm that authorities are planning to prepare 2013/14 group financial statements where they have a material interest in other entities. Auditors should start from a presumption that the Code's requirements for group financial statements should be followed, unless authorities can demonstrate that their interests are not material.

Accounting developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

Consultation on local authority accounts regulations

74. The [Scottish Government](#) has issued a [consultation paper](#) on proposed changes to the [local authority accounts regulations](#) from 2013/14. The key proposals that auditors should be aware of are summarised in the following paragraphs.

75. The draft regulations adopt the phrase ‘statement of accounts’ to reflect its use in the *Code of practice on local authority accounting* (the Code). Regulation 3 defines the term as the abstract of accounts which is required to be produced under section 96(3) of the 1973 Act. Regulation 8(2) sets out the following statements which must be included in the statement of accounts
- Financial statements required by proper accounting practices.
 - A management commentary, which replaces the explanatory foreword.
 - A statement of responsibilities which is required to accurately reflect the proper officer’s responsibilities.
 - An annual governance statement as required by Regulation 5 which introduces a new requirement for authorities to undertake an annual review of their system of internal control and report this in the annual governance statement.
 - A remuneration report.
76. It should also include a housing revenue account, non-domestic rate account, and council tax account, where relevant, as well as any other statement relating to statutory funds which is required by any statutory provision.
77. Regulation 8(5) introduces a new requirement for the proper officer to ensure that the statement of accounts gives a true and fair view of the financial position and transactions of the authority (and group). Regulation 8(6) requires the proper officer to certify this by signing and dating the statement of responsibilities and the balance sheet, and then forward the statement of accounts to the appointed auditor no later than 30 June.
78. Regulation 8(7) introduces a new requirement to publish the unaudited statement of accounts on the website of the authority until the date on which the audited statement of accounts is published.
79. Regulation 10 requires the authority, or a committee whose remit includes audit or governance, to formally meet by 30 September to consider approval of the statement of accounts. Before approval, the following statements require to be signed and dated
- the management commentary by the proper officer, the Chief Executive and the Leader of the Council
 - the annual governance statement by the Chief Executive and the Leader of the Council
 - the remuneration report by the Chief Executive and the Leader of the Council.
80. In addition, the proper officer is required to re-certify the statement of responsibilities and the balance sheet.
81. Regulation 11 requires authorities to publish the statement of accounts, the audit certificate and the annual audit report on their websites by 31 October.
82. Other proposals include the following
- Where the proper officer is unable to act owing to absence or illness, a member of that person’s staff should be nominated to act in the role for the purposes of the regulations.

- Regulation 6 places a new responsibility on the authority as a corporate body to keep adequate accounting records which reflects the provisions in the *Companies Act 2006*. The proper officer is still identified as being responsible for maintaining the accounting systems and records and ensuring the systems are up to date and being observed.
 - Regulation 7 introduces the new requirement for an authority to undertake an adequate and effective internal audit function, and to conduct an annual review of its effectiveness.
 - Regulation 9 amends the inspection process for the unaudited financial statements. The Controller of Audit no longer has a role in the process, and the dates of each stage are fixed.
 - A new requirement for the cash equivalent transfer value of pension rights to be disclosed in the remuneration report.
 - A new statutory requirement for an authority to have an audit committee.
83. Comments should be sent to Louise.Hester@scotland.gsi.gov.uk by 4 October 2013. Inhouse auditors should contact the TSU if they have any comments they would like considered for inclusion in a corporate response.

Draft 2014/15 accounting code

84. The [CIPFA/LASAAC Local Authority Code Board](#) has issued the [Code of practice on local authority accounting in the UK 2014/15 - exposure draft](#) which proposes amendments to the Code for 2014/15. Comments should be sent to code.responses@cipfa.org by 11 October. Inhouse auditors should contact the TSU if they have any comments they would like considered for inclusion in a corporate response.
85. Auditors' attention is drawn to the following significant proposed changes
- Fair value measurement ([see paragraph 87](#)).
 - Group accounts standards ([see paragraph 91](#)).
 - Local government reorganisation ([see paragraph 101](#))
86. There are also proposals regarding adopting depreciated replacement cost for infrastructure assets ([see paragraph 105](#)), and other miscellaneous proposed changes ([see paragraph 109](#))

Section 2.10 Fair value measurement

87. It is proposed to add a new section 2.10 to the Code on measuring fair value to reflect IFRS 13 *Fair value measurement*. IFRS 13 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.
88. A fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use even if this is not how the asset is currently used. The key principle is that a fair value measurement represents an exit price of an asset or liability from the perspective of market participants.

89. The adoption of IFRS 13 was deferred from the 2013/14 Code to allow a period of further consideration of the conceptual issues relating to the measurement of public sector property, plant and equipment. The exposure draft proposes that the application of IFRS 13 to an item of property, plant and equipment should follow one of the following three routes
- Route 1 – IFRS 13 has direct application to the item as there are no particular restrictions or constraints faced by authorities. The asset (e.g. office accommodation and surplus assets) should therefore be measured at highest and best use. There is, however, a proposed adaptation to the requirements of *IAS 16 Property, plant and equipment* to enable authorities to use a director's valuation¹, i.e. a desk top exercise using indices or other relevant information to measure these assets at highest and best use until the next formal revaluation of these assets (up to a period of three years).
 - Route 2 – IFRS 13 has direct application but the restrictions and constraints faced by authorities for these types of assets mean that there is not likely to be any resultant change to the measurement of these assets, e.g. crematoria plant and buildings.
 - Route 3 – IFRS 13 applies with an adaptation. There are certain circumstances where application of the principle of highest and best use does not fully capture the service and geographical constraints faced by authorities. In these cases, there is a need to adapt the standard to limit the measurement of the assets to fair value at their current use (i.e. fair value in existing use measurement).
90. IFRS 13 contains significant new fair value disclosure requirements, particularly for measurements where unobservable market inputs are used. The exposure draft asks for views on the relevance of the disclosures to local authorities and whether an adaptation is appropriate.

Chapter 9 Group accounts

91. There are proposals to reflect in the Code the following five new or amended group accounts standards
- *IFRS 10 Consolidated financial statements*
 - *IFRS 11 Joint arrangements*
 - *IFRS 12 Disclosure of interests in other entities*
 - *IAS 27 Separate financial statements (as amended in 2011)*
 - *IAS 28 Investments in associates and joint ventures (as amended in 2011).*

Consolidated financial statements

92. IFRS 10 replaces the provisions in *IAS 27 Consolidated and separate financial statements* in relation to control and consolidation. The key new principle in IFRS 10 is that control exists only if a reporting authority possesses power over an investee (i.e. an entity in which the authority has an interest or involvement), has exposure to variable returns from its involvement with the investee and has the ability to use its power to affect the level of variable returns. This definition has been added to paragraph 9.1.2.2.

93. CIPFA/LASAAC is of the view that the concept of variable returns in IFRS 10 includes advantages and benefits (and disbenefits) that are non-financial, including the provision of services for one entity on behalf of another entity. The term 'returns' is exemplified on this basis in paragraph 9.1.2.31.
94. Paragraph 9.1.2.23 introduces the concept of a structured entity which is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.
95. Paragraph 9.1.2.33 lists other matters that should be considered in determining whether an authority has control over a structured entity. These include
- the purpose and design of the investee
 - what the relevant activities are and how decisions about those activities are made
 - whether the rights of the reporting authority give it the current ability to direct the relevant activities.
96. When assessing whether it controls an investee, paragraph 9.1.2.34 requires a reporting authority with decision-making rights to determine whether it is a principal or an agent. A reporting authority that is an agent does not control an investee when it exercises decision-making rights delegated to it.

Joint arrangements

97. IFRS 11 replaces *IAS 31 Interests in joint ventures* and *SIC 13 Jointly controlled entities non-monetary contributions by venturers*. In addition, the accounting requirements for joint ventures have been moved to *IAS 28 Investments in associates and joint ventures*. If control exists under IFRS 10, but it is determined that an investor does not control an entity by itself, then a joint arrangement may exist.
98. Under IFRS 11, a party to a joint arrangement recognises its rights and obligations arising from the arrangement. The classification 'jointly controlled entity' is no longer used in IFRS 11, and classification is based on whether the parties to the arrangement have
- rights to assets and obligations for liabilities of the underlying arrangement (a joint operation). Joint operations are accounted for by recognising the entity's share of assets, liabilities, revenues and expenses arising from the joint operation; or
 - only have rights to the net assets of the joint arrangement (a joint venture). Where the arrangement is classified as a joint venture, consolidation should be accounted for using the equity method as described by IAS 28 (i.e. the option for proportional consolidation of joint ventures has been removed).

Disclosure of interests in other entities

99. IFRS 12 replaces the disclosure requirements in IAS 27, IAS 28 and IAS 31. IFRS 12 sets out specific disclosure objectives and introduces more principle-based disclosures than those

previously required. The disclosures arising from the adoption of IFRS 12 are included at section 9.1.4 of the Code.

100. Specifically, IFRS 12 introduces disclosures about unconsolidated structured entities that were not required previously under IAS 27. Unconsolidated structured entities are those structured entities that are not controlled by the entity that has the interest in it. This includes entities which receive support from authorities by means of grant funding or other on-going financial support, including the donation of assets or the provision of financial guarantees. The exposure draft seeks views on whether there are local authority circumstances that would require an adaptation for these disclosures.

Section 2.5 Local government reorganisation and other combinations

101. There are proposals to amend section 2.5 to reflect recent changes in the *Government financial reporting manual* (the FReM) in respect of mergers and transfers of functions.
102. It is proposed to add the FReM's definition for the transfer of a function interpreted for local government circumstances to paragraph 2.5.2.1. A transfer of a function is defined as a transfer of an identifiable service or business operation with an integrated set of activities, staff and recognised assets and/or liabilities that are capable of being conducted and managed to achieve its objectives.
103. The 2013/14 Code's approach to the accounting requirements for local government reorganisations is described in the FReM as a transfer by absorption. While it is proposed that the Code should use consistent terminology, the accounting requirements will not change significantly. However, some of the reporting requirements have been clarified at paragraphs 2.5.4.1 and 2.5.4.4, e.g.
- A local authority that receives or transfers a function should disclose that the transfer has taken place, including a brief description of the transferred function, the date of the transfer, the name of the transferring body and the effect on the financial statements.
 - The authority should judge whether the additional disclosure of historical financial performance of the function should be provided, to enable users to understand the operational performance.
 - Where transfers by absorption have taken place during the financial year, no comparative information will be required and the information reported in the financial statements will be reported from the date the transfer took place.
104. It is proposed to add paragraph 2.5.2.4 on transfers by merger which states that
- transfers by merger are rare but may occur when legal transfers take place but the local authority consider that the financial statements would be best presented as if the entity has always existed in its newly combined form
 - the results and cash flows of all of the combining bodies (or functions) should be brought into the financial statements of the combined body from the beginning of the financial year in which the combination occurred

- to ensure symmetrical accounting treatment with other public sector bodies, transfer by merger should not occur when a function is being transferred outwith local government.

Adoption of depreciated replacement cost for infrastructure assets

- 105.** The 2013/14 Code requires that infrastructure assets are measured at historical cost. The exposure draft is proposing a move to a depreciated replacement cost (DRC) basis in line with the measurement requirements of the *Code of practice on transport infrastructure assets* (the transport infrastructure code - [see paragraph 107](#)).
- 106.** A phased approach is proposed which would involve 2014/15 as a 'dry run' year with DRC information disclosed in the financial statements either in the explanatory foreword or with disclosures similar to those for new accounting standards. This would not require full retrospective restatement for 2013/14 but would require the restated opening 1 April 2014 position and the resultant impact on the revaluation reserve.
- 107.** The disclosure in 2014/15 would include information regarding the possible impact that application of the new measurement basis will have on the authority's financial statements, including a comparison of amounts that would have been shown on a DRC basis.
- 108.** This would be followed in 2015/16 by the formal adoption of the DRC measurement base (with the requirement for full retrospective restatement to be provided for 2014/15). The exposure draft asks for views on whether this should apply to all transport infrastructure assets or only carriageways initially, with adoption for the remaining classes of infrastructure assets in 2016/17.

Other miscellaneous proposed changes

- 109.** Other proposed changes include the following
- Clarification is to be added to paragraph 3.4.2.17 that a complete set of financial statements includes statutory statements, e.g. the housing revenue account, and comparative information in respect of the preceding period.
 - Paragraph 6.5.5.2 is to be added to clarify that the Code does not require pension fund financial statements to provide both a governance compliance statement and a statement on the system of internal financial control (SSIFC). However, if the reporting requirements of the SSIFC are not met, additional disclosures may be required.

Guidance on insurance receipts

- 110.** The Scottish Government has issued [Finance circular 5/2013 Insurance receipts non statutory guidance](#) to provide guidance on whether an insurance receipt should be treated as a capital receipt.
- 111.** Although in Scotland there is no legislative definition of a capital receipt, in England a capital receipt is defined as a sum received by the authority in respect of the disposal of an interest in a capital asset. An asset is a capital asset if, at the time of the disposal, expenditure on the acquisition would have been capital expenditure. This definition is based on a mirror principle,

i.e. when an authority receives disposal proceeds, and acquisition of the interest would have met the definition of capital expenditure, the disposal proceeds are considered a capital receipt.

112. On this basis, Insurance proceeds would therefore only be a capital receipt if the settlement related effectively to the insurer purchasing the damaged asset from the authority. Applying this approach means the following
- An insurer may be considered to have purchased a vehicle, and therefore the insurance proceeds may be considered a capital receipt.
 - It is unlikely that an insurer would be considered to have purchase a damaged or destroyed building. It is more likely that the insurer is considered to have compensated the authority and therefore the insurance proceeds are not considered to be a capital receipt.
113. Authorities are required to act prudently in the use and application of an insurance receipt as follows
- Where an authority replaces or rebuilds a non-current asset, it is considered prudent to use the insurance receipt to fund any capital expenditure.
 - Where an authority does not replace or rebuild the non-current asset, it is for the authority to determine what is prudent. Authorities are expected to consider whether there is any outstanding borrowing on the non-current asset and the long term capital investment plans of the local authority. A prudent application of the receipt may be a transfer to an insurance fund.
114. Auditors should confirm that authorities are accounting for insurance receipts in accordance with this guidance.

Proposed revisions to transport infrastructure code

115. CIPFA has issued a [consultation paper](#) of proposed amendments to the transport infrastructure code, which is used to provide information for WGA and to support asset management.
116. The consultation seeks views on proposed changes arising from a review based on the experience of practitioners since the original publication. There are also proposals to reinforce the links with the accounting Code and provide more clarity on financial reporting practicalities.
117. Comments were required by 13 September 2013.

Consultation on simplifying the financial statements

118. CIPFA has issued a [consultation paper](#) on simplifying and streamlining the presentation of IFRS-based local authority financial statements.
119. IFRS has been developed from the perspective of private sector organisations, and the disclosures and the statements are designed specifically to meet the needs of investors who

are seen as the primary users of financial statements. However, it is not clear whether all of the disclosures required under IFRS are suited to users of public sector financial statements.

120. In addition, local authority financial statements include complicated adjustments that convert accounting outturn based on IFRS to the funding requirement for council tax funding purposes.
121. Comments on how local authority financial statements may be simplified and streamlined should be sent to code.responses@cipfa.org by 11 October 2013. Inhouse auditors should contact the TSU if they have any comments they would like considered for inclusion in any corporate response.

2013/14 disclosure checklist

122. CIPFA has issued the *Code of practice for local authority accounting in the UK - Disclosure checklist for 2013/14* accounts on the disclosure requirements of the 2013/ 14 Code.
123. The checklist is intended to be an aide-memoire for local authorities and auditors to ensure the Code's disclosure requirements are met. If the answer to a question in the checklist is 'no', a justification for departing from the Code requires to be given by the authority and, where the impact is material, disclosed in the financial statements.
124. Auditors may find it help to obtain and review a completed checklist as part of their testing of an authority's compliance with the Code's disclosure requirements.

Other developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

Benefits

2012/13 HB COUNT

125. [The Audit Commission](#) has issued module 4 of the HB COUNT approach to the certification of the 2012/13 benefits subsidy claim. Module 4 provides the analytical review tool component of the HB COUNT approach which enables auditors to review subsidy claim forms by comparing 2012/13 information with 2011/12 and with other authorities. It provides a number of useful worksheets including the following two which require to be completed
 - The year-to-year worksheet where 2011/12 claim data is entered manually for comparison against 2012/13 data. Any significant variances identified should be explained in column I
 - The key ratios worksheet that allows comparison with other authorities. Any ratios highlighted in grey, pink or purple should be reviewed to establish the reason.
126. The information is for auditor use only. If auditors wish to provide authorities with outputs, they should ensure that the data for other authorities is anonymised.

127. Auditors should complete module 4 as part of the certification of the 2012/13 benefit subsidy claims.

Benefits cap

128. [The Department for Work and Pensions](#) (DWP) has issued [HB circular A15/2013: administration of the benefit cap](#) to provide details of the cap introduced by the *Welfare Reform Act 2012* (see paragraph 150 of TB 2012/2) on the total amount of benefits to which working age people may be entitled (the benefit cap).
129. A benefit cap of £500 per week (for couples and lone parents) and (£350 for single adults) will be implemented initially by local authorities as part of the administration of housing benefit (HB). In the longer term, it will be administered as part of universal credit.
130. A number of benefits are taken into account when calculating the cap, including child benefit, incapacity benefit, income support and jobseeker's allowance. However, households may be exempt if a member of the household qualifies for certain benefits including working tax credit, disability living allowance and personal independence allowance.
131. In addition, HB paid to households in supported exempt accommodation is disregarded from benefit cap calculations. Although these households are not exempt, it is expected that by not including HB in the calculation, the vast majority will no longer be affected by the cap.
132. The DWP will send authorities notifications to apply the cap
- For an existing claim, authorities add the current weekly award of HB to the other benefits in payment and then reduce the amount of HB by the amount of benefits the claimant is entitled to over the relevant cap level.
 - For new HB claims, the claim should be assessed and decided upon as normal. The DWP will subsequently identify any cases subject to the cap and notify the authority.
133. Overpayments should be calculated and administered as normal where a change of circumstances reduces the rate of HB award and a delay in actioning the change is caused by a failure to disclose, or fraudulent action by the claimant.
134. Where a claimant starts work and satisfies the conditions for an HB extended payment, the authority can remove the cap. Where a claimant qualifies for a grace period after a cap has been implemented, the DWP will advise the authority of the details and the action to be taken.
135. A further update on the implementation of the benefit cap was provided in [General information bulletin HB G8/2013](#) which advised that the cap is being implemented in the following two tranches
- The first tranche included local authorities with 275 or fewer households and capping commenced on 15 July 2013.
 - The second tranche involves authorities with 276 or more households and commenced on 12 August 2013.

136. The exact date the cap will take effect will be confirmed by each claimant's local authority when the benefit cap calculation has been assessed and any adjustment to the HB award made.

Additional 2013/14 funding

137. The DWP has issued several circulars on additional funding for 2013/14.
138. HB circular [S6/2013 Discretionary housing payments government contribution for 2013/14](#) provides details of revised government contributions for discretionary housing payments (DHPs) for 2013/14. The additional funding is specifically aimed at avoiding a disproportionate impact on those affected by the removal of the spare room subsidy in remote and isolated communities.
139. In addition, a DWP departmental error made when the original DHP allocation for Scotland was distributed among Scottish local authorities has been corrected and the relevant local authorities have been notified.
140. The DWP has also issued HB circular [S5/2013 Allocation of housing benefit reforms transitional funding in 2013/14](#) setting the additional funding for 2013/14 to ease the transition of housing benefit changes.
141. The funding has been allocated using a formula that reflects the estimated impact of the removal of the spare room subsidy; Appendix A in the circular shows each authority's allocation. The funding is intended to be used by authorities to provide targeted support to help to meet the housing needs of claimants affected by HB reforms. It is not intended to be used to meet new administrative burdens arising from welfare reforms.
142. HB G8/2013 also advised that the additional funding set out in [HB circular S4/2013](#) to meet new burdens incurred as a result of the implementation of universal credit in 2013/14 is no longer to be paid.

Local housing allowance from 2014

143. [The Rent Officers \(Housing Benefit and Universal Credit Functions\) \(Amendment\) Order 2013](#) has been issued to make the following changes to the determination of the local housing allowance (LHA) from 2014
- The LHA will be determined on 15 January in each year when it is a Tuesday (or the first Tuesday following 15 January).
 - The LHA rate will be the lower of the rent at the 30th percentile of listed rents or the previous years' LHA increased by 1%.

Council tax

144. [The Council Tax Reduction \(Scotland\) Amendment \(No2\) Regulations 2013](#) have been issued to

- clarify that a person must be residing in a dwelling as their sole or main residence for them to be entitled to a council tax reduction (CTR)
- provide for a review by a local authority of its CTR determination where an applicant requests one within two months of the determination. It will no longer be possible to appeal such a determination to a valuation appeal committee
- provide for further review by a panel appointed by the Scottish Ministers if the applicant remains dissatisfied
- include transitional provision for any appeal which has been lodged but not yet determined, to allow it to be progressed as a review.

Legislation

The following legislation can be obtained by using the hyperlinks and are available to external auditors from Audit Scotland's *Technical reference library*.

Statutory instruments

Council tax

145. [The Council Tax Reduction \(Scotland\) Amendment \(No2\) Regulations 2013](#) (SSI 218) come into force on 1 October 2013 ([see paragraph 144](#)).

Social security

146. [The Rent Officers \(Housing Benefit and Universal Credit Functions\) \(Amendment\) Order 2013](#) (SI 1544) came into force on 1 September 2013 ([see paragraph 143](#)).

Auditor action

The following is a summary of items in this chapter of the TB that recommend that auditors take certain actions

Section and paragraph	Action
TSU developments - Guidance notes - paragraph 58	Auditors should use this note for guidance when reviewing and reporting on 2012/13 local authority WGA returns.
TSU developments - Other guidance - paragraph 66	Auditors should establish the number and size of charities to be audited as part of the planning of the 2013/14 audits and discuss the likely cost with their authorities.

Section and paragraph	Action
TSU developments - Other guidance - paragraph 73	Auditors should confirm that authorities are planning to prepare 2013/14 group financial statements where they have a material interest in other entities.
Accounting developments - paragraph 114	Auditors should confirm that authorities are accounting for insurance receipts in accordance with the Scottish Government guidance.
Accounting developments - paragraph 124	Auditors may find it help to obtain and review a completed checklist as part of their testing of an authority's compliance with the Code's disclosure requirements.
Other developments - Benefits - paragraph 127	Auditors should complete module 4 of HBCOUNT as part of the certification of the 2012/13 benefit subsidy claims.

Central government chapter

Introduction

This chapter contains articles on central government technical developments and authoritative guidance relevant to external auditors' responsibilities under their audit appointment. It should be read by external auditors with appointments in the central government sector. It should also be read by auditors with appointments in the health sector as most of the articles also apply to that sector. Auditors should also read the cross-sectoral chapter which covers developments and guidance that are relevant to all sectors. More in-depth and extensive guidance on particular subjects or themes is provided in separate guidance notes published by the TSU (i.e. notes for guidance and urgent issue notes).

The articles in this chapter are intended to highlight the main points that the TSU considers auditors require to be aware of in respect of each development. In many cases, it may still be necessary for auditors to read the source material. The documents referred to in the articles can be obtained by using the hyperlinks. They are also available to external auditors from Audit Scotland's *Technical reference library*.

TSU developments

Guidance notes

The following guidance note has been published by the TSU since TB 2013/2. It can be obtained by using the hyperlink and is available to external auditors from Audit Scotland's *Technical reference library*.

Note for guidance on certifying 2012/13 WGA returns

147. The TSU has published [Note for guidance 2013/8\(CG\) Auditor certification of 2012/13 central government whole of government accounts returns](#) to provide auditors with guidance on certifying 2012/13 central government WGA returns.
148. WGA is the consolidated financial statements for all components of government in the UK. Central government bodies (and local authorities) are required to provide information for the preparation of WGA. New consolidation software called the *Online system for central accounting and reporting* (OSCAR) has been implemented for WGA in 2012/13. This replaces the previous COINS-based system which used an Excel document commonly called an c-pack. The OSCAR-based consolidation also uses a similar, though more sophisticated, Excel document known as the data collection tool (DCT).
149. External auditors are required to certify DCTs where either gross assets (excluding property, plant and equipment, intangibles and investment properties), or gross liabilities (excluding

pension liabilities), or gross income or gross expenditure are above a set threshold. For 2012/13, the threshold has increased from more than £100 million to more than £300 million.

150. Auditors should have 'locked' the DCT by 6 September 2013 and completed the WGA certification by 20 September.

Accounting developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

Revised guidance on sustainability reporting

151. The Scottish Government has issued [Public sector sustainability reporting - guidance on the preparation of annual sustainability reports - financial year 2012/13](#) to provide updated guidance on the preparation of sustainability reports from 2012/13. In line with the *Government financial reporting manual* (the FReM), central government bodies are expected to produce a sustainability report alongside their annual report and accounts covering their performance on sustainability during the year.
152. The guidance identifies suggested minimum reporting requirements which central government bodies are expected to meet. Bodies are encouraged to produce a *Scottish public sector sustainability report* including
- a simple overview commentary covering their performance in the reported year along with an overview of forward plans
 - a sustainability report comprising a table of financial and non-financial information covering the body's emissions, waste, water and any other finite-resource consumption for the financial year to which it relates.
153. However, bodies are encouraged to report beyond these minimum requirements, and in particular to consider and report on the economic, social and environmental factors that are most material and how these relate to policy, procurement and operations.
154. This is the first annual revision of this guidance but there are no major changes from the 2011/12 guidance.

Proposed changes to 2014/15 FReM

155. [HM Treasury](#) has issued two exposure drafts on proposed changes to the 2014/15 FReM in respect of
- the new group accounting standards
 - fair value measurement.
156. Comments were required by 13 September 2013.

Fair value measurement

157. [Exposure draft \(13\)01 Application of IFRS 13 Fair value measurement for the public sector](#) proposes amendments in respect of *IFRS 13 Fair value measurement*. IFRS 13 sets out the measurement and disclosure requirements where an asset or liability is measured at fair value. It 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.
158. A fair value measurement assumes that the transaction takes place either in the principal market or, in the absence of the principal market, in the most advantageous market. The entity must have access to that market at the measurement date. IFRS 13 therefore equates fair value with an exit price and is defined from a market perspective, which requires consideration of the highest and best use of an asset by market participants.
159. Public sector entities hold assets to deliver public services, rather than to realise future cash flows, and therefore IFRS 13 raises significant conceptual issues for the public sector. The exposure draft explores how the standard may be applied in the public sector context.
160. The exposure draft highlights that certain types of in-use property assets undergo extensive procedural hurdles prior to any possible sale. These constraints constitute a lack of access to many markets for the entity at the measurement date. As the primary market (i.e. the open property market) is not available to the public sector entity, the most advantageous market available would have to assume that the asset's highest and best use is its existing use.
161. For other in-use assets that do not have these constraints on sale, an adaptation is proposed that will require public sector bodies to value geographically restricted property assets currently used in the direct rendering of public services at market value in existing use.
162. Consequently, it is proposed to remove the adaptation in the 2013/14 FReM that requires non-specialised property assets in use to be measured at market value for existing use.
163. The application of IFRS 13 and the removal of the adaptation results in new valuation profiles for certain classes of assets, e.g. office accommodation. Where an appropriate market exists, a market valuation methodology under the standard should apply to these assets.
164. For assets that have unique characteristics that cannot be captured by market information, IFRS 13 requires the entity to employ either the income method or cost method to arrive at an appropriate fair value. This replicates the existing practice of many specialised assets currently being valued using depreciated replacement cost.

Group accounting standards

165. [Exposure draft \(13\)02 Interpretation and adaptation of IFRS 10, IFRS 11, IFRS 12 and IAS 27, IAS 28 for the public sector context](#) proposes applying the following new or amended group accounting standards
- *IFRS 10 Consolidated financial statements*
 - *IFRS 11 Joint arrangements*
 - *IFRS 12 Disclosures of interests in other entities*

- *IAS 27 Separate financial statements*
 - *IAS 28 Investments in associates and joint ventures.*
166. It is proposed that the standards should be applied in full, except for certain continuing adaptations, e.g. in respect of the departmental boundary. Application guidance for the public sector will be provided.
167. IFRS 10 replaces the provisions in *IAS 27 consolidated and separate financial statements* in relation to control and consolidation. It specifies that control exists only if an investor has
- power over an investee
 - exposure to variable returns from its involvement with an investee
 - the ability to use its power to affect the level of variable returns.
168. IFRS 10 specifies that power over an investee arises from existing rights that give an entity the current ability to direct the relevant activities. These rights might arise from voting rights but, in the public sector, the application guidance explains that they may arise from rights to
- give policy directions to the management of another entity
 - veto changes to the entity
 - appoint, reassign or remove members of another entity's key management personnel.
169. IFRS 10 introduces the concept of structured entities which are those that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. If an entity established by the public sector (to access particular forms of financing or to manage a service delivery issue in a particular way) meets the definition of a structured entity, it should be considered for consolidation under IFRS 10.
170. The term 'returns' is not explicitly defined in IFRS 10, but the examples and the approach to the standard focus on direct financial returns. However, the application guidance states that the term should include other advantages and benefits (and disbenefits) that are non-financial, including the provision of services for one entity on behalf of another entity.
171. IFRS 11 replaces IAS 31 in outlining the accounting by entities that jointly control an arrangement. If control exists under IFRS 10, but it is determined that an investor does not control an entity by itself, then a joint arrangement may exist.
172. The types of joint arrangement have been simplified to
- joint operations which are accounted for by recognition of the entity's share of assets, liabilities, revenues, and expenses arising from the joint operation
 - joint ventures, where consolidation should be accounted for using the equity method as described by the new IAS 28.

173. Existing joint operations may now fall into the joint venture category and, with the removal of the option to consolidate the interest proportionally, there may be a need for restatement to account for all joint ventures using the equity method.
174. Also, the exposure draft proposes that the recognition of departmental investments in associates and joint ventures outside of the public sector should now apply the equity accounting method under IAS 28, as opposed to the existing requirements to disclose interests under *IAS 39 Financial instruments: recognition and measurement*.
175. IFRS 12 replaces the disclosure requirements in IAS 27, IAS 28 and IAS 31. IFRS 12 sets out specific disclosure objectives and introduces more principle-based disclosures than those previously required, including information about significant judgements and assumptions in determining control or level of influence over another entity or joint arrangement.
176. Applying IFRS 12 may result in an increase in the number of disclosures required, particularly if the entities have an interest in any unconsolidated structured entities. Unconsolidated structured entities are those structured entities that are not controlled by the entity that has the interest in it. IFRS 12 introduces disclosures about unconsolidated structured entities that were not required previously under IAS 27. The type of entities which might be pulled into the definitions of unconsolidated structured entities are likely to include trusts, and special purpose vehicles established by entities to deliver services or reconfigure an element of service delivery.

Other developments

The document referred to in the following article can be obtained by using the hyperlink, and is available to external auditors from Audit Scotland's *Technical reference library*.

Whole of government accounts

Instructions for completion of 2012/13 returns

177. Treasury has issued [Whole of government accounts 2012/13- Instructions for the completion of the 2012/13 data collection tool](#) on completing the 2012/13 WGA data collection tools (DCT). The instructions explain how to complete the DCT, and how it should be uploaded to OSCAR.
178. Despite the change from c-packs to DCT, there has been very little change to the data entry requirements. The main changes include the following
- In the CPID input sheet, the DCT pulls through all internal balances rather than only those balances that contain resource data.
 - A cash flow statement is no longer required since WGA produce this based on the final consolidated TB.
 - The accounting test sheet has been replaced by one tab that shows all validations – k.validation_errors.

- Purchases of goods and services have been expanded to include additional cost codes, at the bottom of the o-cost tab.
 - Payables and receivables now include current and non-current on the same tab, and prepayments and accruals have been separated.
179. The process for completing the DCT has changed significantly and comprises the following eight steps
- Steps 1 to 3 involve data input and validation
 - At step 4 the chief financial officer locks the DCT which is submitted to the Scottish Government for adding to OSCAR and passed to auditors.
 - Auditors unlock the DCT at step 5 using a password, identify any audit adjustments, and pass the DCT back for the changes to be made.
 - The body re-validates the DCT at step 6 to ensure the adjustments have not caused a validation failure
 - At step 7, the body locks the DCT
 - Auditors lock the DCT using a password at step 8. The body then submits the locked DCT by email for adding to OSCAR.

Publications

The following publications published since TB 2013/2 can be obtained by using the hyperlinks

Audit Scotland

Renewable energy

180. This publication from Audit Scotland [Renewable energy](#) focuses on activity and investment by the Scottish Government and its two enterprise agencies to encourage and develop renewable energy in the most effective way. Key messages include the following
- The Scottish Government has a clear strategic vision for developing renewable energy, and has targets and plans to deliver this vision, although it needs to do more to raise the profile of renewable heat.
 - Renewable energy projects are progressing more slowly than anticipated due to factors such as the current economic climate and changes in UK energy policy. As a result, public bodies are experiencing delays in spending the money available to develop the sector.
 - The total amount of private sector investment resulting from public funding is not collated at a national level. It is difficult to identify the number of jobs in the renewable energy sector and projections of future employment are optimistic.

Auditor action

The following is a summary of items in this chapter of the TB that recommend that auditors take certain actions

Section and paragraph	Action
TSU developments - Guidance notes - paragraph 150	Auditors should use this note for guidance when reviewing and reporting on 2012/13 central government WGA returns.

Health chapter

Introduction

This chapter contains articles on health technical developments and guidance relevant to external auditors' responsibilities under their audit appointment. It should be read by external auditors with appointments in the health sector. Auditors should also read the central government chapter and cross-sectoral chapter which cover developments and guidance that are relevant to all sectors. More in-depth and extensive guidance on particular subjects or themes is provided in separate guidance notes published by the TSU (i.e. notes for guidance and urgent issue notes).

The articles in this chapter are intended to highlight the main points that the TSU considers auditors require to be aware of in respect of each development. In many cases, it may still be necessary for auditors to read the source material. The documents referred to in the articles can be obtained by using the hyperlinks. They are also available to external auditors from Audit Scotland's *Technical reference library*.

TSU developments

Analytical review databases

The following analytical review database has been published by the TSU since TB 2013/2. It is available to external auditors from Audit Scotland's *Technical reference library*.

2012/13 database

181. The TSU has issued the *2012/13 Analytical review database - audited (health)* which contains financial information for auditors to use for analytical review comparisons.
182. The financial information is based on the audited 2012/13 financial statements, and the database also provides additional contextual information, including population figures. The database is intended to inform local and national overview reporting and to assist auditors with analytical review procedures when planning the 2013/14 audits.

Other developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

National agenda/direction

2013/14 general medical services contract

183. The [Scottish Government Health and Social Care Directorates](#) (SGHSCD) has issued three circulars relating to the general medical services (GMS) contract for 2013/14.
184. [PCA\(M\)\(2013\)5](#) advises of the funding arrangements for the continuation of the *Scottish enhanced services programme* (SESP) for 2013/14. The funding requires to be spent on local enhanced services within primary care. Allocations remain the same as 2012/13 and are detailed in an annex to the circular.
185. The circular also advised that the requirement to only offer SESP funding on a 'pump prime' basis is no longer appropriate. Boards are expected to consider opportunities to support whole system working and to combine SESP funding with *Change fund* resources to move service provision towards anticipatory care and preventative services.
186. Boards are required to complete the proforma included as an annex to the circular setting out the services to be provided and the outcomes being sought by 30 September 2013.
187. The second circular [PCA\(M\)\(2013\)6](#) clarifies various aspects of the guidance on the *Quality and outcomes framework* (QOF) which was issued under circular PCA(M)(2013)2.
188. The third circular [PCA\(M\)\(2013\)7](#) confirms the arrangements for a new two year initiative to improve the uptake of the national bowel cancer screening programme.
- In the first year of the initiative, participating GP practices are required to deliver an action plan to improve the uptake of the screening programme and submit it by December 2013.
 - In the second year, practices are required to demonstrate a decrease in the non-participation rates of at least 2%. Payments will be linked to QOF points and based on the size of the decrease. If the required decrease is not achieved, payment may still be made if the practice can provide evidence of the reasons for not achieving the required improvements.

Waste management action plan 2013-16

189. The Scottish Government has issued [CEL\(2013\)14](#) to introduce the *NHSScotland waste management action plan* for 2013 to 2016. The action plan highlights the steps required to ensure compliance with *The Waste (Scotland) Regulations 2012*, which impose a number of requirements on NHS boards including
- the need to present recyclable materials for collection
 - the need to separate food waste for recycling

- biodegradable municipal waste to be banned from going to landfill.

Pay and workforce planning

Changes to consultants terms and conditions

190. The Scottish Government has issued [PCS\(DD\)\(2013\)3](#) to advise of changes to the terms and conditions of service for consultants and other medical and dental staff from 31 March 2013.
191. A new section in the terms and conditions handbook introduces a contractual right to injury allowance. This replaces the statutory injury benefit provisions.
192. The circular also
- updates the parental leave provisions to ensure compliance with the *Equality Act 2010*.
 - states that the provisions to determine the starting salary for consultants, set out in section 5 of the terms and conditions, should also be applied to doctors taking up locum posts
 - clarifies that practitioners returning to an NHSScotland post from elsewhere in the UK health service are eligible for protection of salary.

Changes to parental leave

193. The Scottish Government has issued [PCS\(AFC\)\(2013\)4](#) to advise of changes to the *Agenda for change terms and conditions handbook* in respect of parental leave with effect from 8 March 2013. Unpaid parental leave has increased from 13 to 18 weeks. The qualifying criteria for the entitlement remains one year's continuous service.

Supplementary medical staffing

194. The Scottish Government has issued [CEL\(2013\)16](#) to set out national standards to facilitate national bank arrangements for medical staff. The national standards have been developed to enable boards to use the NHSScotland staff bank, facilitated by a single database of available bank workers. The standards provide a common understanding and agreement of processes and practices for all boards engaging with the staff bank and
- outline the organisational framework for providing supplementary staffing solutions
 - set out the responsibilities of boards in the recruiting and the placement of supplementary medical staff
 - confirm the minimum standards to be adhered to ensure that all doctors are appropriately vetted in respect of pre-employment and occupational health checks
 - set out the arrangements that provide assurance that bank workers are matched to work placements within their skill set, competency and experience
 - are intended to ensure medical bank workers are managed within appropriate clinical governance frameworks.

Progress report on reducing management posts

195. The SGHSCD has published [25% reduction in senior management posts target - National progress towards 25% reduction as at 31 March 2013](#) which highlights the progress towards reducing the number of senior managers by 25% by 1 April 2015.
196. The overall reduction in senior management for
- the year to 31 March 2013 was 93.7 whole time equivalent (WTE) posts (8.5%). This represented a reduction of 9.4% in territorial boards and 3.6% in special boards
 - for the three years to 31 March 2013 was 304.4 WTE (23.1%).

2013/14 workforce forecasts

197. The Scottish Government has published [NHS board projected staff in post changes In 2013/14](#) which highlights the potential effect on each board's workforce based on their local delivery plans for 2013/14.
198. For 2013/14, there is a projected overall increase of 1261.6 whole time equivalent, which is an increase of 0.9%. The largest estimated reduction is in administrative posts where there has been a 0.2% reduction, including a reduction in management posts of 3.5%.

2013/14 payment verification

199. The Scottish Government has issued [CEL\(2013\)15](#) which outlines the arrangements for payment verification for all family health service contractor streams for 2013/14. Main changes include the following
- The section on dental contractors has been revised to include
 - the checks across capitation and continuing care, items of service and allowances payment categories
 - a section on additional checking processes for patient registrations to require that registrations which do not match to the community health index are followed up
 - an appendix detailing the processes applied for the inspection of patients by the Scottish Dental Reference Service.
 - The section on primary medical services contractors reflects the changes contained within the GMS for 2013/14. The payment verification will review the achievement levels for QOF for 2012/13.
 - The pharmaceutical procedures have been amended to reflect the categories of payment included in reports to boards.
 - The ophthalmic protocol has been revised to be consistent with the protocols for the other contractor streams. A section on the retention of evidence has been added to the dental and ophthalmic protocols in line with the other contractor streams.

Legislation

The following legislation can be obtained by using the hyperlinks and are available to external auditors from Audit Scotland's *Technical reference library*.

Statutory instruments

National health service

200. [The National Health Service \(Optical Charges and Payments\)\(Scotland\) Amendment Regulations 2013](#) (SSI 96) came into force on 1 April 2013 and amended the principal optical charges regulations which provide for payments to be made by means of a voucher system. The regulations increase the redemption value of vouchers issued towards the cost of replacing a single contact lens, repairing a frame and for small glasses and special frames.
201. [The National Health Service \(Superannuation Scheme and Pension Scheme\) \(Scotland\) Amendments \(No 2\) Regulations 2013](#) (SSI 168) came into effect on 29 June 2013 and amended the principal superannuation scheme and pension scheme regulations to provide for changes to pensionable pay bands and employee contribution rates for 2013/14.
202. [The National Health Service \(Free Prescriptions and Charges for Drugs and Appliances\)\(Scotland\) Amendment Regulations 2013](#) (SSI 191) came into force on 29 June 2013 and updated the principal regulations so that the charge for a prescription presented on an English prescription form reflects the English rate from 29 June 2013.

Public services reform

203. [The Public Services Reform \(Functions of the Common Services Agency for the Scottish Health Service\) \(Scotland\) Order 2013](#) (SSI 220) came into force on 29 June 2013 and extends the range of public bodies that the Common Services Agency can supply goods and services to.

Publications

The following publications published since TB 2013/2 can be obtained by using the hyperlinks

National Audit Office

2012/13 update on indicators of financial sustainability in the NHS

204. This update report from the National Audit Office (NAO) [2012/13 update on indicators of financial sustainability in the NHS](#) focuses on the financial sustainability of health trusts in England in 2012/13.
205. Key messages included the following

- There was a substantial gap between individual trusts with the largest surpluses and those with the largest deficits.
- The trusts in difficulty relied on cash support from the Department of Health or non-recurrent local revenue support from strategic health authorities.
- Although the number of trusts reporting a deficit has fallen, some may be breaking even only because they are receiving additional revenue support. Without extra financial support, the picture is reversed.

Managing the transition to the reformed health system

206. This NAO report [Managing the transition to the reformed health system](#) examines the transition to the reformed health system in England, which came into effect on 1 April 2013.

207. Key findings include the following

- The timetable for implementing the reforms was tighter than planned due to delays in securing Parliamentary approval, and a number of key milestones were missed during 2012/13. However, performance was maintained in most respects, with the exception of waiting times in accident and emergency departments.
- All clinical commissioning groups have been authorised as statutory bodies, although half the groups have conditions attached to their independence. Shortcomings in commissioning and financial plans were the most common reasons for conditions being required, which raises concerns about financial sustainability in the coming years.
- The Department of Health does not have robust up-to-date data on the costs that are expected to be incurred from 2013/14.
- The department has identified wider benefits that it expects the reforms to achieve but does not yet have arrangements in place to track these benefits.

Health finance 2012/13 and beyond

208. This report from the Wales Audit Office [Health finance 2012/13 and beyond](#) provides an assessment of the financial position of NHS bodies in Wales during 2012/13. Key findings include the following

- NHS bodies met their statutory financial targets but some of the actions taken to break-even are not sustainable.
- There have been some improvements in efficiency and quality but there has been a downturn in performance in some key areas.
- The Department for Health and NHS bodies continue to face major service and financial challenges and are likely to struggle to sustain current levels of service and performance.

Further education chapter

Introduction

This chapter contains articles on further education technical developments and guidance relevant to external auditors' responsibilities under their audit appointment. It should be read by external auditors with appointments in the further education sector. Auditors should also read the cross-sectoral chapter which covers developments and guidance that are relevant to all sectors. More in-depth and extensive guidance on particular subjects or themes are provided in separate guidance notes published by the TSU (i.e. notes for guidance and urgent issue notes).

The articles in this chapter are intended to highlight the main points that the TSU considers auditors require to be aware of in respect of each development. In many cases, it may still be necessary for auditors to read the source material. The documents referred to in the articles can be obtained by using the hyperlinks. They are also available to external auditors from Audit Scotland's *Technical reference library*.

TSU developments

Guidance notes

The following guidance note has been published by the TSU since TB 2013/2. It can be obtained by using the hyperlink and is available to external auditors from Audit Scotland's *Technical reference library*.

Note for guidance on auditing 2012/13 financial statements

209. The TSU has published [Note for guidance 2013/10\(FE\) Audit of 2012/13 further education financial statements](#) to provide auditors with guidance on planning and performing the audit of the 2012/13 financial statements of further education colleges.
210. The note for guidance provides guidance on the areas that the TSU considers represent a generic risk of material misstatement in the 2012/13 financial statements. The note also provides guidance on auditors' responsibilities to
- audit and express an opinion on the regularity of expenditure and income
 - express an opinion on the consistency of the operating and financial review with the financial statements
 - report on other matters such as the statement of corporate governance and internal control.
211. Auditors should use this note for guidance when planning and performing the audit of colleges' 2012/13 financial statements.

Accounting developments

The documents referred to in the following article can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

Guidance on 2012/13 financial statements

212. The [Scottish Funding Council](#) (SFC) has issued [Detailed notes for guidance on completion of 2012/13 financial statements](#) to supplement the accounts direction and model financial statements for 2012/13.
213. The guidance covers key disclosures in the financial statements, including model disclosure notes. In certain cases, the additional disclosures are required to reflect the situation in Scotland.
214. The guidance notes remain largely the same as 2011/12, but the main change is notification that the SFC has commissioned new [pensions tables](#) for calculating the early retirement provision.
215. Auditors may wish to refer to the guidance notes when auditing the 2011/12 financial statements.

2012/13 early retirement provision discount factor

216. The SFC has advised that its suggested [net interest rate](#) for early retirement pension provision calculations in 2012/13 is 2%.
217. The calculation is based on the consumer price index (CPI). The suggested rate for 2011/12 (1.5%) was based on the retail price index, and therefore it may be necessary for a prior year adjustment to reflect the change in indexation base. On a CPI basis, the 2011/12 rate was 2.5%.
218. Auditors should confirm their colleges have used an appropriate discount rate when calculating their early retirement provision, and have paid due regard to the rate suggested by the SFC.

Draft revised SORP from 2015/16

219. The [Further and Higher Education SORP Board](#) has issued an [exposure draft](#) of a revised *Statement of recommended practice: Accounting for further and higher education* (FE SORP) to apply from 2015/16. The exposure draft has been prepared in line with FRS 102 and provides an interpretation to aid consistency and comparability on key sectoral issues. Some of the significant proposals are outlined in the following paragraphs.
220. FRS 102 permits either a single performance statement or two statements, i.e. income and expenditure and a statement of other comprehensive income. The exposure draft proposes a single statement of comprehensive income. This is a change from the current income and expenditure account and statement of total recognised gains and losses.

221. The charity SORP presents primary statements in columnar style, reflecting the predominance of restricted income as the main form of activity in that sector. The SORP Board's view is that this style of presentation would not be appropriate for the further education sector because unrestricted income comprises the majority of business activity and because the columnar presentation detracts from the focus on single figures for revenue, costs and surplus as the key measures of performance. Instead, the exposure draft proposes addressing the issue by analysing comprehensive income for the year into endowment, restricted and unrestricted components at the foot of the statement of comprehensive income.
222. The draft FE SORP proposes that student accommodation is an operational asset and should be reported as property, plant and equipment rather than investment property. Consequently, colleges would have the option of recording such assets at either cost or valuation.
223. The draft FE SORP proposes that colleges should not be permitted to apply the accruals model for accounting for government grants. This would principally impact on government capital grants as the current practice of releasing capital grants to income over the life of the asset would no longer be permitted. Instead, the SORP would require the performance model to be adopted for government grants. This is in line with the FRS 102 requirement to recognise income in line with performance related conditions for non-exchange transactions. The proposal also aligns with the charity SORP as well as public sector financial reporting.
224. There are proposals on how government grants and non-exchange transactions with performance-related conditions, e.g. charity-funded research, capital grants and donations, should be treated. FRS 102 requires such receipts to be recognised when performance conditions are fulfilled and defines a performance condition as one that requires performance of a particular level of service or units of output to be delivered. The draft FE SORP requires receipts to be treated as deferred income until performance conditions are met. For example, a donation that stipulates that the funding is to be used to fund a post over 5 years would be spread over the 5 years from appointment.
225. Comments should be submitted to fehesorp@bufdg.ac.uk by 17 November 2013.

Publications

The following publication published since TB 2013/2 can be obtained by using the hyperlink.

Audit Scotland

Scotland's colleges 2013

226. This report from Audit Scotland [Scotland's colleges 2013](#) provides an update on the financial standing of the college sector and individual colleges in 2011/12. Key messages include the following

- The overall financial standing of the college sector continued to be generally sound. A reduction in SFC grant funding in real terms was offset by cost savings, mainly through colleges employing fewer staff.
- Most colleges are currently either merging or forming federations with other colleges to create 13 new college regions which is planned to be completed by the end of 2013.
- The reclassification of colleges as public bodies from April 2014 will require them to operate within the same annual budget limits as other Scottish Government bodies, and the accounting year end is likely to move to 31 March.

Auditor action

The following is a summary of items in this chapter of the TB that recommend that auditors take certain actions

Section and paragraph	Action
TSU developments - Guidance notes - paragraph 211	Auditors should use this note for guidance when auditing the 2012/13 financial statements.

Contact points


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

Contact	Chapter
Paul O'Brien, Senior Manager (Technical) 0131 625 1795 pobrien@audit-scotland.gov.uk	Cross-sectoral and Local authority
Tim Bridle, Manager - Local Government (Technical) 0131 625 1793 tbridle@audit-scotland.gov.uk	Local authority (Non-benefits developments)
Anne Cairns, Manager – Benefits (Technical) 0131 625 1926 acairns@audit-scotland.gov.uk	Local authority (Benefits developments only)
Neil Cameron, Manager - Central Government and Health (Technical) 0131 625 1797 ncameron@audit-scotland.gov.uk	Health Central government and Further education

Feedback on this TB should be sent to pobrien@audit-scotland.gov.uk

Technical Services Unit
Audit Scotland
110 George Street
EDINBURGH
EH2 4LH

13 September 2013



Technical bulletin

2013/4

October to December

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Contents

Foreword	5
Headlines	6
Cross-sectoral chapter	11
Introduction	11
TSU developments.....	11
Accounting developments	12
Auditing developments	15
Corporate governance developments.....	16
Legislation.....	17
Publications.....	18
Local authority chapter	19
Introduction	19
TSU developments.....	19
Accounting developments	23
Other developments	24
Legislation.....	28
Section 102 reports	28
Publications.....	29
Auditor action checklist.....	30
Central government chapter	31
Introduction	31
Accounting developments	31
Corporate governance developments.....	32
Publications.....	33
Health chapter	34
Introduction	34
Accounting developments	34
Other developments	35
Legislation.....	38
Publications.....	38

Auditor action checklist.....	39
Further education chapter.....	40
Introduction	40
Accounting developments	40
Other developments	43
Legislation.....	43
Section 22 reports	44
Contact points.....	45

Foreword

Informing judgement, Improving quality

Audit Scotland's Technical Services Unit (TSU) informs the professional judgement of appointed external auditors on technical matters to improve the quality of the audit delivered to the Accounts Commission and Auditor General for Scotland. The TSU provides authoritative guidance and practical assistance to support appointed auditors in carrying out their responsibilities under the *Code of audit practice* to

- provide an opinion on audited bodies' financial statements and, where required, the regularity of transactions
- review and report on other information published with the financial statements, including governance statements (and equivalent statements) and remuneration reports
- examine and report on approved grant claims and other returns submitted by local authorities
- review and report on whole of government accounts returns.

Authoritative guidance includes technical bulletins (TBs) prepared by the TSU at quarterly intervals, which are approved by the Assistant Auditor General for Scotland. TBs provide a composite of technical developments in the quarter that are relevant to external auditors' responsibilities referred to above, and provide auditors with guidance on any emerging issues.

It is important that auditors read this technical bulletin promptly so they are familiar with the information and guidance provided. The auditor action checklist section at the end of each chapter should be completed by a senior member of the audit team.

While auditors act independently, and are responsible for their own conclusions and opinions, the TSU has a role in ensuring that those conclusions and opinions are reached on the basis of informed judgement. Consistency in similar circumstances is important and **the *Code of audit practice* therefore states that auditors should normally follow TSU guidance. Auditors should advise the TSU promptly if they intend not to follow any guidance on an important issue.**

TBs are available to external auditors from Audit Scotland's *Technical reference library*, and published on the Audit Scotland website so that audited bodies and other stakeholders can access them.

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.

Headlines

The table in this chapter provides brief headlines for the content of this TB, referenced to the paragraphs containing the main article.

Cross-sectoral chapter	Audit year	Paragraphs
The TSU has provided <ul style="list-style-type: none"> • guidance on using the internal audit function • information on TSU staffing changes. 	2013/14	1
	2013/14	6
Regulations have been issued on <ul style="list-style-type: none"> • the statutory report • changes to the directors' report • changes to the remuneration report. 	2013/14	9
	2013/14	12
	2013/14	14
The International Accounting Standards Board has issued <ul style="list-style-type: none"> • an amendment to IAS 19 Employee benefits • a proposed amendment to <i>IAS 27 Consolidated and separate financial statements</i> 	2013/14	18
	Not yet known	23
The Financial Reporting Council has issued <ul style="list-style-type: none"> • an exposure draft of changes to auditing standards • a consultation paper on risk management, internal control and going concern • a report on audit committee reporting. 	2015/16	27
	2015/16	32
	2013/14	39
Audit Scotland has published a report on the public sector workforce.	2013/14	44

Local authority chapter	Audit year	Paragraphs
<p>The TSU has provided guidance on</p> <ul style="list-style-type: none"> the audit of charities from 2013/14 local schemes of financial assistance to tenants statements of internal financial control in pension fund annual report. 	<p>2013/14</p> <p>2013/14</p> <p>2013/14</p>	<p>45</p> <p>62</p> <p>66</p>
<p>The Local Authority (Scotland) Accounts Advisory Committee has issued draft guidance on asset decommissioning obligations</p>	<p>2013/14</p>	<p>70</p>
<p>The Department for Work and Pensions has issued circulars on</p> <ul style="list-style-type: none"> size criteria rules for spare room subsidy housing costs under universal credit changes to housing benefit regulations additional funding for 2013/14 administration subsidy for 2014/15. 	<p>2013/14</p> <p>2013/14</p> <p>2013/14</p> <p>2013/14</p> <p>2014/15</p>	<p>79</p> <p>85</p> <p>88</p> <p>89</p> <p>92</p>
<p>The Chartered Institute of Public Finance and Accountancy has issued a bulletin on 2014/15 capital interest rates.</p>	<p>2014/15</p>	<p>95</p>
<p>Statutory instruments have been passed on</p> <ul style="list-style-type: none"> council tax reduction size criteria rules housing costs under universal credit housing benefit claims 	<p>2013/14</p> <p>2013/14</p> <p>2013/14</p> <p>2013/14</p>	<p>94</p> <p>79</p> <p>85</p> <p>88</p>
<p>The Controller of Audit has issued statutory reports on</p> <ul style="list-style-type: none"> Argyll and Bute Council 	<p>2012/13</p>	<p>104</p>

Local authority chapter	Audit year	Paragraphs
<ul style="list-style-type: none"> The Moray Council Aberdeenshire Council 	2012/13	105
	2012/13	106
Audit Scotland has published a report on charging for services	2013/14	107

Central government chapter	Audit year	Paragraph
HM Treasury has issued a paper the 2013/14 discount rate for provisions.	2013/14	108
The Scottish Government has issued two policy documents covering public sector pay for 2014/15.	2014/15	113
Audit Scotland has published a report on police reform.	2013/14	118

Health chapter	Audit year	Paragraph
The Scottish Government Health and Social Care Directorates has issued <ul style="list-style-type: none"> guidance on the consolidation of endowment funds into NHS board financial statements from 2013/14 the NHSScotland Chief executive's annual report for 2012/13. 	2013/14	119
	2012/13	137
Other Scottish Government directorates have issued circulars on <ul style="list-style-type: none"> universal credit 	2013/14	125

Health chapter	Audit year	Paragraph
<ul style="list-style-type: none"> • executive and senior management pay arrangements for 2013/14 • changes to the 2013/14 management fees for medical directors • changes to the statement of financial entitlements for GP contractors for 2013/14 • guidance for the organisational core standard payment for GP contractors for 2013/14. • 2014/15 local delivery plan guidance. 	<p>2013/14</p> <p>2013/14</p> <p>2013/14</p> <p>2013/14</p> <p>2014/15</p>	<p>127</p> <p>130</p> <p>133</p> <p>135</p> <p>140</p>
<p>Statutory instruments have been issued on</p> <ul style="list-style-type: none"> • cross border health care • health board membership. 	<p>2013/14</p> <p>2013/14</p>	<p>145</p> <p>147</p>
<p>Audit Scotland has published a report on NHS financial performance in 2012/13.</p>	<p>2012/13</p>	<p>148</p>

Further education chapter	Audit year	Paragraph
<p>The Scottish Funding Council has issued</p> <ul style="list-style-type: none"> • guidance on the completion of the financial statements return for 2012/13. • letters and communications on the reclassification of college from 2014/15. 	<p>2012/13</p> <p>2014/15</p>	<p>150</p> <p>151</p>
<p>The Scottish Parliament has passed the <i>Post 16 Education (Scotland) Act 2013</i>.</p>	<p>2013/14</p>	<p>168</p>
<p>Statutory instruments have been passed</p> <ul style="list-style-type: none"> • to dissolve the boards of management of four colleges 	<p>2013/14</p>	<p>166</p>

Further education chapter	Audit year	Paragraph
<ul style="list-style-type: none"> to commence the <i>Post 16 Education (Scotland) Act 2013</i>. 	2013/14	173
The Auditor General for Scotland has issued a statutory report on Adam Smith College	2011/12	174

Cross-sectoral chapter

Introduction

This chapter contains articles on cross-sectoral technical developments and authoritative guidance relevant to external auditors' responsibilities under their audit appointment. It should be read by all external auditors. Developments and guidance that are relevant to only one sector are covered in the relevant sector-specific chapter. More in-depth and extensive guidance on particular subjects or themes is provided in separate guidance notes published by the TSU (i.e. notes for guidance, urgent issue notes and, for local authorities, grant notes).

The articles in this chapter are intended to highlight the main points that the TSU considers auditors require to be aware of in respect of each development. In many cases, it may still be necessary for auditors to read the source material. The documents referred to in the articles can be obtained by using the hyperlinks. They are also available to external auditors from Audit Scotland's *Technical reference library*.

The TSU encourages feedback on this TB. Comments should be sent to pobrien@audit-scotland.gov.uk

TSU developments

Guidance on emerging issues

The following article provides guidance from the TSU on an emerging issue.

Using the work of internal audit

1. TB 2013/3 (paragraph 15) advised auditors of revisions to [ISA \(UK\) 610 Using the work of internal auditors](#) which prohibit the use of internal auditors to provide direct assistance in the audit of the financial statements from 2014/15. This article provides auditors with more guidance on the practical implications of this prohibition on their audit appointments.
2. Auditors carry out a range of responsibilities under the *Code of audit practice* that are wider than the audit of the financial statements, e.g. certification of grant and subsidy claims, local performance audit work etc. As the ISA applies only to the audit of the financial statements, the TSU view is that it is not necessary to apply this prohibition to these wider aspects of the audit appointment where they are not carried out to provide evidence in respect of the audit of the financial statements.
3. Direct assistance is described in ISA 610 as the use of internal auditors to perform audit procedures under the direction, supervision and review of the external auditor. In respect of the audit of the financial statements, direct assistance by internal auditors is distinct from

using the work of the internal audit function in obtaining audit evidence (the latter of which continues to be permitted).

4. Where auditors plan to use the work of an internal audit function to modify the nature, timing, or extent of external audit procedures in respect of the financial statements, auditors should continue to
 - determine whether that work is adequate for their purposes
 - discuss the planned use of the work with the function as a basis for coordinating their respective activities.
5. In discussing the planned use of the work, it remains permissible for auditors to address
 - the timing and nature of such work
 - the extent of audit coverage
 - proposed methods of item selection and sample sizes
 - documentation
 - review and reporting procedures.

Staffing matters

The following article provides information on changes to TSU staffing

6. Neil Cameron, who previously led on health technical matters, is now also leading on central government and further education.
7. Neil is being assisted by Helen Cobb, who has joined the TSU on a two year secondment from Audit Scotland's inhouse audit provider.
8. Neil and Helen should be the first points of contact on technical matters in these sectors. Contact information is provided at page 45.

Accounting developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

Strategic report

9. The *Companies Act 2006* has been amended by [The Companies Act 2006 \(Strategic Report and Directors' Report\) Regulations 2013](#) to require bodies to prepare a strategic report for financial years ending on after 30 September 2013.
10. The strategic report requires to be approved by the directors, and signed by one of them, and is required to contain
 - a fair review of the body's business, including analysis using financial and other key performance indicators

- a description of the principal risks and uncertainties
 - the main trends and factors likely to affect the future development, performance and position of the business
 - information about environmental matters, employees, and social, community and human rights issues, including information about any policies in relation to those matters and the effectiveness of those policies
 - a description of the strategy and business model
 - a breakdown showing at the end of the financial year the number of persons of each gender who were directors, senior managers and employees
 - additional explanations of amounts included in the financial statements.
11. The application of this requirement to the public sector is currently under discussion, and further guidance will be provided in due course.

Changes to directors' report contents

12. [The Companies Act 2006 \(Strategic Report and Directors' Report\) Regulations 2013](#) have also changed the requirements for the contents of the directors' report. Changes include
- removing the requirements for a business review to be prepared
 - omitting references to assets values, charitable donations, and the policy on the payment of creditors
 - adding a new requirement to make certain disclosures regarding greenhouse gas emissions.
13. The regulations also amend the Act to substitute for summary financial statements the strategic report and supplementary material.

Changes to remuneration report

14. [The Large and Medium-sized Companies and Groups \(Accounts and Reports\) \(Amendment\) Regulations 2013](#) have been issued and replace Schedule 8 of the principal 2008 regulations, which specifies the information to be included in the directors' remuneration report, for financial years ending on after 30 September 2013.
15. The new schedule requires the remuneration report to contain a statement by the chair of the remuneration committee summarising for the financial year
- the major decisions on directors' remuneration
 - any substantial changes relating to directors' remuneration made during the year
 - the context in which those changes occurred and decisions taken.
16. The report is also required to contain specified additional information regarding the remuneration of the directors, including
- a single total figure table of remuneration in respect of each person who was a director during the financial year

- payments made to directors for loss of office
 - the percentage change in the remuneration of the chief executive officer
 - the relative importance of spend on pay
 - a statement of how the directors' remuneration policy of the body will be implemented in the following year
 - the consideration given by directors to the matter of remuneration
 - a statement of the result of the voting on any resolutions in respect of the directors' remuneration report or policy at the last general meeting of the company.
17. The application of these regulations to the public sector is currently under discussion, and further guidance will be provided in due course.

Amendment to IAS 19

18. The [International Accounting Standards Board](#) (IASB) has issued *Defined benefit plans: employee contributions (Amendment to IAS 19)* which contain a narrow-scope amendment to IAS 19 that applies to contributions from employees to defined benefit plans.
19. Contributions from employees set out in the formal terms of a defined benefit plan may be recognised as a reduction in the service cost in the same period in which they are payable if, and only if, they are linked solely to the employee's service rendered in that period.
20. An example would be contributions that are a fixed percentage of an employee's salary, so the percentage of the employee's salary does not depend on the employee's number of years of service to the employer.
21. If this condition is not met, the contributions should be attributed to periods of service as a negative benefit in the same way that the gross benefit is attributed.
22. The amendment applies from 1 July 2014 with earlier application permitted. It is available to subscribers from the IASB website.

Proposed amendment to ISA 27

23. The IASB has issued [ED/2013/10 Equity method in separate financial statements](#) which proposes an amendment to *IAS 27 Consolidated and separate financial statements*.
24. IAS 27 allows an entity to account for investments in subsidiaries, joint ventures and associates either at cost or in accordance with *IFRS 9 Financial instruments* in the entity's separate financial statements.
25. This exposure draft proposes to restore the option to use the equity method to account for these interests.
26. Comments should be made via the IASB website by 3 February 2014.

Auditing developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

Proposed changes to auditing standards

27. The [Financial Reporting Council](#) (FRC) has issued an [exposure draft](#) of proposed amendments to ISAs 260, 570 and 700 for auditors of entities that report compliance with the *UK Corporate governance code*. The proposed amendments are related to changes to the governance code that the FRC are also consulting on (see [paragraph 32](#)).
28. The proposed amendment to the governance code is to add a new provision stating that the board should carry out a robust assessment of the principal risks facing the entity, including those that would threaten its solvency or liquidity. In the annual report and accounts, the directors should confirm that they have carried out such an assessment and explain how the principal risks are being managed or mitigated. They should indicate the material uncertainties in relation to the body's ability to continue to adopt the going concern basis of accounting.
29. It is proposed to amend *ISA 260 (UK) Communication with those charged with governance* to require auditors to provide the audit committee with their views on the robustness of the directors' going concern assessment of the principal risks facing the entity, including the related disclosures in the annual report and accounts.
30. It is also proposed to amend *ISA 570 (UK) Going concern* to require auditors to read and consider the director's confirmation that they have carried out a robust assessment and the disclosures. Auditors would also be required to determine whether they have anything material to add or to draw attention to in the auditor's report on the financial statements in relation to these disclosures, and would report in accordance with the requirements of *ISA 700 (UK) The independent auditor's report on the financial statements* (which will be amended accordingly). Matters auditors should consider when determining this include, based on the knowledge the auditor has acquired during the audit, whether
 - the auditor is aware of information that would indicate that the annual report and accounts taken as a whole are not fair balanced and understandable in relation to the principal risks facing the body that would threaten its solvency or liquidity
 - matters relating to the robustness of the directors' assessment, including the related disclosures, that the auditor communicated to the audit committee and that are not appropriately addressed in the section of the annual report that describes the work of the audit committee.
31. Comments should be sent to riskreview@frc.org.uk by 24 January 2014. It is proposed that the changes would apply to reporting periods beginning on or after 1 October 2014.

Corporate governance developments

The document referred to in the following article can be obtained by using the hyperlink, and is available to external auditors from Audit Scotland's *Technical reference library*.

Consultation on risk management, internal control and going concern

32. The FRC has issued [Risk management, internal control and going concern - consultation paper](#) which contains draft guidance on internal control and going concern and proposed changes to the *UK Corporate governance code*.
33. The FRC is aiming to make a
 - clearer distinction between the meaning of going concern in the specific assessment required when preparing the financial statements, and the broader assessment of the risks affecting an entity's viability
 - stronger link between the assessment of business viability risks and the broader risk assessment that should form part of an entity's normal risk management and reporting processes.
34. The FRC has concluded that the best way to achieve this aim is to integrate its current guidance on going concern with its guidance on risk management and internal control, and to make some associated revisions to the *UK Corporate governance code*. This consultation seeks views on the proposed approach and the draft revisions to the governance code and guidance.
35. The draft combined guidance has been developed on the basis that boards should make clear in their reporting of principal risks which of them are a potential threat to solvency or liquidity (which is considered to be a more common interpretation of the term 'going concern' risks) and how they are being dealt with. The guidance is structured as follows
 - Sections 2 and 3 summarise the board's responsibilities for risk management and identify some of the factors that boards should consider in order to exercise those responsibilities effectively.
 - Section 4 addresses how risks are assessed.
 - Sections 5 and 6 address the design and process for reviewing the risk management and internal control system.
 - Section 7 concerns the information boards are expected to disclose in the annual report.
36. Sections 5 to 7 comprise the core of the previous internal control guidance, although it now addresses reporting on principal risks and going concern as well as the internal control statement. Sections 2 to 4 are new, and are intended to align the scope of the guidance with the governance code principle on risk management and internal control by addressing the full range of the board's responsibilities.

37. As stated at paragraph 28, the proposed amendment to the governance code is to add a new provision stating that the board should carry out a robust assessment of the principal risks facing the body.
38. Comments should be sent to riskreview@frc.org.uk by 24 January 2014. It is proposed that the guidance and changes to the governance code would apply to reporting periods beginning on or after 1 October 2014.

Report on audit committee reporting

39. The FRC has issued [Reporting of audit committees](#) which sets out effective approaches to reporting by audit committees under the *UK Corporate governance code*. The revised governance code (see TB 2013/2 - paragraph 41) requires a description in the annual report and accounts of the work of the audit committee that includes the significant issues considered in relation to the financial statements, and how they were addressed.
40. The report discusses the significant issues that should be included. Entities will need to use judgement to determine whether an issue is significant, taking into consideration what may be useful to a reasonable stakeholder. For example, the following may be a good indication of issues for disclosure
 - The issues on which the audit committee reports to the board.
 - If the audit committee and the auditors have spent significant time dealing with an issue, i.e. it has been the subject of particular focus for the year.
 - Small issues which are likely to become significant, and emerging issues on which the committee has not yet spent a significant amount of effort.
41. Audit committee reporting should move away from generic 'boilerplate' disclosure and should be bespoke and entity-specific. The description of each significant issue should be tailored to the entity and the year.

Legislation

The following legislation can be obtained by using the hyperlinks and are available to external auditors from Audit Scotland's *Technical reference library*.

Statutory instruments

Companies

42. [The Companies Act 2006 \(Strategic Report and Directors' Report\) Regulations 2013](#) (SI 1970) came into force on 1 October 2013 (see [paragraph 9](#)).
43. [The Large and Medium-sized Companies and Groups \(Accounts and Reports\) \(Amendment\) Regulations 2013](#) (SI 1981) came into force on 1 October 2013 (see [paragraph 14](#)).

Publications

The following publication published since TB 2013/3 can be obtained by using the hyperlink.

Audit Scotland

Scotland's public sector workforce

44. This report from Audit Scotland [Scotland's public sector workforce](#) aims to assess whether public bodies are effectively managing changes to their workforces. Key messages include the following
- The Scottish public sector workforce has reduced by 7% over the last few years, which helped public bodies to reduce their staff costs by an estimated 8% between 2009/10 and 2011/12.
 - A significant number of staff left through early departure schemes or transferred to arm's length external organisations or other non-public sector bodies. However, bodies did not routinely collect information on the costs and savings of their workforce change programmes.
 - Public bodies will need to make further workforce changes but, without service reform, these are unlikely to deliver the savings needed. Public bodies need to think differently about how they deliver services, for example by prioritising and redesigning services and increasing joint working and collaboration.

Local authority chapter

Introduction

This chapter contains articles on local authority technical developments and authoritative guidance relevant to external auditors' responsibilities under their audit appointment. It should be read by external auditors with appointments in the local authority sector. Auditors should also read the cross-sectoral chapter which covers developments and guidance that are relevant to all sectors. More in-depth and extensive guidance on particular subjects or themes is provided in separate guidance notes published by the TSU (i.e. notes for guidance, urgent issue notes and grant notes).

The articles in this chapter are intended to highlight the main points that the TSU considers auditors require to be aware of in respect of each development. In many cases, it may still be necessary for auditors to read the source material. The documents referred to in the articles can be obtained by using the hyperlinks. They are also available to external auditors from Audit Scotland's *Technical reference library*.

TSU developments

Guidance on emerging issues

The following articles provide guidance from the TSU on emerging issues.

Audit of charities from 2013/14

45. Technical bulletin 2013/3 (paragraph 61) provided auditors with an update on the audit of local authority charities from 2013/14. It advised that the appointment of the existing external auditor of each local authority is being extended (subject to transitional arrangements) to include the provision of a separate auditor's report on relevant charities as required by *The Charities Accounts (Scotland) Regulations 2006* (the charities regulations)
46. A note for guidance on auditing charities' 2013/14 financial statements will shortly be published by the TSU in due course. However, this article provides guidance and clarification on certain issues that have emerged since TB 2013/3.

What trust funds require a separate auditor's report under the audit appointment?

47. The audit appointments are being extended to include the provision of a separate auditor's report for trust funds or common good funds
 - registered with the Office of the Scottish Charities Regulator (OSCR) as a charity; and
 - where an authority, or some members of the authority, are the sole trustees. This is based on the provisions of section 106 of the *Local Government (Scotland) Act 1973*.

48. The extension of the audit appointment does not therefore apply to charities with an external trustee unconnected to the local authority as this is not captured by section 106. It may, however, apply where a local authority officer (e.g. the proper officer) is a trustee if that officer can be thought of as acting as the authority.

When is an officer acting as a local authority?

49. The TSU has obtained legal advice that an officer may be acting as the authority for the purposes of section 106 in certain circumstances. The strongest evidence would be where the wording of the trust deed states that the officer is acting on behalf of, or representing, the authority, or where there is reference to the delegation of a local authority function to the trustees.
50. A case can also be made where there is a legislative requirement for the authority to nominate an officer as trustee, as is the case with section 16 of the *Local Government (Scotland) Act 1994*.

Is an auditor's report required for charities wound up during 2013/14?

51. Where a charity is wound up (and hence removed from the charity register) during the year, the 2006 regulations require the submission of the statement of account to OSCR within 9 months of the date of removal.
52. However, it has been agreed with OSCR that an auditor's report is not required for a charity either wound up during 2013/14 or where an application to be wound up has been submitted by 31 March 2014.

What are the transitional audit arrangements?

53. The transitional arrangements apply to cases where a local authority engaged an auditor for their charities before 1 August 2013. Provided the auditor is one of a suitable standing and quality to adequately deliver these audits (e.g. they are currently working as an appointed auditor for Audit Scotland or have significant experience of charity audits), they will be allowed to provide the auditor's report over the period of that engagement.
54. There would be conditions to ensure the appointed auditor of the authority has access to the work of the locally engaged charity auditor, and for the audit of the charities to be completed by the middle of August.

What responsibilities do auditors have in 2013/14 in respect of opening balances?

55. When conducting an initial audit engagement, auditors are required by *ISA 510 (UK) Initial audit engagement - opening balances* to obtain audit evidence as to whether opening balances contain misstatements that materially affect the current period's financial statements. Auditors should do this by
- determining whether the prior period's closing balances have been correctly brought forward to the current period or, when appropriate, have been restated

- determining whether the opening balances reflect the application of appropriate accounting policies
- performing specific audit procedures to obtain evidence regarding the opening balances (or, where the prior year financial statements were audited, reviewing the predecessor auditor's working papers).

What responsibilities do auditors have in 2013/14 in respect of corresponding amounts?

56. The charities regulations and the *Accounting and reporting by charities: Statement of recommended practice* (charities SORP) require that the corresponding amounts for the previous accounting period should be provided in the financial statements.
57. If the 2012/13 financial statements were not audited, as is likely to be the case, auditors are required by *ISA 710 (UK) Comparative information* to state in an 'other matter' paragraph in the auditor's report that the corresponding amounts are unaudited. Such a statement does not, however, relieve the auditor of the requirement to obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements.

Are charities' financial statements required to comply with the charities SORP?

58. Fully accrued financial statements require to be prepared in accordance with the methods and principles of the charities SORP. The charity regulations require fully accrued financial statements to be prepared by a charity
- that has a gross income for the year of £250,000 or more; or
 - where the constitution or any enactment requires the charity to prepare fully accrued financial statements or those that give a true and fair view of its financial affairs; or
 - where the trustees have decided that they will prepare fully accrued financial statements.
59. The charities regulations allow other charities to prepare their accounts on a receipts and payments basis.

What is the deadline for providing the auditor's report?

60. Although the statutory deadline for the submission of the charities' statement of account, and accompanying auditor's report, by the trustees to OSCR is 31 December, auditors will be required to provide the auditor's report to the trustees by 30 September.
61. This is in line with the deadline for the submission of the auditor's report on authorities' own financial statements.

Local schemes of financial assistance to HRA tenants

62. The TSU is aware that some authorities are planning to set up local schemes to provide financial assistance to their housing revenue account (HRA) tenants who are unable to pay their rent as a result of welfare reform changes to housing benefits (HB).

63. The authorities may be planning on treating the financial assistance as welfare services and debiting the HRA under paragraph 4(a) of *Schedule 15 of the Housing (Scotland) Act 1987*. The TSU's view, supported by external legal advice, is that financial assistance (either in the form of cash payments or crediting a tenant's rent account) are not welfare services and therefore cannot be debited to the HRA and described as such.
64. Alternative approaches that are permitted debits under Schedule 15 are as follows
- Authorities could seek consent from the Scottish Ministers under paragraph 3(g). A similar approach has been followed by English authorities.
 - Authorities could write off rent arrears as being irrecoverable under paragraph 3(e). The debt write off approval process applied would have to be consistent with general council policy and the scheme of delegation on bad debt approval processes. It would also have to be clearly described as debt write-off in policy and procedure documents and communications with tenants, and reported as such in the financial statements and any other financial reports.
65. Auditors should confirm that any financial assistance scheme planned for HRA tenants that results in a debit to the HRA is
- permitted under the *Housing (Scotland) Act 1987*
 - appropriately described and reported
 - not treated as a welfare service.

Statements on internal financial control in pension fund annual reports

66. Auditors will be aware of a lack of clarity regarding whether pension fund annual reports are required to include a statement on the system of internal financial control (SSIFC). In order to promote a consistent approach, guidance in previous years from the TSU has been that, as the *Code of practice on local authority accounting in the UK* (the code) requires a SSIFC only in the absence of a governance statement, the requirement for a SSIFC did not apply to pension funds that include a governance compliance statement in their annual report. Auditors have been required to read the information in the governance compliance statement to check whether it complies with the Scottish Ministers guidance and report where it does not.
67. However, the TSU understand that the 2014/15 code will be amended to require either the inclusion of a separate SSIFC in the pension fund annual report or the extension of the governance compliance statement to reflect SSIFC disclosures.
68. Although the change to the code does not formally apply until 2014/15, the TSU is revising its guidance in this area for auditors of authorities that voluntarily include a SSIFC or SSIFC disclosures in 2013/14. In addition to reporting whether the governance compliance statement complies with Scottish Ministers' guidance
- if the governance compliance statement has been extended to reflect SSIFC disclosures, auditors should also check that those disclosures comply with the code and report where it does not

- if an authority includes a separate SSIFC, auditors should also read the information in SSIFC to check whether it complies with the code and report where it does not.
69. In addition to the reporting requirements at paragraph 68, from 2014/15, auditors will also be required to report if the pension fund annual report does not include a SSIFC or SSIFC disclosures.

Accounting developments

The document referred to in the following article can be obtained by using the hyperlink, and is available to external auditors from Audit Scotland's *Technical reference library*.

Draft guidance on asset decommissioning obligations

70. The [Local Authority \(Scotland\) Accounts Advisory Committee](#) has issued [draft guidance on accounting for asset decommissioning obligations](#), including in respect of landfill sites. Asset decommissioning obligations refer to the initial estimate of the costs of dismantling and removing an item and restoring the site on which it is located. This is required by *IAS 16 Property, plant and equipment* to be included in the historical cost of the asset when the criteria for recognising a provision set out in *IAS 37 Provisions, contingent liabilities and contingent assets* are met.
71. Where a provision requires to be recognised, a key initial task is to establish the events that trigger the obligation and the estimated cost of the obligation for each trigger event. In relation to landfill sites, consideration is required in respect of the extent of decommissioning costs incurred when the site is initially developed as well as further costs that may arise as the site is utilised.
72. The amount recognised as a provision should be the best estimate of the expenditure required to settle the present obligation at the reporting date. There may be a level of volatility in the provision required due to technological advancement, regulatory change or other factors affecting the expected costs, and consequent amendment of the asset's historical cost.
73. The draft guidance advises that authorities should account for an increase in the provision by
- reducing the balance on the revaluation reserve to the extent of any credit balance existing for the asset, with this change reflected in other comprehensive income and expenditure
 - thereafter treat the increase as capital expenditure and immediately undertake an impairment review.
74. The provision requires to be discounted to present value. The increase in the provision due to the passage of time is required to be recognised as an interest charge in the surplus or deficit on the provision of services. This interest charge each year would be a charge to the general fund as it cannot be capitalised and there is no basis for reversing it in the movement in reserves statement

75. Any decreases in the provision that is credited to the comprehensive income and expenditure statement (and therefore credited to the general fund) should be reversed out to the capital adjustment account.
76. The draft paper seeks views on whether the provision should be regarded as an 'underlying liability' and included in the capital financial requirement (CFR) in accordance with the *Prudential code*. This would allow (but not require) the immediate borrowing of funds when the actual cash settlement may be many years in the future. Where the provision is not seen as an 'underlying liability', and is therefore netted off the CFR, there would be no immediate need to finance or support the increase in the asset cost.
77. The draft paper also asks for views on cases where an obligation is recognised for the first time when the criteria for recognising a provision were met in a previous period. The issue is whether the element of the cost which would have been depreciated since that previous period to date can be treated as capital expenditure in accounting terms as the economic benefits have already been consumed.
78. Comments should be sent to LASAAC@cipfa.org by 17 January 2014. Inhouse auditors should contact the TSU if they have any comments they would like considered for inclusion in a corporate response.

Other developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

Benefits

Size criteria for spare room subsidy

79. [The Department for Work and Pensions](#) (DWP) has issued [HB urgent bulletin U6/2013 Removal of spare room subsidy](#) to inform local authorities that, when applying the size criteria and determining whether a property is under-occupied for the purposes of the spare room subsidy, the only considerations should be
 - the composition of the household
 - the number of bedrooms as designated by the landlord.
80. In determining whether a room is a bedroom, the landlord should consider whether it is large enough to accommodate at least a single bed. Bedrooms should be classified as such even if the tenant uses it for something else, e.g. storage.
81. Recent tribunal cases found that rooms were wrongly designated by the landlord as bedrooms because the judge determined that the rooms did not satisfy the 'space standard' as set out in the *Housing (Scotland) Act 1987*. The DWP is planning to appeal against the decisions as space standards are used to assess statutory overcrowding and are not relevant to the removal of the spare room subsidy.

82. [The Housing Benefit and Universal Credit \(Size Criteria\) \(Miscellaneous Amendments\) Regulations 2013](#) amend various regulations regarding size criteria rules, and the DWP has issued [HB circular A21/2013](#) to provide details of the amendments. The main change is the regulations allow for an extra bedroom for a severely disabled child who would normally be expected to share a bedroom under size criteria rules but is unable to do so due to their disability. The impact is as follows
- In social rented sector cases, no reduction for under-occupation should be made in respect of a bedroom used by each qualifying disabled child. [The Rent Officers \(Housing Benefit Functions\) Amendment \(No2\) Order 2013](#) makes consequent amendments to various rent officer orders.
 - In private rented sector cases, the applicable local housing allowance rate or local reference rent should be determined by including an additional bedroom for a qualifying disabled child, subject to a maximum of four bedrooms, provided the claimant has the additional bedrooms in their home.
83. Local authorities need to review all cases to establish whether reassessment is required. A referral to a rent officer should be made if a child becomes, or ceases to be, a child who cannot share a bedroom. Any HB paid out by a local authority since May 2012 to cover the cost of an additional bedroom for a disabled child in accordance with previous guidance will be treated as correctly paid for subsidy purposes.
84. The regulations also
- include an additional room, for social sector claimants, for an overnight carer and/or foster child for any other joint tenant in the property
 - amend the definition of a young person to include an exemption for a qualifying parent or carer, i.e. a person who is an approved foster parent or kinship carer
 - clarify that only children for whom the renter is responsible are treated as part of the extended benefit unit and allocated a room under the size criteria.

Housing costs under universal credit

85. The DWP has issued [HB circular A19/2013](#) to provide information on [The Universal Credit \(Transitional Provisions\) and Housing Benefit \(Amendment\) Regulations 2013](#) which provide for universal credit (UC) and HB to be paid simultaneously where the claimant is in supported accommodation that satisfies the definition of exempt accommodation.
86. As an interim measure, those claimants are excluded from receiving the housing costs element within UC, which will continue to be met through HB. A person in exempt accommodation will be entitled to the maximum HB on the same basis as currently.
87. The amendment regulations also make provision for the following
- The removal of the temporary exemption for UC claimants from the application of the benefit cap. The benefits cap will be applied to existing UC claimants from the start of their first assessment period beginning after 28 October 2013; and to anyone who makes a new claim for UC after 28 October, from the date of their UC claim.

- The removal of existing restrictions that prevent an UC claimant whose first month award is nil as a result of earnings from being able to benefit from the 'six-month re-award' process where awards of UC may be made without a claim.
- People with a current account with a credit union to be able claim UC.

Changes to housing benefit regulations

88. The DWP has issued [HB circular A20/2013](#) to provide further details of the changes in [The Social Security \(Miscellaneous Amendments\)\(No3\) Regulations 2013](#). The changes
- give a claimant the option for notifying a change to their claim by telephone regardless of how it was originally made. Currently, a correction must be made in writing where the claim was made in writing
 - apply the HB income disregard provision for part-time fire-fighters to those living in England or Wales but working for a fire authority in Scotland, and vice versa
 - make provision for arrears of UC to be disregarded when calculating a claimant's capital for HB award purposes for claimants who have attained qualifying age for state pension credit
 - simplify the definition of 'attendance allowance'.

Additional 2013/14 funding

89. The DWP has issued [HB circular A18/2013 Discretionary housing payment reserve funding for the removal of spare room subsidy](#) setting out the arrangements for distributing an additional £20 million discretionary housing payments (DHP) reserve fund for 2013/14.
90. The reserve fund is aimed at helping local authorities support HB claimants affected by the removal of the spare room subsidy. The additional funding is only to cover exceptionally high volumes of DHP applications arising from the subsidy's removal. It should not be diverted to supplement other areas of welfare reform or be used to top up local authorities own contribution to DHP.
91. To access a share of the funding, local authorities are required to make a successful bid. Any underspend at the financial year end will be recovered by the DWP.

2014/15 administration subsidy

92. The DWP has also issued [HB circular S10/2013, 2014/15 HB administration subsidy arrangements for Scottish authorities](#) providing details of the HB administration subsidy for Scottish local authorities for 2014/15.
93. The annex to the circular shows each local authority's allocation of the administration subsidy.

Council tax

Council tax reduction scheme

94. [The Council Tax Reduction \(Scotland\) Amendment \(No4\) Regulations 2013](#) have been issued to
- provide for a reduction in liability for council tax for persons who have reached the qualifying age for state pension credit and either the claimant or their partner receives UC
 - remove the existing requirement to deduct housing costs and childcare cost elements of UC awards within council tax reduction calculations of applicable amounts and of income and capital
 - provide that where applicants receive child tax credit, the period over which it is taken into account is calculated in the same way as working tax credits
 - remove an alternative maximum council tax reduction of 25% of the daily council tax where a second adults resides with an applicant and is in receipt of UC. Instead the UC will be taken into account as income and entitlement to a council tax reduction determined accordingly.

Significant trading operations

2014/15 capital interest rates

95. The [Chartered Institute of Public Finance and Accountancy](#) (CIPFA) has issued [LAAP bulletin 97 Capital interest rates 2014/15](#) to specify the notional interest rate to be applied in calculating the capital financing charge in 2014/15.
96. Although the code does not require a capital financing charge to be made to services, authorities may need to continue to include such a charge in the measurement of cost for some purposes, or may wish to do so for management accounting purpose. The main application of these rates in Scotland is in respect of charges to the accounts of significant trading operations.
97. 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 4.62%.
98. Auditors should confirm that a capital financing charge is being made to trading accounts.

Legislation

The following legislation can be obtained by using the hyperlinks and are available to external auditors from Audit Scotland's *Technical reference library*.

Statutory instruments

Council tax

99. [The Council Tax Reduction \(Scotland\) Amendment \(No4\) Regulations 2013](#) (SSI 287) come into force on 25 November 2013 (see [paragraph 94](#)).

Housing benefit

100. [The Housing Benefit and Universal Credit \(Size Criteria\) \(Miscellaneous Amendments\) Regulations 2013](#) (SSI 2828) come into force on 4 December 2013 (see [paragraph 82](#)).
101. [The Universal Credit \(Transitional Provisions\) and Housing Benefit \(Amendment\) Regulations 2013](#) (SI 2070) came into force on 28 October 2013 (see [paragraph 85](#)).
102. [The Social Security \(Miscellaneous Amendments\)\(No3\) Regulations 2013](#) (SI 2536) came into force on 29 October 2013 (see [paragraph 88](#)).
103. [The Rent Officers \(Housing Benefit Functions\) Amendment \(No2\) Order 2013](#) (SI 2827) comes into force on 4 December 2013 (see [paragraph 82](#)).

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 2013/3 and can be obtained by using the hyperlinks.

Argyll and Bute Council statutory report

104. This report from the Controller of Audit is on the leadership and culture at [Argyll and Bute Council](#). A summary of findings includes the following
- The political instability at the local authority means that there is a lack of collective strategic leadership by councillors, and the current political management arrangements are contributing to the problems rather than helping the authority do business effectively.
 - Working relationships are strained and the challenges facing the authority are affecting the capacity of senior managers.
 - The problems are beginning to inhibit progress with strategic planning and there is a risk that services may suffer in the future if the current difficulties are not addressed.
 - There is widespread acceptance within the authority that the current situation is not sustainable and that rapid improvement is needed.

The Moray Council targeted best value audit work 2012/13

105. This report from the Controller of Audit sets out the findings from targeted best value work at [The Moray Council](#).

Aberdeenshire Council targeted best value audit work 2012/13

106. This report from the Controller of Audit sets out the findings from targeted best value work at [Aberdeenshire Council](#).

Publications

The following publication published since TB 2013/3 can be obtained by using the hyperlink.

Audit Scotland

Charging for services: are you getting it right?

107. This report from Audit Scotland [Charging for services: are you getting it right?](#) is on charging for local authority services. Key messages include the following

- Local authorities should have clear policies in place for charges and concessions, and councillors should take a lead role in determining them. They should regularly review charges to ensure that they are appropriate and meet their intended objectives.
- Authorities should be transparent in how they set charges and be able to explain their charging decisions to the public
- Authorities should consider charging as part of their overall financial management. Councils should understand the contribution that charges make to their overall financial position, and the extent to which individual services are subsidised. Charges can be used to influence behaviour to help meet authorities' objectives, and should not be seen solely as a means to generate income.
- Authorities should improve their use of cost information as this is essential for authorities to design charges and understand the extent to which they will recover costs.

Auditor action checklist

	Yes/No/N/A	Initials/date	W/P ref
1 Have you carried out the action recommended at paragraph 65 in respect of any financial assistance scheme planned for HRA tenants that results in a debit to the HRA			
2 Have you carried out the action recommended at paragraph 98 in respect of a capital financing charge being made to trading accounts?			

Central government chapter

Introduction

This chapter contains articles on central government technical developments and authoritative guidance relevant to external auditors' responsibilities under their audit appointment. It should be read by external auditors with appointments in the central government sector. It should also be read by auditors with appointments in the health sector as most of the articles also apply to that sector. Auditors should also read the cross-sectoral chapter which covers developments and guidance that are relevant to all sectors. More in-depth and extensive guidance on particular subjects or themes is provided in separate guidance notes published by the TSU (i.e. notes for guidance and urgent issue notes).

The articles in this chapter are intended to highlight the main points that the TSU considers auditors require to be aware of in respect of each development. In many cases, it may still be necessary for auditors to read the source material. The documents referred to in the articles can be obtained by using the hyperlinks. They are also available to external auditors from Audit Scotland's *Technical reference library*.

Accounting developments

The document referred to in the following article can be obtained by using the hyperlink, and is available to external auditors from Audit Scotland's *Technical reference library*.

2013/14 discount rates for provisions

108. [HM Treasury](#) has issued [PES 2013/7](#) announcing changes in the discount rate for post employment benefits liabilities and general provisions as at 31 March 2014.
109. The discount rate for post employment benefits and early departure provisions will change from 2.35 % real to 1.8% real from 31 March 2014. The financial assumptions, based on market conditions, related to post employment benefit discount rates are set out in an annex.
110. Funded schemes within central government should use a discount rate based on financial assumptions at 31 March each year, rather than these assumptions which are as at 30 November.
111. The real discount rates to be applied to provisions recognised in accordance with IAS 37 as at 31 March 2013 are as follows
 - The short term rate (for cash-flows up to 5 years from the statement of financial position date) is minus 1.90%.
 - The medium term rate (between 5 and 10 years) is minus 0.65%.
 - The long term rate (more than 10 years) is unchanged at 2.20%.

112. The change in discount rates could result in non-cash negative annually managed expenditure (AME) arising from interest income. This income can only be used for expenditure relating to provisions or for depreciation of capital assets that have been donated. It cannot be used to fund genuine AME cash expenditure.

Corporate governance developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

2014/15 public sector pay policy

113. The [Scottish Government](#) has issued two policy documents on public sector pay setting the pay increases for staff and the parameters for senior appointments in 2014/15 and 2015/16.
114. The [Public sector pay policy for senior appointments 2014/15](#) covers the remuneration of chief executives and chairs and members of Scottish public bodies. Key features of the policy in each year are
- a 1% cap on the basic award
 - continued suspension of non-consolidated performance-related pay
 - discretion for individual employers to reach their own decisions over pay progression limited to a 1.5% maximum.
115. New appointments and pay review will continue to require Scottish Government approval. There is an expectation that the remuneration package of a new Chief Executive appointment will be 10% less than that of the outgoing.
116. The [Public sector pay policy for staff remits 2014/15](#) aims to allow public bodies to provide a basic pay increase for all staff, with particular support for those on the lowest incomes. The key features of the policy in each year are
- a 1% cap on the cost of the increase in basic pay. The pay freeze that applied in 2013/14 to staff earning £80,000 and above will not apply
 - continuing measures for supporting the lower paid. Staff earning less than £21,000 per annum should receive a minimum pay uplift of £300 in each year, excluding any increase that may be paid for progression
 - maintaining the suspension of non-consolidated performance related pay
 - retaining discretion for individual employers to reach their own decisions about pay progression, outwith the 1% cap of the basic pay award
 - maintaining the policy of no compulsory redundancies.
117. This policy applies to public bodies with settlement dates for the year between April 2014 and March 2015 (inclusive).

Publications

The following publication published since TB 2013/3 can be obtained by using the hyperlink

Audit Scotland

Police reform

118. This publication from Audit Scotland [Police reform](#) reviews the efficiency and effectiveness of the planning and early implementation of the new arrangements for police services in Scotland that became operational on 1 April 2013. Key messages include the following
- During the transition period, front-line services have been maintained and progress made towards achieving the objectives of reform. The Scottish Government should carry out a 'lessons learned' exercise to inform other public bodies that are starting a merger process.
 - Planning the move to a single police service was hampered by poor baseline information, a lack of clarity in roles and responsibilities, and difficult relationships between the bodies involved. The stakeholders should continue to work together to develop effective working relationships, including agreement on responsibilities, governance and delivery of police services
 - The costs and savings estimates were not updated nor a full business case prepared. Arrangements for monitoring and reporting progress on a financial strategy should be implemented showing how savings will be achieved beyond 2013/14.

Health chapter

Introduction

This chapter contains articles on health technical developments and guidance relevant to external auditors' responsibilities under their audit appointment. It should be read by external auditors with appointments in the health sector. Auditors should also read the central government chapter and cross-sectoral chapter which cover developments and guidance that are relevant to all sectors. More in-depth and extensive guidance on particular subjects or themes is provided in separate guidance notes published by the TSU (i.e. notes for guidance and urgent issue notes).

The articles in this chapter are intended to highlight the main points that the TSU considers auditors require to be aware of in respect of each development. In many cases, it may still be necessary for auditors to read the source material. The documents referred to in the articles can be obtained by using the hyperlinks. They are also available to external auditors from Audit Scotland's *Technical reference library*.

Accounting developments

The document referred to in the following is available to external auditors from Audit Scotland's *Technical reference library*.

Guidance on consolidating NHS endowment funds from 2013/14

119. The [Scottish Government Health and Social Care Directorates](#) (SGHSCD) has issued guidance on the consolidation of endowment funds into NHS board financial statements from 2013/14.
120. NHS endowments, where material, require to be consolidated into the host board's financial statements in accordance with IAS 27. Endowment funds have varying levels of materiality, and the guidance advises boards to discuss with auditors whether their funds are considered material.
121. Boards will be required to present their financial statements in a consolidated format, and example draft consolidated statements are included in an appendix. An additional note (33) will be included in the financial statements to show how the consolidated figures are calculated.
122. Boards and endowment funds effectively operate under common control for accounting purposes, and therefore the funds will be consolidated on a merger accounting basis. Comparative figures (i.e. for 2012/13) will require to be restated, including a consolidated opening balance sheet as at 1 April 2012.
123. The guidance also advises boards to

- review the accounting policies of endowment and board accounts to ensure there are no material anomalies
- set out the financial governance arrangements around endowments in their operating and financial reviews
- consider their existing endowment accounts production and audit process to ensure it will facilitate the submission of consolidated accounts by 30 June.

124. Auditors should have early dialogue with boards to establish if their endowment funds are considered material and the level and nature of disclosure required.

Other developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's Technical reference library.

National agenda/direction

Universal credit

125. The Scottish Government has issued [PCA\(D\)\(2013\)4](#) to advise of the roll out of universal credit (UC) in Scotland with effect from 25 November 2013. UC aims to simplify the benefit system by bringing together the current working age benefits for those in and out of work into a single payment system. As a temporary arrangement, all those getting UC will be entitled to

- free NHS dental treatment
- optical voucher towards the cost of glasses or contact lenses; and
- relevant travelling expenses, including overnight accommodation, incurred by a person attending hospital

126. In addition, the minor ailment service will continue to be available to those receiving UC during the rollout period.

Pay and workforce planning

2013/14 pay arrangements for executives and senior managers

127. The Scottish Government has issued [PCS\(ESM\)\(2013\)3](#) to announce the mandatory executive and senior management pay arrangements for 2013/14.

128. The minimum point of pay ranges for grades A to I, and the maximum point for grades A to C, have been increased by 1%. All staff on salaries of less than £80,000 at 31 March 2013 will receive a 1% uplift to basic pay, capped so that it does not exceed that amount. There is no increase for staff on salaries above that level or where performance is rated unsatisfactory.

129. The consolidated pay progression should be applied with effect from 1 April 2013, based on 2012/13 performance. Employees will not receive more than the maximum consolidated salary for their pay range.

2013/14 management fees for medical directors

130. The Scottish Government has issued [PCS\(MD\)\(2013\)2](#) to announce changes to the management fees for medical directors, and former medical directors on protection, with effect from 1 April 2013.
131. The value of management fees and discretionary point equivalent payments is increased by 1% with effect from that date.
132. Remuneration committees can recommend the award of one performance payment point per annum, up to a total of eight, as a consolidated increase to salary for fully acceptable or better performance. Access to non-consolidated equivalent discretionary performance points continues to be suspended.

2013/14 Statement of financial entitlements for GPs

133. The Scottish Government has issued [PCA\(M\)\(2013\)9](#) to advise of changes to the statement of financial entitlements (SFE) for GP contractors for 2013/14.
134. The SFE relates to payments to be made by boards to a contractor under a general medical services (GMS) contract. The amendments compared with the previous version include the following
 - The global sum amount has been increased to reflect the increase in the population registered with a GP, a 1.25% uplift applied to the global sum and correction factor, and the transfer of funding associated with 77 *Quality outcomes framework* (QOF) points. The average practice population figure has also been adjusted to reflect the increased population.
 - There are four new QOF domains, i.e. medicines management, public health, quality and productivity and quality improvement. The organisational domain has been removed with the funding associated with the points being transferred to the new core organisation standard payment (see paragraph 135).
 - A rotavirus vaccination has been added to the Scottish immunisation programme with effect from 1 June 2013.

2013/14 organisational core standard payments

135. The Scottish Government has issued guidance with [PCA\(M\)\(2013\)10](#) for the organisational core standard payment for GMS contractors for 2013/14. The standards form part of the global sum payment for GMS and cover
 - the management of clinical records
 - the education and training requirements of the practice team
 - practice management procedures including employment policies.
136. The guidance sets out the criteria for receiving the payments, the evidence to be retained by GP practices and the payment verification procedures to be undertaken.

2012/13 Chief Executive's annual report

137. The SGHSCD has issued the [NHSScotland Chief executive annual report 2012/13](#) which highlights the progress made towards delivering the strategic vision set out within the *Quality strategy*.
138. The *Quality strategy* sets the direction for the way the NHS in Scotland works to ensure a safe, effective and patient-centred approach. The *Health improvement, efficiency, access and treatment* (HEAT) targets demonstrate the performance against the ambitions identified within the strategy.
139. The progress highlighted in the report includes the following
- Significant reductions in the level of healthcare associated infections.
 - Achieving financial balance for every NHS board.
 - A reduction in the number of delayed discharges above 28 days.

Planning and performance management

2014/15 local delivery plan guidance

140. The Scottish Government has issued [NHSScotland 2020 local delivery plans 2014/15](#) to provide guidance on the preparation of local delivery plans (LDPs) for 2014/15. The guidance sets out the key operational targets and performance measures, and reiterates the purpose, format, and content of LDPs, as well as the timescales for completing them.
141. Boards are required to develop their LDPs in consultation with stakeholders to cover a period of three to five years as individually agreed, subject to review each year. LDPs for 2014/15 are required to include
- an improvement and co-production plan
 - NHS board contributions to community planning partnership plan.
 - HEAT risk management plans and delivery trajectories.
142. As part of the financial plans to be included in the LDP, efficiency savings require to be categorised by seven themes with particular emphasis on workforce planning including service productivity, shared services and estates and facilities.
143. The guidance also sets out the key HEAT themes for 2014/15. Boards are expected to implement the delivery plans for the existing HEAT targets and standards. The targets set out the performance contract between the Scottish Government and boards, and therefore the Scottish Government will continue to monitor them.
144. The LDPs are expected to be signed off by the boards and Scottish Government by 31 March 2014.

Legislation

The following legislation can be obtained by using the hyperlinks and are available to external auditors from Audit Scotland's Technical reference library.

Statutory instruments

National health service

145. [The National Health Service \(Cross Border Health Care\) \(Scotland\) Regulations 2013](#) (SSI 292) came into force on 25 October 2013 to implement the requirements of the European Directive on patients' rights in cross-border healthcare. The regulations insert new sections into the *National Health Service (Scotland) Act 1978* which will apply to the reimbursement and prior approval of the cost of treatment incurred on and after 25 October 2013.
146. The regulations designate NHS 24 as the national contact point for the purposes of the directive. This includes responsibilities to make information available to potential patients from other member states, and to resident patients about their rights and entitlements to obtain a healthcare service in another member state.
147. [The Health Board \(Membership\)\(Scotland\) Regulations 2013](#) (SSI 334) come into force on 31 December 2013 to replace the 2009 membership regulations. The regulations
 - specify the total number of members and the number of each type of member of Fife and Dumfries and Galloway Health Boards
 - remove the requirement for elected members.

Publications

The following publication published since TB 2013/3 can be obtained by using the hyperlink

Audit Scotland

NHS Financial performance 2012/13

148. This publication from Audit Scotland [NHS Financial performance 2012/13](#) examines the financial performance of the NHS in Scotland in 2012/13, and looks ahead to future financial challenges. Key messages include the following
 - The NHS managed its overall finances well in the short term, and all boards achieved their financial targets and the target of saving a minimum of 3% of the baseline budget. It will be a continuing challenge, however, to identify further significant savings.
 - To help improve boards' financial planning, the Scottish Government should provide greater clarity on the timing, value and nature of funding allocations.
 - The NHS has made good progress in improving outcomes for patients, but not all boards met their waiting times targets.

Auditor action checklist

	Yes/No/N/A	Initials/date	W/P ref
1 Have you carried out the action recommended at paragraph 119 in respect of NHS endowment funds?			

Further education chapter

Introduction

This chapter contains articles on further education technical developments and guidance relevant to external auditors' responsibilities under their audit appointment. It should be read by external auditors with appointments in the further education sector. Auditors should also read the cross-sectoral chapter which covers developments and guidance that are relevant to all sectors. More in-depth and extensive guidance on particular subjects or themes are provided in separate guidance notes published by the TSU (i.e. notes for guidance and urgent issue notes).

The articles in this chapter are intended to highlight the main points that the TSU considers auditors require to be aware of in respect of each development. In many cases, it may still be necessary for auditors to read the source material. The documents referred to in the articles can be obtained by using the hyperlinks. They are also available to external auditors from Audit Scotland's *Technical reference library*.

Accounting developments

The documents referred to in the following article can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

2012/13 financial statements returns

149. The [Scottish Funding Council](#) (SFC) has issued guidance on the [Financial statements return 2012/13](#). Colleges are required to send returns, including unbound copies of the financial statements and management letters from external audit, to the SFC by 31 December 2013.

Reclassification of incorporated colleges

150. The SFC has issued a number of communications on issues resulting from the Office of National Statistics (ONS) reclassification of colleges as central government bodies for budgeting and accounting purposes from 1 April 2014. Communications in previous quarters have included the following key points

- Colleges will be classified as arms-length bodies and will be required to move to an April to March financial year.
- Colleges will be required to manage their expenditure within the wider Scottish Government financial budgeting and reporting arrangements. Currently, the spending that counts as government expenditure is the funding allocated by government to colleges; after reclassification, it will be the amounts colleges actually spend. Colleges will have to control their annual expenditure so that it does not exceed pre-set limits, even

if it is financed by reserves or borrowing. Any underspend against the budget limit rolled forward requires additional budget cover to allow it to be spent.

- Colleges may mitigate the impact of reclassification on reserves by establishing an arms' length charitable foundation. Resources transferred to, and grants from, a foundation would be outside the Scottish Government's consolidated budgeting boundaries and would not count against the college's budget provided it is not controlled by the college. Possible models are a separate foundation for each college or region or a single umbrella foundation with designated sub-funds for each college.
- While it is anticipated that colleges will continue to comply with the statement of recommended practice (SORP), they will also be required to provide disclosures to comply with the *Government financial reporting manual (FReM)*. In the event of any conflict, it is anticipated that the SORP will take precedence. Colleges will be required to restate their 31 July 2013 balance sheet and some aspects of their 2013/14 financial statements to ensure FReM compliance.

151. The following communications have been issued since TB 2013/3.

Management of working capital

152. [Communication number 6](#) provides guidance on the management of working capital and other issues resulting from reclassification.
153. Reclassification will require the reporting and management of the full income and expenditure of colleges on an accruals basis against Scottish Government budget control limits, in accordance with consolidated budgeting guidance. Budgeting and accounting treatment may differ in some areas, but it is the budgeting treatment that impacts on the Scottish Government.
154. Movements in working capital (defined as net assets) will have the potential to affect the outturn position. As no additional budget cover is likely to be available, the use of reserves could breach the overall budget limit for the sector. Colleges will be expected to maintain broadly the same level of working capital year on year
- If a college holds a higher level of working capital at the year end, this is in effect tied unless additional budget cover is available to support the expenditure.
 - A significant reduction in a college's working capital is indicative of an overspend.
155. The paper discusses some of the items that have added complexity including the following
- At recognition, income received in advance has a neutral impact on working capital, i.e. the reduction in creditors would increase available working capital while the associated expenditure would reduce it. However, there are budgetary implications when expenditure differs from income.
 - Recognising assets held for sale impacts on working capital on an accounting basis, but the budgetary impact only crystallises when the asset is actually sold.

- Recognition of a provision scores against an annual managed expenditure (AME) budget, while the payment to settle the liability scores against the departmental expenditure limit (DEL). In order to prevent provisions recognised before 31 March 2014 from potentially scoring twice against the budget (e.g. when the SFC pay grant in 2013/14 and when the college makes the cash payment in subsequent years), any release of provisions created prior to that date would be excluded from scoring against budgets.

156. The communication provides answers to a number of questions that have arisen in respect of these issues.

Arms' length charitable foundations

157. The progress on establishing arms' length charitable foundations is set out in [Communication number 7](#). The Scottish Government has approved the establishment of, and transfer of reserves to, either an umbrella charitable foundation or separate foundation for each college. The majority of colleges have indicated a preference to set up their own foundations, but a few have provided an initial view that favoured the umbrella option. All colleges have been asked to confirm their preference.

158. The board of trustees should number at least five and an initial majority is necessary to take forward the establishment of the foundation. Colleges have been advised to identify the initial trustees as a priority.

159. The paper provides a draft constitution for the umbrella foundation which will be a company limited by guarantee. The draft constitution should also serve as a template for individual foundations.

Accounting requirements

160. [Communication number 8](#) provides initial guidance on changes to ensure compliance with government accounting requirements and issues in relation to the preparation of the financial statements.

161. Capital accounting requirements for colleges will change from 1 April 2014 as capital grant will be ring-fenced for capital use. This is a significant change from previous years where the capital maintenance grant could have been used for general building maintenance and the repayment of interest on debt. Any capital grant that will not be used in the financial year needs to be identified as early as possible and returned to the SFC. Revenue costs that were previously met from the capital maintenance grant will require to be met from revenue resources. The SFC proposes to agree with Scottish Government a switch of capital funds to revenue on a recurrent basis to match this expenditure.

162. Colleges should not enter into new loan arrangements after 1 April 2014 without the prior approval of the SFC. The current working assumption is that the interest cost of existing loans will be charged to a college's income and expenditure, while the repayment of the capital element will not count against the resource budget. Colleges may use their reserves to repay the loans early where they can demonstrate that this provides value for money.

163. Colleges will need to disclose a statement in the going concern section of their accounting policies where the transfer of reserves to charitable foundations results in a negative reserve total in their balance sheet.
164. Other matters in the communication include the following
- Although re-classification as a central government body does not change the VAT status of colleges, they are required to notify their local HMRC office of the change in status. Colleges' VAT return dates may also need to be changed to ensure they are coterminous with the financial year end.
 - Public bodies are required to mainly self-insure. This would be a significant change to current practice and discussions are on-going to examine the implications that this change would have on college operations.

Other developments

The documents referred to in the following article can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

Mergers

165. The Scottish Government has issued Orders to dissolve the boards of management of four colleges on 1 November 2013. The orders also transfer the whole property, rights, liabilities and obligations of the board to specified colleges, and provides for staff to transfer without a break in their employment.
166. The Orders and relevant affected colleges are as follows
- [The Cumbernauld College \(Transfer and Closure\) \(Scotland\) Order 2013](#) which provides for transfers to Motherwell College.
 - [The John Wheatley College and Stow College \(Transfer and Closure\) \(Scotland\) Order 2013](#) which provides for transfers to North Glasgow College.
 - [The Banff and Buchan College \(Transfer and Closure\) \(Scotland\) Order 2013](#) which provides for transfers to Aberdeen College.
 - [The Angus College \(Transfer and Closure\) \(Scotland\) Order 2013](#) which provides for transfers to Dundee College.

Legislation

The following legislation can be obtained by using the hyperlinks and are available to external auditors from Audit Scotland's *Technical reference library*.

Acts

167. [The Post 16 Education \(Scotland\) Act 2013](#) has received Royal Assent and provides for the governance of further education colleges. It includes provisions on

- the regionalisation of colleges
- reviews of how education is provided
- sharing information about young people's involvement in education and training.

Statutory instruments

Education

168. [The Angus College \(Transfer and Closure\) \(Scotland\) Order 2013](#) (SSI 267) came into force on 1 November 2013 (see [paragraph 167](#)).
169. [The Banff and Buchan College \(Transfer and Closure\) \(Scotland\) Order 2013](#) (SSI 268) came into force on 1 November 2013 (see [paragraph 167](#)).
170. [The Cumbernauld College \(Transfer and Closure\) \(Scotland\) Order 2013](#) (SSI 269) came into force on 1 November 2013 (see [paragraph 167](#)).
171. [The John Wheatley College and Stow College \(Transfer and Closure\) \(Scotland\) Order 2013](#) (SSI 270) came into force on 1 November 2013 (see [paragraph 167](#)).
172. [The Post 16 Education \(Scotland\) Act 2013 \(Commencement No 1\) Order 2013](#) (SSI 281) came into force on 10 October 2013 and empowers the Scottish Ministers to make arrangements for boards of management and to establish regional boards.

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 2013/3 and can be obtained by using the hyperlinks.

The 2011/12 audit of Adam Smith College

173. This report from the Auditor General on the [Audit of Adam Smith College 2011/12](#) draws Parliament's attention to the late laying of the financial statements and weaknesses in corporate governance and financial management at the college, including the potential misuse of college funds. These relate primarily to the administration of grants from the European Union which the college had to repay.
174. The college is taking action to address the weaknesses identified.

Contact points

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

Contact	Chapter
Paul O'Brien, Senior Manager (Technical) 0131 625 1795 pobrien@audit-scotland.gov.uk	Cross-sectoral and Local authority
Tim Bridle, Manager - Local Government (Technical) 0131 625 1793 tbridle@audit-scotland.gov.uk	Local authority (Non-benefits developments)
Anne Cairns, Manager – Benefits (Technical) 0131 625 1926 acairns@audit-scotland.gov.uk	Local authority (Benefits developments only)
Neil Cameron, Manager - Central Government and Health (Technical) 0131 625 1797 ncameron@audit-scotland.gov.uk	Central government and Health
Helen Cobb, Technical Adviser (Central Government and Health) hcobb@audit-scotland.gov.uk	Central government Health and Further education

Feedback on this TB should be sent to pobrien@audit-scotland.gov.uk

Technical Services Unit
Audit Scotland
110 George Street
EDINBURGH
EH2 4LH

10 December 2013