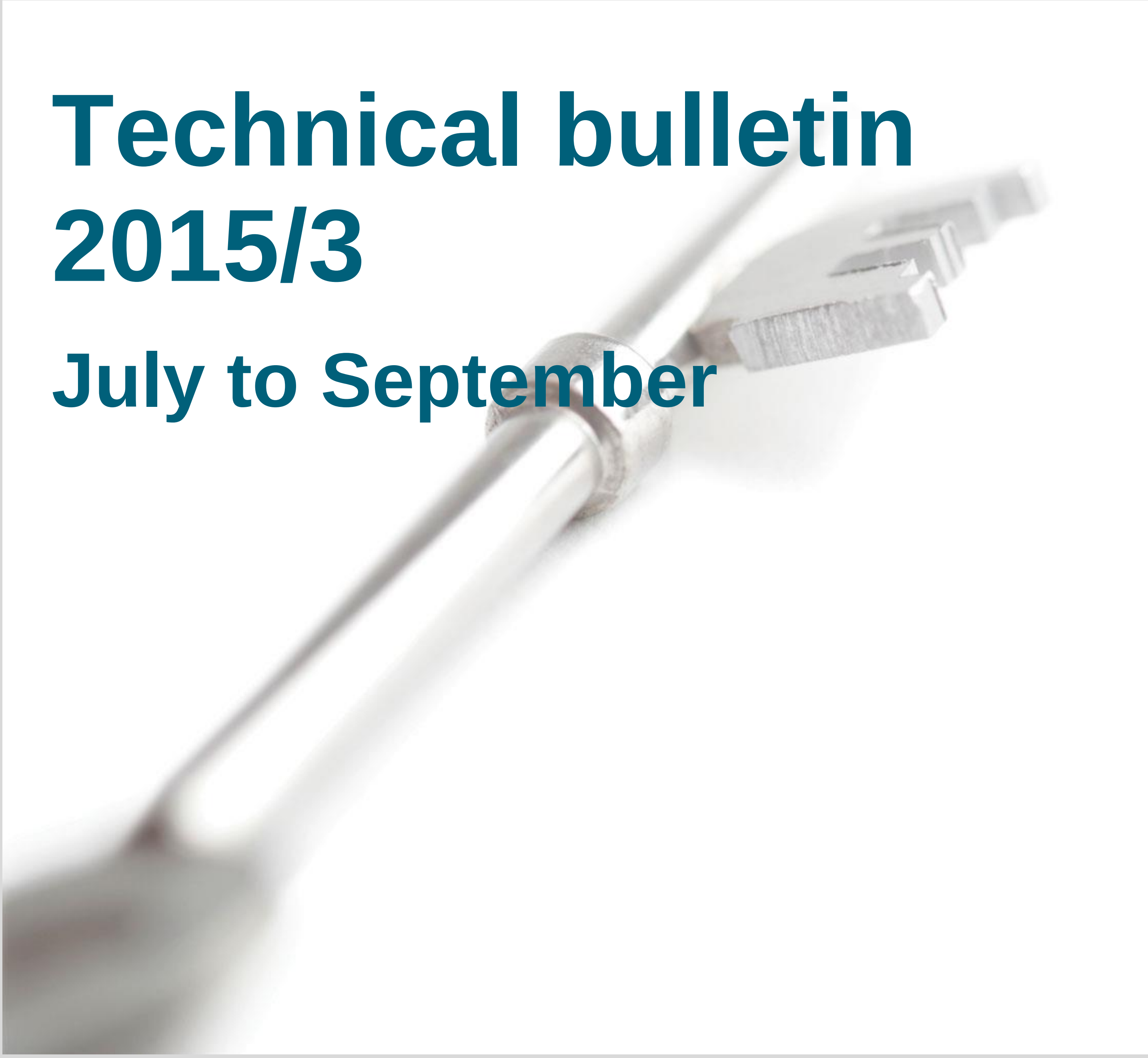
Technical bulletin 2015/3

July to September



AUDIT SCOTLAND

Prepared by the Technical Services Unit
11 September 2015

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

Contents

Foreword

Technical bulletins are prepared by Audit Scotland's Technical Services Unit (TSU), and approved by the Assistant Auditor General, to provide external auditors appointed by the Accounts Commission and Auditor General for Scotland with

- information on the main public sector technical developments in the quarter that are relevant to their audit appointment
- guidance from the TSU on any emerging risks identified in the quarter.

Technical bulletins 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.

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.

The articles on technical developments are intended to highlight the key points that the TSU considers external auditors require to be aware of. It may still be necessary for auditors to read the source material where greater detail is required. The documents referred to in the articles can be obtained by using the hyperlinks, where available. They are also available to external auditors from Audit Scotland's *Technical reference library*.

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 **Audit Scotland's *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 guidance provided in this technical bulletin on an emerging risk.

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

More in-depth and extensive guidance is provided in separate technical guidance notes published by the TSU. Technical guidance notes published in the quarter are referred to in this technical bulletin, and can be obtained by using the hyperlinks to the Audit Scotland website.

Headlines

This chapter provides brief headlines for the articles on technical developments and guidance in this technical bulletin, classified by the audit year to which it relates, and referenced to the paragraphs containing the main article.

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Local authority sector

Introduction

This chapter contains information on the main technical developments, and guidance from the TSU on any emerging risks, in the quarter that are relevant to the local authority sector.

It should be read by external auditors with appointments in the local authority sector.

Accounting developments

General accounting

Draft 2016/17 accounting code

1. The CIPFA/LASAAC Local Authority Code Board (CIPFA/LASAAC) has issued a consultation paper that sets out proposed amendments to the *2016/17 Code of practice on local authority accounting in the UK* (the draft code). It comprises an invitation to comment (ITC) as well as exposure drafts of the code (ED1 to ED 8) with the proposed amendments set out.

2. The main proposed amendments in the draft code are to reflect
    - the move to measuring the highways network asset at depreciated replacement cost (DRC) in accordance with the measurement methodologies specified in the *Code of practice on transport infrastructure assets* (the transport code)
    - a review of the pension funds section of the code
    - a number of narrow scope amendments to international financial reporting standards (IFRS)
    - the issue of the *Conceptual framework for general purpose financial reporting by public sector entities*
    - changes to legislation.

3. The ITC is also asking for comments on the application of *IFRS 9 Financial instruments* and *IFRS 15 Revenue recognition for contacts with customers* to future editions of the code.

4. The TSU will be preparing a response to the consultation on behalf of Audit Scotland. Auditors should advise the TSU if they have any comments on the proposals that they wish to be included in the response. Responses require to be submitted to code.responses@cipfa.org by 9 October 2015.

Highways network asset

5. The proposed amendments in respect of measuring the highways network asset at DRC are discussed at paragraphs 16 to 39 of the ITC and set out in ED 2. The proposed new requirements are included principally in a new section 4.11. There are also consequential

amendments to section 4.1 (on property, plant and equipment) which extend the current adaptation of *IAS 16 Property, plant and equipment* to withdraw the option to measure the carrying amount of the highways network asset at historical cost.

6. Paragraph 4.11.21 explains that the highways network asset comprises
   - carriageways including urban roads and rural roads
   - footways and cycletracks
   - structures including bridges, signs, retaining walls, and subways
   - street lighting
   - street furniture including traffic signs, safety fences, bollards, and bus shelters
   - traffic management systems including traffic signals, pedestrian signals, zebra crossings, and safety cameras
   - land.

7. It is proposed that the highways network asset should be treated as a single asset for financial reporting purposes, and presented as a separate class of assets on the face of the balance sheet.

8. Proposals include a requirement for annual depreciation of the highways network asset to be measured in accordance with the transport code which is different to the normal approach. The transport code requires annual depreciation to be calculated by estimating the aggregate cost of all the capital replacements/reinstatements needed to restore service potential over the life cycle, spread over the estimated number of years in the cycle.

9. Information on the condition of the asset is important in the calculation as it is used as a proxy for age in order to estimate accumulated depreciation. The actual deterioration of the asset between years is not compared to the annual depreciation. If the estimated age of the asset changes by more than expected, this would be treated as a revaluation movement rather than as a direct annual charge to the comprehensive income and expenditure statement (CIES).

10. This differs from the normal approach where changes in condition would be reflected in the formal revaluations and thus be included as part of a depreciation charge to the CIES. Further changes in condition would not be reflected until the next formal valuation unless indications of impairment exist.

11. There is also a proposed change to the normal treatment of accumulated depreciation and impairment. Local authorities normally follow the option in IAS 16 to eliminate accumulated depreciation and impairment when an asset is revalued. CIPFA/LASAAC considers that the information generated for the measurement of the highways network asset will be better presented following the option in IAS 16 where accumulated depreciation and impairment are adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses.

12. There is a proposal (at paragraph 4.11.2.14) that the requirements for derecognition should follow the requirements of the accounting code for property, plant and equipment. In addition,

the cost of a replaced part (e.g. surface of a road) should be used as an estimate of the value of the part it has replaced. Authorities would be required to assume that on replacement the asset has reached the end of its useful life, unless they can demonstrate that this is not the case.

13. The change to DRC is a change in accounting policy which the ITC states will require full retrospective application. Local authorities will need to establish the difference between the depreciated historical cost for the highways network asset and the carrying amount at DRC from 1 April 2015. The exposure draft proposes a transitional approach at paragraph 4.11.2.16 which allows authorities to use any reasonable estimation process to split the depreciated historical cost of the original infrastructure class of assets between the residual infrastructure assets and the highways network asset.

Accounting and reporting by pension funds

14. CIPFA/LASAAC has carried out a review of the reporting requirements of section 6.5 of the code on the accounting and reporting of pension funds. The review was timed to coincide with the issue of the new *Financial reports of pension schemes - a statement of recommended practice 2015* (the 2015 pension SORP).

15. The proposed amendments arising from the review are discussed at paragraphs 40 to 57 of the ITC and set out in ED 3. They include

- changes at paragraph 6.5.3.6 to the fund account and net assets statement to reflect changes in the pension SORP, e.g. an updated analysis of investment income and investment assets, and new classifications for transfers from other pension funds and payments to and account of leavers
- the application of the disclosure requirements of *IFRS 13 Fair value measurement* to pension fund investments
- proposed recommended disclosure requirements at paragraph 6.5.5.1 v) in respect of management expenses. The disclosures are
  - the total amount of direct transaction costs of all significant asset classes (i.e. investment types) disclosed under the investments reconciliation table
  - an explanation of the nature of the transaction costs and how they arise.
- an annex that provides an overview of how the other sections of the code apply to pension funds.

Narrow scope amendments to IFRS

16. Proposed amendments to the code arising from narrow scope amendments to IFRS are discussed at paragraphs 58 to 89 and Appendix A of the ITC, and are set out in ED 1.

17. They include proposed amendments to

- paragraph 3.4.2.26 to clarify that an authority must not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.

- paragraph 3.4.2.27 to clarify that materiality considerations still apply when a standard requires a specific disclosure including cases where the standard uses the term ‘as a minimum’.
- paragraph 3.4.2.83 to give examples of ordering the notes to the financial statements systematically. These include
  - giving prominence to the areas of its activities that the authority considers to be most relevant to an understanding of its financial performance and financial position, such as grouping together information about particular activities
  - grouping together information about items measured similarly such as assets measured at current value
  - following the order of the line items in the CIES and the balance sheet.
- paragraph 3.4.2.60 to clarify that line items in the balance sheet may be disaggregated. It also been amended to require that any subtotals should be presented in accordance with paragraph 55A of *IAS 1 Presentation of financial statements*, i.e. the subtotals should
  - be comprised of line items made up of amounts recognised and measured in accordance with IFRS
  - be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable
  - be consistent from period to period
  - not be displayed with more prominence than the sub-totals and totals required in IFRS.
- paragraph 3.4.2.90 to require authorities to disclose the factors that are used to identify the reportable operating segments when they have been aggregated.

18. ED 2 sets out the proposed amendment to paragraph 4.1.2.33 which removes the option to proportionately restate any accumulated depreciation or impairment at the date of valuing property, plant and equipment (other than for the highways network asset).

19. ED 4 sets out a proposed amendment to paragraph 3.9.2.7 that clarifies that a management entity that provides key management services to an authority is deemed to be a related party. The disclosure requirements for the amounts incurred by an authority for key management personnel services have been inserted in new paragraph 3.9.4.2.

Conceptual framework

20. The proposed amendments arising from the issue of the conceptual framework for public sector entities are discussed at paragraphs 90 to 96 of the ITC and set out in ED 6.

21. Amendments include paragraph 2.1.2.18 which states that
    - some complex economic phenomena are difficult to represent in local authority financial statements

- all efforts should be undertaken to represent the phenomena in a manner that is understandable to a wide range of users
- some users may need to seek the aid of an advisor to assist in understanding the phenomena
- information should not be excluded from financial statements solely because it may be too complex or difficult for some users to understand without assistance.

Changes to legislation

22. As a result of regulations that apply to English local authorities, the requirement in section 3.1 for an explanatory foreword has been replaced with the requirement for a narrative report. As Scottish authorities are required to produce a management commentary instead, this will not have a direct impact.

23. However, a separate concurrent consultation (covered at paragraph 24) is proposing the inclusion of a new funding analysis in the narrative report/management commentary.

Consultation on improving financial statements presentation

24. CIPFA/LASAAC has issued a consultation paper on proposed improvements to the presentation of local authority financial statements. The proposals are intended to reconnect the financial statements of authorities with the way in which they are organised and funded. *Telling the story - consultation on improving the presentation of local authority financial statements* comprises an ITC and separate appendices that illustrate the impact on the financial statements. ED 1 sets out the proposed changes to the accounting code.

25. Paragraphs 12 to 15 of the ITC and Appendix 7 consider a number of options for changes in the way local authority financial statements are presented. The preferred option proposed in the consultation paper is to introduce a requirement for a funding analysis to be included in the management commentary that provides a direct reconciliation between the CIES and amounts based on how local authorities are funded and budget. The funding analysis would be supported by a streamlined movement in reserves statement (MiRS) and replace the current segmental reporting note.

26. The TSU will be preparing a response to the consultation on behalf of Audit Scotland. Auditors should advise the TSU if they have any comments on the proposals that they wish to be included in the response. Responses require to be submitted to financial.reporting@cipfa.org by 9 October 2015.

Funding analysis

27. The funding analysis is discussed at paragraphs 16 to 23 of the consultation paper, with an exemplification provided in Appendix 2. The funding analysis brings together local authority performance reported on the basis of proper accounting practice with statutorily defined charges to the general fund, including the housing revenue account (HRA).

28. The funding analysis reconciles the CIES to

- the net expenditure chargeable to the general fund and HRA
- the statutory position on the general fund balance, which may then be split between the general fund and HRA balances. Views are sought, however, on whether a separate funding analysis should be provided for the HRA.

29. Appendix 3 illustrates an explanation of the nature of the adjustments between the funding analysis and the CIES.

30. It is proposed that the funding analysis should be included as a mandatory component of the management commentary. However, in order to meet the reporting requirements of *IFRS 8 Operating segments*, CIPFA/LASAAC considers the funding analysis should nevertheless be considered a part of the financial statements.

Comprehensive income and expenditure statement

31. The proposals in respect of the CIES are discussed at paragraphs 9 to 11 and 24 to 26 of the consultation paper, with an illustration at Appendix 4.

32. There are proposals that
    - service information included in the net cost of services in the CIES should be presented in a format that is consistent with the organisational structure under which the authority operates and not the service expenditure analysis *in Service reporting code of practice* (SeRCOP)
    - the costs of corporate departments treated as separate segments should be included on a direct cost basis rather than being apportioned to other services on the total cost basis set out in SeRCOP.

Movement in reserves statement

33. The proposals in respect of the MiRS are discussed at paragraphs 27 to 32 of the consultation paper, with an illustration at Appendix 5. The proposals include presenting the movements from the CIES on one line, i.e. total comprehensive income and expenditure.

34. There would remain the requirement for a line in the MiRS which includes the adjustments from income and expenditure charged under accounting requirements to that required by statutory funding requirements. Appendix 6 provides an illustration of the analysis of the adjustments that requires to be disclosed, making use of appropriate levels of aggregation.

Segmental analysis

35. Proposals regarding the segmental analysis are discussed at paragraphs 33 to 38 of the consultation paper. It is considered that generally the funding analysis and the CIES under the new proposals will meet the segmental analysis requirements of IFRS 8.

36. However, a proposed new code paragraph 3.4.2.42 is set out in ED 1 to meet the requirements of IAS 1 to disclose information regarding the nature of expenses.

Transitional arrangements

37. The consultation paper is seeking views on the timetable for changes to the code. Specifically, it asks whether

- the adoption should apply from the 2016/17 code
- early adoption should be permitted in 2015/16. If early adoption is permitted, it would need to be on a comprehensive basis rather than piecemeal.

Governance statements

Draft revisions to good governance framework

38. The CIPFA/SOLACE Joint Working Group on Good Governance in Local Government has issued a consultation paper on a revised draft framework for governance in local government. The draft framework in Delivering good governance in local government - consultation is based on the core principles and sub principles set out in the International framework: good governance in the public sector.

39. The principles from the international framework have been adapted for the local government context and translated into a series of expected behaviours and outcomes which demonstrate good governance in practice. The principles in the consultation draft are intended to form a shared understanding of what constitutes good governance across local government.

40. The draft framework includes the following two overarching principles for acting in the public interest

- Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
- Ensuring openness and comprehensive stakeholder engagement.

41. In addition, achieving good governance in the local government also requires effective arrangements for

- defining outcomes in terms of sustainable economic, social, and environmental benefits
- determining the interventions necessary to optimize the achievement of the intended outcomes
- developing the authority's capacity, including the capability of its leadership and the individuals within it
- managing risks and performance through robust internal control and strong public financial management
- implementing good practices in transparency, reporting, and audit to deliver effective accountability.

42. Each local authority should be able to demonstrate that its governance structures are consistent with the core and supporting principles contained in this framework. It should therefore develop and maintain a local code of governance reflecting the behaviours and outcomes set out.

43. The TSU will be preparing a response to the consultation on behalf of Audit Scotland. Auditors should advise the TSU if they have any comments on the proposals that they wish to be included in the response. Responses should be submitted to kerry.ace@cipfa.org by 28 September 2015.

New guidance on financial management of self-directed support

44. The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance on the financial management of self-directed support (SDS) for social care. Under SDS, local authorities are responsible for developing an appropriate support plan based on how each person wishes to receive support and the estimated cost of securing it. The guidance is in three parts

- Part I provides an overview of SDS
- Part II identifies the financial management implications arising from SDS
- Part III provides a self-evaluation framework.

45. Support options under SDS include

- the local authority making direct payment to the supported person
- either the local authority or the supported person selecting the support, and the authority making the arrangements for the provision of it.

46. A central financial management aspect of SDS is the need for an authority to determine the amount (referred to as the relevant amount) that it considers is a reasonable estimate of the cost of securing the provision of support. There is no set specified method that must be used for determining the relevant amount, and authorities are expected to develop an appropriate methodology.

47. Authorities should undertake regular verification of the relevant amount calculation to ensure that it is reliable and the factors affecting actual costs incurred are reflected in the calculation. The table at paragraph 43 of part II of the guidance outlines a potential approach.

48. Financial management monitoring arrangements are described in this guidance as obtaining evidence that the relevant amount has been used for the intended service purpose. The arrangements should be proportionate and appropriate to the risks to which public resources are exposed to.

49. There a number of financial management risks arising under SDS, and the following are discussed as paragraphs 110 to 144 of part II

- demand forecasting
- cost information
- budget methodology
- financial failure of third parties
- the supported person from fraud and corruption
- authorisation of payments.

50. Auditors should refer to this guidance when considering the financial management of self-directed support.

Pension funds

New framework for pension board members

51. CIPFA has issued a framework that sets out the knowledge and skills required for public service pension schemes' pension board members. The objectives of the *Local pension boards - a technical knowledge and skills framework* are to

- improve the knowledge and skills in all the relevant areas of activity of a pension board
- assist board members in achieving the degree of knowledge appropriate for the purposes of enabling them to properly exercise the functions of a member of the pension board.

52. The framework is intended to complement the *Pensions Regulator's Code of practice No 14: Governance and administration of public service pension schemes*.

53. Auditors should refer to this guidance when considering the pension fund governance statements.

Housing benefits

2014/15 HB COUNT

54. The Public Sector Audit Appointments Limited has issued the analytical review module of the 2014/15 HB COUNT. The tool enables auditors to review housing benefit (HB) subsidy claim forms by comparing 2014/15 information with 2013/14 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 2013/14 claim data is entered manually for comparison against 2014/15 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.

55. 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.

Guidance on supporting evidence for subsidy claims

56. The Department for Work and Pensions (DWP) has issued a bulletin to provide general information on various HB matters.

57. HB General information bulletin G8/2015: subsidy certification provides advice on alternative types of evidence that demonstrate that a claim was received when original HB claim forms are not available. These include

- letters from the claimant about changes in circumstances
- copies of information supporting income, capital or rent levels

- copies of records of reviews of the claim.

58. The bulletin also advises that notifications arising from *Real time information* (RTI) referrals which contain sufficient information to process a change to HB entitlement provide acceptable evidence to support that change in entitlement.

Guidance on effective dates

59. The DWP has issued clarification on the impact on effective dates when changes to non-social security income coincide with the April uprating of applicable amounts. HB circular A10/2015 April uprating: Clarification of effective dates for housing benefit advises that

60. where rent is charged on a weekly basis, April uprating and changes in the claimant's income normally take effect from the first Monday in April

61. Where rent is charged on a non-weekly basis and
    - there is a change in the claimant's rental liability during the first week in April, both changes take effect from the date of the rent increase
    - there is no change in the claimant's rental liability, uprating takes effect from 1 April and the increase in income takes effect from the first day of the benefit week following the date on which the increase to the income actually occurs.

Guidance on residence status for EEA nationals

62. The DWP has issued guidance on permanent residence status for European Economic Area (EEA) nationals. HB circular A8/2015 European Economic Area right to reside - permanent residence status explains that an EEA national who has permanent residence status does not need to satisfy any other right to reside conditions for HB purposes.

63. Since April 2006, EEA nationals and their family members acquire a right of permanent residence in the UK if they have resided in the UK
    - legally for a continuous period of 5 years
    - as a worker or self-employed person, or in other specified cases such as a student.

64. The guidance covers matter such as
    - absences during the 5 year qualifying period
    - circumstances where individuals can acquire a right to reside in the UK permanently with less than 5 years residence
    - cases where a benefit is sanctioned or disallowed.

Guidance on benefits for persons from abroad

65. CIPFA has published guidance on determining HB awards for persons from abroad. These are claimants who do not satisfy the required residency tests and are not normally entitled to receive HB or any other income-related benefit. There are however many exceptions this rule including

- people with leave to remain in the UK
- workers who are members of an EEA state
- people with refugee status.

2015/16 funding

66. The DWP has issued the following circulars announcing funding for local authorities in 2015/16

- HB circular S7/2015 New burdens payment for the real time information bulk data matching initiative announces additional funding to continue to action RTI referrals.
- HB circular S8/2015 Payment of new burdens relating to the Single Fraud Investigation Service for 2015/16 – revised announces additional funding to meet the costs of the introduction of the Single Fraud Investigation Service in 2015/16.

Auditor action checklist

	Yes/No/N/A	Initials/date	W/P ref
1 Have you carried out the action recommended at paragraph 50 in respect of the financial management of self-directed support?			
2 Have you carried out the action recommended at paragraph 53 in respect of pension fund governance statements.			

TSU contacts for local authority chapter

67. The contacts in the TSU for this chapter are

- Paul O'Brien, Senior Manager (Technical) - 0131 625 1795 or pobrien@audit-scotland.gov.uk.
- Tim Bridle, Manager - Local Government (Technical) - 0131 625 1793 or tbridle@audit-scotland.gov.uk.
- Anne Cairns, Manager – Benefits (Technical) - 0131 625 1926 or acairns@audit-scotland.gov.uk (for housing benefit).

Further education sector

Introduction

This chapter contains information on the main technical developments, and guidance on any emerging risks, in the quarter that are relevant to further education colleges.

It should be read by external auditors with appointments in the further education sector.

Guidance from TSU on emerging risks

Valuation of tangible fixed assets

68. Technical bulletin 2014/2 (paragraph 280) advised that, in accordance with the Government financial reporting manual (FReM), tangible fixed assets would be valued on current value basis from 2014/15.

69. The *2007 Statement of recommended practice: Accounting for further and higher education* (SORP) allows colleges to

- adopt a policy of revaluation; or
- hold assets at historical cost; or
- hold assets at their book amount on transition to *FRS 15 Tangible fixed assets*.

70. Where colleges have in previous years adopted either the second or third option allowed by the SORP, they will be required to move to a policy of revaluation (i.e. current value basis) in 2014/15. As this is a change in accounting policy, the move should be accounted for as a prior year adjustment in accordance with *FRS 3 Reporting financial performance*.

71. Auditors should confirm that colleges have valued their tangible fixed assets in accordance with the FReM, and have accounted for a prior year adjustment where required.

Accounting developments

General accounting

2014/15 accounts direction

72. The Scottish Funding Council (SFC) has issued their accounts direction for colleges for 2014/15. As in previous years, the direction requires colleges to comply with the SORP in preparing their financial statements. As a change in 2014/15, the direction confirms that colleges are also required to comply with the FReM in those areas not covered by the SORP. In cases where there is a conflict, the SORP will take precedence.

73. Colleges are required to prepare their annual report and accounts with a 31 July year end. This change means that the 2014/15 annual report and accounts will cover a 16 month period for most colleges. The comparative figures will relate to the 8 month period to 31 March 2014.

74. Specific mandatory disclosure requirements for colleges are set out in Appendix 2 to the direction. The most significant additional disclosure as a result of complying with the FReM is the need for a remuneration report. Appendix 4 includes an example remuneration report and colleges are also referred to the FReM and Employers pension notice 430 for additional guidance. The amounts disclosed should include a pro-rata annual equivalent.

75. Also in accordance with the FReM, Appendix 2 also requires details of the estates strategy to be disclosed in the operating and financial review (OFR).

76. The direction requires an explanation to be disclosed where a college has incurred a deficit as a result of spending cash funding originally provided to cover depreciation. An illustrative form of wording is provided at Appendix 5.

77. Colleges are required to include a statement covering the responsibilities of their governing body in relation to corporate governance. Appendix 3 sets out the required disclosures and refers colleges to the guidance in the Scottish public finance manual.

78. The first page of direction should be included as an appendix to the financial statements.

Guidance on 2014/15 financial statements

79. The SFC has issued guidance to supplement the 2014/15 accounts direction. Detailed notes for guidance on completion of the 2014/15 financial statements covers key disclosures in the financial statements, including model disclosure notes set out at Annexes A to H. In certain cases, the additional disclosures are required to reflect the situation in Scotland.

80. The guidance notes remain largely the same as 2013/14, but reflect the 16 month accounting period, and compliance with the FReM.

81. In addition, paragraph 21 has been amended to reflect the SFC's view that the requirement under *IAS 19 Employee benefits* to accrue for untaken annual leave at the year end applies to colleges in 2014/15.

Provisions and contingencies

Guidance for early retirement provision

82. The SFC issued Guidance for early retirement provision spreadsheet completion to advise that the suggested net interest rate for early retirement pension calculations in 2014/15 has been changed to 1.00%.

83. 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.

Auditing developments

Technical guidance notes

Audit of 2014/15 annual report and accounts

84. The TSU has published Audit of 2014/15 annual report and accounts (further education) - technical guidance note 2015/6(FE) to provide auditors with guidance on performing the audit of the 2014/15 further education annual report and accounts.

85. The technical guidance note comprises a number of modules that

- highlight what the TSU considers to be the main risks of misstatement in each financial statement area, explains the correct treatment, and sets out actions for auditors to consider.
- provides guidance on auditors' responsibilities in respect of auditing the regularity of transactions, the OFR, the remuneration report, and the governance statement.

86. Auditors should use the technical guidance note when performing the audit of the 2014/15 further education annual report and accounts.

2014/15 model independent auditor's reports

87. The TSU has published 2014/15 Independent auditor's report (further education) - technical guidance note 2015/7(FE) to provide auditors with the model independent auditor's reports which should be used for the 2014/15 annual accounts. The technical guidance note also provides application guidance on their use.

88. In the interests of consistency, auditors are required to use the model wording in the appendices to the technical guidance note as a condition of their audit appointment. The only exception is any amendments required to tailor the terminology to reflect local circumstances. It should be noted that the requirement to follow the model wording in the appendices applies to the 'Bannerman' paragraph. The previous dispensation which allowed minor wording changes no longer applies from 2014/15.

89. Any proposed modifications to any audit opinion or conclusion in the model reports, or the inclusion of 'emphasis of matter' or 'other matter' paragraphs, should be discussed with the TSU in advance of finalising the report.

90. Auditors should use this technical guidance note when reporting on the audit of the 2014/15 annual reports and accounts. They should complete the checklist at Appendix 3 which provides a list of the key auditor actions.

Auditor action checklist

	Yes/No/N/A	Initials/date	W/P ref
1 Have you carried out the action recommended at paragraph 83 in respect of the early retirement provision?			
2 Have you used the technical guidance note referred to at paragraph 86 when performing the audit of the 2014/15 further education annual report and accounts?			
3 Have you used the technical guidance note referred to at paragraph 90 when reporting on the audit of the 2014/15 further education annual report and accounts?			

TSU contacts for further education chapter

91. The contacts in the TSU for this chapter are

- Neil Cameron, Manager - Central Government and Health (Technical) - 0131 625 1797 or ncameron@audit-scotland.gov.uk.
- Helen Cobb, Technical Adviser (Central Government, Health and Further Education) - 0131 625 1901 or hcobb@audit-scotland.gov.uk.

Fraud cases

This chapter contains a summary of fraud cases arising at audited bodies that have recently been reported by auditors to the TSU.

Auditors should consider whether the weaknesses in internal control that facilitated each fraud may apply at their audited bodies and take the appropriate action.

Expenditure

Invalid social care payments

92. A couple defrauded £464,000 in independent living social care payments from a council over a nineteen year period.

Key features

A woman claimed independent living payments since 1996 to pay her carer, who was a family friend, on the basis that her husband was pursuing a career in the Territorial Army.

A social worker reported their suspicions to the council corporate fraud team, whose investigation established that the husband had not been in the Territorial Army since 1999. It is suspected that the family friend did not provide any care and passed the wages on to the couple, possibly retaining a percentage.

The fraud was possible as no evidence was obtained that the husband was serving in the Territorial Army.

The fraud continued for such a long period as social workers were apparently unsure to whom within the council to report their suspicions. A publicity campaign is ongoing within the council to raise awareness of fraud and how to report suspicions to the corporate fraud team.

TSU contact for fraud chapter

93. The contacts in the TSU for this chapter is Anne Cairns, Manager – Benefits (Technical) - 0131 625 1926 or acairns@audit-scotland.gov.uk.

Technical Services Unit

Audit Scotland's Technical Services Unit (TSU) informs the professional judgement of appointed external auditors on technical matters and encourages the proper exercise of professional scepticism 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 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.

Contact details for relevant TSU staff are included at the end of each chapter.

Feedback on technical bulletins is encouraged and should be sent to

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