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Foreword

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

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

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

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

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

General

Introduction

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

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

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

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note that the following articles in this chapter relate to 2009/10 audits

- fraud returns
- amendment to international financial reporting standard on first time adoption
- information sheet on *FRS 30 Heritage assets* and the Charities SORP.

There are also articles in this chapter on the following subjects: new international public sector accounting standards on financial instruments, and intangible assets; amendment to accounting standard on rights issues; proposed amendment to international financial reporting standard on provisions; proposed international public sector accounting standard on service concession arrangements; draft framework for the reporting entity; study on acquisitions accounting; auditing bulletin on reviewing going concern; new international assurance standard on controls at service organisations; proposed amendments to practice note on auditing public sector financial statements; planned statement on role of head of internal audit; and proposed revision to code of practice on freedom of information.

TSU developments

Responses to enquiries

The TSU operates a 'help-desk' for auditors which provides responses to ad hoc technical enquiries. Selected responses are added to the frequently asked questions section of the TSU intranet/extranet and include the following since the publication of TB 2009/4.

International financial reporting standards

When should the liability for voluntary redundancy termination benefits be recognised?

Under *IAS 19 Employee benefits*, termination benefits are payable as a result of an employee's decision to accept voluntary redundancy. They require to be recognised as a liability when the body is demonstrably committed to provide termination benefits as a result of an offer made in order to encourage voluntary termination of employment. A body is demonstrably committed to a termination when there is a detailed formal plan in place and there is no realistic possibility of withdrawal. The detailed plan requires to include

- the location, function, and approximate number of employees whose services are to be terminated
- the termination benefits for each job classification or function
- the time at which the plan will be implemented. Implementation should begin as soon as possible and the period of time to complete implementation should be such that material changes to the plan are not likely.

For there to be no realistic possibility of withdrawal, there must be an agreement with employees or their representatives or a constructive obligation based on, for example, business practice or custom.

In the TSU's view, therefore, it is not necessary for the offer to have been made to employees in order for bodies to be required to recognise the liability; only that they are demonstrably committed (as described in IAS 19) to making such an offer.

The measurement of the liability should be based on the number of employees expected to accept the offers. Where a significant degree of uncertainty exists over the numbers expected to accept the offers, a contingent liability exists.

Other guidance

Fraud returns

Auditors of local government bodies and non-departmental public bodies (NDPBs) are reminded that, in accordance with the *Code of audit practice*, they are required to report cases of fraud in excess of £5,000 discovered in audited bodies to the TSU. This requirement relates to frauds, or suspected frauds, involving the misappropriation or theft of assets or cash.

Auditors should have arrangements in place to be notified by audited body staff of all relevant frauds which are discovered. However, auditors may want to check that those arrangements are operating effectively and that they have been notified of all relevant frauds.

Accounting developments

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

Amendment to international standard on first time adoption

The International Accounting Standards Board (IASB) has issued *Limited exemption from comparative IFRS 7 disclosures for first-time adopters (Amendment to IFRS 1)* which contains a minor amendment to *IFRS 1 First-time adoption of international financial reporting standards* in respect of financial instrument disclosure.

The amendment relieves first-time adopters of international financial reporting standards (IFRS) from providing the additional requirements introduced by *Improving disclosures about financial instruments (Amendments to IFRS 7)* regarding enhanced disclosures about fair value measurements and liquidity risk. This means that first-time adopters benefit from the same transition provisions that the amendments to IFRS 7 provides to current IFRS preparers.

The effective date of the amendment is 1 July 2010, with earlier application permitted subject to EU approval.

New international public sector standards on financial instruments

The International Public Sector Accounting Standards Board (IPSASB) has issued three new international public sector accounting standards (IPSAS) covering all aspects of the accounting for, and disclosure of, financial instruments. The new IPSAS are primarily drawn from the IASB financial instrument standards but address a number of public sector issues. They apply for periods beginning on or after 1 January 2013 but earlier application is encouraged.

IPSAS 28 Financial instruments: Presentation

IPSAS 28 covers the presentation of financial instruments in the public sector. It is drawn primarily from *IAS 32 Financial instruments: presentation* but has the following main differences

- IAS 32 allows entities to treat financial guarantee contracts as insurance contracts where entities have previously made an assertion to effect. IPSAS 28 allows a similar election, except that entities need not have previously made an explicit assertion.

- IPSAS 28 does not distinguish between revenue and income, whereas in IAS 32 income has a broader meaning than revenue.

- IPSAS 28 provides transitional provisions for those entities applying this standard for the first time or those applying accrual accounting for the first time, whereas IAS 32 does not

IPSAS 29 Financial instruments: Recognition and measurement

IPSAS 29 covers the recognition and measurement of financial instruments in the public sector. It is drawn primarily from *IAS 39 Financial instruments: recognition and measurement*. However, IPSAS 29 addresses the following public sector issues

- Financial guarantee contracts provided for nil or nominal consideration, which have been a feature of government interventions during the current economic crisis. Generally, they are for very large amounts and could not be provided by private sector guarantors. IPSAS 29 provides guidance on the accounting treatment of such guarantees, both at initial recognition and subsequently.

- Concessionary loans granted or received at below market terms, often for social policy objectives. IPSAS 29 provides guidance on the determination of fair value, and also addresses the treatment of the difference between the fair value of a loan and the loan proceeds.

IPSAS 30 Financial instruments: Disclosures

IPSAS 30 covers the disclosure of financial instruments in the public sector, and is drawn primarily from *IFRS 7 Financial instruments: disclosures*. However, IPSAS 30 requires disclosure in respect of concessionary loans granted or received at below market terms.

New international public sector standard on intangible assets

The IPSASB has issued *IPSAS 31 Intangible assets* which covers the accounting for, and disclosure of, intangible assets in the public sector. The standard applies for periods beginning on or after 1 January 2011 but earlier application is encouraged. IPSAS 31 is drawn primarily from *IAS 38 Intangible assets*, but the main differences are as follows

- IPSAS 31 incorporates the guidance contained in the Standing Interpretation Committee's *Interpretation 32 Intangible assets - web site costs* as application guidance to illustrate the relevant accounting principles.

- An entity that recognises intangible heritage assets is required to comply with the disclosure requirements of IPSAS 31. IAS 38 does not have similar guidance.

- IAS 38 contains guidance on intangible assets acquired by way of a government grant. IPSAS 31 modifies this guidance to refer to intangible assets acquired through non-exchange transactions, and states that the cost is its fair value as at the date it is acquired.

- The examples included in IAS 38 have been modified to better address public sector circumstances.

The IPSASB is currently developing a conceptual framework that will define an asset in the public sector. The IPSASB will reconsider the applicability of IPSAS 31 to powers and rights conferred by legislation or constitution when the conceptual framework is issued and, accordingly, this version of the standard excludes from its scope such powers and rights.

Other changes to international public sector standards

The IPSASB has issued *Improvements to IPSASs* setting out various amendments to IPSAS. The changes are conforming adjustments that arise from minor changes to the equivalent IFRS, and include the following

- *IPSAS 16 Investment property* in respect of property under construction or development for future use as investment property, and investment property held under a lease

- *IPSAS 17 Property, plant and equipment* in respect of the sale of assets held for rental

- *IPSAS 25 Employee benefits* in respect of guidance on contingent liabilities.

The effective date of each amendment is included in the standard affected but is mainly 1 January 2011.

Amendment to UK standard on rights issues

The Accounting Standards Board (ASB) has issued *Amendment to FRS 25 (IAS 32) Financial instruments: Presentation - Classification of rights issues* which contains changes to *FRS 25 Financial instruments: presentation* in respect of accounting for rights issues for periods beginning on or after 1 February 2010. The amendment addresses the classification of instruments that give the holders the right to acquire an entity's own equity instruments at a fixed price (i.e. a rights issue) when that price is stated in a currency other than the entity's functional currency.

The amendment is concerned with a rights issue offered pro rata to all of an entity's existing shareholders on the exercise of which the entity will receive a fixed amount of cash for a fixed number of the entity's own equity instruments. Previously, such rights issues were accounted for as derivative liabilities. However, the amendment specifies that they should be classified as an equity instrument regardless of the currency in which the exercise price is denominated.

Proposed amendments to international standard on provisions

The IASB has issued proposed revisions to IAS 37 in respect of measuring liabilities in *Exposure draft - Measurement of liabilities in IAS 37 - Proposed amendments to IAS 37*.

IAS 37 currently requires an entity to measure a liability at the 'best estimate' of the expenditure required to settle the present obligation, but it is not clear what the that term means. The exposure draft proposes adding guidance specifying more precisely what entities should be aiming to measure, and how they should achieve that aim.

It is proposed that the overall measurement objective should be to measure the amount that the entity would rationally pay at the end of the reporting period to be relieved of the obligation. This would normally be the present value of the resources required to fulfil the obligation. Estimates of this amount would take into account the expected outflows of resources, the time value of money and the risk that the actual outflows might ultimately differ from those expected. Exceptionally, if the entity could cancel or transfer the liability for a lower amount, the liability should be measured at that lower amount.

Comments should be submitted via the IASB website by 12 April 2010.

Proposed international public sector standard on service concession arrangements

The IPSASB has issued *Exposure draft 42 Service concession arrangements: grantor* which contains a proposed IPSAS that sets out the accounting requirements of the public sector body in a service concession arrangement.

The proposed standard is intended to mirror the International Financial Reporting Interpretations Committee's (IFRIC) *Interpretation 12 Service concession arrangements*, which gives guidance on the accounting by operators in service concession arrangements. Accordingly, the scope, principle for recognition of an asset, and terminology are derived from IFRIC 12. However, while IFRIC 12 refers to the assets used in a service concession arrangement as infrastructure, this proposed standard refers to them as service concession assets.

The proposed standard requires the public sector body to recognise property used in service concession arrangements as assets when specified conditions are met, and to recognise certain liabilities and expenses associated with the arrangement. The proposed standard also specifies how to measure the carrying amount of service concession assets and liabilities, and revenues and expenses arising from the arrangement, and it requires specified disclosures.

As the proposed standard deals with the accounting issues of the public sector body, it addresses the issues identified in IFRIC 12 as follows

- The public sector body recognises a financial liability when it is obliged to make a series of payments to the operator for provision of a service concession asset. Under IFRIC 12, the operator recognises revenue for the construction, upgrade, and operation services it provides, and derecognises an asset that it held and recognised as property, plant and equipment before entering the service concession arrangement.

- The public sector body recognises a performance obligation when it grants the operator access to the service concession asset or another revenue-generating asset. Under IFRIC 12, the operator recognises an intangible asset.

- The public sector body derecognises an asset it grants to the operator and over which it no longer has control. Under IFRIC 12, the operator recognises the asset and a liability in respect of any obligations it has assumed in exchange for the asset.

Comments should be made via www.ifac.org by 30 June 2010.

Draft framework on reporting entity

The IASB has issued *Exposure draft - Conceptual framework for financial reporting - the reporting entity* as part of its project to develop a common conceptual framework with the US Financial Accounting Standards Board.

The exposure draft defines a reporting entity as area of economic activities whose financial information is useful to investors, lenders and other creditors who cannot directly obtain the information they need. It also states that a reporting entity must conduct economic activities that can be distinguished from other entities, and that financial information about the entity should have the potential to be useful in making decisions about providing resources to the entity and in assessing whether the management has made efficient and effective use of the resources provided.

The existence of a legal entity is neither necessary nor sufficient to identify a reporting entity, but most legal entities have the potential to be reporting entities.. A reporting entity can include more than one entity, or it can be a portion of a single entity if the economic activities of that portion can be distinguished objectively from the rest of the entity.

The exposure draft also states that an entity controls another entity when it has the power to direct the activities of that other entity to generate benefits for (or limit losses to) itself. If an entity that controls one or more entities prepares financial reports, it should present consolidated financial statements.

Comments should be submitted via the IASB website by 16 July 2010.

Study on acquisitions accounting

The Financial Reporting Council (FRC) has issued *FRC study: accounting for acquisitions* which assesses the quality of acquisition accounting and identifies any need for improvement. This arises from the *Companies Act 2006* which expanded the mandatory content of the business review included in the directors' report, and requires directors to report explicitly on the main factors likely to affect the company's future development; this should include the impact of major acquisitions. In addition, *IFRS 3 Business combinations* requires all business combinations to be accounted for as acquisitions, and other changes under IFRS to the definition of an intangible asset mean that more are likely to be recorded separately from goodwill e.g. brands, trademarks, customer and supplier contracts, licences and intellectual property.

This study assessed the quality of the information provided in the business review and the disclosures about individual intangible assets and goodwill recorded in the audited accounts. It found that it was difficult to identify the required accounts disclosures, and the information provided in the business review and the audited accounts was often either insufficient or inconsistent. Nearly all the companies included in the study gave an account of the reasons and expected benefits of the acquisitions in their business reviews, but the FRC were generally unable to find a coherent and consistent link to the intangible assets recorded.

The FRC intends providing this feedback to the IASB as part of its planned post-implementation review of IFRS 3.

Auditing developments

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

Bulletin on reviewing going concern

The Auditing Practices Board (APB) has issued *Bulletin 2009/4 Developments in corporate governance affecting the responsibilities of auditors of UK companies* to provide guidance on auditors' responsibilities for reviewing a listed company's going concern statement.

The updated bulletin has been issued in response to new guidance for directors issued by the FRC arising from the credit crisis (see TB 2009/4 – page 9). This bulletin clarifies the auditors' responsibilities in reviewing whether the directors' statements on going concern in their annual reports are consistent with that new guidance for directors.

The bulletin also provides guidance for auditors with respect to their responsibilities under the *Companies Act 2006* regarding corporate governance statements that the Financial Services Authority requires certain companies to make.

New international standard on controls at service organisations

The International Auditing and Assurance Standards Board has issued *ISAE 3402 Assurance reports on controls at a service organisation* on service auditors' assurance reports covering periods ending on or after 15 June 2011.

The standard deals with assurance engagements undertaken by a professional accountant in public practice to provide a report on the controls at an organisation that provides a service to user entities that is likely to be relevant to the users' internal control as it relates to financial reporting. It applies only when the service organisation is responsible for an assertion about the suitable design of controls. It states that the objectives of the service auditor are to obtain reasonable assurance and report as to whether

- the service organisation's description of its system fairly presents the system as designed in the specified period
- the controls related to the control objectives stated in the description were suitably designed
- the controls operated effectively to provide reasonable assurance that the control objectives were achieved.

The performance of assurance engagements requires the service auditor to comply with *ISAE 3000 Assurance engagements other than audits or reviews of historical financial information*. This new standard expands on how ISAE 3000 is to be applied in an assurance engagement to report on controls at a service organisation.

Proposed amendments to practice note on audit of public sector financial statements

The APB has issued *Practice note 10 Audit of financial statements of public sector bodies in the UK (revised) – consultation draft* which contains a proposed updated version of practice note 10. Practice note 10 contains guidance on the application of UK auditing standards to the audit of public sector bodies in the UK. It sets out the special considerations relating to the audit of public sector bodies which arise from individual standards.

The practice note is being updated to provide guidance on applying the new clarified UK standards (see TB 2009/4 – page 11), and to take account of a small number of legal and regulatory developments since the current edition of the practice note was issued. Most of the proposed amendments are conforming changes.

Comments should be sent to k.billing@frc-apb.org.uk by 9 April 2010.

Corporate governance developments

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

Planned statement on the role of the head of internal audit

The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued a paper on a planned statement on the role of the head of internal audit (HIA) in public service organisations. The purpose of the paper is to seek views on the proposed principles and issues to cover in the formal consultation due later this year. The statement's proposed underlying principles will be that the HIA

- is a senior manager with regular and open engagement with the leadership team of the body and the audit committee
- produces a risk-based audit strategy that reviews the whole range of controls and which supports the organisation's strategic objectives and adds value
- gives independent, evidence-based assurance that is a key part of the governance framework, and champions good governance across the organisation and with partners to secure effective outcomes and efficient and economical use of resources
- must lead and direct an audit function that is resourced to be fit for purpose, and be professionally qualified and suitably experienced.

The paper suggests that some of the key issues to address in the statement are the

- coverage of internal audit e.g. whether HIAs can cover all systems, including non financial ones, effectively; the HIA role in adding value; and the balance between being forward-looking and giving assurance on the current position
- position in the organisation, including who the HIA should report to, and the extent to which independence is achievable
- relationships with audit committee, other committees, external audit, general public
- skills of HIAs, and the qualifications and skills needed by staff.

Comments should be sent to clive.darracott@cipfa.org.uk.

Other developments

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

Treasury management

New code

CIPFA has published a revised edition of the *Treasury management in the public services: Code of practice and cross-sectoral guidance notes* to apply from 1 April 2010. The main purposes of the treasury management code is to assist public service organisations in the development and maintenance of clear objectives for their treasury management activities, emphasise the importance of effective risk management, encourage the pursuit of value for money in treasury management, and promote the reasoned use of appropriate measures of performance.

For the purposes of the code, CIPFA has defined treasury management as the management of the organisation's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. This definition is intended to apply to all public service organisations in their use of capital and project financings, borrowings and investments.

The code identifies the following three key principles (described as recommendations in the previous edition)

- Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

- Policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities. In a change from the previous edition of the code, this principle states that the appetite for risk should form part of the annual strategy and should ensure that priority is given to security and liquidity when investing funds.

- Public service organisations should acknowledge that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

The code recommends the form of words that organisations should adopt to define the policies and objectives of its treasury management activities. It also sets out a number of treasury management practices (TMPs) that should be adopted. The main changes from the previous edition are summarised in the following paragraphs

- The original code required two reports each year; one prior to the start of the financial year which set the strategy and one after the close of the financial year which reported operational activity compared to the strategy. The revised code requires that in addition, as a minimum, a mid year report should also be presented to the body responsible for approving the budget.

- As a new requirement, an organisation's strategy should identify the body responsible for the scrutiny of treasury management.

- The responsible finance officer is now required to ensure that appropriate training is available to help those responsible for treasury management to effectively discharge their duties. The code also stresses that those charged with governance should recognise their individual responsibilities to ensure that they have the necessary skills to complete their role effectively.

The accompanying guidance notes provide general background and explanatory information on the issues raised and recommendations made in the code. They also give suggestions for schedules to accompany the code's recommended TMPs and draw attention to features of treasury management that are particular to those individual parts of the public services covered by the code.

The new treasury management code and accompanying guidance notes will be available to inhouse audit providers from the TSU intranet in due course. Licensing restrictions prevent it from being available from the extranet, but it can be ordered from the CIPFA shop.

Charities

Information sheet on FRS 30

The Charity SORP Committee has issued *Information sheet 3 FRS 30 Heritage assets* to provide guidance on the application of *FRS 30 Heritage assets* to the *Accounting and reporting by charities – statement of recommended practice* (the charities SORP). The SORP Committee has concluded that there are no fundamental issues of principle arising as a result of FRS 30 which require a revision to the charities SORP. However, it was felt that the additional disclosures required by FRS 30 should be outlined to avoid any ambiguity in their interpretation or application.

The SORP already provides for disclosure relating to heritage assets including a narrative that enables users to appreciate the nature, scale, and age of the heritage assets. FRS 30 requires the following additional disclosures

- The financial statements should set out the entity's policy for the acquisition, preservation, management and disposal of heritage assets.

- Where heritage assets are reported in the balance sheet, the following should be disclosed

  - the carrying amount of heritage assets at the beginning of the financial period and at the balance sheet date, analysed between those reported at cost and at valuation

  - where assets are reported at valuation, sufficient information to assist in an understanding of the valuations being reported and their significance e.g. the date of the valuation, and details of valuer.

- Information that is helpful in assessing the value of those heritage assets that are not reported in the entity's balance sheet.

- A summary of transactions disclosing: the cost of acquisitions; the value acquired by donation; the carrying amount of disposals and the proceeds; and any impairment recognised in the period.

Freedom of information

Draft revisions to code of practice

The Scottish Government has issued *Freedom of information: revised code of practice for Scottish public authorities – consultation* which invites comments on a revised code of practice on freedom of information. It provides guidance for Scottish public authorities on discharging their functions under the *Freedom of Information (Scotland) Act 2002* and *The Environmental Information (Scotland) Regulations 2004*.

The revised code will supersede two existing codes issued under each piece of legislation. It is more concise than these codes as it avoids repetition of the statutory requirements contained in the legislation, and duplication with guidance that has been developed by the Scottish Information Commissioner. It stresses in particular the best practice to be followed in providing advice and assistance to requesters, and promotes the importance of proactively publishing information. Additionally, it sets clear expectations regarding the disclosure of the full financial implications of long term and high value contracts such as PFI/PPP contracts.

Responses were required by 5 March 2010.

Legislation

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

Statutory instruments

Public finance and accountability

The Budget (Scotland) Act 2009 Amendment Order 2009, SSI 434 came into force on 8 December 2009 and amended the *Budget (Scotland) Act 2009* in respect of 2009/10.

Publications

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

Audit Scotland

Improving public sector efficiency

This report *Improving public sector efficiency* provides a position statement on the first year (i.e. 2008/09) of the *Efficient government programme*. Key messages include the following

- The public sector has reported efficiency savings that are 57% higher than target. 30% of the savings have been delivered through better purchasing, better asset management and shared services, but there is still scope to increase savings from these areas.

- Planning for 2% efficiency savings each year will not be sufficient to bridge the gap between projected future spending and future funding, and a new approach is needed that fundamentally reviews priorities and the delivery of services.

- Public bodies still do not have sufficient information on unit costs and costs related to activity and quality of services. The public sector needs to understand better the relationship between these elements to get improvements in productivity and reductions in cost.

- Some public bodies have relied on non-recurring savings such as asset sales, but relying on one-off savings is not a sustainable option for the future.

- There is a continuing need for more and better coordination between public sector organisations to improve productivity and safeguard the quality of service delivery. Better coordination could provide more consistency in reporting efficiency savings and allow better sharing of good practice.

Protecting and improving Scotland's environment

This publication *Protecting and improving Scotland's environment* provides an overview of the Scottish public sector's performance against targets for improving the environment. Key messages include the following

- The overall quality of Scotland's environment is good but there is a risk that some targets will not be met.

- Better coordination of environmental and transport policies is needed to improve air quality.

- There is mixed progress in protecting and improving biodiversity.

- Councils' plans for waste management after 2010 are insufficient to meet European targets.

Shared services

Sharing the gain - Collaborating for cost-effectiveness

This publication from CIPFA called *Sharing the gain - Collaborating for cost-effectiveness* is intended to help local public service bodies take advantage of collaborative working opportunities. The guidance highlights that public service leaders and managers will need to explore whether greater collaboration with other bodies may be a way to reduce costs while maintaining service quality. Of particular interest, is the potential role of service sharing, both for customer-facing and back-office services.

The guidance has been designed to address users' needs across the whole lifecycle of a partnership project or shared service initiative. It reflects a number of key principles in how this should be approached, e.g.

- Making shared services happen demands leadership and drive from those at the top of the organisation.

- Partners need to understand where they are in cost and performance terms before embarking on change, and benchmark this with peer organisations.

- The underlying processes will usually need to be simplified and standardised before they are consolidated in a single shared service.

- Parties to the collaboration will need to migrate to a common technology platform.

A range of supporting documents and practical tools provide more detail on the issues discussed in the guidance. They include

- detailed analysis of a benchmarking exercise undertaken

- financial (spreadsheet) models and an accompanying model business case that support investment decisions and business case management

- a comprehensive set of best practice process designs for finance and related services.

Scottish budget

Scotland's budget documents – the 2009/10 spring budget revision

This publication *Scotland's budget documents – the 2009/10 spring budget revision* from the Scottish Government provides information in support of the spring budget revision for 2009/10.

Auditor action

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

Section	Action
TSU developments – Fraud returns	Auditors may want to check that the arrangements for being notified of fraud cases are operating effectively and confirm that they have been notified of all relevant frauds.

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Local authority

Introduction

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

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

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note that the following articles in this chapter relate to 2009/10 audits

- TSU guidance on procurement of police ICT equipment
- TSU guidance on police and fire injury benefits
- SORP guidance notes
- amendment to pension reserve regulations
- actuarial briefing notes on FRS 17
- consent to borrow to meet equal pay costs
- HB COUNT modules
- changes to whole of government accounts reporting.

There are also other articles on the following subjects: 2010/11 IFRS-based accounting Code; draft IFRS transition guidance; 2010/11 BVACOP; draft statutory guidance on short term compensated absences; proposed amendment to role of finance director statement and application note; consent to borrow to meet teachers' early retirement costs; new funding arrangements for police and fire pension schemes' new prudential code; revised subsidy arrangements for temporary accommodation; consent to borrow for equal pay; and new treasury management guidance notes.

TSU developments

Responses to enquiries

The TSU operates a 'help-desk' for auditors which provides responses to ad hoc technical enquiries. Selected responses are added to the frequently asked questions section of the TSU intranet/extranet and include the following since the publication of TB 2009/4.

Police

How should police authorities' agency agreement for ICT procurement be accounted for?

Police authorities procure ICT equipment through an agency agreement in place with the Scottish Police Services Authority (SPSA). The SPSA place orders and pay invoices for ICT goods and services on behalf of the police authorities who in turn reimburse the SPSA.

The police authorities represent the principal in this arrangement and should account for the expenditure as though it is incurred directly by them. Similarly, outstanding at the year end should appear on their balance sheet. The SPSA, as agent, will show only the balances due to suppliers and from forces.

Auditors of police authorities should confirm that their authorities are properly accounting for their ICT procurement.

Other guidance

Police and fire injury benefits

Auditors will be aware that police and fire injury benefits have not been paid as part of pension payments made under the pension regulations since 2006/07. Injury benefit for these services are instead paid under separate schemes established by *The Police (Injury Benefits)(Scotland) Regulations 2007* and *The Fire fighters' Compensation Scheme (Scotland) Order 2006* which took effect from 6 April 2006.

These injury benefit schemes are not included in *The Local Government Pension Reserve Fund (Scotland) Amendment Regulations 2010,* and therefore there is no statutory basis for the costs of the benefits paid under these schemes to be charged to the pension reserve rather than to the general fund. This causes an issue similar to that encountered in respect of the new police and fire pension schemes in 2008/09 which has now been resolved (see Other developments – Retirement benefits – Amendment to pension reserve regulations).

However, it is understood that the Scottish Government is preparing statutory guidance to enable police and fire authorities to charge these costs to an injury benefits adjustment account instead of the general fund. Further guidance will be issued by the TSU in due course.

Accounting developments

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

2009 SORP guidance notes

CIPFA has published the *Code of practice on local authority accounting in the UK – a statement of recommended practice – guidance notes for practitioners - 2009/10 accounts* (SORP guidance notes) which are intended to assist in understanding how to apply the accounting requirements of the 2009 SORP. The guidance notes provide background to the SORP's requirements and include detailed illustrations, but are not prescriptive.

The guidance notes can be downloaded by inhouse audit providers from the TSU intranet. Licensing restrictions prevent it from being available from the extranet, but it can be ordered from the CIPFA shop.

There have been a number of changes to the guidance notes to reflect changes to the 2009 SORP (see TB 2009/3 – page 23) and to clarify other matters. The main changes that auditors' attention is particular drawn to are summarised in the following paragraphs.

Private finance initiative

The most significant change is in respect of the accounting requirements for the private finance initiative (PFI) and similar contracts in Appendix E of the SORP which are no longer based on the FRS 5 but on an interpretation of *IFRIC 12 Service concession arrangements* contained in the *Government financial reporting manual*. Module 7 has been added to the guidance notes to give guidance in this regard, and the key points are summarised in the following paragraphs.

A service concession arrangement generally involves a local authority conveying to an operator the right to provide services to the public. The operator is generally involved in the development, financing, operation and maintenance of property used to deliver the public services and is paid by the authority over the period of a contract. Contracts only come within the scope of Appendix E to the SORP if two conditions are met, i.e. if the local authority controls

- or regulates the services the operator must provide with the property, to whom it must provide them, at what price, and where

- any significant residual interest in the property at the end of the term of the arrangement. The authority has full control over the residual value if title transfers at nil cost. It is less clear whether an option to acquire at fair value or a fixed price would be sufficient for an authority to be regarded as having control, and local judgement is required based on the nature of the rights given. Where there is little or no residual interest, the arrangement falls within the scope of the SORP if the first condition is met.

This means that PFI schemes will not automatically come within the scope of Appendix E, and some contracts that were not planned as PFI schemes could be caught. Similarly, contracts where other public bodies act as operators can come within its scope. It is expected that the properties used to deliver the PFI services which were previously ‘off balance sheet’ will generally be required to be recognised on local authorities’ balance sheets.

As well as property used by the public, qualifying assets also include property used for administrative purposes in delivering services to the public. The accounting treatment set out in the SORP applies to all property acquired, constructed or enhanced by the operator for the purpose of the PFI contract, including property to which the authority gives the operator access, and property provided by the operator that previously appeared on the operator’s balance sheet. Property transferred or sold by the authority to the operator that is not used in the scheme are not qualifying assets because the authority does not control them.

Qualifying property requires to be recognised as an asset of the authority when it is made available for use. Assets are required to be initially recognised and measured in accordance with the general requirements of the SORP, which will normally be at fair value; this equates to the cost to purchase the property. Assets should be subsequently accounted for in the same way as other assets in respect of depreciation, revaluation, and impairment. Separate assets should be recognised in respect of land and buildings where appropriate.

A related liability for the financing provided by the operator should also be recognised on the balance sheet, which should be initially measured at the fair value of the related asset. The liability should be reduced by an element of the contract payments made to the operator. In rare cases, contract payments are separately identified into a service element and a construction element (liability and interest). It is more likely that the contract payments are a unitary charge that cannot be separated, in which case the SORP requires authorities to divide it into the service element, liability, and interest by using estimation techniques. The guidance notes highlight that the unitary charge is likely to also include other elements such as contingent lease rentals and payments to fund capital lifecycle replacement. They recommend a process of removing the contingent lease rental, estimating the service charge element, identifying any payments for lifecycle replacement, and then deducting these sums from the unitary payment. The amount remaining after these sums have been deducted is the finance lease rental which requires to be analysed into elements for principal repayments and finance costs using the actuarial method.

The liability should also be reduced when the body makes a contribution to the operator, either in the form of cash or property, that will not be used to provide services under the arrangement. The amount of the reduction should be the contribution’s value as agreed in the operator’s financial model.

A local authority may provide the operator with access to existing assets of the authority that are not to be used in the PFI contract in exchange for reduced or eliminated payments

- Where the contract involves a permanent transfer, or a finance lease, the authority should account for the disposal of the asset, and recognise on the balance sheet the consideration received. Any difference between the carrying value of the asset given up and the consideration received should be recognised in the income and expenditure account.

- Where the asset provided by the authority is provided in the form of an operating lease, there is not a disposal of the asset. Over the lease period, the authority should recognise income from the lease in the income and expenditure account along with a corresponding expense in respect of a reduction in the liability to pay for the property.

Where the PFI contract is structured to require payments to be made before the related property is recognised as an asset, such payments require to be recognised as prepayments. At the point the property is recognised as an asset, the related liability should also be recognised, and the prepayments should be applied to reduce the outstanding liability.

Reorganisation

Module 4 paragraph E24 covers the 2009 SORP's new provisions relating to local government reorganisation. The provisions apply the 'machinery of government' principle to reorganisations that have been imposed by central government on local authorities, which means that merger accounting can be applied to reorganisations.

Transfers of assets and liabilities between authorities will usually be negotiated on a 'break-even' basis, and there will be no gain or loss to be recognised. If there is a gain or loss, it should be written off to the statement of movement. Once a transfer has been effected, the carrying amounts may need to be adjusted to comply with the receiving authority's accounting policies.

Non-domestic rates

Module 4 section CC covers the 2009 SORP's requirements that the collection of non-domestic rates (NDR) should be carried out by authorities as an agent on behalf of central government and should be accounted for accordingly. The amounts that authorities receive from the redistribution of rates collected nationally are not related to the activity of collecting amounts due from ratepayers and need to be accounted for separately. The accounting implications for collecting authorities are as follows

- There should be no income in the income and expenditure account for the NDR collected from taxpayers.

- The balance sheet should not include NDR arrears, the impairment allowance for doubtful debts, or prepayments and overpayments; these balances should instead be consolidated into a debtor/creditor for amounts due to/from central government

- In the cash flow statement, revenue activities should not include the cash received from NDR debtors and payments into the national pool but should rather include the difference between the two amounts as an increase or decrease in other liquid resources.

Aborted capital projects

Module 5 paragraph E8 covers costs incurred that relate to aborted capital projects that are written off to the appropriate service revenue account. Capital resources cannot be used to fund this expenditure, but where the expenditure was to be funded from a grant, the treatment depends on the terms and conditions e.g.

- Where the terms of a grant permit it to fund the expenditure in the revenue account, the proportion of the grant that is used to fund the expenditure should be accounted for as a revenue grant.

- Where the terms do not permit the grant to fund the expenditure in the revenue account, and require repayment, the authority should recognise a creditor.

- Where the terms do not permit the grant to fund revenue expenditure, but permit it to be retained, the grant should be retained in the grants unapplied account until it is applied to fund other capital expenditure.

Impairment

Paragraph F5 gives enhanced guidance on impairment issues in the context of the current economic climate. Although there is a presumption in the SORP that the values of assets will not change materially in a five-year period, authorities should consider revising asset values at each year-end if circumstances warrant this. The current economic climate has resulted in more volatile asset values, and authorities should therefore consider whether circumstances are such that an impairment is indicated. Local circumstances will determine whether asset values need to be revised, and therefore each authority will need to make its own decision as to whether this is appropriate. The guidance notes offer the following points

- Reviewing a sample of properties may provide sufficient evidence of the extent of any impairment and whether this would require recognition.

- Valuers should normally be involved in providing new values for assets where a material impairment to property is recognised.

- Where events occur after the balance sheet date that affect the valuation of an authority's assets, an authority should consider whether the event is an adjusting or non-adjusting event.

- Authorities should consider including an explanation in the explanatory foreword of the impact of the current economic climate on the authority and the services it provides.

Asset disposals

Paragraph G5 states that housing revenue account (HRA) assets disposed of under right to buy legislation should remain operational up to the point of disposal. This is on the basis that they require to be vacant to be treated as non-operational, and this will not happen in a right to buy disposal. They should therefore continue to be valued as operational properties, and there should be no revaluation in the balance sheet to a discounted right to buy figure.

Government grants deferred

Paragraph I45 clarifies some aspects of the treatment of government grants deferred, e.g.

- Where a government grants deferred balance is fully written down as a result of the authority's depreciation policies but the asset remains in use, no further transactions are required (i.e. part of the balance should not be reinstated for future amortisation).

- Where grants and contributions are received prior to work being undertaken, they cannot be credited to the government grants deferred account because no matching asset is recognised on the balance sheet. Therefore they should be credited to a grants and contributions unapplied account until the work has commenced (or to creditors if there are conditions on the grants or contributions that have not yet been met).

- Where authorities are unable to demonstrate that the balance on the government grants deferred account relates to particular assets due to events in the past, the grant should be derecognised in the balance sheet. This should be done either by crediting the income and expenditure account (which should reversed in the statement of movement on the general fund balance by a transfer to the capital adjustment account) or as a prior year adjustment.

Financial instruments

Module 6 F8 draws attention to changes to financial instruments standards that are applicable fully for the first time in 2009/10 which give some scope for authorities to manage their exposure to the implications of fluctuating investment values. Instruments can be reclassified out of fair value through profit or loss if they are no longer held for the purpose of selling or repurchasing them in the near term, if

- the instrument would have met the definition of a loan or receivable if it had not been required to be classified as held for trading (e.g. deposits made as part of a portfolio of funds held by investment managers; and

- an authority has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

Where an instrument is reclassified, this is achieved by reclassifying at fair value on the date that the instrument changes classes. Any amounts previously debited or credited to the income and expenditure account are not reversed.

Disclosure notes

Module 3 paragraph N37 in respect of the audit costs disclosure note contains a new recommendation that where no other services have been provided by external audit, authorities should either make a nil return in the note, rather than omit the line from the analysis, or add a narrative note explaining that no other services have been provided.

At paragraph N41, the illustration of the movement on fixed assets note has been remodelled to ensure that the brought-forward cost/valuation of each class of assets is clearly identified from accumulated depreciation. The intention is that impairments resulting from formal revaluations are recorded in the revaluation line of the cost/valuation section, with impairments being taken to the bottom half of the note only where they have not been measured as part of a formal revaluation.

N76 contains a reminder that information in the reserves note should separately disclose gains/losses credited to each reserve from amounts transferred to/from other reserves. Authorities may do this in a comprehensive note or through supplementary notes, and the guidance notes provide an example of the latter approach.

Auditor action

Auditors may find it useful to refer to the guidance notes when checking authorities' compliance with the requirements of the 2009 SORP.

2010/11 accounting code

The CIPFA/LASAAC Local Authority Code Board had issued the *Code of practice on local authority accounting in the UK 2010/11* (the Code) which is the first edition prepared based on IFRS. The Code specifies 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.*

The Code has been developed by CIPFA/LASAAC under the oversight of the Financial Reporting Advisory Board. For the first time, it is based on accounting standards issued by the IASB and interpretations of the IFRIC, and includes interpretations and adaptations of these standards. It draws on accounting standards issued by the IPSASB and the ASB, where appropriate.

The Code can be downloaded by inhouse audit providers from the TSU intranet. Licensing restrictions prevent it from being available from the extranet, but it can be ordered from the CIPFA shop.

The format of the Code differs from that of the UK GAAP-based SORP that applied in previous years e.g. chapters and sections are now more closely related with the relevant accounting standards, terms are defined at the start of each section or chapter, and disclosure requirements are included at the end of each section. Also, the move to the Code from the SORP results in a number of significant changes in accounting practice. Auditors' attention is drawn to the key accounting changes summarised in the following paragraphs.

Section 2.3 Government and non-government grants

The Code requires grants and contributions relating to capital expenditure to be recognised immediately as income in the comprehensive income and expenditure statement if there are no outstanding conditions (that could lead to it being returned) at the balance sheet date. If conditions remain outstanding, it should initially be recognised as part of capital grants receipts in advance, and transferred to the comprehensive income and expenditure statement once the conditions have been met.

The amounts recognised in the comprehensive income and expenditure statement are not permitted credits to the general fund and therefore require to be removed at the balance sheet date as follows

- If the expenditure to be financed has been incurred by the balance sheet date, the grant or contribution should be transferred from the general fund to the capital adjustment account.

- If the expenditure has not been incurred by the balance sheet date, the grant or contribution should be transferred from the general fund to the capital grants unapplied account.

The Code also requires donated assets (i.e. those transferred to the authority for nil consideration or less than fair value) to be recognised immediately at fair value in the comprehensive income and expenditure statement as income, except where the transfer has a condition that the authority has not satisfied, in which case it should be recognised initially in a donated asset account until they are met.

The SORP treats capital grants, contributions, and donated assets as deferred income credited to the government grants deferred account and recognised in the income and expenditure account over the useful life of the relevant asset.

Section 3.3 Accounting policies, changes in estimates and errors

The SORP requires authorities to correct prior period errors where they are fundamental. The Code requires only that the prior period errors should be material for them to be corrected.

The Code requires authorities to disclose the expected impact of new standards that have been issued that will be adopted by future editions of the Code. This requirement applies to accounting standards that come into effect for financial years commencing on or before 1 January of the financial year in question (i.e. on or before 1 January 2011 for 2010/11). The current SORP contains no such requirement.

Section 3.4 Presentation of financial statements

The core financial statements in the Code are the

- comprehensive income and expenditure statement which replaces the income and expenditure account and the statement of total recognised gains and losses. It shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation

- movement in reserves statement which, along with any related notes, replaces the statement of movement on the general fund balance and the note on the movement in reserves. It shows the movement on reserves, analysed between usable reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves

- balance sheet, which differs from the presentation requirements of the SORP as follows: the heading of tangible fixed assets has been replaced with property, plant and equipment; the heading of cash and bank has been replaced with cash and cash equivalents; there should be a line for assets which meet the criteria of being held for sale; the heading of government grants deferred account has been replaced with the donated assets account (for donated assets where any conditions have not been met) and capital grants receipts in advance (for capital grants where the conditions have not yet been met); reserves should be analysed between those that can be used to provide services (usable) and those that cannot (unusable)

- cash flow statement, which has a different format compared with under the SORP, and includes cash-equivalents.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. There are no strict criteria relating to items treated as cash equivalents and authorities will therefore be required to disclose the policy adopted in determining the composition of cash equivalents. The SORP does not use the concept of cash equivalents and requires the movement of cash to be reported in the cash flow statement and cash balances to be reported in the balance sheet.

The Code requires an authority to present a balance sheet as at the beginning of the earliest comparative period (i.e. a third balance sheet) when it applies an accounting policy retrospectively, makes a retrospective restatement of items, or when it reclassifies items. The SORP does not include this requirement. Authorities will also need to produce an opening IFRS-based balance sheet.

The Code introduces segment reporting and requires authorities to present an analysis of the income and expenditure (i.e. a subjective analysis) of each reportable segment that are reported as part of internal management reporting. A segment requires to be reported where its expenditure is 10% or more of the gross expenditure within the net cost of services; or its income is 10% or more of the gross income within the net cost of services. An authority may report segments that do not meet these criteria, either individually or combined with other segments. A reconciliation between the segment reporting analysis and the net cost of services in the comprehensive income and expenditure statement is also required.

Authorities may elect to present the group accounts alongside the single-entity accounts (i.e. a columnar approach) or as separate statements.

Section 3.9 Related party disclosures

The Code has different requirements to the SORP in relation to the disclosure of related party transactions and balances. The Code does not deem certain parties as related parties i.e. providers of finance in the course of their normal business, trade unions in the course of their normal dealings with an authority, and an entity with which the relationship is solely that of an agency.

Section 4.1 Property, plant and equipment

The Code introduces the concept of fair value as a basis of valuation for certain classes of property, plant and equipment. However, this is interpreted as the amount that would be paid for the asset in its existing use, which is the same basis used in the SORP.

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

The Code requires that land and buildings should be treated separately for depreciation purposes, and states that the only general ground for not charging depreciation is when the residual value of an asset is equal or greater than the asset's carrying amount.

The SORP requires the separate recognition of two or more significant components of an asset for depreciation purposes where the useful life is substantially different. However, the Code requires each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item to be depreciated separately. Where a component is replaced or restored, the carrying amount of the old component should be derecognised and the new component reflected in the carrying amount. This includes the derecognition of parts of an asset not previously recognised as a separate component. The new requirement for componentisation is applicable to enhancement and acquisition expenditure incurred, and revaluations carried out, from 1 April 2010.

The Code distinguishes a revaluation loss from an impairment loss by describing the former as a significant decline in an asset's carrying amount that is not specific to the asset. This distinction was not made in the SORP. The Code requires a revaluation loss charged to the comprehensive income and expenditure statement to be reversed where there is a subsequent revaluation gain on the same asset. Under the SORP, the gain had to be linked to the revaluation decrease.

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

The carrying amount of an item of property, plant and equipment should be derecognised on disposal or when no future economic benefits are expected.

Section 4.2 Leases and lease type arrangements

The SORP contains the requirement that if the present value of the minimum lease payments is 90% or more of the fair value of the assets to be acquired under the lease, it should be treated as a finance lease. The Code does not include this quantitative test and instead gives the following examples of situations that would normally lead to a lease being classified as a finance lease

- The lease transfers ownership of the asset to the lessee by the end of the lease term.
- The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value so as to make it reasonably certain the option will be exercised.

- The lease term is for the major part of the economic life of the asset.

- The present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset.

- The leased assets are of such a specialised nature that only the lessee can use them without major modifications.

Under the Code, the land and buildings elements of a lease should be considered separately for the purposes of lease classification. This requirement does not exist in the SORP. The land element is normally classified as an operating lease unless title is expected to pass to the lessee by the end of the lease term. Where the amount that would initially be recognised for the land element is immaterial, the land and buildings may be treated as a single unit. Separate consideration is also not required for investment properties. The minimum lease payments should be allocated between the land and the buildings elements in proportion to their relative fair values.

The Code requires finance income to be calculated so as to produce a constant periodic rate of return on the net investment. Under the SORP, finance income is calculated so as to give a constant periodic rate of return on the net cash investment. This difference in treatment may lead to income being recognised in different periods.

The Code specifies the accounting treatment for arrangements that do not take the legal form of a lease but which convey a right to use an asset in return for payment; this was not covered by the SORP. An assessment of whether an arrangement contains a lease should be made at inception and if so, the lease element should be accounted in the same way as for other leases.

Section 4.4 Investment property

The Code defines an investment property as one that is used solely to earn rentals or for capital appreciation or both; property that is also used to deliver services is not an investment property. The SORP requires investment property to be carried at the lower of net current replacement cost or net realisable value (effectively market value). The Code requires investment property, after initial recognition at cost, to be carried at fair value. However, this is not expected to result in any change to the carrying amount.

The Code requires changes to fair value to be recognised in the comprehensive income and expenditure statement, and then reversed out of the general fund to the capital adjustment account. The SORP requires revaluations of investment property to be adjusted through the revaluation reserve in the first instance.

The SORP requires investment property held on a lease to be depreciated when the unexpired term is 20 years or less. This requirement has been removed in the Code.

Section 4.5 Intangible assets

The Code requires strict criteria to be met before an internally generated intangible asset may be recognised. These criteria are met where an authority can demonstrate

- the technical feasibility of completing the asset so it will be available for use or sale
- its intention to complete the asset
- its ability to use or sell the asset
- how the asset will generate future economic benefits or deliver service benefits (either by demonstrating a market for the asset or the usefulness of the asset);
- the availability of adequate resources to complete the asset; and
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Provided these criteria are met, an authority may recognise an internally generated intangible asset. The SORP states that internally developed intangible assets should only be capitalised where there is a readily ascertainable market value, which is unlikely to occur in local authorities.

The SORP states that there is a rebuttable presumption that the economic lives of intangible assets are limited to periods of 20 years or less. No such presumption is included in the Code.

Section 4.7 Impairment of assets

The Code contains a requirement for an annual assessment to take place as to whether there is any indication that an asset may be impaired. If any indication exists, the recoverable amount should be estimated. There is no longer a specific requirement to undertake an impairment assessment of assets when either no depreciation charge is made on the grounds that it would be immaterial, or the estimated remaining useful life of the fixed asset exceeds 50 years. In addition, the Code does not exempt non-depreciable land from impairment reviews.

The SORP requires an impairment loss due to the clear consumption of economic benefits on a re-valued asset to be recognised in the income and expenditure account. The Code makes no distinction between impairments due to the clear consumption of economic benefit and other impairments (i.e. general fall in prices). The Code requires all impairment losses on re-valued assets to be recognised in the revaluation reserve up to the amount in the reserve for each respective asset. As a result of this change, the accounting entry required by the SORP between the revaluation reserve and the capital adjustment account, to reflect the difference between impairment based on historical cost and the re-valued amount, is no longer required.

Section 4.9 Non-current assets held for sale and discontinued operations

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

- The asset must be available for immediate sale in its present condition subject to terms that are usual and customary for sales of such assets.

- The sale must be highly probable; the appropriate level of management must be committed to a plan to sell the asset and an active programme to locate a buyer and complete the plan must have been initiated.

- The asset must be actively marketed for a sale at a price that is reasonable in relation to its current fair value.

- The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification and action required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

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

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

Immediately before the initial classification of an asset as held for sale, the Code requires the carrying amount to be measured in accordance with the relevant section of the Code. Following reclassification the subsequent amount of revaluation gains that can be recognised is limited to the cumulative impairment loss that has been previously recognised. The amount that can be recognised is not limited under the SORP.

An impairment loss or revaluation loss requires to be recognised in the comprehensive income and expenditure statement, even where there is balance on the asset's revaluation reserve. The 2009 SORP requires the losses to be recognised in the revaluation reserve. A non-current asset classified as held for sale should not be depreciated (or amortised in relation to intangible assets). The SORP states that assets held for sale are not exempt from depreciation.

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

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

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

Section 6.2 Benefits payable during employment

Under the Code, benefits payable during employment include short-term employee benefits and other longer-term employee benefits.

Short-term employee benefits are those (other than termination benefits) that are due to be settled within twelve months after the year end of the period in which the employee renders the service. They are not covered by the current SORP, and there is no UK accounting standard that deals with them. An approach based on the Code will necessitate a change in accounting policies for many authorities. A key difference is likely to relate to the treatment of short-term compensated absences that can be carried forward where the current entitlement is not used e.g. annual leave. Short-term accumulating compensated absences (e.g. annual leave and flexi-time) require to be recognised as a cost in the accounts for the year to which they relate. Where full holiday entitlement has not been taken by the financial year end, the cost of the untaken days should be calculated and charged to the comprehensive income and expenditure statement as a provision.

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

Other long-term employee benefits are those (other than post employment benefits and termination benefits) that do not fall due wholly within twelve months after the end of the period in which the employees render the related services. Other long-term employee benefits are accounted for on similar principles to post retirement benefits but a simplified method of accounting is used as

- actuarial gains and losses are recognised immediately in the comprehensive income and expenditure statement
- all past service cost is recognised immediately in the income and expenditure statement.

Long-term employee benefits are not covered by the SORP, except for disability benefits (called ‘incapacity benefit’ in the SORP), which are treated as a type of defined pension benefit. In the Code, they are not classed as a ‘post retirement benefits’ but the Code contains an interpretation that allows long-term disability benefits to be accounted as defined retirement benefits in certain circumstances.

Section 6.3 - Termination benefits

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

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

Under the SORP, the pension enhancement is recognised in the income and expenditure account on a straight-line basis over the period in which the increase in benefit vests. The Code requires that termination benefits should be charged to the comprehensive income and expenditure statement immediately whether they vest immediately or not.

Section 6.5 Pension fund accounts

The Code requirements for pension fund accounts are compatible with the SORP except that the Code requires the pension liabilities of the pension fund as a whole to be disclosed.

Section 8.2 Provisions, contingent liabilities and contingent assets

Provisions under the SORP were classified as long-term liabilities. Under the Code, provisions are presented on the face of the balance sheet as either current or non-current liabilities.

The Code requires provisions to be measured at the present value of the expenditure required to settle the obligation, where the time value of money is significant. This was not explicit in the SORP.

Chapter 9 Group accounts

While the Code and the SORP allow consolidation of financial statements where the subsidiary, associate or joint venture's period end is within three months before the period end of the authority, the Code also permits consolidation where their period end is within three months after the authority's reporting year end.

Under the Code, the calculation of the gain or loss on disposal of a subsidiary excludes goodwill previously written off to reserves. Under the SORP, goodwill previously written off to reserves is included in the calculation of the gain or loss on disposal.

The SORP's definition of an associate focuses on the ability to exercise significant influence over the entity, whereas under the Code the focus is on the power to participate in the financial and operating policy decisions.

Under the SORP, joint ventures are defined as an entity in which the reporting authority has an interest on a long-term basis and is jointly controlled by the reporting authority and one or more other entities under a contractual or other binding arrangement. The Code defines joint ventures as a contractual or binding arrangement whereby two or more parties undertake an activity which is subject to joint control. The SORP requires the use of the gross equity method for the consolidation of jointly controlled entities, while the Code requires the use of proportionate consolidation or equity method.

Auditor action

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

Draft IFRS transition guidance

CIPFA has issued a number of draft guidance notes on the transition to the IFRS-based Code, and they are summarised in the following articles.

Presentation of financial statements

This guidance highlights that amounts presented in the financial statements will need to be restated in line with section 3.4 of the Code. A spreadsheet accompanying the guidance provides a mapping of the single entity SORP income and expenditure account and statement of total recognised gains and losses to the Code comprehensive income and expenditure statement, and the single entity SORP balance sheet and cash flow statement to their Code equivalents.

Detailed guidance on most of the restatements is provided in other transition guidance. One specific restatement that is not covered elsewhere is the requirement to prepare the cash flow statement based on cash and cash equivalents. Authorities are required to reclassify short term investments as cash equivalents in accordance with their local accounting policy. Reclassifying items to cash equivalents is a change of accounting policy that will require authorities to restate their opening balances.

The cash flow statement under the Code balances to the total of cash and cash equivalents, rather than to the total of cash as was the case under the SORP. The comparative 2009/10 cash flow statement will therefore need to be restated in this regard, as well as to match the revised format under the Code.

The guidance also highlights that the balance sheet format in paragraph 3.4.2.53 of the Code incorrectly includes provisions within the current assets grouping, rather than current liabilities.

Property, plant and equipment

The guidance highlights that there may be a transition issue where assets are reclassified on transition to the Code, e.g. those classified as surplus or as investment property under the SORP (and therefore carried at market value) that do not meet the criteria under the Code. Such assets will need to be revalued from market value to existing use value.

Although authorities need only start following the Code's requirements for accounting for separate components of an asset and derecognising replaced components prospectively from 1 April 2010, authorities will need to consider the implications for managing their 2010/11 capital programmes, and for instructing valuers in relation to revaluations to be carried out during 2010/11. Component accounting will need to be considered for all classes of asset, including council housing.

Adjustments may be needed where a revaluation loss had been charged to the income and expenditure account and a subsequent revaluation gain on the same assets had been recognised in the revaluation reserve. The Code requires the gain to reverse the loss in the income and expenditure account, and then be transferred to the capital adjustment account. The opening balance sheet would need to be restated by debiting the revaluation reserve and crediting the capital adjustment account. The revaluation reserve was only introduced as at 1 April 2007, and as a revaluation gain in 2007/08 would require a revaluation loss to have been recognised earlier in the same year, in practice only revaluation gains during 2008/09 are likely to need to be considered. Comparative figures would have to be restated by debiting the revaluation reserve and crediting the comprehensive income and expenditure statement, and debiting the general fund and crediting the capital adjustment account.

Capital grants

The Code's requirements for capital grants and contributions, and donated assets, to be recognised either immediately in the comprehensive income and expenditure statement or, where any conditions have not been met, as receipts in advance is a change of accounting policy. The guidance highlights that this will require authorities to restate transactions, to present restated comparative balance sheets as at 1 April 2009 and 31 March 2010, and to present a comparative comprehensive income and expenditure statement for 2009/10.

When restating the opening balance sheet, any balances on the government grants deferred account (which represents income that is not subject to a condition that has already been used to fund capital expenditure) should be transferred to the capital adjustment account.

Grants and contributions unapplied at 1 April 2009 require to be reviewed to establish whether there are any conditions

- Where there is no such condition, the grant or contribution should be transferred to the capital grants unapplied account (and be presented in the reserves part of the balance sheet rather than in liabilities).

- Where a condition has yet to be satisfied, the grant or contribution requires to be transferred to the capital grants receipts in advance.

When restating the 2009/10 comparative figures, grants and contributions received and applied during 2009/10 should be transferred from the government grants deferred account to the comprehensive income and expenditure statement and, via the movement in reserves statement, to the capital adjustment account. The guidance also covers a number of other possible scenarios, including grants and contributions received in previous years but applied during 2009/10, received in 2009/10 with conditions outstanding at 31 March 2010 and received in previous years where conditions were satisfied in 2009/10.

Benefits payable during employment

Under the Code, it is likely that authorities will need to recognise an accrued expense for items such as untaken annual leave. The guidance advises that where annual leave (and similar benefits) are recorded in the HR or payroll system, this should be capable of providing evidence to enable a decision as to materiality to be made. Where the evidence is not available, a sample would be an acceptable way of providing an estimate of the scale of any possible accrual.

Where considered to be material, the restated IFRS-based opening balance sheet requires to recognise a provision for the amount by which the expenditure which would have been recognised had the Code always been in force exceeds the expenditure that was actually recognised in the accounts, with the double entry being to debit the general fund. This provision is then reversed in the 2009/10 accounts as the leave is taken, and replaced with an accrual for accumulated absences at 31 March 2010.

Statutory guidance will require amounts charged to the general fund to be transferred to the accumulated absences account. Although the statutory guidance takes effect on 1 April 2010, the guidance recommends that the effect is reflected in the restated opening balance sheet and the restated 2009/10 accounts.

The amount of the accrual for non-teaching staff should be calculated by multiplying the number of days to be accrued by the appropriate proportion of the annual salary as follows

- Where the employee's leave year is aligned with the financial year, the accrual will be based on any leave carried forward at the end of the leave year. Where the employee's leave year is not aligned with the financial year, the leave earned by the employee to 31 March will need to be calculated and compared with the leave taken by 31 March to establish whether leave is owed to or by the employee.
- Contracts of employment specify the rate at which leave is paid; this is usually 1/261 of the annual salary per day.
- The cost should reflect not just salary but also employers national insurance and pension contributions. Pay awards and increments that increase the salary in the following year, and any leave that may be lost, should also be taken into account.

The accrual required for teachers should be based on the difference between the number of days earned and the number of days holiday in the school year up to 31 March. Authorities therefore need to

- identify the number of term days between 1 September and 31 March
- multiply this figure by the rate at which leave is earned (0.3385 days for each day worked)
- compare this figure with the number of days holiday between 1 September and 31 March.

An accompanying spreadsheet provides examples of calculating the teachers' accrual.

It is likely that authorities will need to conduct a sample to establish the level of accrual required. Samples need to be representative of all groups of staff, and the size depends on issues such as the amount of expenditure and the expected level of leave.

The guidance also covers long-term benefits such as disability or injury benefits in respect of the police and fire and rescue services. The Code includes a rebuttable presumption that these benefits are not subject to the same degree of uncertainty as post employment benefits, and therefore requires gains and losses to be recognised immediately. However, the guidance considers that there will normally be sufficient uncertainty as to the measurement of the long-term benefits to rebut this presumption, which means the benefits should be accounted for in the same way as other benefits payable under the pension schemes.

Intangible assets

The Code requires authorities to recognise in their opening IFRS balance sheet all intangible assets which would have met the recognition criteria at the time the expenditure was incurred. As this includes the identification of separate research and development phases, the guidance expects that in most cases authorities would not have recorded information at the level of detail required to meet the criteria, and that therefore no intangible asset should be recognised.

However, where authorities do have the necessary data, the accounts should be restated to transfer expenditure from the general fund to intangible assets, and to reflect amortisation and loans fund charges.

Borrowing costs

The guidance highlights that the Code contains the same two options in respect of borrowing costs as the SORP i.e. to expense all borrowing costs as they are incurred, or to capitalise borrowing costs in respect of qualifying assets. Where an authority retains the same policy under the Code in 2010/11 that it applied under the SORP in 2009/10, there will be no transition issues in respect of borrowing costs.

Where an authority changes its accounting policy in respect of borrowing costs on transition to the Code, it will need to restate its accounts. In accordance with the Code, any change in accounting policy is to be applied prospectively from 1 April 2009, and therefore the opening 1 April 2009 balance sheet will not need to be restated. The 2009/10 comparative accounts will however need to be restated.

Impairment

The guidance highlights that the Code's requirement for all impairments to be recognised in the revaluation reserve up to the credit balance for that asset represents a change in accounting policy. However, no adjustments are required to authorities' opening balance sheet as the SORP required an adjustment between the revaluation reserve and the capital adjustment account that matches the adjustment that would otherwise be required on transition to the Code.

It may be necessary to restate comparative figures for 2009/10, and reduce any impairment loss recognised in the income and expenditure account to the amount of the impairment loss that takes the carrying amount below historical cost (i.e. the carrying amount of an asset as at 1 April 2007 or, if later, the date of acquisition, adjusted for subsequent depreciation or impairment), with the corresponding entry reducing the revaluation reserve. Further entries will be required in the movement in reserves statement to reverse

- the entries which negated the impact on the general fund
- the original entries associated with writing down the balance on the revaluation reserve to the capital adjustment account with regard to the impairment based on re-valued amounts.

It may also be necessary to restate comparative figures where impairments since 1 April 2007 have been reversed in 2009/10.

An accompanying spreadsheet provides worked examples.

Inventories

The guidance clarifies that both the SORP and the Code require inventories held for use in service delivery (e.g. fuel for vehicles, salt for gritting roads and consumables in schools) to be measured at the lower of cost and net realisable value, and therefore no transition requirements will arise. However, the guidance highlights the following three cases where restatement may be required

- Where credit terms were unusually long, the Code requires the carrying amount to be adjusted with the difference between the purchase price for normal credit terms and the amount paid. The financing element of the arrangement requires to be written down from the initial period of the arrangement to 31 March 2009. The SORP did not explicitly require authorities to separately account for the financing element and, in such cases, the cost of the inventories should be reduced to the purchase price for normal credit terms.
- Where authorities received inventories without paying for them or at a nominal price, the Code requires their cost to be measured at fair value as at the date of acquisition, which is usually the price at which they are normally sold.
- Where authorities hold inventories with the intention to pass them on either for no charge or for a nominal charge, the Code requires them to be valued at lower of cost and current replacement cost. The SORP required them to be valued at the lower of cost and net realisable value, and authorities may have written down the value to nil (or the nominal charge).

Post-employment benefits

The guidance clarifies that transition adjustments will only be required in respect of post-employment benefits where a pension plan is accounted for differently under the Code than under the SORP. As there are no changes to the accounting required for the local government pension scheme (LGPS), the police and firefighters' pension schemes, and the teachers' pension scheme, it is highly unlikely that any transition adjustments will be required.

Related party disclosures

The guidance advises that where authorities have previously disclosed related party information in relation to those entities which are not deemed by the Code to be related parties, the information need not be presented in the first set of IFRS-based financial statements (either in relation to 2010/11 or comparative information).

The difference between the SORP requirements and the Code requirements are presentational only; no transactions are required as part of the transition arrangements.

Financial instruments

The guidance explains that the Code does not permit local authorities to take advantage of the transitional provisions included in IAS 39 on financial instruments. This is because the SORP previously adopted FRS 26, which is almost identical to IAS 39, and it is therefore not appropriate to take advantage of provisions intended to be used by first time adopters of the standard.

The transitional arrangements in FRS 26, which did apply to local authorities when the SORP adopted FRS 26, are the same as those in IAS 39. Under the SORP, the transitional provisions meant that recognition and derecognition decisions prior to 1 April 2006 need not be reconsidered. The Code confirms that this provision continues to apply.

As a result, no transition requirements will arise in respect of financial instruments.

Group accounts

The guidance highlights that the Code applies *IFRS 3 Business combinations* prospectively from 1 April 2009, and therefore authorities will not need to restate acquisitions prior to that date. Although IFRS 3 will only apply infrequently, there are differences to the SORP in the timing of when fair value of assets, liabilities and goodwill are measured and recognised (i.e. where the acquisition takes place in stages).

Any other restated amounts will need to be presented in the opening 1 April 2009 balance sheet and the 2009/10 comparative accounts.

Where the authority's accounting policies have changed under IFRS, the group accounts will need to reflect these accounting policies. Where a subsidiary, associate or joint venture has not adopted the same accounting policies, the relevant amounts will need to be adjusted to bring them in line with the authority's revised accounting policies.

Housing revenue account

A mapping of the SORP housing revenue account statement to the equivalent Code statements is provided in a spreadsheet accompanying this guidance.

IFRSs with limited application to local authorities

Appendix A of the Code deals with accounting standards that have limited application to local authorities. As such, it is anticipated that there will be few transition issues and therefore the transition guidance sets out only brief guidance on these standards.

However, the guidance highlights that *IAS 12 Income taxes* is relevant where authorities prepare group accounts that include companies. Where local authority companies follow UK GAAP, adjustments may be required for current tax items as the presentation requirements are different, and to reflect differences in the treatment of deferred taxation.

Auditor action

Auditors may find it helpful to refer to the transition guidance when reviewing authorities restated opening balance sheets and comparative figures.

2010/11 BVACOP

The CIPFA has published *Best value accounting code of practice 2010/11* which sets out proper accounting practice for financial reporting below the level of the financial statements in 2010/11.

Most of the changes from the previous edition are to reflect changes to the IFRS-based Code, including changes in terminology, definitions and treatment of some items. Other changes include

- moving the definitions of different types of trading operations to a mandatory section
- a requirement for capital grants to be recognised corporately rather than at a service level
- clarification that members' allowances should be recorded in supplies and services in the recommended standard subjective analysis.

The 2010/11 BVACOP will be available to inhouse audit providers from the TSU intranet in due course. Licensing restrictions prevent it from being available from the extranet, but it can be ordered from the CIPFA shop.

Statutory guidance

Draft guidance for short term compensated absences

The Scottish Government has issued *Consultation draft – guidance on proper accounting practices – short term compensated absences* on the treatment of short term accumulating compensated absences under IFRS.

The value of the provision required by the Code is likely to be significant, and the Scottish Ministers consider that it should not be a charge to the general fund. A statutory intervention is therefore appropriate which will require authorities to make a statutory adjustment to exclude the value of this provision when determining the movement on the general fund for the financial year. The statutory adjustment will be held in a new accumulated absences account.

A sum equal to the provision made for short-term compensated absences and charged to the general fund in any financial year requires to be transferred to the accumulated absences account. In the following year, this amount will be transferred back to the general fund. This will mirror the transactions required to be made for this provision following proper accounting practices.

Comments were required by 5 February 2010. The statutory guidance will apply from 2010/11 and, where a prior year adjustment is required, also applies to those prior years.

Paper on need for other statutory guidance

LASAAC has issued a paper *IFRS: collation of additional evidence to identify possible areas for statutory intervention* which is intended to collect information on the need for further statutory intervention arising from IFRS in addition to that required for short-term accumulating compensated absences.

Some of the changes to existing accounting practice introduced by the IFRS-based Code have the potential to impact on funding. Where a significant impact on usable reserves is expected, the Scottish

Government has requested that local authorities provide evidence and quantification to support any request for statutory intervention to mitigate the effect. This paper highlights the key areas where implementation may affect usable reserves.

The paper notes that consideration is currently being given as to whether increments related only to length of service and additional leave entitlement should be treated as long-term employee benefits or as a change in an employee's rate of pay. The paper requests authorities to indicate the potential impact of treating these as long-term employee benefits.

Where the authority is the lessee in a lease agreement, subject to the implementation of the planned statutory guidance, any reclassification of leases between operating and finance leases is unlikely to have any significant impact. There may be an impact however where the authority is the lessor, as the principal repayment element of income from finance leases is treated as a capital receipt.

Responses were required by 29 January 2010.

Corporate governance developments

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

Proposed amendments to statement on finance director role

Draft revised statement

CIPFA has issued *CIPFA statement on the role of the chief financial officer in local government - consultation draft* to seek views on proposed amendments to the statement on the role of local government finance directors. CIPFA are updating their 2003 statement in line with the format and principles of the overarching statement on the role of the chief financial officer (CFO) in public services (see TB 2009/3 – page 15). The aim of the updated statement is to give detailed advice on how to apply the overarching statement within local government.

The statement uses the term CFO to apply to the most senior finance professional within a local authority, and sets out how the requirements of legislation and professional standards should be fulfilled by CFOs in the carrying out of their role. The statement sets out the five principles that define the core activities and behaviours of the CFO role and the organisational arrangements needed to support them. They are as follows

The CFO in a local authority

- is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest

- must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the organisation's financial strategy
- must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

To deliver these responsibilities, the CFO must

- lead and direct a finance function that is resourced to be fit for purpose
- be professionally qualified and suitably experienced.

For each principle, the statement sets out the governance arrangements required within an organisation to ensure that CFOs are able to operate effectively and perform their core duties. It also sets out the core responsibilities of the CFO role within the organisation.

Responses were required by 29 January 2010.

Draft application note

CIPFA has issued *Application note to delivering good governance in local government: a framework - consultation draft* to seek views on a draft application note on the statement on the role of the CFO in local government. The draft application note illustrates how the governance requirements to support the principles in the CFO statement build on the governance requirements that need to be reflected in an authority's local code set out in the *Delivering good governance in local government - framework*.

Authorities will be required to report publicly on compliance with the CFO statement in the annual governance statement. If their arrangements do not comply, they will be required to explain the reasons for this, and how they deliver the same impact as those in the statement. Local authorities will be required to consider very carefully the reasons for operating a different model and whether it really delivers the same level of assurance in practice.

The draft application note sets out an example annual governance statement included in the supplement to the governance framework that has been amended to reflect compliance with the CFO statement. It also provides a version of the tables contained in the guidance notes to the governance framework amended to include the expanded governance requirements from the CFO statement.

Comments were required by 29 January 2010.

Other developments

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

Retirement benefits

Amendment to pension reserve regulations

The Local Government Pension Reserve Fund (Scotland) Amendment Regulations 2010 have been issued to add the new police and fire pension schemes to *The Local Government Pension Reserve Fund (Scotland) Regulations 2003*. The 2003 Regulations require that, for the pension schemes listed in the regulations, any deficits or surpluses arising from compliance with *FRS 17 Retirement benefits* are not a charge to the general fund but are placed in a separate pensions fund reserve. The costs to be met by the general fund remain based on employer contributions and/or pensioner payments as required by statute.

During the audit of the 2008/09 accounts, it was identified that the 2003 Regulations had not been updated to include the schemes established by *The Firefighters' Pension Scheme (Scotland) Order 2007* and *The Police Pensions (Scotland) Regulations 2007*, and therefore they were not covered by the regulations (see TB 2009/3 – page 22). The amendment regulations correct this oversight with effect from 2009/10.

It should be noted that the new LGPS does not need to be included in the amendment as it was made under the *Superannuation Act 1972*, and is therefore covered by a general provision in the 2003 Regulations.

New actuarial briefing notes

Hymans Robertson has issued three briefing notes on the actuarial assessment of FRS 17-based figures for 2009/10 for the LGPS.

Briefing note - Local government pension scheme: FRS17 assumptions for 31 March 2010 outlines their approach to deriving the FRS 17 assumptions. It sets out the following rationale for their recommendations for each of the standard assumptions they use for all employers within the LGPS

- The rate for discounting liabilities is based on the yield available on a basket of AA-rated bonds (iBoxx Sterling Corporates AA over 15 year Index) and was 5.7% as at 31 December 2009. This is consistent with the yield available on a Government bond of a similar term to an LGPS fund (4.7% p.a.) adjusted for the additional return from the credit spread for AA corporate bonds (1% p.a.). Further consistency checks will be carried out near the end of March.
- The inflation assumption will be derived from the yields available on fixed interest and index linked bonds, and the rate is 3.8% p.a. as at 31 December 2009. This is consistent with the inflation curve sourced from the Bank of England, and further consistency checks will be carried out near the end of March.
- The post retirement mortality assumption will differ from that used in previous years, and will be based on the PFA92 and PMA921 year of birth tables. These assumptions lead to higher life expectancies than adopted in previous years which is likely to result in an increase of around 5% to FRS 17 liabilities.

- The expected rate of growth in real pensionable pay (i.e. in excess of inflation) will be in line with the most recent funding valuation (typically 1.5% p.a. ahead of prices) which is the same approach as previous years.
- The expected return on assets is taken from Hymans' proprietary asset model.

Briefing note - Local government pension scheme: Changes to the FRS17 process summarises changes to the process and delivery timescales for FRS17 reporting as at 31 March 2010. Rather than the standard delivery times of 20 working days from the receipt of clean data, Hymans are aiming to deliver reports in the week commencing 12 April to those clients who submitted their data in the standard data capture spreadsheet by 31 January 2010.

This does, however, mean that the FRS17 reports are based on data and cash flow information which is correct as at 31 December 2009 as opposed to 31 March 2010. In order to ensure that any changes in the data between these two dates will not have a material impact on the calculations, tolerance limits have been set.

Briefing note – Frequently asked FRS 17 questions contains answers to questions following previous FRS17 exercises and anticipates some questions for this year's disclosures.

Pension funds

Teachers' early retirement

The Scottish Public Pensions Agency (SPPA) has issued a letter on the early retirement options for teachers. It explains that there are currently the following two early retirement provisions permitted under *The Teachers' Superannuation (Scotland) Regulations 2005*

- Actuarially reduced pension (ARP), which is payable from age 55, and for which there is no cost to employing authorities as the payment of pension and lump sum is made by SPPA.
- Premature retirement, where the payment of the pension and lump sum is split, with the employer paying the difference between the total accrued pension and the ARP paid by SPPA. The employer must pay the mandatory compensation and may, at their discretion, credit the teacher with an additional period of service. From 6 April 2010, teachers must be over the age of 55 to be awarded premature retirement.

Employers can however purchase additional pension on a teacher's behalf as an enhancement for those taking early retirement on actuarially reduced terms. The cost of the pension purchase has to be paid as a one-off sum, and the teacher must be in employment when the pension purchase occurs. Employers must ensure that they get a signed undertaking from the employee that they are voluntarily retiring through the ARP route prior to purchasing the additional pension on their behalf.

Examples of costs involved for both premature retirement and pension purchase with ARP are given in the letter.

Teachers early retirement – consent to borrow

The Scottish Government has issued *Finance circular 7/2010 Consent to borrow under para 1(2) of Schedule 3 of the Local Government (Scotland) Act 1975 – early retirement of teachers* which sets out a proposed scheme to allow local authorities to borrow to meet teachers' early retirement costs.

The number of teachers coming out of training exceeds current demand, while many teachers are approaching retirement age. Authorities are addressing this issue by bringing forward early retirement arrangements for their staff, but some do not have sufficient revenue resources to meet the upfront cost.

The Local Government (Scotland) Act 1975 provides Scottish Ministers with the power to consent to a local authority borrowing to meet costs that they would not otherwise be able to meet from borrowing. Under the scheme, authorities with insufficient revenue resources may apply for consent to borrow to meet teachers' early retirement costs to be incurred in 2010/11. The decision on whether to provide consent will therefore be based on financial need. The Scottish Government requires applications in the form of a business case which provides specified information including

- details of the actions the authority has taken to address the issue of under-employed or unemployed teachers
- details of teachers' early retirement costs for which the application to borrow applies
- the financial circumstances of the authority which supports the need to borrow.
- confirmation that the early retirement costs meet the eligibility requirements.

The eligibility requirements are as follows

- The outgoing teacher must be replaced by a qualified teacher who is not currently employed by the council. The replacement must be effected by 31 March 2011.
- The post filled must be a permanent post.
- The retirement scheme must demonstrate that costs associated with the early retirement arrangements will be met by savings over time i.e. be cost-neutral for councils and council tax payers.
- Costs which relate to the administration of the introduction or operation of the early retirement scheme are not eligible for borrowing.

There are also limits to the early retirement costs that will be eligible for consideration and value for money must be demonstrated. The consent may only be applied to actual payments incurred, rather than any provision that has been made, and is only valid for the financial year in which it is issued. The authority may not generally utilise the consent in the same year as revenue contributions to the capital programme exist.

Within three months of each financial year end, the Director of Finance is required to advise the Scottish Government of the actual borrowing undertaken in respect of the consent, and to confirm that such borrowing has been used only for the expenditure as detailed in the consent letter.

The period for the repayment of the loans fund advance will be based on the business case, but will not exceed 10 years. Capital receipts may be used to meet the cost of the principal element of the loans fund advance.

Expenditure, for which consent is provided, should be charged to the income and expenditure account. This consent permits the general fund to be credited in the statement of movement in the general fund balance with the capital adjustment account being debited.

New funding arrangements for police and fire schemes

The Scottish Government has issued *Police circular 3/2010 Police pensions reform – guidance on new funding arrangements* to provide guidance on new funding arrangements for police officer pensions from 2010/11.

Currently, each police authority is responsible for paying the pensions of officers who retire on a pay-as-you-go basis, without the use of an employers' contribution. Officers' contributions are paid into police authorities' operating account (general fund) from which pensions awards are made, and police authorities receive funding to support pension payments. From April 2010, there will be new arrangements that affect the way that funding for police pensions in Scotland is managed and accounted for. Key aspects of these arrangements are briefly described in the following paragraphs.

There will be a fixed percentage employers' contribution based on an agreed percentage of pensionable pay set as a result of actuarial advice following regular valuations of the schemes.

A police pension account will be set up and maintained by each force. Payments into and out of the police pension account will be determined by regulations which require to be observed as representing proper accounting practice. The police pension account will record the cost of pensions for each financial year, and any surplus or deficit on the police pension account at the end of a financial year will be transferred to the operating account (general fund). The account requires to be disclosed as a note within the accounts.

The Scottish Government will provide funding to meet the costs of the pension provision as demonstrated by the police pension account. Grant will be provided initially based on estimates for employee contributions and 'top-up' to meet any expected shortfall in pension provision. At the end of each year, the police pension account will be used to determine if additional grant is required or if too much grant has been provided, which will be repayable to the Scottish Government.

Those amounts held within general fund reserves which relate to pension costs will be transferred into these police pension account on 1 April 2010. The value transferred should reflect all funding previously received from the Scottish Government relating to those persons eligible to retire prior to 1 April 2010 but who have deferred retirement i.e. legacy retirees. It should exclude any reserves relating to ill-health retirement and injury benefit. It should be noted that the pension reserve will be unaffected by the introduction of the police pension account and no transfers may be made from the pension reserve to the police pension account.

The new funding arrangements also apply to fire and rescue authorities. However, Orders were required to give the Scottish Ministers the power to make payments to these bodies.

Prudential framework

New prudential code

CIPFA has published a fully revised second edition of the *Prudential code for capital finance in local authorities* (the prudential code) to apply from 1 April 2010. Local authorities are required by regulation to have regard to the prudential code when carrying out their duties, under Part 7 of the *Local Government in Scotland Act 2003,* to determine and keep under review the maximum amount which they can afford to allocate to capital expenditure. The framework established by the prudential code is intended to support local strategic planning, local asset management planning and proper option appraisal.

The objectives of the prudential code are to ensure that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that authorities have fulfilled these objectives, the prudential code sets out the indicators to be used, and the factors to be taken into account. It does not include suggested indicative limits or ratios as these are for authorities to set themselves.

The code sets out a clear governance procedure for setting and revising prudential indicators and requires this to be done by the same body that takes the decisions for the local authority's budget i.e. usually the full Council. The CFO is responsible for ensuring that all matters required to be taken into account are reported to the decision making body for consideration, and for establishing procedures to monitor performance.

This second edition has been updated following consultation on its original implementation and the fall-out of the Icelandic Banks crisis. The key changes are summarised in the following paragraphs.

The key indicator for prudence is that the net external borrowing should not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. An addition to the prudential code is that any reduction in the capital financing requirement in any of these years should be ignored in estimating the cumulative increase in the capital financing requirement which is used for comparison with net external borrowing. There is also a new requirement to clearly state in the annual strategy the associated risks and benefits of a strategy where there is a significant difference between the net and the gross borrowing position.

The only remaining indicator in respect of treasury management is the adoption of the treasury management code. The other three treasury management indicators have been moved to that code where they are more appropriate (see Treasury management – New guidance notes).

There have also been changes to the definition of the following terms

- borrowing has been amended so that it excludes any accounting adjustments made, including premiums and discounts, transactions costs, accrued interest and effective interest rate adjustments
- capital expenditure has been amended to clarify that it includes any expenditure for which Scottish Ministers have provided a consent to borrow under powers contained in the *Local Government (Scotland) Act 1975*
- investment has been amended to clarify that it should exclude accrued interest, so that the resulting value is equal to the value of external investments including impairments.

There is now a separate section for local authorities with HRAs which contains the indicators for that account.

The revised prudential code will be available to inhouse audit providers from the TSU intranet in due course. Licensing restrictions prevent it from being available from the extranet, but it can be ordered from the CIPFA shop.

Benefits

2009/10 HB COUNT modules

The Audit Commission has issued the *HB COUNT modules for 2009/10* which set out Commission's approach to the audit of housing and council tax benefit (HB/CTB) subsidy claims. HB COUNT was designed by the Audit Commission but external auditors in Scotland also use the HB COUNT testing and reporting approach when certifying HB/CTB subsidy claims.

HB COUNT is set out in six modules which are updated and agreed with the Department for Work and Pensions (DWP) each year. The following have been issued

- Module 1 provides an overview of the approach and examples of qualification letters.
- Module 2 contains a checklist to help auditors ensure that the authority's system is using the correct benefit parameters to calculate benefit entitlement and for the authority to claim the correct amount of subsidy.

- Module 3 comprises workbooks to be completed for detailed testing, incorporating step-by-step guidance and a test result summary.

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

A key element of the HB COUNT approach involves taking a sample of 20 benefit cases from the audit trails supporting each of the headline cells for rent rebates, rent allowances and council tax benefit on an authority's subsidy claim form. In a change from 2008/09, the sample of 20 should be chosen at random, rather than selecting 10 news claims and 10 changes of circumstances. A further change from 2008/09 is that a sample case is defined by its case reference number. All benefit transactions in the year against the case reference number require to be tested. In 2008/09, cases were tested from the event that caused them to be included in the sample to the end of the accounting period or when benefit ceased.

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, amendments are agreed 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+ testing 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.

It may 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.

Revised subsidy arrangements for temporary accommodation

The DWP has issued *HB/CTB circular S7/2009 Housing benefit subsidy arrangements for temporary accommodation from April 2010* to explain the changes to the subsidy payable for housing benefit paid to customers living in temporary accommodation from April 2010. The new scheme amends the way subsidy is calculated, but it does not affect entitlement. The new subsidy arrangements will apply to all customers living in the following types of temporary accommodation

- board and lodging (including bed and breakfast) accommodation to discharge a homelessness function under the *Housing (Scotland) Act 1987*

- accommodation held by a local housing authority under licence provided to discharge a homelessness function under the 1987 Act

- accommodation held on a lease by a local housing authority for a period not exceeding ten years secured from a private landlord and accounted for outside the HRA.

Instead of limiting the amount of subsidy payable using thresholds and caps, the new scheme is based on whether the accommodation is self-contained, i.e. the claimant's household is not required to share a kitchen, bathroom or toilet with another household, as follows

- For customers placed in non-self contained accommodation (board and lodging or licensed), subsidy will be limited to the one bedroom self-contained local housing allowance (LHA) rate based on the location of the property.

- For customers in self-contained (short-term leased) accommodation, the maximum subsidy will be determined by using 90% of the LHA rate for the appropriate size of property plus an element for management costs (£60 per week).

Equal pay

Consent to borrow

The Scottish Government has written to authorities to advise them of the decision of Scottish Ministers regarding consent to borrow to meet expenditure relating to equal pay. The letters state the maximum amount that each authority may borrow relating to back pay costs actually incurred in 2009/10 and 2010/11. It also states the maximum repayment period for the loans fund advance made in reliance of this consent, which is generally between 5 and 20 years. The consent does not attract any Scottish Government loan charge support.

The general conditions applying to the consent are set out in *Finance circular 11/2009* (see TB 2009/4 – page 41), but the letters vary the conditions in one regard. While the circular states that no borrowing under this consent can be undertaken in a year where capital expenditure was funded by a contribution from revenue, the letter acknowledges this may be necessary under the statutory guidance on PPP/PFI schemes where lifecycle replacement costs are incurred and met from unitary payment. This restriction is therefore removed in relation to these costs.

Equal pay expenditure requires to be accounted for in accordance with the SORP, and charged to the income and expenditure account. The consent permits the revenue expenditure to be neutralised for council tax purposes with the capital adjustment account being debited (and the general fund credited) via the statement of movements on the general fund balance. This will increase the capital financing requirement under the prudential framework by the amount of the expenditure effectively being capitalised. A statutory charge for the repayment of debt requires to be made each year and charged to the general fund.

Treasury management

New guidance notes

CIPFA has published a revised edition of the *Treasury management in the public services – guidance notes for local authorities* which are intended to cover how local authorities could adapt the TMPs set out in the revised treasury management code (see General chapter – other developments – treasury management). They also draw attention to common practices and current issues particular to the treasury management activities of local authorities.

The notes explain that a number of treasury management indicators which formerly formed part of the prudential code are now more appropriately linked to the treasury management code. These are: interest rate exposures; maturity structure of borrowing; revision to limits on interest rate exposures and maturity structure of borrowing; and total principal sums invested for periods longer than 364 days.

The notes contain a new section on the risk management agenda which covers the impact on local authorities' policies and practices of the current economic climate. Authorities are advised that credit ratings should not be relied upon in isolation but should be considered alongside generally available market information. The section also discusses the techniques needed for local authorities to manage their risk exposures. It notes that authorities should not increase their risks beyond the underlying treasury exposures with a view to making profit or speculating.

The section on external service providers has been expanded and now requires authorities to be clear as to the services provided under contracts, and that these should be clearly documented. Attention should be paid to potential conflicts of interest, and establishing the degree of objectivity and independence which authorities can expect from advice given, and transactions executed by external service providers. It also notes external service providers support the authority's inhouse treasury management function but responsibility for treasury management cannot be delegated outside the authority.

The revised guidance notes will be available to inhouse audit providers from the TSU intranet in due course. Licensing restrictions prevent it from being available from the extranet, but it can be ordered from the CIPFA shop.

Whole of government accounts

Changes to 2009/10 requirements

The Scottish Government has issued a letter that advises of changes to whole of government accounts (WGA) requirements in 2009/10.

The deadline for completing the audited return has been brought forward to 30 September, and the audited return itself must be submitted to the Scottish Government no later than 1 October. Although, the Scottish Government would like the unaudited returns to be available from 30 June, they have retained the existing deadline for submission of unaudited returns as 31 July.

The letter also highlighted the following changes that will be made to the 2009/10 WGA return

- The cash flow statement will be subject to audit.
- Additional disclosures will be required for financial instruments.
- highways infrastructure assets will require to be valued on a depreciated replacement cost basis (see following article).

The opening balances will be pre-populated and based on the 2008/09 audited return except for those local authorities that did not meet the submission deadline, in which case unaudited figures will be used. Any differences between the unaudited and audited opening balances will need to be adjusted by authorities.

Auditors should ensure they plan to meet the amended submission deadline.

Highways infrastructure assets

HM Treasury has issued a paper *Whole of government accounts - Accounting for highways infrastructure assets in the local authority sector on a depreciated replacement cost basis - Interim accounting arrangements for the period up to 2012/13* that sets out interim arrangements for the collection, auditing and reporting of local authority highways infrastructure accounting data for WGA purposes. The accounting policy for valuing infrastructure assets that has been adopted for WGA is the depreciated replacement cost (DRC) basis. Local authority infrastructure assets are currently accounted for on an historic cost basis, and will not move to a DRC basis until 2012/13. The paper sets out the following interim arrangements for WGA purposes until 2012/13

- 2009/10 - Local authorities will be requested to supply gross replacement cost (GRC) estimates, calculated on the basis set out in the *Transport infrastructure assets code,* for their road, pavement and certain other assets on common schedules. The requirement for this data will be included in the annual WGA data collection exercise that local authorities are required to complete, but auditors will not be asked to express an opinion on this data.

- 2010/11 - A similar approach to that for 2009/10 will be adopted. However, auditors will be required to review reported GRC balances and provide a report on the processes adopted, and the quantity and quality of the information. This will not form part of the formal opinion on WGA returns.

- 2011/12 - This is a full dry run year. WGA consolidation packs will include a requirement for full DRC balances, including lands valuations. Auditors will again provide a report on the processes adopted and the quantity and quality of the information.

- 2012/13 - The WGA financial statements will be prepared with local authority highways infrastructure assets on a DRC basis, with auditors providing a full opinion on their valuation and disclosure. Comparative data from the 2011/12 dry run will be used.

Legislation

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

Statutory instruments

Rating and valuation

The Non-Domestic Rate (Scotland) Order 2010, SSI 36 comes into force on 1 April 2010 and prescribes a rate of 40.7 pence in the pound as the NDR to be levied for 2010/11.

The Non-Domestic Rate (Levying)(Scotland) Regulations 2010, SSI 43 comes into force on 1 April 2010 and provides for the NDR payable in certain circumstances in 2010/11

- Regulation 3 provides for the general reduction in rates for a ratepayer of non-domestic subjects with a rateable value of £18,000 or less. Regulation 3(2) sets out the reduction on a sliding scale of between 25% and 100%.

- Regulation 4 provides a formula for the additional amount payable as rates for lands and heritages with a rateable value exceeding £35,000.

Local government

The Local Government Pension Reserve Fund (Scotland) Amendment Regulations 2010, SSI 34 come into force on 31 March 2010. See Other developments – Retirement benefits - Amendment to pension reserve regulations.

The Local Government (Allowances and Expenses) (Scotland) Amendment Regulations 2010, SSI 45 come into force on 5 April 2010 and amend the principal 2007 regulations by introducing

- an option for local authorities to publish the annual records of payments to members in a format of their choice
- a new allowance for travelling by boat payable only to Islands Councils members.

The Local Government Finance (Scotland) Order 2010, SSI 46 came into force on 11 February 2010 and determines the amount of the revenue support grant (RSG) payable, and NDR income to be distributed, to each local authority for 2010/11, and redetermines RSG payable for 2009/10.

Housing

The Housing Revenue Account General Fund Contribution Limits (Scotland) Order 2010, SSI 62 comes into force on 1 April 2010 and provides that local authorities must not include in their estimates for 2010/11 any contribution from their general fund to their HRA.

Police

The Police Grant (Scotland) Order 2010, SSI 64 comes into force on 1 April 2010 and determines the amount of police grant to be paid in 2010/11.

Pension

The Firefighters' Pension Scheme (Scotland) Order 2007 Amendment Order 2010, SSI 65 comes into force on 1 April 2010 and provides power for the Scottish Ministers to make payments to fire and rescue authorities to meet their pension liabilities under the 2007 Scheme. See Other developments – Pension funds – New funding arrangements for police and fire schemes.

The Firefighters' Pension Scheme Amendment (Scotland) Order 2010, SSI 66 comes into force on 1 April 2010 and provides power for the Scottish Ministers to make payments to fire and rescue authorities to meet their pension liabilities under the 1992 Scheme. See Other developments – Pension funds – New funding arrangements for police and fire schemes.

The Police Pensions Amendment (Scotland) Regulations 2010, SSI 85 comes into force on 1 April 2010 and amend the principal 1987 regulations by

- giving senior police officers the right to retire on or after reaching the age of 50 years, if they give 6 months notice to the police authority and are not subject to any disciplinary proceedings. This amendment has effect from 1st April 2004 until 30th September 2006

- allowing a police authority to disapply the regulation which limits the size of lump sum for which a police officer with less than 30 years' service can commute his or her pension, in the limited circumstances where the officer retires one day before reaching 30 years' service, and below the age of 50.

Key circulars

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

Finance circulars

Finance circular 14/2009 Redeterminations of general revenue funding for 2008/09 and 2009/10 provides details of redeterminations of general revenue funding for 2008/09 and 2009/10.

Finance circular 1/2010 Local government finance settlement: 2010/11 etc provides a summary of the figures contained in *The Local Government Finance (Scotland) Order 2010*, together with details of individual allocations of total revenue and capital support for 2009/10 and 2010/11.

Finance circular 2/2010 Non domestic rates: statutory instruments summarises a number of NDR statutory instruments in respect of 2010/11.

Finance circular 7/2010 Consent to borrow under para 1(2) of Schedule 3 of the Local Government (Scotland) Act 1975 – early retirement of teachers. See Other developments – Pension funds – Teachers early retirement – consent to borrow.

Benefits circulars

HB/CTB circular S7/2009 Housing benefit subsidy arrangements for temporary accommodation from April 2010. See Other developments – Benefits – Revised subsidy arrangements for temporary accommodation.

Police circulars

Police circular 3/2010 Police pensions reform – guidance on new funding arrangements. See Other developments – Pension funds - Guidance on new funding arrangements for police scheme.

Publications

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

Audit Scotland

An overview of local government in Scotland 2009

This publication *An overview of local government in Scotland 2009* draws on the local government audit work carried out in 2009 and other performance information published during the year. Key messages include the following

- The audited accounts for 2008/09 showed a relatively stable position in councils. However, the overall level of reserves fell for the first time in recent years and some councils are using capital reserves to support service expenditure.

- Councils consistently met the statutory requirement to prepare accounts by 30 June, but there is scope to improve how the year-end financial position is reported to elected members. Some auditors are concerned that the annual accounts may be viewed as purely a technical exercise by officers and that the central role of the annual accounts in financial governance may not be understood.

- Unmodified audit opinions were issued for all councils except Shetland Islands, where the auditor reported concerns relating to group accounting and the accounting treatment of the council's financial assets. The accounts for half of the police and fire and rescue boards were also qualified as a result of pension-related issues specific to these services.

- 84% of significant trading operations (STOs) achieved their statutory requirement to break even over a rolling three-year period. The number of STOs is now around half that in 2004/05.

- More progress is needed by councils to develop asset management strategies.

- Falling investment values and income for the 11 local government pension funds in Scotland saw the gap between assets and pension liabilities rise by 128% to nearly £3.1 billion at 31 March 2009. During 2008/09, councils' pension contributions increased by around £43 million to £610 million.

- The *National fraud initiative* data matching exercise had identified since May 2008 a further £14 million of savings from overpayments due to error or fraud by the end of 2009.

Auditor action

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

Section	**Action**
TSU developments – Responses to enquiries - Police	Auditors of police authorities should confirm that their authorities are properly accounting for their ICT procurement.
Accounting developments – 2009 SORP guidance notes	Auditors may find it useful to refer to the guidance notes when checking authorities' compliance with the requirements of the 2009 SORP.
Accounting developments – 2010/11 accounting code	Auditors should confirm that their authorities are making the necessary arrangements to comply with the new requirements in the Code.
Accounting developments – Draft IFRS transition guidance	Auditors may find it helpful to refer to the transition guidance when reviewing authorities restated opening balance sheets and comparative figures.
Other developments – Whole of government accounts - Changes to 2009/10 requirements	Auditors should ensure they plan to meet the amended submission deadline for 2009/10 WGA returns.

Health

Introduction

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

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

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note the following articles in this chapter are of relevance to 2009/10 audits

- TSU guidance on consolidation of NHS charitable funds
- TSU guidance on recognition and measurement of assets
- NHS leadership development strategy
- guidance on consultation with stakeholders
- guidance on pay bands for professionals who operate autonomously
- arrangements for provision of family health services during pandemic flu
- changes to NHS pension scheme
- changes to *Agenda for change* handbook
- executive and senior manager remuneration
- NHS owned dental premises.

There are also articles on: pharmacy remuneration arrangements; 2010/11 pay uplift for staff covered by *Agenda for change;* chronic medication service framework; patient registration with dentists; car park management policies; and NHSScotland's annual report 2008/09.

TSU developments

Responses to enquiries

The TSU operates a 'help-desk' for auditors which provides responses to ad hoc technical enquiries. Selected responses are added to the frequently asked questions section of the TSU intranet/extranet and include the following since the publication of TB 2009/4.

Financial statements

Should NHS charitable funds be consolidated in the 2009/10 financial statements of boards?

IAS 27 Consolidated and separate financial statements provides guidance on the preparation and presentation of consolidated financial statements for a group of entities under the control of a parent, and applies in full to all bodies covered by the Government financial reporting manual (FReM). The Financial Reporting Advisory Board (FRAB) considers that NHS charitable funds fall within the scope of the standard due to the lack of a separation of control between NHS boards and Trustees of the charitable funds.

However, the TSU has been advised that the FRAB has approved a derogation from the FReM (at the request of the Treasury and the Scottish Ministers) in respect of NHS charitable funds. This means that NHS charitable funds should not be consolidated within the accounts of the board. Boards should make appropriate disclosure of the relationship and any transactions between the board and the charitable fund in accordance with *IAS 24 Related party transactions* and disclose the divergence from the FReM within the accounting policies. It is anticipated that the Scottish Government Health Department (SGHD) will issue guidance relating to the disclosure of NHS charitable funds.

Auditors should confirm that their boards are aware that charitable funds should not be consolidated within their financial statements but that there is a requirement to make appropriate disclosures.

Property, plant and equipment

Can a hospital site be treated as a single asset for depreciation purposes?

The *NHS capital accounting manual* suggests that any block or asset capable of separate valuation, disposal or demolition, should be treated as a discrete asset. The depreciated replacement cost valuation methodology employed by the appointed valuers analyses property by separate 'elements' relating to the buildings and the plant or engineering integral to the building. In the TSU's view, it would be inconsistent with the valuation methodology required by the *NHS capital accounting manual* to treat an entire hospital site as a single asset.

Auditors should confirm that their boards' policies on the recognition and measurement of property plant and equipment are consistent with the requirements of the *NHS capital accounting manual*.

Governance developments

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

Corporate governance

NHS leadership development

The SGHD has issued *Delivering quality through leadership – NHSScotland leadership development strategy* which sets out a framework to give a national approach to leadership development in NHSScotland. The strategy aims to ensure that leadership development is aligned with the new strategic direction and priorities of NHSScotland. It recognises that it must be driven by sustainable service strategies aligning future service and workforce needs, patient focus and greater public involvement.

The strategy sets out the direction of travel for leadership development in NHSScotland over the next three years, and sets out the qualities required to deliver the change agenda in health, along with a code of personal governance. The following priorities for action are identified

- working with partners to drive cultural change in support of high quality services
- building leadership and organisational development capacity and capability
- developing current leaders and teams
- nurturing the supply of future leaders
- evaluating the impact of leadership development.

The accompanying implementation plan is based on the overall direction and priorities established in the strategy, and provides a practical action plan setting out the timescales for required actions.

Guidance on consultation with stakeholders

Revised guidance on the requirement for boards to engage with stakeholders on the delivery of local healthcare services and potential service change has been provided in *CEL(2010)4*. The guidance sets out a step by step guide through the process to involve people in designing, developing and delivering health care services. Boards are required to work closely with their community planning partners and should use public partnership forums, established by community health partnerships, to provide a mechanism for promoting the routine involvement of local people.

Boards are responsible, under equalities legislation, for ensuring that the process to inform, engage and consult is fully accessible to all. Any potentially adverse impact on different groups should be taken into account by undertaking an equality impact assessment.

The Scottish Health Council (SHC) was established to ensure that boards meet their patient focus and public involvement responsibilities. When a board proposes a major service change, it should work with the SHC to ensure that potentially affected people and communities have the information and support they need to play a full part in the consultation process.

Boards are required to seek advice from the SGHD on whether a service change is considered to be major and, for those that are, Ministerial approval on the board's decision will be required.

Other developments

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

Pay modernisation and workforce planning

Pharmacy remuneration arrangements

The SGHD issued two letters regarding the remuneration arrangements under the community pharmacy contract.

PCA(P)(2009)20 provides details of the financial support available to pharmacy contractors for staff training. Each community pharmacy will be eligible to claim up to £800 towards the costs of staff attending approved training courses. The claim and payment process will be managed by NHS Education for Scotland (NES), and payment will be made on the submission of a claim form and eligible evidence of staff attendance.

NES has prepared a chronic medication service (CMS) implementation resource pack to enable community pharmacists to provide CMS as a core service within the pharmacy contract in NHSScotland. *PCA(P)(2010)3* advises boards of a one off payment of £1000 for the completion of the pack. To qualify for the payment, eligible contractors must

- ensure all pharmacists and support staff have completed the requirements of the resource pack by 1 June 2010
- certify that an appropriate action plan has been prepared, and that all new staff will receive appropriate training

- complete and return the form included as an annex to the letter to Practitioner Services Division (PSD) by 7 June 2010.

Guidance on professionals operating autonomously

CEL(2010)1 provides updated guidance on the terms and conditions of health care professionals who operate autonomously. The NHS job evaluation scheme placed all healthcare professionals with a graduate qualification on pay band 5. However, some staff, such as midwives, operate with a level of autonomous decision-making which exceeds that normally associated with jobs at band 5. In such circumstances, the job should be reviewed between one and two years from the date of qualification. If the evaluation demonstrates that the employee can work autonomously, they should move to pay band 6 without the need to apply for a post at a higher level.

Boards are required to ensure that there are processes and procedures in place, which satisfy their clinical governance arrangements, that identify and approve that an individual is able to work autonomously.

Pandemic flu guidance

The SGHD issued two letters on the arrangements for the provision of family health services during the influenza pandemic.

PCA(M)(2009)17 provides details of phase 2 of the pandemic influenza vaccination programme. Phase 2 of the scheme covered children aged between 6 months and five years old, and boards were required to invite GP practices to participate in this phase under a local enhanced service. The recommended fee for GPs is £5.25 for each dose administered, and boards are being funded at this rate.

PCA(P)(2010)1 advises boards of an amendment to the drug tariff in respect of contingency arrangements for pharmacy contractors where normal arrangements have to be suspended. Where contractors are unable to meet their terms of service, or PSD is unable to make payments in the normal way, temporary payment arrangements may be required.

The amendment to the drug tariff details contingency payment arrangements that would be brought into effect to make boards the determining-authorities in these circumstances. The contingency arrangements include the authority for boards to

- vary the level of payments to contractors until circumstances revert to normal

- make a payment to contractors who are temporarily closed as a result of pandemic flu

- make special advance payments to reflect the increased levels of drug purchasing activity.

NHS pension scheme

The principal 2008 NHS pension scheme regulations have been amended by *The National Health Service (Superannuation scheme, pension scheme, injury benefits and additional voluntary contributions)(Scotland) Amendment Regulations 2010* to allow eligible 1995 scheme members the choice of which section (i.e. 1995 section or 2008 section) of the scheme to participate in. The amendment regulations come into force on 26 February 2010 but some provisions have retrospective effect to 1 April 2008 or 1 October 2009.

The amendment allows eligible members of the 1995 section of scheme (i.e. set up under *The National Health Service Superannuation Scheme (Scotland) Regulations 1995*) to choose whether to transfer their service to the 2008 section of the scheme (i.e. set up under *The National Health Service Pension Scheme (Scotland) Regulations 2008*) or retain the benefits of the 1995 section. Eligible members are those who are active in the 1995 Section on or after 1 October 2009. The key features of the 2008 section in contrast with the 1995 section are

- a normal retirement age of 65 (as opposed to 60)
- a pension equal to 1/60th of final pay for each year of membership (as opposed to 1/80$^{th)}$
- more flexible retirement options including the ability to exchange pension for a lump sum and take part pension and continue working (as opposed to a fixed lump sum).

Chapters have been inserted into the 2008 regulations which contain specific provisions covering the choice 1995 section members will have and the transitional arrangements for such members who decide to move all their benefits.

The regulations have also been amended in respect of the calculation of mixed final salary and career average benefits for practitioner members. Independent general medical and dental contractors pension benefits are generally based on career average earnings but most general practitioners also accrue benefits on a final salary basis. The amendments supplement the provisions in the principal regulations for the calculation of final retirement benefits in these circumstances by enhancing the indexation of final salary benefits. The percentage applied to contractors career average earnings would be 1.4% under the 1995 section and 1.87% under the 2008 section.

There are a number of consequential and technical amendments made as a result of the changes.

Changes to *Agenda for change* handbook

PCS(AFC)(2010)1 informs employers of changes to the *Agenda for change terms and conditions of service handbook*. There are a significant number of changes, and the main ones include

- general updating to take account of equality legislation

- replacing references to A*genda for change* with the 'pay system set out in the handbook'
- the inclusion of a frequently asked questions section
- extending the terms of reference of the NHS Pay Review Body to cover all staff except doctors dentists and very senior managers (which should be taken to mean the executive and senior management cohorts). This change means that the Pay Negotiating Council will no longer have a role.

However, existing national and locally agreed systems of remuneration for on-call should continue until 31 March 2011, when the national review will be completed.

2010/11 pay uplift for staff covered by *Agenda for change*

PCS(AFC)(2010)2 informs boards of changes to the pay and terms of conditions for all staff covered by the *Agenda for change* agreement which take effect from 1 April 2010. As part of the 3-year pay settlement which is in place covering 2008/09 to 2010/11, the national salary scales will increase by 2.25%. Pay points 1 to 12 will receive a flat rate increase of £420.

The national recruitment and retention premium will increase to £3,277, with the premium payable to healthcare chaplains increasing by 2.25%. On-call allowances should also increase by 2.25%

2009/10 executive and senior manager remuneration

CEL(2010)6 announces amendments to the pay arrangements for those on the executive and senior management pay scales with effect from 1 October 2009. For 2009/10, pay ranges have been increased by 1.5% at the minimum and maximum for grades A to C. There has been no increase to the minima or maxima for grades D to I.

There is no provision for non consolidated performance payments in respect of performance in 2008/09. No employee will receive more than the maximum consolidated salary for their pay range. The consolidated pay progression increases are being applied from 1 October 2009 based on performance in the year 2008/09. The consolidated percentage increases based on individual manager's performance markings are

- nil for an unacceptable marking
- 1.5% at grade A to C and nil for grade D to I for a marking of incomplete
- 3.4% at grade A to C and 1.9% for grade D to I for a marking of fully acceptable
- 3.9% at grade A to C and 2.4% for grade D to I for a superior marking

- 4.4% at grade A to C and 2.9% for grade D to I for an outstanding marking.

Managers on personal protection who are at the maximum of their personal salary are eligible for a 1.5% consolidated uplift effective from 1 October 2009, unless their performance is rated as unacceptable. Managers not at their maximum protected salary should have their maximum increased by 1.5% and the appropriate consolidated uplift should then be applied.

Finance

Car park management

CEL(2010)2 requests boards to report on their car parking management policies. All boards are expected to have a statement clearly setting out their policy in this area. Boards who formerly charged for car parking have been asked to inform the Scottish Government whether their policy has been fully developed and implemented. In particular, those boards should report on

- the effectiveness of zoning and the use of time limits
- the arrangements for staff parking
- whether civil penalty notices are used
- whether the policy has been or will be extended to all sites.

Capital

Construction procurement policy

CEL(2009)50 notifies boards of the results of a review of the construction procurement policy for NHSScotland. The policy and guidance issued in 2001 is superseded by the mandatory procedures set by the Scottish Government's C*onstruction procurement manual* with immediate effect. The manual requires to be followed regardless of whether the construction project is within delegated limits or subject to SGHD approval.

Projects which fall within the delegated limits are subject to the SGHD's *Capital investment group business case* approval process. The *Scottish capital investment manual* provides additional guidance in an NHS context.

Family health services

Chronic medication service

The SGHD has issued the framework for the CMS element of the community pharmacy contract within NHSScotland in *Establishing effective therapeutic partnerships*. The CMS aims to develop the role of community pharmacists in the management of patients with long term conditions. The core objectives are to enhance self care, document pharmaceutical care, provide continuity of care and facilitate partnership working. There are three stages to the CMS

- the electronic registration of patients with long term conditions at a community pharmacy of their choice
- a generic framework for pharmaceutical care planning undertaken through an initial assessment by the pharmacist. The pharmacist will identify and prioritise pharmaceutical care needs and document these in a pharmaceutical care plan.
- Shared care which allows the GP to produce a serial prescription for up to 48 weeks to be dispensed at appropriate intervals by the community pharmacist.

The focus on partnerships between the GP, community pharmacist and patient facilitates the policy of shifting the balance of care for those with long term conditions. It should also improve the efficiency of information transfer and data capture and help prevent adverse drug reactions.

Patient registration with dentists

PCA(D)(2010)1 advises boards of changes to the continuing care and capitation period for NHS dental services from 1 April 2010. *The National Health Service (General Dental Services)(Scotland) Amendment Regulations 2010,* amend the principal regulations to remove all references to lapsing of a registration period. This will mean that from 1 April 2010 patients would be registered for life with a dentist.

Continuing care and capitation payments will be made monthly for all patients registered with a dentist. Where a patient has not attended the dentist for 3 years or more, the fee will reduce to 20% of the relevant fee for that patient. Payments will return to the full amount on receipt of a claim form for that patient. PSD will provide monthly advance notification of those patients whose payments will reduce to 20% within a year. The first notification of payments reducing within twelve months will be given with the March 2010 payment schedule.

NHS owned dental premises

Advice on the terms of occupation which should be put in place when general dental practitioners (GDPs) occupy premises are owned by a board is provided in *PCA(D)(2010)2*. One of the priorities of the primary care premises modernisation programme is to develop NHS owned accommodation to be occupied by GDPs. The Central Legal Office has developed a statement of principles which should be considered in developing customised tenancy agreements in each specific case. The issues covered by the statement of principles includes

- the duration of the lease and the notional rent
- the amount of non-NHS provision allowed and the arrangements to be put in place to monitor this
- set up and equipment costs.

The decision to review existing arrangements in line with the statement of principles is at the boards' discretion.

Performance management

NHSScotland annual report 2008/09

The *NHSScotland Chief Executive's annual report 2008/09* has been issued to give the progress made in delivering the *Better health, better care* strategy in 2008/09. The report highlights progress towards the development of a patient-centred NHS including the development of a new patient bill of rights and direct elections to NHS boards.

There were 30 HEAT targets in 2008/09 which were used to identify progress in implementing the key strategies for NHSScotland. The performance highlights in 2008/09 included

- delivery of the 62 day cancer target
- improvements in hospital waiting times and a reduction in healthcare acquired infections
- achievement of financial balance and delivery of the 2% cash releasing efficiency savings.

Legislation

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

Statutory instruments

National health service

The National Health Service (Charges for Drugs and Appliances)(Scotland) Amendment Regulations 2010, SSI 1 comes into force on 1 April 2010 and amends the principal regulations by reducing prescription charges. Charges are reducing from £4 to £3, and the costs of prescription prepayment certificates are being reduced to £28 for a twelve month certificate and £10 for a four month certificate. The charge for a prescription form from elsewhere in the United Kingdom will reflect the English rate.

The National Health Service (Superannuation scheme, pension scheme, injury benefits and additional voluntary contributions)(Scotland) Amendment Regulations 2010, *SSI 22* came into force on 20 February 2010. See Other developments – Pay modernisation and workforce planning – NHS pension scheme.

The National Health Service (Appointment of Consultants)(Scotland) Amendment Regulations 2010, SSI 28 come into force on 1 April 2010 and amend the 2009 regulations by requiring consultants to be on the specialist register before they take up a consultant post.

The National Health Service (General Dental Services)(Scotland) Amendment Regulations 2010, SSI 33 come into force on 1 April 2010. See Other developments – Family health service – Patient registration with dentists.

The Personal Injuries (NHS Charges)(Amounts)(Scotland) Amendment Regulations 2010, SSI 42 come into force on 1 April 2010 and amend the principal 2006 regulations to increase the charges which a person who pays compensation to an injured person must pay for NHS treatment. The increases are as follows

- The charge for each use of ambulance services is increased from £171 to £177.
- Where the injured person receives NHS treatment but is not admitted to hospital is increased from £566 to £585.
- The daily charge for in-patient treatment is increased from £695 to £719.
- The maximum charge is increased from £41,545 to £42,999.

National health service/ Representation of the people

The Health Boards (Membership and Elections)(Scotland) Act 2009 (Commencement No2) Order 2009, *SSI 433* came into force on 1 January 2010 and amended the *National Health Service (Scotland) Act 1978* to add members of committees and sub-committees of health boards as persons the Scottish Ministers may pay remuneration to.

The Health Board Elections (Scotland) Amendment Regulations 2010, SSI 58 came into force on 15 February 2010 and amended the principal 2009 regulations to set out modifications to the offences relating to health board elections and specify that a voter may vote only once in a health board area and in no more than one health board area.

Key circulars

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

Chief executive letters (CEL)

CEL(2009)50 *Review of construction procurement policy for NHSScotland*. See Other developments – Capital – Construction procurement policy.

CEL(2010)1 *Development of professional roles and accelerated career progression – Annex T*. See Other developments – Pay modernisation and workforce planning – Guidance on professionals operating autonomously.

CEL(2010)2 *Car park management at NHSScotland healthcare sites*. See Other developments – Finance – Car park management.

CEL(2010)4 *Informing, engaging and consulting people in developing health and community care services*. See Governance developments – Corporate governance – Guidance on consultation with stakeholders.

CEL(2010)6 *Pay and conditions of service executive and senior management pay 2009-10*. See Other developments – Pay modernisation and workforce planning – 2009/10 executive and senior manager remuneration.

PCA

PCA(M)(2009) 17 *Pandemic influenza phase 2 of H1N1 vaccination programme – local enhanced service and guidance for health boards*. See Other developments – Pay modernisation and workforce planning – Pandemic flu guidance.

PCA(P)(2009)20 *New community pharmacy contract – infrastructure support – staff training*. See Other developments – Pay modernisation and workforce planning – 2009/10 pharmacy remuneration arrangements

PCA(P)(2010) 1 *Pharmaceutical services – Pandemic flu and other emergencies contingency arrangements*. See Other developments – Pay modernisation and workforce planning – Pandemic flu guidance.

PCA(P)(2010)3 *Quality evaluation and development payment for completion of CMS implementation resource pack*. See Other developments – Pay modernisation and workforce planning – 2009/10 pharmacy remuneration arrangements

PCA(D)(2010) 1 General dental services The National Health Service (General dental services)amendment regulations 2010 – introduction of non-time limited registration. See Other developments – Family health service – Patient registration with dentists.

PCA(D)(2010) 2 General dental services Terms of occupation for independent GDPs occupying premises owned or controlled by NHSScotland. See Other developments – Family health service – NHS owned dental premises.

PCS

PCS(AFC)(2010)1 Changes to Agenda for change terms of service handbook. See Other developments – Pay modernisation and workforce planning – Changes to *Agenda for change* handbook.

PCS(AFC)(2010)2 Pay and conditions for NHS staff covered by the Agenda for change agreement. See Other developments – Pay modernisation and workforce planning – 2010/11 pay uplift for staff covered by *Agenda for change*.

Publications

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

Audit Scotland

Managing NHS waiting lists

This report *Managing NHS waiting lists* examines whether boards are complying with *New ways* guidance for managing patients and recording information. It also looked at how the new arrangements affect patients. The key messages include the following

- *New ways* introduced significant changes to the way patient waits are managed and stopped people remaining on waiting lists indefinitely. Boards have done well to implement the new arrangements.
- Boards are recording most of the information required under the new guidance but there are some gaps. Boards should record all the data required by the guidance and improve systems for recording patients additional needs and put appropriate support in place
- Information for and about patients needs to improve to ensure that the new system operates effectively. Boards need to communicate well to avoid any confusion or delays that may affect patients being able to attend, and this communication should take account of patients needs.

International financial reporting standards

This *NHS IFRS briefing paper 7* from the Audit Commission considers the findings from auditors' review of NHS bodies in England's restated comparatives for the 2009/10 accounts and the issues to be resolved before preparing their first full IFRS compliant statements. Auditors considered the following financial reporting issues to be the most significant

- Recognition, measurement and disclosures of lease arrangements. Bodies did not complete a full review of their contracts and arrangements, or had insufficient evidence to support their classification. A particular issue related to the treatment of payment to GPs for the premises used to deliver NHS services as, in a number of cases, bodies did not disclose operating leases in respect of the premises.

- Problems regarding the *Local improvement finance trust* (LIFT) scheme. This included: delays in guidance from the Department of Health; failure to get asset valuations; basis of recognising LIFT assets (Department of Health subsequently clarified that it should be fair value rather than cost); and a lack of evidence to support the accounting treatment.

- A failure to complete a full review of their contracts and arrangements to identify legal charges on properties owned by a third party, or to provide enough evidence to support their accounting treatment. For example, many primary care trusts had transferred social care properties to local authorities but retained an interest in the property by means of a legal charge.

- Problems accounting for PFI schemes. This included: late guidance from the Department of Health; conflicting advice on accounting treatment; incorrect use of financial models; and valuation issues. The Department of Health amended its guidance on the recognition of PFI assets to require bodies to measure the initial fair value at the beginning of the arrangement, rather than when the asset is brought into use. This may result in the recognition of an impairment. Most trusts were able to reflect this revised guidance in their restated comparatives.

Auditor action

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

Section	Action
TSU developments – Responses to enquiries – Financial statements	Auditors should ensure that their boards are aware that charitable funds should not be consolidated within their financial statements but that there is a requirement to make appropriate disclosures.

TSU developments – Responses to enquiries – Property, plant and equipment	Auditors should confirm that their boards' policies on the recognition and measurement of property plant and equipment are consistent with the *NHS capital accounting manual*.

Central government

Introduction

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

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

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note that the following articles in this chapter relate to 2009/10 audits

- note for guidance on the audit of the financial statements
- TSU guidance on 2008/09 IFRS-based shadow accounts
- amendment to the FReM
- changes to SPFM chapters on internal audit and certificates of assurance
- illustrative remuneration report.

There are also articles in this chapter on the publication of, and proposed amendments to, the 2010/11 FReM.

TSU developments

Publications

In addition to TBs, the TSU publishes other technical publications (i.e. notes for guidance, urgent issue notes and grant notes) to provide auditors with more in-depth guidance on specific matters. The following publication has been issued by the TSU since TB 2009/4 and can be downloaded by auditors from the TSU intranet/extranet. It can be sent to other TB recipients on request.

Note for guidance on 2009/10 financial statements

The TSU has published *Note for guidance 2010/1(CG) 2009/10 central government financial statements* to provide auditors with guidance on subjects where the risk of non-compliance with the *Government financial reporting manual* (FReM) is considered to be particularly high in the audit of the 2009/10 accounts.

Other guidance

2008/09 IFRS-based shadow accounts

TB 2009/3 (page 64) advised auditors of the requirement to review bodies' shadow IFRS-based accounts for 2008/09 and set out their findings in a letter. The TSU has examined the letters prepared by auditors, and the main findings are as follows

- Accounting policies were the most common area where issues were raised. Policies either need to be updated or had not yet been formally approved.
- Several audited bodies had either not disclosed the correct number of operating segments, or they had not disclosed the approach used to determine the number of segments reported.
- Further work was still required on reviewing leases in order to classify them correctly as financing or operating leases.
- There were a number of issues in respect of accounting for non-current assets, e.g. not fully componentising assets, inadequate disclosures relating to intangible assets, and valuation issues.
- The untaken annual leave accrual did not always include flexi time, national insurance and superannuation payments. There were also issues with pension disclosures.
- A few bodies had not completed a statement of changes to taxpayers' equity.

Accounting developments

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

Amendment to 2009/10 FREM

HM Treasury has issued an amendment to chapter 5 of the 2009/10 FReM which reflects recent revisions to *IFRS 8 Operating segments*. IFRS 8 was amended so that total assets are no longer a mandatory disclosure requirement for reportable segments, and only require to be disclosed where total assets for segments are regularly reported to the chief operating decision maker.

Exposure draft (09)09 Amendment to IFRS 8 operating segments was issued and proposed the 2010/11 FReM should be amended to align with the revisions to IFRS 8. However, it has been decided that the revisions should apply one year earlier than proposed and therefore the amendment has been made to paragraph 5.4.25 of the 2009/10 FReM.

2010/11 FReM

Publication of the FReM

HM Treasury has issued the 2010/11 edition of the *FReM*. The changes from the 2009/10 FReM are summarised in the following paragraphs.

Heritage assets

The requirements for heritage assets in the FReM have been amended to reflect *FRS 30 Heritage assets* issued by the ASB. FRS 30 introduces significant new disclosure requirements for reporting heritage assets but retains current recognition and measurement requirements. Heritage assets are those assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held principally for their contribution to knowledge and culture.

Heritage assets should be valued at fair value, but where this is not practicable they may be reported at historical cost. Where information is available on the cost or value of heritage assets, they should be recognised in the balance sheet, and presented separately from other tangible assets. The balance sheet and notes should identify separately those classes of heritage assets being reported at cost and those at valuation. Where information on the cost or value is not available, the assets should not be recognised in the balance sheet.

Valuations may be made by any method that is appropriate and relevant, and there is no requirement for valuations to be carried out by external valuers. There is not any prescribed minimum period between valuations, but the carrying amount should be reviewed with sufficient frequency to ensure the valuations remain current. Depreciation is not required on heritage assets which have indefinite lives, but the carrying amount should be reviewed where there is evidence of impairment.

The disclosures required for heritage assets (whether they appear in the balance sheet or not) include

- an indication of the nature and scale of heritage assets held
- the entity's policy for the acquisition, preservation, management and disposal of heritage assets
- the accounting policies adopted, including details of the measurement bases
- a summary of transactions for the current period and previous four including: the cost of acquisitions; the value acquired by donation; the carrying amount of disposals and proceeds; and any impairment recognised. This summary should show separately transactions in assets that are reported in the balance sheet and those that are not.

In addition, for heritage assets reported in the balance sheet, the carrying amount at the beginning of the financial period and at the balance sheet date requires to be disclosed, including an analysis between those classes or groups of heritage assets that are reported at cost and those that are reported at valuation. Where assets are reported at valuation, sufficient information should be disclosed to assist in an understanding of the valuations e.g. the date of the valuation, and the methods used.

Where information on the cost or value of heritage assets is not available, the reasons why should be explained and the notes to the financial statements should explain the significance and nature of those assets.

Presentation of financial instruments

The operating cost statement has been renamed the statement of comprehensive net expenditure for departments and agencies and the income statement for NDPBs has been renamed the statement of comprehensive income to reflect changes to *IAS 1 Presentation of Financial Statements*. There are also minor changes to the structure and content of this statement as it now includes items previously taken to reserves that are in nature income and expenditure (e.g. valuation movements). Only those items that properly reflect reserve movements are taken to the statement of changes in taxpayers' equity.

Impairment

IAS 36 Impairment of assets requires all impairment losses to be recognised in the revaluation reserve to the extent that the impairment does not exceed the amount in the revaluation surplus for the same asset. This has been adapted in the FReM such that only those impairment losses that do not result from a loss of economic value or service potential should be taken to the revaluation reserve. Impairment losses that arise from a clear consumption of economic benefits should be taken to the statement of comprehensive net expenditure, with any balance on the revaluation reserve to which the impairment would have been charged under IAS 36 being transferred to the general fund.

Consolidated fund revenue

Chapter 13 *Revenue from taxes and duties* has been substantially re-written to reflect a new requirement for trust statements to be prepared and published for material amounts of revenue (e.g. taxation, fines and penalties) and associated expenditure that bodies collect when acting as agent on behalf of the Consolidated Fund. Where not material, they should still be accounted for separately with appropriate note disclosure. This chapter is now called *Accounting for consolidated fund revenue*.

Other changes

Other changes include the following

- References to cost of capital have been amended as those charges are to be removed from the accounts.

- References to 'infrastructure assets' with respect to tangible non-current assets have been amended to 'networked assets' to avoid confusion with assets covered by service concession arrangements.

- A note that disclosure requirements of *SIC 29 Service concession arrangements: disclosure* apply in full to PPP arrangements has been added.

- The disclosures required by the FReM relating to commitments under PFI contracts have been altered to ensure consistency with leasing disclosures.

- A note has been added to clarify how the FReM applies EU adopted IFRS and interpretations. It states that those in place as at 1 January 2010, that have an effective date of application of 1 April 2010 or earlier, have been adopted in this edition.

- The wording of paragraph 5.4.15 has been amended to require bodies to refer to IAS 1 rather than the proformas when preparing the statement of changes in taxpayers' equity.

Proposed amendments

Treasury has issued two exposure drafts which contain proposed changes to the FReM from 2010/11.

Exposure draft (09)08 Accounting for government grants and similar financing from non-government sources contains proposed changes in respect of accounting for capital government grants and donations. Variations exist in the accounting treatment of these items within the FReM, and across central and local government. The exposure draft proposes an accounting methodology that is consistent across government.

Under existing requirements, assets financed by government grant and donations from a non-government source are taken to the government grant reserve and donated asset reserve respectively, and released to the operating cost statement over the life of the relevant asset to match depreciation. This treatment is based on *IAS 20 Accounting for government grants*.

However, the IASB is in the process of amending IAS 20 to make it consistent with *IPSAS 23 Revenue from non-exchange transactions*. IPSAS 23 requires capital grants and donations to be recognised immediately as income, except where the funding requires to be repaid if a specified condition is not met. The exposure draft proposes that IAS 20 should be adapted in the FReM to follow IPSAS 23. It also proposes that donated assets should be brought within its scope. As a consequence, the government grant reserve and donated asset reserve will cease to exist.

It is also proposed that bodies should provide additional disclosures within the fixed asset note showing how additions have been financed, i.e. own capital budget, government grant, donation, or lottery funding.

Responses were required by 8 February 2010.

Exposure draft (10)01 Disclosure of senior staff salary and bonuses, and of civil service and other compensation schemes – exit packages contains proposed amendments to the FReM in respect of the remuneration report and disclosure of exit packages.

The draft proposes the following changes to the remuneration report

- salaries and bonuses should be reported as separate amounts (rather than the current combined figure) in £5000 bandings
- disclosures should be extended to include staff at grade SCS 3 (and equivalent) and above. Currently, each body interprets the FReM's definition of 'director' in a manner that is appropriate to their own circumstances. This proposed amendment is intended to achieve a more consistent approach.

In addition, it is proposed that summary data on the use of exit packages agreed in the year should be disclosed in a note to the accounts. This includes payments under the civil service compensation scheme or other applicable compensation schemes, as well as special severance payments. The proposed format requires disclosure of the total number and cost of exit packages in each cost band, analysed between the number of compulsory redundancies and the number of other departures.

Responses were required by 5 February 2010.

2009/10 remuneration report

The Cabinet Office has issued EPN 268 *Disclosure of salary, pension and compensation information for 2009/10* which provides a revised example remuneration report for 2009/10. The FReM requires the disclosure of a remuneration report containing the salary and benefits of senior managers. The FReM describes the information to be included but does not prescribe the form.

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

Auditing developments

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

Internal audit

The *Scottish public finance manual* (SPFM) section on *Internal audit* has been updated to provide more generic guidance. Specifically it emphasises that, while internal audit evaluates compliance with an organisation's internal control system, the primary responsibility for monitoring compliance rests with operational areas and their line management, up to and including the relevant Accounting Officer.

It also requires close working relationships to be established and maintained between an organisation's internal and external auditors.

Corporate governance developments

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

Internal control checklist

The *Internal control checklist* in annex 2 to the *Certificates of assurance* section of the SPFM has been revised to provide clarification on requirements with regard to the use of consultants and information risks as follows

- Contracts for consultancy of up to £50,000 must be approved at the Director General level while contracts above that amount must be authorised by the Cabinet Secretary for Finance and Sustainable Growth on the recommendation of the relevant Director General.

- Information risk assessments should be carried out in respect to the following: the correct protective marking of information assets; the restriction of access to information; the training of staff in handling sensitive information; the scanning of information received in hardcopy format; the purposes and management of processing of personal data; and the impacts of loss or corruption of information.

- Processes should be in place to report, manage and recover from information risk incidents. Managers have a responsibility to ensure that staff comply with the relevant guidance, and that all information security breaches are reported to IT security.

Key circulars

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

Finance guidance notes

FGN 2010/1 SPFM amendments announces the following substantive amendments to the SPFM

- The section on *internal audit* has been updated to provide more generic guidance. See Auditing developments – Internal audit.
- The *internal control checklist* in annex 2 to the *certificates of assurance* section has been revised. See Corporate governance developments – Internal control.
- The section on *disposal of property, plant and equipment* has been updated to specifically provide for joint development vehicles to be considered where unfavourable market conditions militate against conventional methods of disposal. Proposals for disposal require to be approved by the Property Advice Division and the relevant Portfolio Finance Team, who should be engaged to advise on value for money and assess the prospective accounting and budgeting implications.

Section 22 reports

Under *section 22(3) of the Public Finance and Accountability (Scotland) Act 2000*, the Auditor General may prepare a report to Scottish Ministers on the accounts sent to him by auditors. The following reports have been prepared since TB 2009/4 and are available by following the hyperlinks.

The 2008/09 audit of Transport Scotland

The Auditor General issued this report on *the 2008/09 audit of Transport Scotland* to bring to Parliament's attention the remuneration arrangements relating to the departures of the Chief Executive and the Director of Finance and Corporate Services, both of whom left during the financial year

- The Chief Executive's contractual notice period was three months, but the Scottish Government agreed to pay him six months' salary in lieu of notice.
- The financial statements do not contain details of the remuneration paid to the Director during 2008/09, as he declined to allow the information to be disclosed. It was the auditor's view that the contracts of senior staff should include the requirement for them to disclose their remuneration as standard.

The 2008/09 audit of the Mental Health Tribunal for Scotland Administration

The Auditor General issued this report on *the 2008/09 audit of the Mental Health Tribunal for Scotland Administration (MHTSA)* to bring to Parliament's attention the costs associated with the resignation of the former President.

The former President continued to receive remuneration and accrue pension for an eleven month period when she was absent from her duties prior to her resignation taking effect. The MHTSA secured specific approval from the Scottish Government to continue payment to the former President during her period of absence.

Further education

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

Key circulars

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

Scottish Funding Council (SFC) circulars

SFC/01/2010 Further guidance on PACE related funding clarifies the conditions for partnership action for continuing employment (PACE)-related funding for 2009/10 and 2010/11 announced in circular SFC/24/2009.

SFC/02/2010 Allocation of variable element of the college sector knowledge transfer grant provides information on the allocation of the variable element of the 2009/10 knowledge transfer grant announced in circular SFC/23/2009.

SFC/03/2010 Guidance on the audit requirements for education maintenance allowances (EMAs) for the period 1 April 2009 to 31 July 2010 gives guidance on the audit requirements for the operation of the EMA programme for 2009/10.

Contact points

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

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Foreword

Audit Scotland's Technical Services Unit (TSU) provides guidance and support to external auditors appointed by the Accounts Commission and Auditor General to assist them fulfil their responsibility under their audit appointment to give an opinion on the financial statements.

This includes the publication of technical bulletins (TBs) at quarterly intervals onto the TSU intranet/extranet. The purpose of TBs is to summarise technical developments in the quarter for external auditors, and to provide auditors with guidance where required.

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

TBs are also e-mailed to audited bodies and other stakeholders in order that they may be aware of the guidance that has been issued to auditors. In selecting items for inclusion in TBs the bias is towards those which are of particular interest to external auditors. TBs should not therefore be regarded as providing an exhaustive review of all matters relevant to audited bodies.

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

Please take a moment after reading this TB to complete and return the feedback form

Cross-sectoral chapter

Introduction

This chapter contains articles on cross-sectoral technical developments and guidance relevant to external auditors' responsibilities under their audit appointment to give an opinion on the financial statements. 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 specific matters are provided in separate notes published by the TSU (i.e. notes for guidance, urgent issue notes and, for local authorities, grant notes).

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

The TSU encourages the completion of the feedback form that accompanies this TB. Completed forms should be returned to alewis@audit-scotland.gov.uk. A summary of feedback on the previous TB is available in this TB's user feedback chapter.

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note that the following articles in this chapter relate to 2009/10 audits

- the note for guidance on 2009/10 model auditor's reports
- the note for guidance on auditing 2009/10 whole of government accounts
- TSU guidance on prior period errors and new disclosures under international financial reporting standards.

There are also articles in this chapter on the following subjects: amendments to various international standards; proposed amendments to accounting for defined benefit plans and financial liabilities, and presentation of other comprehensive income; proposed amendments to various international public sector accounting standards; revised corporate governance code; draft statement on head of internal audit; carbon accounting regulations: and the Public Services Reform (Scotland) Act 2010.

TSU developments

Publications

The following note has been published by the TSU since TB 2010/1 and can be downloaded by auditors from the TSU intranet/extranet. It can be sent to other TB recipients on request.

Note for guidance on 2009/10 model auditor's reports

The TSU published *Note for guidance 2010/3 Model auditor's reports* to provide auditors with model auditor's reports on the financial statements for 2009/10.

Note for guidance on auditing 2009/10 whole of government accounts

The TSU will shortly be publishing *Note for guidance 2010/4 Audit of whole of government accounts 2009/10* to provide guidance to auditors in the central government and local government sectors on the audit arrangements for whole of government accounts (WGA) in 2009/10.

Responses to enquiries

The TSU operates a 'help-desk' for auditors which provides responses to ad hoc technical enquiries. Selected responses are added to the frequently asked questions section of the TSU intranet/extranet and include the following since the publication of TB 2010/1.

International financial reporting standards

When should prior period errors be corrected under international financial reporting standards?

IAS 8 Accounting policies, changes in accounting estimates and errors states that financial statements do not comply with international financial reporting standards (IFRSs) if they contain material errors, or immaterial errors made intentionally to achieve a particular presentation. Errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud. In the case of errors relating to prior periods that are material, bodies are required to correct them retrospectively in the first set of financial statements authorised for issue after their discovery. This should be done by

- restating the comparative amounts for the prior periods presented in which the error occurred; or
- if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

Under UK GAAP, adjustments were required only when the prior period errors were fundamental, but IAS 8 does not include any reference to fundamental error.

What disclosures are required where a body has not applied a new IFRS that has been issued but is not yet effective?

There is a requirement under IAS 8 to make disclosures where a body has not applied a new IFRS that has been issued but is not yet effective. The body is required to disclose this fact and information relevant to assessing the possible impact the new IFRS will have on the financial statements. A body should consider disclosing

- the title of the new IFRS
- the nature of the impending change
- the date by which application of the IFRS is required, and the date from which the body plans to apply it
- the impact that initial application is expected to have, or a statement that the impact is not known.

What disclosures are required in respect of estimation uncertainty?

There is a requirement under *IAS 1 Presentation of financial statements* for bodies to disclose in the notes information about the key assumptions, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to carrying amounts within the next financial year. In respect of those items, bodies are required to disclose details of the

- nature of the assumption or other estimation uncertainty
- sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity
- expected resolution of an uncertainty and the range of possible outcomes within the next financial year in respect of the carrying amounts affected
- explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.

Accounting developments

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

Amendments to various international standards

The International Accounting Standards Board (IASB) has issued *Improvements to IFRSs* which contains amendments to a number of IFRSs as part of its annual improvements project. The amendments include

- clarifying in IFRS 1 the scope of the exemption that permits a first-time adopter to use a revaluation basis as 'deemed cost' when an event (e.g. privatisation) triggered a revaluation at or before the date of transition to IFRSs. The proposal is for the exemption to apply to similar revaluations that occurred after the date of transition but during the periods covered by the first IFRS financial statements

- clarifying in IFRS 3 that the choice of measuring non-controlling interest either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets applies only to instruments that are currently entitled to a proportionate share of the acquiree's net assets. Other instruments that meet the definition of non-controlling interest should be measured at fair value or in accordance with applicable IFRSs

- clarifying in IFRS 5 that an entity should classify as held for sale its interest in an associate or a jointly controlled entity when it is committed to a sale plan involving loss of significant influence or joint control

- various changes to the credit risk disclosure requirements in IFRS 7

- explicitly stating in IAS 1 that an entity can present the components of changes in equity either in the statement of changes in equity or in the notes to the financial statements

- removing the requirement in IAS 40 to transfer investment property carried at fair value to inventory when it will be developed for sale, adding a requirement for investment property held for sale to be displayed as a separate category in the statement of financial position, and requiring disclosures consistent with IFRS 5.

The document can be ordered from the IASB website. In most cases, the effective date is 1 January 2011.

Proposed amendments to accounting for defined benefit plans

The IASB has issued *ED 2010/3 Defined benefit plans - proposed amendments to IAS 19* which contains proposed amendments to *IAS 19 Employee benefits*. The exposure draft proposes that entities should recognise all changes in defined benefit obligations and in the fair value of plan assets when those changes occur. This would remove the option in IAS 19 of leaving actuarial gains and losses unrecognised if they are within a 'corridor' and deferring recognition of actuarial gains and losses outside the corridor.

The exposure draft also proposes removing from IAS 19 the option for entities to recognise in profit or loss all changes in defined benefit obligations and in the fair value of plan assets. It proposes a new presentation approach whereby entities would split changes in the defined benefit obligation and the fair value of plan assets into service cost, finance cost and remeasurement components. Entities would present

- the service cost component in profit or loss
- the finance cost component (i.e. net interest on the net defined benefit liability or asset) as part of finance costs in profit or loss
- the re-measurement component in other comprehensive income.

In addition, the exposure draft proposes improved disclosures, focused on specified objectives, including

- the characteristics of an entity's defined benefit plans and the amounts in the financial statements resulting from those plans
- risk arising from defined benefit plans, including sensitivity analyses of changes in demographic risk
- participation in multi-employer plans.

Responses should be made via the IASB website by 6 September 2010.

Proposed amendments to accounting for financial liabilities

The IASB has issued *ED 2010/4 Fair value option for financial liabilities* which contains proposed changes to the accounting for financial liabilities. The exposure draft proposes that all gains and losses resulting from changes in the credit risk of financial liabilities that an entity chooses to measure at fair value should be transferred to 'other comprehensive income' so that they do not affect reported profit or loss. The exposure draft proposes a two-step approach

- The entire fair value change is presented in profit or loss.
- The portion of the fair value change that is attributable to changes in the liability's credit risk is 'backed out' and presented in other comprehensive income.

Responses should be made via the IASB website by 16 July 2010.

Proposed amendments to presentation of other comprehensive income

The IASB has issued *ED/2010/5 Presentation of items of other comprehensive income - proposed amendments to IAS 1* which contains proposed changes to the presentation of items of other comprehensive income.

Entities currently have the option to present either a statement of comprehensive income or two separate statements of profit or loss and other comprehensive income. This exposure draft contains the following proposals

- The title of the statement of comprehensive income should be changed to a statement of profit or loss and other comprehensive income.
- The new statement should contain two distinct sections, i.e. profit or loss and items of other comprehensive income.
- Items that will never be recognised in profit or loss should be presented separately from those that are subject to subsequent reclassification (recycling).

Responses should be made via the IASB website by 30 September 2010.

Proposed amendment to international public sector standards

The International Public Sector Accounting Standards Board (IPSASB) has issued *ED 44 Improvements to IPSASs* which contains proposed amendments to international public sector accounting standards (IPSASs). The main proposed amendments arise in order to maintain alignment with IFRSs that have been amended in the IASB'S *Improvements to IFRSs*. These include

- amendments to *IPSAS 9 Revenue from exchange transactions* which state that, in an agency relationship, amounts collected on behalf of the principal are not revenue. Instead, revenue is the amount of any commission receivable for the collection. An entity is acting as an agent when it does not have exposure to the significant risks and rewards associated with the sale of goods or the rendering of services, e.g. the amount the entity earns is predetermined, being either a fixed fee per transaction or a stated percentage of the amount billed to the customer
- amendments to *IPSAS 13 Leases* to add transitional provisions which state that an entity should reassess the classification of land elements of unexpired leases at the date it adopts the amendments in the standard on the basis of information existing at the inception of those leases. It should normally recognise a lease newly classified as a finance lease retrospectively, but if it does

not have the necessary information it should apply the amendments to those leases on the basis of the facts and circumstances existing on the date it adopts the amendments.

Responses should be made via www.ifac.org by 30 June 2010.

Proposed amendments to UK accounting standards

The Accounting Standards Board has issued an exposure draft *Improvements to financial reporting standards* following its annual review. Changes proposed include

- consequential amendments to *FRS 29 (IFRS 7) Financial Instruments: Disclosures* arising from recent changes to IFRS 7 by the IASB (see previous article on amendments to various international standards)
- consequential amendments to *FRS 8 Related party disclosures* arising from recent amendments to IAS 24 (see TB 2009/4 – page 5)
- amending *SSAP 25 Segmental reporting* to extend the existing exemption from making segmental disclosures to subsidiary undertakings whose parent undertaking provides segmental information in accordance with IFRS.

Comments should be sent to asbcommentletters@frc-asb.org.uk by 30 August 2010.

Corporate governance developments

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

Revised corporate governance code

The Financial Reporting Council (FRC) has issued a revised edition of the *UK Corporate governance code* which sets out standards of good practice in corporate governance for financial years beginning on or after 29 June 2010. The changes in the Code, formerly known as the *Combined code,* focus on the importance of the general principles which should guide board behaviours. Changes to the content include the following

- The company's business model should be explained and the board should be responsible for determining the nature and extent of the significant risks it is willing to take.
- Performance-related pay should be aligned to the long-term interests of the company and its risk policy and systems.

- There are new principles on the leadership of the chairman, the responsibility of the non-executive directors to provide constructive challenge, and the time commitment expected of all directors.

- There are new principles on the composition and selection of the board, including the need to appoint members on merit, against objective criteria, and with due regard for the benefits of diversity, including gender diversity.

- The chairman should hold regular development reviews with each director and FTSE 350 companies should have externally facilitated board effectiveness reviews at least every three years.

There are also many structural changes to the Code, including

- Section A in the previous Code has been divided into two new sections called 'Leadership' and 'Effectiveness (Sections A and B in the new Code).

- Schedule B to the 2008 Code, on the liability of non-executive directors, has been deleted. Guidance on this issue will be incorporated to the extent necessary in revised Higgs guidance which is being developed.

Draft statement on role of head of internal audit

The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued *The role of the head of internal audit in public service organisations – consultation draft* to seek views on a draft statement on the role of the head of internal audit (HIA). The draft statement is intended to clarify the role of the HIA, and provide best practice for HIAs to achieve and for audit committees to measure internal audit against. The draft sets out an overarching principles-based framework which applies across the UK public sectors. It states that the HIA plays a critical role in delivering the organisation's strategic objectives by

- championing best practice in governance and management, objectively assessing the adequacy of governance and management of existing risks, and commenting on responses to emerging risks and proposed developments

- giving an objective and evidence based opinion on all aspects of governance, risk management and internal control

To perform this role the HIA must

- be a senior manager with regular and open engagement across the organisation, particularly with the leadership team and with the audit committee

- lead and direct an internal audit service that is resourced to be fit for purpose
- be professionally qualified and suitably experienced.

For each principle, the statement sets out the governance arrangements required within an organisation to ensure that HIAs are able to operate effectively and perform their core duties. The statement also sets out the core responsibilities of the HIA.

CIPFA recommends that organisations should use the statement as the framework to assess their existing arrangements, and that they should report publically on compliance to demonstrate their commitment to good practice. CIPFA also proposes that organisations should report publicly where their arrangements do not conform with the compliance framework in the statement, explaining the reason for this, and how they achieve the same impact.

Responses should be sent to hia.responses@cipfa.org.uk by 10 September 2010.

Other developments

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

Sustainability

New carbon accounting regulations

The Carbon Accounting Scheme (Scotland) Regulations 2010 have been issued to make provision about carbon units and carbon accounting for the purposes of the *Climate Change (Scotland) Act 2009*. The purpose of the Regulations is to set up a scheme for carbon accounting which will be used to monitor compliance with the targets for reducing greenhouse gas emissions which will be introduced by *The Climate Change (Annual Targets) (Scotland) Order 2010*.

Arrangements for opening a net Scottish emissions account (NSEA) in which to place and keep track of carbon units used by the Scottish Ministers are established, as are the circumstances in which such units may be credited and then cancelled. The carbon units referred to include both those used by participants in the *EU Emissions trading scheme* (ETS) and carbon units which may be used as credits by the Scottish Ministers. Carbon units which may be counted as credits for the purposes of calculating the NSEA are specified in the Regulations.

Limits on the use of credits by the Scottish Ministers are established in *The Climate Change (Limit on Carbon Units) (Scotland) Order 2010.* The Scottish Ministers believe that targets for period 2010 to 2012 can be achieved without use of carbon units and this order therefore sets a zero limit on the use of carbon units during that period. The limit excludes any carbon units which are surrendered by participants in the ETS, and units acquired by other trading schemes such as the *Carbon reduction commitment*.

To be able to determine whether the net amount of ETS trading in Scotland is positive or negative in a year will depend on whether or not greater or fewer units are used than the allocation for ETS participants in Scotland. If an individual participant exceeds their allowance, they will need to purchase units (credits) to cover those additional emissions. Conversely, if their emissions are lower than the allocation, participants may sell units (debits) to other ETS participants.

In the event of ETS allowances being sold by scheme participants, the NSEA total will be increased by the amount of the ETS allocation that has been sold. This recognises the fact that these allowances are used by the purchaser, or sold on again, to enable emissions to be made elsewhere in the EU.

Legislation

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

Acts

Public Services Reform (Scotland) Act 2010

The *Public Services Reform (Scotland) Act 2010* establishes new public bodies, imposes new duties on existing bodies while dissolving others, and makes various amendments to the *Public Finance and Accountability (Scotland) Act 2000*.

Part 2 allows the Scottish Ministers, by order, to restructure the discharge of public functions in Scotland by bodies listed in schedule 3 of the Act. This includes the Accounts Commission but not, as was proposed in the Bill, Audit Scotland.

Part 3 impose new duties on each body listed in schedule 8 to publish, as soon as practicable after the end of each year, the following having regard to any guidance issued by the Scottish Ministers

- information about expenditure on communications, overseas travel, hospitality and entertainment and consultancy.
- a statement on a quarterly basis identifying any individual item they have purchased or procured in excess of £25,000
- a statement specifying the number of individuals who received remuneration in excess of £150,000

- a statement of the steps that it has taken during that financial year to promote and increase sustainable growth, and to improve efficiency, effectiveness and economy in the exercise of its functions.

In addition, Scottish Ministers are required to publish annually a statement of the total amount of all payments made to special advisers.

Part 8 imposes the following duties on scrutiny bodies

- Bodies listed at schedule 19, which includes the Accounts Commission, have a duty to secure continuous improvement in user focus in the exercise of their scrutiny functions and to demonstrate that improvement. ‘User focus' is defined as the involvement of users of the services being scrutinised in the design and delivery of the scrutiny of those services and the governance of the listed scrutiny bodies. Listed scrutiny bodies are required to have regard to any guidance provided by the Scottish Ministers.

- Bodies listed at schedule 20, which includes the Accounts Commission, have a new duty to co-operate and coordinate activity with each other and, where appropriate, the Scottish Ministers, with a view to improving the exercise of their scrutiny functions in relation to local authorities, social services and health services.

- Two or more bodies with inspection functions are required, on being requested to do so by the Scottish Ministers, to conduct jointly an inspection of the provision of services within the remit of the bodies involved.

Part 8 also makes various amendments to the *Public Finance and Accountability (Scotland) Act 2000*, including the following

- Responsibility for appointing the three other members of the Audit Scotland Board has been transferred from the Auditor General for Scotland and the Chairman of the Accounts Commission to the Scottish Commission for Public Audit. Members of the staff of Audit Scotland and members of the Accounts Commission are not eligible for appointment.

- The period of appointment of the Auditor General for Scotland has been restricted to 8 years. The post-holder is then required to vacate office and is not eligible for reappointment.

- The Auditor General has been given explicit power to publish the results of any examination carried out under section 23 (economy, efficiency and effectiveness examinations) of the 2000 Act.

- The duty on Scottish Ministers to publish accounts and reports under section 22(5)(b) of the 2000 Act has been disapplied where these are published by the body in question.

Other parts of the Act establish and dissolve various bodies.

Statutory instruments

Public finance and accountability

The Budget (Scotland) Act 2009 Amendment Order 2010, SSI 118 came into force on 17 March 2010 and amended the *Budget (Scotland) Act 2009* in respect of 2009/10.

Climate change

The Carbon Accounting Scheme (Scotland) Regulations 2010, SSI 216 came into force on 28 May 2010. See Other developments – Sustainability – Carbon accounting.

The Climate Change (Limit on Carbon Units) (Scotland) Order 2010, SSI 217 came into force on 28 May 2010. See Other developments – Sustainability – Carbon accounting.

Publications

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

Audit Scotland

National fraud initiative in Scotland - making an impact

This publication *National fraud initiative in Scotland - making an impact* reports the results of a counter-fraud exercise recently undertaken known as the *National fraud initiative* (NFI). NFI uses computerised data matching to compare a range of information held on public bodies' systems (e.g. housing benefits, payroll and pensions, and a government register of deceased persons) to identify potential inconsistencies or circumstances that could indicate fraud or error. These 'matches' are made available to the audited bodies to investigate. Key findings include the following

- 74 Scottish public bodies took part in NFI 2008/09, including local authorities, health boards, the Scottish Public Pensions Agency and the Student Awards Agency for Scotland. Those bodies recorded a further £21.1 million of outcomes since May 2008, which means cumulative outcomes are now around £58 million.

- The main outcomes in 2008/09 have been in matches involving housing benefits, pension payments, invalid council tax single person discounts and disabled persons' parking permits that are no longer valid.

- The vast majority of participating bodies managed their role in the 2008/09 NFI exercise satisfactorily, but some need to plan better and show more commitment e.g. a few bodies submitted data long after the requested deadline, and about one in five bodies need to follow up their NFI matches more promptly.

- The NFI 2010/11 exercise will commence later this year, with data being collected in October 2010. The inclusion of explicit legislative provisions for data matching should enable Audit Scotland to expand the number of bodies included in the NFI and to share data with the other UK audit agencies.

Local authority chapter

Introduction

This chapter contains articles on local authority technical developments and guidance relevant to external auditors' responsibilities under their audit appointment to give an opinion on the financial statements and to certify grant claims. 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 specific matters are provided in separate notes published by the TSU (i.e. notes for guidance, urgent issue notes and grant notes).

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

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note that the following articles in this chapter relate to 2009/10 audits

- charities reporting requirements
- statutory guidance on PFI/PPP arrangements
- guidance on 2009/10 accounts
- guidance on police and fire injury benefits
- guidance on impairment of Icelandic bank deposits
- example disclosures for pension liabilities
- role of chief financial officer
- whole of government accounts pack and guidance
- review of actuarial information.

There are also other articles on the following subjects: TSU guidance on treatment of donated assets, disclosure of operating segments, and accounting for arrangements containing a lease under international financial reporting standards; transitional guidance on leases and assets held for sale; transport infrastructure assets code, investment regulations and consent; land disposal regulations; and revised guidance on councillors' remuneration.

TSU developments

Publications

The following have been published by the TSU since TB 2010/1 and can be downloaded by auditors from the TSU intranet/extranet. They can be sent to other TB recipients on request.

Grant notes

Grant notes (GNs) are published to provide local authority auditors with guidance on the audit of approved grant claims. The TSU has published the following GNs since TB 2010/1

- GN/GEN/10 General guidance on the local authority audit of grant
- GN/EMA/10 Education maintenance allowance grant
- GN/FPN/10 Safety camera partnership grant
- GN/HBS/10 Housing and council tax benefit subsidy claim
- GN/SUP/10 Transfer of functions to the NHS - unfunded elements of superannuation benefits grant claim
- GN/CJS/10 Criminal justice social work services grant claim.

Responses to enquiries

The TSU operates a 'help-desk' for auditors which provides responses to ad hoc technical enquiries. Selected responses are added to the frequently asked questions section of the TSU intranet/extranet and include the following since the publication of TB 2010/1.

International financial reporting standards

How should an asset acquired at less that fair value be accounted for in 2010/11?

Assets acquired at less than fair value (or transferred at nil value) are donated assets. Under the *Code of practice on local authority accounting in the UK 2010/11 based on international financial reporting standards* (the IFRS-based Code), a donated asset requires to be measured at its fair value as at the date of acquisition, and then revalued, depreciated, and impaired in line with other assets. The credit entry for the difference between the fair value of the asset and the consideration paid depends on whether any conditions of transfer that could require the return of the asset have been met, i.e.

- Where any conditions have been met, the difference should be recognised immediately in the comprehensive income and expenditure statement as income. The amount recognised should be credited to service revenue accounts, support services, trading accounts etc accordance with the *Best value accounting code of practice*.

- Where any conditions have not been met, the difference should be initially recognised in the donated assets account and then, once the conditions have been met, in the comprehensive income and expenditure statement.

The SORP treated donated assets as deferred income credited to the government grants deferred account and charged to the income and expenditure account over the useful life of the relevant asset. The new treatment under the Code represents a change in accounting policy in 2010/11, which will require a prior period adjustment

- When restating the opening IFRS-based balance sheet, any balances on the government grants deferred account in respect of donated assets should be transferred to the capital adjustment account. If an authority had previously recognised a creditor in respect of a donated asset, that creditor should be transferred to the donated assets account (where conditions remained to be satisfied) or to the capital adjustment account (where all conditions had been satisfied by 1 April 2009).

- When restating comparative figures for 2009/10, donated assets recognised in the government grants deferred account during 2009/10 should be recognised in the comprehensive income and expenditure statement and transferred to the capital adjustment account. If an authority had recognised a creditor in respect of a donated asset during 2009/10, that creditor should be transferred to the donated assets account (where there are unsatisfied conditions) or recognised in the comprehensive income and expenditure statement and transferred to the capital adjustment account (where there are no unsatisfied conditions).

Amounts credited to the comprehensive income and expenditure statement in respect of donated assets are not proper income to the general fund, and therefore authorities are required to transfer the income from the general fund to the capital adjustment account in the movement in reserves statement.

The IFRS-based Code requires the following disclosures in the notes

- the accounting policy adopted for donated assets

- the nature and extent of donated assets recognised in the financial statements
- where the conditions of the donated assets have not been met, the breakdown of any balance of the liability (i.e. the donated asset account).

Auditors should confirm that their authorities have reviewed their accounting for donated assets to ensure it is consistent with the requirements of the Code for 2010/11, including assessing whether any conditions are outstanding.

What information are authorities required to disclose in respect of operating segments in 2010/11?

The IFRS-based Code requires authorities to disclose information on reportable segments within the notes to the financial statements in accordance with *IFRS 8 Operating segments*. Reportable segments should be based on an authority's internal management reporting. A segment requires to be reported where

- its expenditure is 10% or more of the gross expenditure within the net cost of services; or
- its income is 10% or more of the gross income.

An authority may report segments that do not meet these criteria. Also, where the reportable segments identified by applying the criteria do not include at least 75% of the expenditure within the net cost of services, additional segments require to be reported until that amount is reached.

For each reportable segment, authorities are required to disclose an analysis of the income and expenditure for that segment (i.e. a subjective analysis) that are reported as part of internal management reporting. This analysis may include items that do not form part of the comprehensive income and expenditure statement (e.g. loans fund repayments) and exclude items that do (e.g. depreciation).

A reconciliation between the segment reporting analysis and the net cost of services in the comprehensive income and expenditure statement is also required. This is likely to include

- additional segments not included in the analysis
- amounts not included in the analysis but included in the comprehensive income and expenditure statement (e.g. pension costs calculated in accordance with IAS 19)
- amounts included in the analysis but not included in the comprehensive income and expenditure statement (e.g. pension contributions payable to the pension fund).

A reconciliation is also required between the segment reporting analysis and an analysis of total income and expenditure which should include as a minimum the lines listed at Code paragraph 3.4.2.89. It is likely to include, in addition to the items in the reconciliation to the comprehensive income and expenditure statement, the following areas

- allocation of support service recharges
- allocation of lines in the segment reporting analysis that include items from more than one line of the analysis of total income and expenditure
- amounts reported below the net cost of services in the comprehensive income and expenditure statement.

If an authority reports segment assets and/or liabilities internally, it is required to disclose an analysis in the financial statements on the same basis. Where such an analysis is disclosed, authorities are also required to disclose a reconciliation of segment assets and/or liabilities to the total assets and/or liabilities included in the balance sheet.

How should an arrangement that is not a lease but involves the use of an asset in return for payment be treated under IFRS?

Where an authority enters into an arrangement that does not take the legal form of a lease, but conveys a right to use an asset in return for a payment, authorities are required by the IFRS-based Code to determine whether such arrangements contain a lease. If an arrangement contains a lease element, authorities are required to account for that element as a lease.

The determination should be made in accordance with *IFRIC 4 Determining whether an arrangement contains a lease*, and requires authorities to assess whether

- fulfilment of the arrangement is dependent on the use of a specific asset or assets
- the arrangement conveys a right for the purchaser (lessee) to control the use the asset. This is the case where the purchaser can operate the underlying asset in a manner it determines or control physical access to the underlying asset, while controlling more than an insignificant amount of the output or other utility that will be produced or generated by the asset. It is also the case where it is unlikely that other parties will take more than an insignificant amount of the output or other utility of the asset, and the price that the purchaser pays for the output is neither contractually fixed per unit of output nor equal to the current market price per unit of output.

The assessment of whether an arrangement contains a lease requires to be made at the inception of the arrangement. A reassessment is required only if there is a change in the assessment of whether fulfilment of the arrangement is dependent on a specified asset or if

- there is a change in the contractual terms or a substantial change to the asset

- a renewal option is exercised or an extension is agreed to, unless the term had initially been included in the lease term.

What arrangements should authorities have for separately depreciating significant parts of property, plant and equipment?

The IFRS-based Code requires each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item to be depreciated separately. CIPFA are currently preparing practical guidance on establishing arrangements that will enable significant parts (components) of an asset to be properly identified. The guidance is expected to suggest that an authority takes the following steps

- Accountants should determine robust de-minimus thresholds for the identification of assets, in discussion with valuers, property services managers and external auditors. Once established, the thresholds should be documented, used appropriately and applied consistently.

- Accountants should carry out a review of the authority's existing assets to identify those that are above the pre set de-minimus level and therefore require detailed review to identify their significant components with differing useful lives or different depreciation methods. Groups of similar assets may be sample tested so that typical components can be identified.

- Accountants should establish the principles upon which components should be depreciated separately, including setting de minimis thresholds for recognising separate components.

- Valuers and property services managers should assess the individual useful lives of the significant components identified in line with the agreed de minimus thresholds.

- Accountants and valuers should fairly apportion the value of assets over significant components that have been recognised for separate depreciation when the assets are enhanced, acquired or revalued.

Other points highlighted in the guidance include the following

- It should be noted that the comparison to assess significance involves the cost of the asset, which may be different to their carrying amount. Where authorities cannot easily identify the historical cost of assets and components, estimates will need to be made.

- Authorities should establish and document clear and concise procedures that will enable them to identify significant components of a fixed asset; to properly value such components and to fairly depreciate them in accordance with their useful lives and/or different methods of depreciation. This should include the requirement to document assumptions or estimates made and the basis upon which they were made.

- Asset registers should include sufficiently accurate records which provides for the separate recording of significant components for valuation, enhancement, depreciation and disposal purposes.

- Separately recognised significant components should be properly classified under the asset category that most appropriately describes their component type (e.g. buildings; plant & equipment). An exception to this principle is components of council dwellings which, for the purposes of consistency and comparability, should continue to be classified under the heading of council dwellings.

Auditors will be advised when the CIPFA guidance is issued.

Other guidance

Charity accounting regulations

TB 2009/3 (page 24) updated auditors on progress with the staged application of *The Charity Accounts (Scotland) Regulations 2006* to local authority trust funds, and advised of the Office of the Scottish Charity Regulator's (OSCR) minimum reporting requirements for 2008/09. OSCR has advised that their reporting requirements for 2009/10 are unchanged, i.e. the following requires to be submitted by 31 December 2010

- A copy of the council's 2009/10 financial statements, including the audit certificate.

- For each registered charity with income of less that £100,000, a receipts and payments account and trustees annual report.

- For each registered charity with income in excess of £100,000 or charitable companies, fully accrued accounts in accordance with the Charities SORP.

It should be noted that a separate audit of these accounts is not required.

Accounting developments

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

Statutory guidance on PPP/PFI arrangements

The Scottish Government has issued *Finance circular 4/2010 Guidance on proper accounting practices – statutory charges for PPP/PFI and similar arrangements* which contains statutory guidance that sets out the costs in respect of PPP/PFI arrangements that should be charged to the general fund from 2009/10. The guidance applies to all PPP/PFI arrangements where the 2009 SORP requires a local authority to recognise the PFI asset on its balance sheet. It is intended to put authorities in a neutral position when accounting for PPP/PFI arrangements under the 2009 SORP compared with under previous requirements.

The 2009 SORP requires authorities to separate the unitary charge into

- an element recognising the payment of the liability for the construction cost of the asset.. This is used to reduce the outstanding liability on the balance sheet, and is not a charge to the income and expenditure account

- interest costs arising from the financing arrangements and the service charge for services provided under the arrangement, which are both charged to the I&E account

Depreciation and impairment losses for relevant PPP/PFI arrangements are charged to the income and expenditure account, but are excluded when determining the movement on the general fund balance for the year. When determining the movement on the general fund balance a statutory charge for the repayment of debt should be made, which should be a sum equal to the unitary charge payable in respect of the financial year after deducting

- those amounts which have been charged to the income and expenditure account in respect of interest and service charges

- actual lifecycle replacement costs capitalised in year or prepayments posted to the balance sheet for future lifecycle replacement costs.

A statutory charge is also required to fund any lifecycle replacement costs of a capital nature, which is a sum equal to the lower of the actual lifecycle replacement expenditure capitalised in year in accordance with proper accounting practice or the planned replacement cost.

Where a local authority permanently transfers to the operator existing assets that are not used in the PPP/PFI arrangement in exchange for reduced or eliminated payments, it is required to derecognise the asset, and recognise the consideration (capital receipt) received. This may be the reduction or elimination of the PPP/PFI outstanding liability, and the statutory guidance permits the capital receipt to be applied to the outstanding liability to reflect the reduced liability and hence reduced payments.

The guidance states that, where a local authority has made capital contributions to PFI arrangements in previous years, it is not considered desirable that the contributions should be reviewed and restated. However, where the prepayment has not been funded, it is necessary to apply resources to fund this capital expenditure.

Gains arising where the refinancing of the operator's debt involves a proportion of the savings being transferred to the local authority require to be accounted for as a renegotiation of the finance lease. Where the authority recognises an immediate gain, a statutory adjustment is required to credit the financial instruments adjustment account and charge the general fund (unless the local authority has no outstanding statutory premium balances in the financial instruments adjustment account). The refinancing gain is then released back to the general fund over the life of the contract.

Auditors should confirm that their bodies are making arrangements to comply with this guidance.

The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) has issued *Implementation of 2009/10 statutory guidance for PFI and similar schemes – illustrative examples* which provides illustrative examples of the application of the statutory guidance.

Guidance on 2009/10 accounts

CIPFA's Local Authority Accounting Panel has issued *Bulletin 84 Closure of the 2009/10 accounts and related matters* to provide guidance on closing the 2009/10 accounts. The bulletin aims to provide sufficient information for authorities to identify issues they will need to address, and indicates where further guidance can be found. Auditors' attention is particular drawn to the issues referred to in the following paragraphs.

Statement of total recognised gains and losses

Transfers between reserves in the net worth section of the balance sheet should net off in the statement of total recognised gains and losses (STRGL). Amounts included in reserves transferred to or from an account outside the net worth section, which should not be recognised in the income and expenditure account, require to be included in the STRGL e.g. changes in the fair value of available for sale financial instruments. The process of preparing the STRGL may identify amounts transferred directly to reserves that should have been properly accounted for in the income and expenditure account. For example, when reclassifying provisions as reserves, authorities may have incorrectly made a transfer directly to reserves, rather than taking it to the income and expenditure account and making any transfer through the statement of movement on the general fund balance.

Only in exceptional circumstances will lines other than those detailed in the SORP be required in the STRGL; if additional lines are required to balance the STRGL, this may indicate underlying problems elsewhere in the accounts. An accompanying spreadsheet provides a worked example to demonstrate the process for preparing a balanced STRGL.

Government grants deferred

Authorities should be able to demonstrate that the balances on the government grant deferred account match the assets they are intended to finance. Similarly, grants within accounts for grants unapplied should be reviewed to establish if there are any conditions that have not yet been met; if so, they should be included in creditors.

Where authorities are unable to identify assets relating to a proportion of their government grants deferred account due to events in the past, the grant will need to be derecognised in the balance sheet. Adjustments should normally be processed as part of the transactions for 2009/10, but may require a prior year adjustment where the error is fundamental.

Revenue expenditure funded from capital under statute

Authorities receiving consent to borrow to finance capital expenditure should account for the expenditure in line with the SORP's requirements for revenue expenditure funded from capital under statute (REFCUS), i.e. it should be debited to the appropriate revenue account, rather than appearing in the balance sheet.

Where REFCUS is funded from capital grants, the grants should be recognised as revenue grants, and be credited to the relevant service revenue account to match any qualifying expenditure that has been debited to that service.

Prior period adjustments

The guidance highlights that the majority of prior period items arise from corrections and adjustments that are the natural result of estimates inherent in the accounting process. They constitute normal transactions for the year in which they are identified, and should be accounted for accordingly. Only material adjustments applicable to prior years arising from changes in accounting policies or the correction of fundamental errors should be accounted for as prior period adjustments (i.e. by restating the comparative figures for the preceding period and adjusting the opening balance for the cumulative effect).

Some authorities incorrectly treat non-fundamental errors, changes in estimates, and non-material changes in accounting policy as prior period adjustments.

Inconsistencies with notes

There should be consistency between items presented in the core financial statements and their supporting notes e.g.

- Components of gains or losses on disposal of fixed assets in the income and expenditure account should agree with the fixed assets notes, cash flow statement and capital receipts reserve.
- Depreciation and impairment presented in the statement of movement on the general fund balance should agree with the supporting fixed asset notes.

- Information in the revaluation reserve should be consistent with the corresponding information in the fixed asset notes and other related notes, and there should be narrative disclosures to explain significant movements.

- The capital accounting and capital financing notes should be consistent e.g. additions to fixed assets should be consistent with amounts disclosed elsewhere in the financial statements as capital expenditure in the year.

- The summarised investment and borrowings figures in the balance sheet should agree with the analysis of the various different types of financial instrument disclosed in the note to the accounts.

Equal pay

Authorities with consent to borrow to fund equal pay costs should determine whether

- any eligible costs have been incurred (including any accrued creditors) in 2009/10. An advance from the loans fund may be established, if the authority wishes to utilise the consent.

- a provision or contingent liability is required for any further equal pay costs. An advance from the loans fund cannot be created to offset any such provision, and therefore it is possible for an authority to present a deficit general fund balance.

Police and fire pension schemes

Following a legislative amendment, the cost of new police and fire pension schemes can be charged to the pension reserve (see TB 2010/1 – page 46). This is regarded as a change in accounting policy required by statute, and consequently those boards or authorities which adjusted their 2008/09 financial statements should restate their 2008/09 comparatives, where material, back to the original position.

Provisions or contingent liabilities

The bulletin refers to a recent High Court ruling that statutory leave entitlement accrues while off sick and cannot be extinguished at the end of the leave year, and employees not returning to work should be paid for untaken statutory leave. Where staff have left employment, authorities should consider whether a provision, or contingent liability, is required in relation to any potential compensation claims. It is also good practice to refer to the impact of the rulings, where this is material, within the 2009/10 financial statements.

In addition, where authorities are planning to undertake significant service redesign or withdrawal, they should consider whether this requires the disclosure of a provision or contingent liability. Where a service is discontinued, authorities should ensure they comply with the SORP's disclosure and presentation requirements. This may include the need to disclose or adjust for post balance sheet events in the period from 31 March to when the accounts are authorised for issue.

Auditor action

Auditors may find it useful to refer to this bulletin when checking authorities' compliance with the requirements of the 2009 SORP.

Guidance on police and fire injury benefits

Statutory guidance

The Scottish Government has issued *Finance circular 8/2010 Guidance on proper accounting practices - police and fire injury benefits* which contains statutory guidance that sets out the police and fire injury benefit costs to be charged to the general fund from 2009/10, including restatement of 2008/09 comparatives. As advised in TB 2010/1 (page 20), injury benefits were removed from the police and fire pension scheme regulations with effect from April 2006 and put on a separate statutory basis by *The Police (Injury Benefit) (Scotland) Regulations 2007* and *The Firefighters' Compensation Scheme (Scotland) Order 2006*.

While the statutory schemes for injury benefits are no longer pension schemes, they can still be considered to constitute a retirement benefit scheme, and should continue to be accounted for as defined benefit schemes in accordance with FRS 17. The injury benefits should therefore be charged to the income and expenditure account in 2009/10 (comprehensive income and expenditure statement from 2010/11).

When the police and fire injury benefits formed part of the police and fire pension schemes, *The Local Government Pension Reserve Fund (Scotland) Regulations 2003* applied to those costs, and restricted the amount chargeable to the general fund to the actual injury payments in the year. As the 2003 Regulations no longer apply, there is no statutory basis for the FRS 17 based injury benefit to be charged to the pension reserve instead of the general fund.

However, the statutory guidance requires the FRS17 based amounts charged to the income and expenditure account to be replaced with actual injury payments made in each financial year as required by statute for the purposes of the charge to the general fund. It requires the difference to be transferred to a new employee statutory adjustment account that has been created to neutralise the impact on the general fund.

In the balance sheet, the amount for injury benefits requires to be presented separately from the pension benefits. Authorities will therefore need to obtain a separate valuation from their actuaries for the injury benefit liability. Also, the present value of the injury benefit balance held in the pension reserve at 31 March 2009 requires to be transferred to the employee statutory adjustment account.

The guidance requires a description of the purpose of the employee statutory adjustment account, together with the value held on this account in relation to injury benefits, to be disclosed as a note to the authority's accounts.

Auditors should confirm that their bodies are making arrangements to comply with this guidance.

Guidance on accounting

LAAP bulletin 84 provides further guidance on accounting for police and fire injury benefits. It states that restatement of 2008/09 comparative figures is required as these amounts were charged to the pensions reserve in that year in error. It is necessary to identify the portion of the FRS 17 pension liability which represented injury benefit liabilities in order to make the following adjustments

- The 2008/09 balance for the pensions reserve should be restated by transferring the relevant amount to the employee statutory adjustment account.
- The relevant amount should also be excluded from the existing 2008/09 pensions liability shown on the balance sheet. It is suggested that an additional line entitled 'other retirement benefit liabilities' is added below the pensions liability.
- The 2008/09 disclosure notes should also be adjusted to ensure that police and fire injury benefit payments are separately identified from pension scheme benefit figures.

Guidance on impairment of Icelandic bank deposits

CIPFA has issued *LAAP Bulletin 82 Guidance on the impairment of deposits with Icelandic Banks update 2* to provide updated guidance on estimating the impairments to be recognised in 2009/10 for deposits in Icelandic banks. As the recoverable amount of the deposits is the present value of the expected future cash flows discounted at the original effective interest rate, it requires to be reassessed at 31 March 2010 based on the latest available information.

The current projections for Heritable Bank are a return to creditors of 79 to 85%. The bulletin recommends an estimate at the top end of the scale (84.98%) as this is considered to be the most likely outcome (the recommendation for 2008/09 was 80%). As the total dividends paid to date amount to 34.98% of the claim, the recommended repayment schedule is 5% in each of the ten quarters until September 2012.

For Kaupthing Singer & Friedlander Ltd, the current recovery estimate is in the range 65 to 78%. As there in no information that indicates any particular value in the range is more likely than the others, the bulletin recommends basing the recoverable amount on the mid point (71% - an increase on the 50% recommended in 2008/09). As the total dividends paid to date amount to 35% of the claim, the recommended repayment schedule is 6% in each July and January until January 2013.

In respect of the two banks domiciled in Iceland, previous advice has been based on the assumption that local authority deposits had priority status. While the Landsbanki Winding-Up Board has expressed the view that they do have priority status, the Glitnir Winding-Up Board has expressed the contrary view. The final decision will be made by the Icelandic courts but it is considered unlikely that there will be a settled position before the second quarter of 2011. Local authorities' legal advice remains that deposits have priority status and therefore the bulletin considers that this is the most likely outcome. However, the recommended repayment profiles are based on both scenarios

- For Glitnir, if deposits retain priority status, it is estimated that full recovery will be made in June 2011. If deposits do not have priority status, the expected recovery is approximately 29% over the next 5 years.
- For Landsbanki Islands, compensation is being provided through a series of interest-bearing bonds in a range of currencies. A model of the estimated recovery is included in the accompanying spreadsheet based on a 95% or 63% recovery rate (depending on whether priority status is retained) until October 2018.

It should also be noted in respect of the Icelandic-domiciled banks that

- previous advice was that, where a deposit's maturity date was before 22 April 2009, interest at 22% (the Icelandic penalty rate of interest) between the maturity date and 22 April 2009 should be included in the claim amount. The bulletin now recommends that the contractual interest rate should be used
- the bulletin assumes that exchange rate risk can be ignored when estimating future cash flows.

The bulletin reminds authorities that the reassessment of the recoverable amount is a change in an accounting estimate, and should be accounted for in the year in which the revised estimate is made, i.e. a reassessment at 31 March 2010 should be accounted for in the 2009/10 accounts, and the 2008/09 accounts should not be restated for the change.

Auditors should confirm that authorities have paid due regard to this bulletin when calculating the impairment in 2009/10 for deposits in each Icelandic bank that has gone into administration.

Draft IFRS transition guidance

CIPFA has issued two further draft guidance notes on the transition to the IFRS-based Code, and they are summarised in the following articles.

Lease and lease type arrangements

The note highlights that requirements of the IFRS-based Code in respect of lease classification are different to those of the SORP in the following two regards

- Where a lease is a lease of property, the land and buildings elements are considered separately for the purpose of lease classification. When the land has an indefinite economic life, the land element is normally classified as an operating lease unless title is expected to pass to the lessee by the end of the lease term. For some property leases classified as finance leases under the SORP, the land element will therefore be reclassified as an operating lease; and for some property leases classified as operating leases under the SORP, the buildings element will be reclassified as a finance lease.

- The SORP defined a finance lease as one that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. It presumed that such a transfer of risks and rewards occurs if the present value of the minimum lease payments amounts to substantially all (normally 90% or more) of the fair value of the leased asset. The equivalent test under the Code does not include any guidance regarding the meaning of 'substantially all of the fair value', i.e. the 90% test no longer applies. Instead, the Code includes examples of situations that would normally lead to a lease being classified as a finance lease.

Authorities will therefore need to review their lease arrangements to determine whether or not leases need to be reclassified. Such reclassifications may occur where the authority is acting as a lessee or as a lessor

- Where the authority is lessee and an operating lease is reclassified as a finance lease, an asset and a liability requires to be recognised. Authorities are required to establish the fair value of the asset. Payments made since the inception of the lease require to be apportioned between the finance charge and the repayment of the liability. Depreciation requires to be charged from the commencement of the lease, and the general fund requires to be charged with the repayment of the liability.
- Where a finance lease is reclassified as an operating lease, the asset and liability will need to be derecognised. Any repayment of the liability requires to be adjusted.
- Where the authority is lessor and an operating lease is reclassified as a finance lease, the asset requires to be derecognised and a long-term debtor recognised. For each lease, authorities need to separate the lease income into a finance income element and a repayment of principal element, with the repayment being applied to reduce the balance on the long-term debtor; a transfer from the general fund to the capital receipts reserve is required
- Where a finance lease is reclassified as an operating lease, the long-term debtor requires to be derecognised and the asset that would have been derecognised at the commencement of the finance lease requires to be reinstated. The balance on the fixed asset account requires to be adjusted for the depreciation chargeable between the time the asset was originally derecognised and the time it is reinstated, and the asset may also need to be revalued.

An accompanying spreadsheet includes a number of worked examples.

Assets held for sale

The note highlights that the FRS-based Code sets out criteria that have to be met before an asset can be classified as held for sale. Where the criteria are met, classification as asset held for sale is mandatory. The opening balance sheet and 2009/10 comparatives will therefore need to be restated for assets that meet the criteria. From the date the criteria are met, authorities are required to reverse any depreciation charged and reinstate the carrying amount where this amount is lower than fair value less costs to sell.

In the event that the criteria have not been met, authorities are required to reclassify the assets to property, plant and equipment (surplus assets) or investment property, and adjust the carrying amount of the asset to the level it would have been before the asset was classified as held for sale. The following circumstances may apply

- assets classified as surplus assets under the SORP may be reclassified as investment property under the Code. This may be the case for assets which do not meet the definition of a held for sale asset under the Code because, rather than actively marketing the asset, the authority is waiting for the property market to recover
- assets classified as surplus assets under the SORP may also be classified as surplus assets within property, plant and equipment under the Code. This will arise where an asset does not meet the criteria to be classified as either held for sale or as an investment property under the Code e.g. where the asset is no longer used for service delivery but the authority has not, at the balance sheet date, decided whether to sell the asset or develop it. The asset requires to be valued at existing use rather than market value and the guidance recommends that the last use in providing services be used for this purpose.

An accompanying spreadsheet includes a number of worked examples.

New code on transport infrastructure assets

CIPFA has issued a *Code of practice on transport infrastructure assets* to provide guidance on financial information to support asset management and reporting of local authority transport infrastructure assets. The intention of the Code is that each authority should develop a single set of financial management information about transport infrastructure assets which is robust and supports

- asset management, capital planning, and resource allocation
- delivery of efficiency savings, service improvements, performance assessment and benchmarking
- the production of transparent information for stakeholders, and robust financial information.

The Code is intended to serve as best practice guidance for those who are responsible for the management of the assets. Primary users are expected to be highway engineers responsible for managing and operating the assets and finance staff responsible for highways' financial management, corporate budgeting and financial planning. It will also act as a tool for those who audit their performance.

A key principle that underpins the Code is that the same data should be used for asset management, financial management, budgeting and financial reporting. The approach taken is different from the way in which infrastructure assets have previously been valued and depreciated. In particular, it is based on current values rather than historic costs, and the information used for financial reporting is derived from the authority's asset management plans. The Code uses a depreciated replacement cost (DRC) basis which is a method of valuation that provides the current cost of replacing an asset with its modern equivalent asset less deductions for all physical deterioration and impairment.

The Code has three classification levels for grouping assets which are defined as

- level 1: asset types – broad categories based on the general function of the assets
- level 2: asset groups – used to distinguish between assets that have a similar function and form
- level 3: components – distinguishes between components that are likely to require individual depreciation and impairment models.

The systematic application of componentisation is fundamental to the way in which the Code generates financial information. It requires a more detailed approach than would be needed simply to satisfy IFRS accounting requirements, and should be based on what is necessary to support detailed maintenance planning and associated budgeting over the life cycle of the assets. The Code requires that management and maintenance strategies should be life cycle plan based and designed to optimise value over the life cycle. The life cycle plan identifies and costs all the capital works and their projected timing to provide the information needed to undertake long term expenditure forecasting and to undertake a variety of financial modelling. As the financial information is produced and aggregated across the life cycle, it supports (and the code requires) a whole life cost approach, rather than simply looking at the cost of the next treatment.

The Code generates asset management data in a form that can be readily used to report the assets on a current value basis in whole of government accounts. HM Treasury has set a timetable for a gradual transition to reporting on this basis, started with limited, unaudited data submissions for 2009/10, building up to a full audited dry run in 2011/12 and the withdrawal of historic cost based reporting from 2012/13.

The Code will be available for inhouse audit providers from the TSU intranet in due course. Licensing restrictions prevent it from being available from the extranet, but it can be ordered from the CIPFA website.

Example disclosures for pension liabilities

LASAAC has issued examples of disclosures that could be used to explain the impact of significant increases in pension liabilities at 31 March 2010. The increase has arisen because the corporate bond rate used as the discount factor as at 31 March 2010 is significantly lower than that used at 31 March 2009, which has contributed to a significant increase in the estimated current value of the pension liability. It is expected that some authorities will therefore be reporting a net liability position on their balance sheet in the 2009/10 accounts.

The example paragraphs provide explanations

- why it is considered appropriate to adopt a going concern basis for the preparation of the accounts (i.e. the accounting treatment under FRS 17 does not impact on authorities' ability to meet pension liabilities as they fall due)
- for the significant increase in pension liability.

The reported current service costs of pensions in 2009/10 have not been affected by the change in rate as they based on the discount rate at the start of the year. The change will however affect the current service costs in 2010/11.

Corporate governance developments

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

Role of chief financial officer

Statement on CFO role

CIPFA has issued a *Statement on the role of the chief financial officer in local government* that sets out principles that apply to the role of chief financial officer (CFO) in local government. The 2003 statement on the role of the finance director in local government has been updated in line with the format and principles of the overarching statement on the role of the CFO in public services (see TB 2009/3 – page 15). The aim of the updated statement is to give detailed advice on how to apply the overarching public services statement within local government.

The statement applies to the most senior finance professional within a local authority, and sets out how the requirements of legislation and professional standards should be fulfilled by CFOs in the carrying out of their role. The statement sets out the five principles that define the core activities and behaviours of the CFO role and the organisational arrangements needed to support them. They are as follows

The CFO in a local authority

- is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest
- must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the organisation's financial strategy
- must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

To deliver these responsibilities, the CFO must

- lead and direct a finance function that is resourced to be fit for purpose
- be professionally qualified and suitably experienced.

For each principle, the statement sets out the governance arrangements required within an organisation to ensure that CFOs are able to operate effectively and perform their core duties. It also sets out the core responsibilities of the CFO role within the organisation.

Application note on CFO statement

CIPFA has issued *Application note to delivering good governance in local government: a framework* which advises on the application of the statement on the CFO role in 2009/10 and 2010/11. The application note illustrates how the governance requirements to support the principles in the CFO statement build on the governance requirements that need to be reflected in an authority's local code set out in the *Delivering good governance in local government - framework*.

Authorities are encouraged to report publicly on compliance with the CFO statement in the annual governance statement. If their arrangements do not comply, they are urged to explain the reasons for this, and how they deliver the same impact as those in the statement. As the 'comply or explain' principle is voluntary, there is no role for auditors in reporting on the CFO statement itself. Local authorities are expected to consider very carefully the reasons for operating a different model and whether it really delivers the same level of assurance in practice.

The application note sets out an example annual governance statement included in the supplement to the governance framework that has been amended to reflect compliance with the CFO statement. It also provides a version of the tables contained in the guidance notes to the governance framework amended to include the expanded governance requirements from the CFO statement.

Other developments

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

Treasury management

Consent to invest

The Scottish Government has issued *Finance circular 5/2010 The investment of money by Scottish local authorities* which provides the consent of Scottish Ministers for local authorities to make investments. The consent is issued under the *The Local Government Investments (Scotland) Regulations 2010* which require a local authority to obtain the consent of Scottish Ministers to invest money. Both the consent and the investment regulations apply with effect from 1 April 2010.

The consent applies to a range of investments, including the investment of temporary surplus funds, shareholdings in companies, loans to group undertakings and third parties, and investment properties. However, it specifically excludes authorities lending to other authorities under Schedule 3 of the *Local Government (Scotland) Act 1975*.

The consent is provided subject to the requirement to comply with specified conditions. The conditions require authorities to prepare an *Annual investment strategy*. Although the detailed content of the strategy is a matter for each local authority to determine, the consent specifies certain minimum requirements

- The strategy should cover capital, treasury management, and prudential indicators, as well as the requirements of the investment regulations and consent conditions.
- Local authorities should set out their strategy for investments, and explain their investment objectives and policies.
- The strategy should make reference to the investment policies and practices that the consent requires authorities to consider and adopt to underpin their investment strategy.
- The strategy should state whether authorities have adopted the treasury management code and the prudential code in full or, where they have not, should provide an explanation.
- The strategy should be approved by the full council or board before the start of the financial year or, for 2010/11 only, by 30 June 2010.

Local authorities are permitted to determine the type of investments they may make, as well as the duration, and are required to set out in their strategy, or their *Treasury management policy statement*, the types of investment that they will permit in the financial year. Authorities are required to set a limit on the amounts that may be held in such investments at any time in the year, or set out the reasons in the strategy or policy statement for leaving some types of investment as unlimited. If a local authority makes an investment which is not listed as a permitted investment, it will be ultra vires unless it is a financial transaction that relies on separate legislative powers which the consent requires the local authority to recognise as an investment e.g. loans to third parties.

Local authorities are required to identify in their strategy or policy statement the types of treasury risk that their permitted types of investment are exposed to, and describe the controls in place for limiting those risks.

Local authorities must not borrow in advance of needs purely in order to profit from the investment of the extra sums borrowed. Borrowing in advance is defined in the circular as any borrowing undertaken by a local authority which will result in its total external debt exceeding its capital financing requirement for the following rolling twelve month period. Before any borrowing in advance is permitted, authorities are required to state their policy for borrowing in advance in the strategy. Any proposals to borrow in advance require justification, including the reasons why it is considered desirable, the criteria which would be applied in deciding to undertake the borrowing in advance, the maximum extent to which borrowing in advance would be undertaken, and the implication on the investment strategy.

When any borrowing in advance is carried out, a local authority is required to document the justification for the borrowing, which should include

- details of the borrowing in advance undertaken
- the anticipated timing as to when those funds are expected to be required
- the interest rate expected to apply if the borrowing is deferred until the time the funds are required, and the rate expected to be achieved by investing the sums borrowed in advance, along with details of how interest rates have been forecast and an explanation of the reasonableness of such forecasts
- the risks associated with borrowing in advance and the controls in place to manage that risk
- a discounted cash flow including borrowing cost savings and investment income discounted back to present values, with discount rates disclosed and justified.

Any such advance borrowing should be reported as part of the next treasury management report to the appropriate oversight committee. The report should justify the decision to borrow in advance, provide details of the borrowing and interest rates achieved, and include the estimated value of any anticipated savings due to the decision.

Auditors should also note that, as a result of this consent being issued, *Note for guidance 96/5(LA) Borrowing in advance of need* is now withdrawn.

Local authorities are also required to prepare an *Annual investment report* within six months of the financial year end, covering the same elements as the strategy, which should also be approved by the full council or board. The report should

- provide an objective evaluation of performance against the investment strategy for the year
- include details of external debt at the financial year end compared with the capital financing requirement
- cover the performance and return of all investments by type of investment
- identify any risks that have materialised in the year, and report on any financial consequences of that risk, together will details of any remedial action take
- include details of any review of long term investments.

Both the strategy and report should be made available to the public, e.g. from the local authority website.

Auditors should confirm that authorities are making arrangements to comply with consent requirements.

Whole of government accounts

2009/10 pack and guidance

The Scottish Government has issued the [2009/10 WGA L-pack for Scottish local authorities] to give local authority information for inclusion in WGA for 2009/10. The pack requires to be completed in accordance with accompanying guidance notes The 2009/10 WGA exercise will be the first to be produced on an IFRS basis, and the first to be published. The consolidation pack (the L pack) follows the local authority SORP, and the changes to align with the IFRS-based central government accounts are made centrally. It should be noted that the deadline for submission of the audited return has been brought forward from 30 October to 1 October.

Most of the data required continues to be the same as that required for authorities' published accounts, with the additional requirement to collect information on major transaction streams and balances within the public sector to allow these to eliminate on consolidation. The packs have been updated to reflect changes to the 2009 SORP (e.g. accounting for PFI and non domestic rates), and the following other changes from the previous year are brought to auditors' attention.

The overview sheet (sheet 1) has been changed considerably and there are several mandatory fields that must be completed before further data input to the rest of the form is allowed

- Cells that are required for group accounts can only be used if the group status has been selected from the drop down menu.

- There is a new box denoting the audit status of the pack, which should be updated when the audit is complete.

- In addition, a new drop down menu has been inserted to indicate the audit opinion on the annual accounts. This also applies to authorities below the audit threshold (£50 million)

- There is also a new 'essential checklist' section containing questions that need to be answered so that the relevant sections in the form are available for input. The questions cover pooled budgets and rare financial instruments such as derivatives, financial guarantees and hedge accounting.

The validations sheet (sheet 2) has also undergone significant change

- There are new boxes denoting the audit status of the pack. This includes a requirement for auditors to click on the 'audit completion' box which is password protected.

- The primary validations have increased from three to seven, including new checks in respect of the prior year balance sheet and the cash flow statement, and these must be passed before the pack can be submitted to the Scottish Government.

- The number of data integrity checks has increased to 27, including checks for depreciation, amortisation and impairment, financial instrument disclosures, prior year taxpayer's equity, and cash at bank.

The prior year restatement sheet (sheet 3) is intended to capture the reasons for changes to opening balances. The main reasons for movements from 31 March 2009 to 1 April 2009 should be changes in accounting policy (e.g. accounting for PFI and non-domestic rates) and adjustments to correct fundamental errors. The opening balances are pre-populated and based on the 2008/09 audited return except for those local authorities that did not meet the submission deadline, in which case unaudited figures are being used. Any differences between the unaudited and audited opening balances requires to be adjusted in the sheet under 'Analysis of differences – other'.

The data requirements in the investments sheet (sheet 8) have expanded considerably in 2009/10 to provide the level of detail required for the counter-party sheet and the new financial instruments disclosure sheets.

Scottish Government capital grants (general and specific) are now all recorded in the liabilities and provisions sheet 10 which automatically populates the income and expenditure sheet (sheet 4). The liabilities sheet assumes that capital government grant received is recorded in the unapplied account, with a line for movements to the deferred account. Capital grant income expended immediately that does not result in the creation of a fixed asset should be input into the liabilities sheet and the information is automatically updated in the income and expenditure account (sheet 5). Sheets 4 and 5 have also been amended to require more analysis on revenue grant income received.

The cash flow introduced in 2008/09 (sheet 14) is subject to audit review in 2009/10. The cash flow does not have many automatically linked cells calculating the movement in cash, and authorities are required to input amounts from annual accounts.

The pack has been expanded (sheets 15 and 16) to require the financial instrument disclosures that were introduced by the 2007 SORP. The level of disclosure is determined by the 'Essential checklist' on the overview sheet e.g. if there are no derivatives, these fields are hidden.

Other changes include the following

- The additional disclosures sheet (sheet 18) requires breakdown on the PFI commitments including the number of PFI schemes for school building projects.

- Sheet 19 on pooled budgets has been introduced to help the completion of counter party information.

- The requested highways infrastructure data (sheet 21) is for information purposes only, and is to capture the progress being made by local authorities on revaluing their highways infrastructure assets on a depreciated replacement cost basis. This sheet is not subject to audit in 2009/10.

Auditors should refer to this guidance when auditing the 2009/10 WGA L packs.

Disposal of land

New regulations

Section 11 of the *Local Government in Scotland Act 2003* in respect of disposing of land at less than the best consideration has been brought into force. It amends section 74 of the *Local Government (Scotland) Act 1973* to remove the requirement to obtain the consent of the Scottish Ministers to dispose of land for a consideration less than the best that could reasonably be obtained. In addition, *The Disposal of Land by Local Authorities (Scotland) Regulations 2010* have been issued and came into effect on 1 June 2010. From that date, new arrangements apply whereby the amended section 74 permits disposals at less than best consideration where either

- the best consideration that can reasonably be obtained is less than the threshold amount. Regulation 2 of the new 2010 Regulations sets the threshold amount at £10,000; or

- the difference between the best consideration and the proposed consideration is less than the marginal amount. Regulation 2 sets the marginal amount at 25% of the best consideration.

Regulation 3 provides that a disposal for less than the best consideration may take place where the local authority has carried out an appraisal of the proposed disposal, and is satisfied that the disposal is reasonable and that it contributes to one or more of the following purposes: economic development or regeneration; health; social well-being; or environmental well-being.

Auditors should confirm that their authorities have arrangements in place for complying with the new regulations.

Retirement benefits

Review of actuarial information

PricewaterhouseCoopers has issued a report commissioned by Audit Scotland and the UK audit agencies to support auditors in considering FRS 17 information provided by actuaries as at 31 March 2010. The report assesses the competence and objectivity of, and assumptions and approach adopted by, actuaries producing FRS 17 (and IAS 19) figures in respect of the local government pension scheme, and police and fire schemes. Findings include the following

- 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.

- The actuarial assumptions proposed by the actuaries are considered to be appropriate for a typical employer. However, the report recommends further investigation into the actuarial assumptions where an employer has requested different assumptions than those proposed by the actuary or where an employer has a significantly different membership profile to a typical employer.

- Each actuary has taken a reasonable approach to the most material assumptions for each employer.

- 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.

Auditors should use this report when considering their authorities' 2009/10 FRS 17 information provided by actuaries.

Councillors' remuneration

Revised guidance

The Scottish Government has issued *Councillors' remuneration: Remuneration, allowances and expenses guidance (revised) April 2010* to provide updated guidance on the arrangements for councillors' remunerations from 5 April 2010. The updated guidance reflects changes arising from

- *The Local Government (Allowances and Expenses) (Scotland) Amendment Regulations 2010*, which introduce an option for local authorities to publish the annual records of payments to members in a format of their choice

- *The Local Government (Allowances and Expenses) (Scotland) Amendment (No 2) Regulations 2010,* which are only relevant to Island Councils.

Legislation

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

Statutory instruments

Rating and valuation

Local government

The Local Government in Scotland Act 2003 (Commencement No. 5 and Saving) Order 2010, SSI 119 brought section 11 of the *Local Government in Scotland Act 2003* in respect of disposal of land at less than best consideration into force on 20 April 2010 (for the purpose of conferring power to make regulations) and 1 June 2010 (for all other purposes). See Other developments – Disposal of land – New regulations.

The Local Government Investments (Scotland) Regulations 2010, SSI 122 came into force from 1 April 2010. See Other developments – Treasury management – Consent to invest.

The Scottish Local Government (Elections) Act 2009 (Commencement) Order 2010, SSI 132 brought the *Scottish Local Government (Elections) Act 2009* into force on 30 April 2010. This Act will change the date of the local government elections in Scotland so that they are no longer held in the same year as elections to the Scottish Parliament. It also gives the Scottish Ministers powers to make secondary legislation about publication of information about votes cast at local government elections.

The Local Government Finance (Scotland) Amendment Order 2010, SSI 154 came into force on 15 April 2010 and amended the principal Order in respect of revenue support grant for 2010/11.

The Disposal of Land by Local Authorities (Scotland) Regulations 2010, SSI 160 came into force on 1 June 2010. See Other developments – Disposal of land – New regulations.

Key circulars

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

Finance circulars

Finance circular 4/2010 Guidance on proper accounting practices – statutory charges for PPP/PFI and similar arrangements. See Accounting developments – Statutory guidance on PPP/PFI arrangements.

Finance circular 5/2010 The investment of money by Scottish local authorities. See Other developments – Treasury management – Consent to invest.

Finance circular 8/2010 Guidance on proper accounting practices - police and fire injury benefits. See Accounting developments – Guidance on police and fire injury benefits – Statutory guidance.

Finance circular 9/2010 Local government finance settlement: 2010/11 amendment order etc provides a summary of the figures contained in *The Local Government Finance (Scotland) Amendment Order 2010*, together with details of up to date capital support for 2009/10 and 2010/11.

Pension circulars

Police pension circular 2010/2 Public service pension increase 2010 advises that there will be no increase to public service pensions in 2010/11.

Police pensions circular 2010/3 The Police Pensions Amendment (Scotland) Regulations 2010 advised on the making of *The Police Pensions Amendment (Scotland) Regulations 2010* which

- amend the principal 1987 regulations to give senior police officers the right to retire on or after reaching the age of 50 years, if they give 6 months notice to the police authority and are not subject to any disciplinary proceedings. This amendment has effect from 1 April 2004 until 30 September 2006
- allow a police authority to disapply the regulation which limits the size of lump sum for which a police officer with less than 30 years' service can commute his or her pension, in the limited circumstances where the officer retires one day before reaching 30 years' service, and below the age of 50.

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 report has been prepared since TB 2010/1 and is available by using the hyperlink.

Shetland Islands Council

The purpose of this report on Shetland Islands Council was to provide an update for the Accounts Commission and highlight some of the issues facing the council, with a particular focus on the appointment and subsequent departure of the chief executive. Conclusions included the following

- The process for the recruitment and selection of the chief executive was not sufficiently rigorous. The council did not put in place a robust process to set personal objectives for him, and there was no formal process to appraise and manage his performance.

- It is of serious concern that a significant amount of public money has been spent to settle the case with the chief executive. However, the council took appropriate external advice and the settlement was negotiated on a reasonable basis and in compliance with the relevant legislation.

- The council has not demonstrated that it can set a clear strategic direction, backed by sound and consistent decision making.

- The council agreed budget savings for 2010/11 but has yet to demonstrate how it can sustain its current level of services in future years whilst maintaining its target reserves balance and delivering its capital plans.

Publications

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

Accounting

Code of practice for local authority accounting in the United Kingdom - disclosure checklist for 2009/10

This checklist from CIPFA is on the disclosure requirements of the 2009 SORP. It is intended to be an aide-memoire for local authorities and auditors to ensure the SORP's disclosure requirements are met. If the answer to a question is no, a justification for departing from the SORP should be given and, where the impact is material, disclosed in the accounts.

Auditors may wish to obtain a completed checklist from their authorities when considering whether the disclosure requirements of the SORP have been complied with.

Auditor action

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

Section	Action
Accounting developments – Statutory guidance on PPP/PFI arrangements	Auditors should confirm that their bodies are making arrangements to comply with the statutory guidance on PPP/PFI arrangements.

Section	Action
Accounting developments - Guidance on 2009/10 accounts	Auditors may find it useful to refer to the CIPFA bulletin on the 2009/10 accounts when checking authorities' compliance with the requirements of the 2009 SORP.
Accounting developments - Guidance on police and fire injury benefits – Statutory guidance	Auditors should confirm that their bodies are making arrangements to comply with the statutory guidance on police and fire injury benefits.
Accounting developments - Guidance on impairment of Icelandic bank deposits	Auditors should confirm that authorities have paid due regard to the CIPFA guidance when calculating the impairment for deposits in h Icelandic banks.
Other developments – Treasury management – Consent to invest	Auditors should confirm that authorities are making arrangements to comply with investment consent requirements.
Other developments – Whole of government accounts – 2009/10 pack and guidance	Auditors should refer to Scottish Government guidance when auditing the 2009/10 WGA packs.
Other developments – Disposal of land – New regulations	Auditors should confirm that their authorities have arrangements in place for complying with the new land disposal regulations.
Other developments – Retirement benefits – Review of actuarial information	Auditors should use the PWC report when considering their authorities' 2009/10 FRS 17 information provided by actuaries.
Publications - Accounting	Auditors may wish to obtain a completed SORP disclosure checklist from their authorities when considering whether the disclosure requirements of the SORP have been complied with.

Please take a moment to complete and return the feedback form

Health chapter

Introduction

This chapter contains articles on health technical developments and guidance relevant to external auditors' responsibilities under their audit appointment to give an opinion on the financial statements. It should be read by external auditors with appointments in the health 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 specific matters are provided in separate notes published by the TSU (i.e. notes for guidance and urgent issue notes).

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

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note the following articles in this chapter are of relevance to 2009/10 audits

- note for guidance on 2009/10 annual accounts
- TSU guidance on inventories
- 2009/10 annual accounts manual
- 2009/10 annual accounts checklist
- 2009/10 statement of internal control guidance
- overseas visitors guidance
- prescription charges
- consultants distinction awards annual report

There are also articles on: pharmacy remuneration arrangements; payment verification procedures; enhanced services; and the chronic medication service.

TSU developments

Publications

The following has been published by the TSU since TB 2010/1 and can be downloaded by auditors from the TSU intranet/extranet. It can be sent to other TB recipients on request.

Note for guidance on 2009/10 annual accounts

The TSU has published *Note for guidance 2010/2(H) 2009/10 health annual accounts* to provide auditors with guidance on the main risk areas that they should pay particular consideration to when auditing the 2009/10 annual accounts.

The note was prepared on the basis of the draft version of *NHS board accounts manual* (the accounts manual). Changes in the final version are summarised in this TB (see Accounting developments – 2009/10 accounts manual – Final manual).

Responses to enquiries

The TSU operates a 'help-desk' for auditors which provides responses to ad hoc technical enquiries. Selected responses are added to the frequently asked questions section of the TSU intranet/extranet and include the following since the publication of TB 2010/1.

Inventories

Should VAT be included in the valuation of NHS inventory?

IAS 2 Inventories states that the cost of inventories comprises the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities). HM Revenue's and Customs (HMRC) guidance confirms that the provision of healthcare by the NHS is a statutory function; it is therefore classified as non-business rather than exempt.

Boards are registered for VAT and can recover input tax in relation to those taxable supplies they make in the course of business. Therefore boards should include VAT in the valuation of items of inventory where it is not recoverable.

Auditors should confirm that their boards are aware of the requirements of IAS 2 and the relevant HMRC guidance.

Accounting developments

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

2009/10 accounts manual

The Scottish Government Health Directorates (SGHD) has issued both the draft and final versions of the 2009/10 accounts manual. The manual is intended to complement the guidance in the FReM and assist boards in the preparation of their IFRS-based accounts.

Draft manual

The changes to the draft manual from the previous version, used for the preparation of the 2008/09 shadow accounts, are mainly presentational and are summarised in the following paragraphs.

There are two changes to the annual report

- It now includes an additional paragraph to recognise that comparative figures have been restated in accordance with the requirements of *IFRS 1 First-time adoption of IFRS*.

- The payment policy disclosure includes an additional reference on performance against the Scottish Government's prompt payment target of ten days. This target, and the reporting against the staff absence target, are included within the excel template that accompanies the manual to ensure a consistent methodology is used.

The summary of resource outturn statement on the operating cost statement (OCS) has an additional line to record the total expenditure on service concession arrangements that meet the *IFRIC 12* definition. The expenditure is deducted from the charge against the revenue resource limit. This should include expenditure that was previously accounted for on-balance sheet.

The statement of changes in taxpayers' equity (SOCTE) has been amended to include a number of additional lines to reflect

- the movement in pensions reserves taken to the general fund where the scheme requires to be accounted for on a defined benefit basis. This will only affect health bodies participating in schemes other than the NHS pension scheme

- the impairment charge for property, plant and equipment and intangible assets. These amounts were previously included within the lines recording the revaluation gains and losses. The impairment and revaluation for each type of asset is shown separately. The revaluation and impairment taken to the OCS have also been shown separately on a new line.

Note 2 on staff costs now includes a disclosure highlighting the amount of staff costs charged to capital expenditure relating to staff working on capital projects. A disclosure has also been made to record the number of staff involved.

Note 3 on other operating costs has been amended to provide additional information on impairment and revaluation charges to the OCS and remove other disclosures. The adjustments made are

- separate disclosure of the revaluation and impairments for property, plant and equipment and intangible assets charged to the OCS. The revaluation and impairment figures were previously shown on a single line.

- the reversal of any impairment and revaluation gains taken to the OCS have also been separately disclosed

- the lines included previously for research and development and travel and subsistence have been removed.

Note 10 on intangible assets has had additional columns added for the disclosure of websites and assets under development.

Note 11(c) on assets held for sale was previously included as note 29. It has been moved to form part of the disclosures relating to property, plant and equipment.

Note 18 on movements in working capital balances has been amended to highlight the need to remove interest payable from the movement in trade and other payables and include a line for the transfer from provisions to the general fund.

The format of note 23 on the commitments under PFI contracts has been amended to provide information on the contingent rents charged as an expense and to disclose the future commitments on a gross and present value basis.

Note 25 on first time adoption of IFRS and note 26 on the restated balance sheet figures has been amended to clarify the requirements of IFRS 1 to provide a reconciliation between the UK GAAP and IFRS figures.

Note 29 on related party transactions was previously included as note 31. For the preparation of the 2008/09 shadow accounts, health bodies replicated the related party disclosures that had been included in the annual report under UK GAAP. For the 2009/10 accounts, the note should be prepared in accordance with the requirements of IAS 24. If there have been material transactions, health bodies should disclose as a minimum

- details of the sales and purchases of goods and services

- year end balances arising from the sales and purchase of goods and services

- details of any loans

Final manual

As previously stated, the note for guidance published by the TSU on the 2009/10 accounts was prepared on the basis of the draft manual. Auditors should note the changes made to the final version that are summarised in the following paragraphs.

There have been the following changes to the disclosure notes

- A new line has been added to note 3 on other operating costs to reflect the unwinding of discounts on provisions.

- Note 17 on provisions has been amended to reflect a change to the discount rate to be used in the calculation of the provision for early retirement costs. As previously stated, the pension discount rate should be used rather than the general provision discount rate as stated in the note for guidance, and therefore the discount rate has been changed to 1.8% from 2.2%.

- In note 26 on the restated opening balance sheet, the references to the SOCTE have been simplified to remove the 2007/08 movements to the individual reserves and disclose only the total balances and the IFRS adjustments to these balances.

- Note 31 has been added to disclose any third party assets held by the board. This is to make disclosure consistent with the accounting policies and the requirements of the FReM.

Other changes include the following

- The reference in the remuneration report to the aspects which are subject to audit has been corrected and is now in line with the requirements of the FReM.

- Additional lines have been added to the SFR 9 to disclose expenditure under the general medical services contract.

- A number of formulae within the template have been corrected and some cells have been protected to require SGHD approval before figures can be entered. A schedule of these adjustments accompanies the manual.

In addition, the covering letter to the manual provides further guidance on some issues related to the 2009/10 annual accounts including the following

- All adjustments in respect of removing accelerated depreciation should be reflected as prior year adjustments. Opening balances at 1 April 2008 and 2009 and operating costs and reserve movements for 2008/09 should be restated, and the resulting changes disclosed in notes 25 and 26 within the heading *IAS 36 Impairment of assets*.

- A temporary divergence from IAS 27 has been allowed for the non-consolidation of NHS funds held on trust, which applies to endowment funds. Disclosure to this effect requires to be made in the accounting policies and in note 29 on related parties.

- The full amount of the cost financed should be recognised as the fair value of PFI assets, with any reduction to the revalued amount on completion being recognised as an impairment. This will be eligible for treatment as annually managed expenditure.

Auditors should confirm that their boards are aware of this guidance and consider the implications for the audit of the 2009/10 IFRS accounts.

2009/10 annual accounts checklist

The SGHD has issued a checklist to aid boards in the preparation of their IFRS-based 2009/10 accounts and assist with the review process. The completion of the checklist will provide confirmation that the accounts

- are in the correct format
- are signed and dated appropriately
- include information required by the SGHD.

Auditors should confirm that their boards have completed the checklist.

Governance developments

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

Corporate governance

2009/10 statement of internal control guidance

The SGHD has issued a letter to provide boards with updated guidance on the preparation of the statement of internal control (SIC) for the 2009/10 annual accounts. The SIC is an integral part of the annual reporting process and requires to be approved by each board's chief executive and endorsed by its audit committee along with the annual financial statements, and passed to the external auditors for review.

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

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

The guidance covers

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

- sources of assurance, including the work of internal and external audit

- the role of the audit committee for reviewing the disclosures included in the SIC. The audit committee should receive the information provided to the chief executive in support of the SIC and should also consider in advance the other information it wishes to receive. It may wish to receive from external auditors a description of their processes and judgements in the review of the reliance that can be placed on the work of internal audit

- the required disclosures. The SIC should provide a balanced assessment of the significant risks and the effectiveness of the system of internal control in managing those risks. All significant control failings or weaknesses identified must be individually disclosed in the relevant section, including their impact and the actions being taken to rectify them.

The guidance refers to a requirement to develop a framework that provides overt assurance on best value for 2010/11 which should be based on the secondary best value guidance issued to accountable officers and the developments within *Better health, better care.*

It also states that, the Scottish Government has adopted the *Government internal audit standards* and that significant deviations from these standards should be considered by health bodies for inclusion in the SIC.

Auditors should confirm that their boards are aware of this guidance and that the disclosures in the SIC are not inconsistent with information of which they are aware.

Other developments

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

National agenda/direction

Overseas visitors' guidance

Revised guidance has been issued in *CEL(2010)9* that sets out the criteria for overseas visitors' exemption from NHS charges. Exemption from NHS charges is predominantly based on whether people are ordinarily resident in the UK. The guidance sets out the definition of residency, restrictions on eligibility for exemption, and the main criteria that should be considered in determining if an overseas visitor is liable to pay charges for NHS care or services and on what basis.

Overseas visitors (i.e. a person not ordinarily resident in the UK) may be liable to charges as a result of *The NHS (Charges to Overseas Visitors)(Scotland) Regulations 1989* for NHS dental, eye examination and hospital services unless they qualify for an exemption. The regulations do not permit charging for GP services and it is at the discretion of GP practices whether a patient is registered or treated privately. It is for healthcare providers to determine an overseas visitor's need for NHS services and if charges should apply. Hospitals are advised to check the residency status of all overseas nationals as referral from a GP or possession of a community health index number is not proof of exemption from charges.

All overseas visitors not covered by this guidance should be charged privately for non-emergency treatment, family health services and other types of treatment as outlined in the guidance. The applicable charges should be determined by the NHS board. The Scottish Government expects NHS Boards to take all reasonable steps to recover the cost of NHS treatment from those overseas visitors who are liable to charges.

Healthcare quality strategy

The Scottish Government has published the *Healthcare quality strategy for NHSScotland* which builds on *Better health, better care* to deliver increased effectiveness, efficiency and productivity. The quality strategy is concerned with listening to peoples' views and using this information to improve services, building on the values of people working in the NHS to provide the best possible care, and making measurable improvements in patient care.

The strategy identifies the actions intended to lead to improvements in priority areas. The actions are based on the following three health care *Quality ambitions*, which will provide the focus for all activity to support their aim of delivering the best quality healthcare

- Mutually beneficial partnerships between patients, their families and those delivering healthcare services which respect individual needs and values and which demonstrate compassion, continuity, clear communication and shared decision-making.

- There will be no avoidable injury or harm to people from the healthcare they receive, and an appropriate, clean and safe environment will be provided for the delivery of healthcare services at all times.

- The most appropriate treatments, interventions, support and services will be provided at the right time to everyone who will benefit, and wasteful or harmful variation will be eradicated.

It is intended that a Quality Alliance will be formed, which will report progress on a regular basis with reference to twelve high-level quality outcome measures, selected to monitor progress towards the Quality *ambitions*, and with reference to progress in implementing the improvement actions. The outcome measures will be developed through consultation and will include: healthcare experience; staff attendance and experience; healthcare associated infections; and adverse events.

The HEAT targets will be aligned with the quality strategy to provide a shorter-term measure of progress towards the Quality ambitions. In 2011/12, there will be a small number of new targets to provide greater alignment with the quality strategy. These will replace targets which have been met in 2010/11 so there will be no overall increase in the number of targets.

Pay modernisation and workforce planning

Pharmacy remuneration arrangements

The SGHD issued *PCA(P)(2010)7* advising of an amendment to the March 2010 infrastructure payment to community pharmacy contractors. Community pharmacy contractors receive a monthly infrastructure payment of up to £300 through the global sum.

For March 2010 only, contractors will receive an additional £500 to be used to invest in IT infrastructure or providing secure storage for serial prescriptions received under the chronic medication service (CMS). Practitioners are required to submit a declaration to confirm when an item has been purchased. The funding may be used to cover retrospective purchases since April 2009.

2010/11 enhanced services

The SGHD issued the following two letters on the arrangements for enhanced services to be provided by GPs in 2010/11

- *PCA(M)(2010)8* confirms the continuation of the seven 2009/10 directed enhanced services in 2010/11, and that information on the levels of funding will follow in due course. Thereafter, the services for palliative care and osteoporosis will be reviewed from 1 April 2011, while the service for ethnicity will end then.

- *PCA(M)(2010)10* confirms the continuation of funding arrangements for the Scottish enhanced services programme for 2010/11. The allocations for 2010/11 are included in an annex to the letter.

Payment verification procedures

CEL(2010)13 updates the payment verification procedures for primary medical services. The updated payment verification protocol is intended to provide an assurance framework to boards on the accuracy and validity of payments.

The paper provides basic principles that should be adhered to when agreeing the payment verification required. GP practices are required to retain evidence to substantiate the validity of payments relating to the general medical services contract. Where a family health service practitioner refuses to co-operate in the payment verification process, they may be in breach of contract or terms of service and boards are required to take appropriate action.

Where a concern relating to a potential fraud arises, a tri-partite meeting between Practitioner Services, the NHS board and Counter Fraud Services should take place within two weeks.

The procedures for general ophthalmic services and general dental services are currently being reviewed.

2009/10 consultants distinction awards

The Scottish Government has issued the *Annual report on the Scottish Advisory Committee distinction awards* for 2009/10. The Scottish Advisory Committee on Distinction Awards decides which consultants in NHSScotland will be granted an award in order to recognise outstanding contributions to the quality of patient care, research and development, teaching and the NHS generally. The number and amount of awards arising in 2009/10 are

- 9 A+ awards at £75,889 each
- 29 A awards at £55,924 each
- 65 B awards at £31,959.

There were 578 consultants holding distinction awards as at 30 September 2009. The awards relate to 2009/10 and will be backdated so as to be payable from 1 April 2009. They are paid in addition to the consultants' salary and are pensionable.

For the 2010/11 awards round, the value of awards has been maintained at the 2009/10 level, but the only new awards available will be those arising from the retirement of existing award holders and those who have left the service.

Family health services

Prescription charges

PCA(P)(2010)6 advises boards of revised prescription charges effective from 1 April 2010

- Prescription charges are reducing from £4 to £3.
- The costs of prescription prepayment certificates are being reduced to £28 for a twelve month certificate and £10 for a four month certificate.
- The charge for a prescription on a form from elsewhere in the UK will reflect the English rate.

Chronic medication service

The SGHD issued two letters on the CMS element of the community pharmacy contract within NHSScotland.

PCA(P)(2010)8 provides the service specification for the CMS, the aim of which is to develop the role of community pharmacists in the management of patients with long term conditions. The core objectives are to enhance self care, document pharmaceutical care, provide continuity of care, and facilitate partnership working. The three stages to CMS are

- the registration of an eligible patient
- the pharmaceutical assessment of each registered patient which may include the establishment of a pharmaceutical care plan
- the shared care element where a GP generates a serial prescription.

A serial prescription is a prescription for medicines and medical sundries dispensed at regular intervals determined by the GP over either a 24 or 48 week time period. It is only available to patients who are exempt from prescription charges and has the following features

- The pharmacist retains serial prescription forms in the pharmacy
- A patient signs the paper form of the prescription on the final dispensing episode, which is then sent to NHS National Services Scotland within three months.

- CMS claims are made electronically and do not rely on the paper copy.

- An end of care treatment summary should be sent to the patient's GP practice, which can include a prescription renewal request

Transitional CMS payments will be made initially, but remuneration will move to a capitation basis in the future.

PCA(P)(2010)10 provides the 2010 directions and an implementation plan for the CMS. The *Health Board Additional Pharmaceutical Services (Chronic Medication Service) (Scotland) Directions 2010* provide the legal framework for CMS. They set out the eligibility criteria for both CMS registrations and serial prescriptions and provide the terms and conditions to be followed by those delivering the service.

The implementation plan, attached as an annex to the letter, announces that CMS was implemented from 11 May 2010. Pharmacy contractors are required to develop a list of eligible patients who they consider would benefit from CMS. During the implementation phase the registration and provision of CMS will be limited to 50 patients per pharmacy premises.

From 1 January 2011, pharmacists will extend provision of CMS to eligible patients on their list at a rate determined by the pharmacist. The implementation phase will be supported by an implementation payment to be notified shortly.

Legislation

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

Statutory instruments

National health service

The National Health Service (General Ophthalmic Services)(Scotland) Amendment Regulations 2010 SSI 86 came into force on 1 April 2010 and amends the principal 2006 regulations by changing the information required to be submitted when applying to be included on a board's ophthalmic list. An application made by a body corporate must be signed by all the directors. Any change to the information submitted in support of an application must be notified to the board within seven days.

Further criteria when a board can refuse to include a practitioner on the list have been provided. The obligation to obtain any enhanced criminal record certificate before determining an application is placed on the board.

The National Health Service (General Medical Services Contracts, Primary Medical Services Section 17C Agreements and Primary Medical Services Performers Lists)(Scotland) Amendment Regulations 2010 SSI 93 came into force on 1 April and 6 April 2010 and made various amendments to the principal performers list regulations in relation to those eligible to hold contracts and the obligation to issue medical certificates free of charge. A new provision to provide information to the Department of Works and Pensions is inserted.

The National Health Service (Travelling Expenses and Remission of Charges)(Scotland) Amendment Regulations 2009 SSI 94 came into force on 6 April 2010 and amended the principal 2003 regulations by increasing the limits to be used in calculating entitlement. The capital thresholds to be used in the NHS Low Income Scheme increases from £14,000 to £14,250 and £23,000 to £23,250. Help with health costs is not available above these limits for certain people permanently residing in care homes.

The National Health Service (Pharmaceutical Services)(Scotland) Amendment Regulations 2010 SSI 128 came into force on 1 May 2010 and amended the principal 2009 regulations by expanding the obligations on pharmacists. The amendment requires pharmacists to

- take all reasonable steps to provide the prescribed drugs without delay
- not do anything to delay or prevent dispensing
- contact the prescriber to discuss alternatives where there is likely to be a significant delay in dispensing.

Key circulars

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

Chief executive letters (CEL)

CEL(2010)13 *Primary medical services payment verification procedures*. See Other developments – Pay modernisation and workforce planning – Payment verification procedures.

CEL(2010)9 *Overseas visitors' liability to pay charges for NHS care and services.* See Other developments – National agenda/direction – Overseas visitors' guidance.

PCA

PCA(P)(2010)6 *The NHS (Charges for drugs and appliances)(Scotland) Amendment Regulations*. See Other developments –Family health service – Prescription charges.

PCA(P)(2010)7 *Pharmaceutical services: one off adjustment to infrastructure payment to support ePharmacy programme*. See Other developments – Pay modernisation and workforce planning – Pharmacy remuneration arrangements.

PCA(P)(2010)8 *Additional pharmaceutical services chronic medication – service specification* . See Other developments –Family health service – Chronic medication service.

PCA(M)(2010)8 *Primary medical services: directed enhanced services 2010/11*. See Other developments – Pay modernisation and workforce planning – 2010/11 enhanced services.

PCA(M)(2010)10 *Primary medical services Scottish enhanced service programme 2010/11*. See Other developments – Pay modernisation and workforce planning – 2010/11 enhanced services.

PCA(P)(2010)10 *Additional pharmaceutical services chronic medication – directions and implementation plan* . See Other developments – Family health service – Chronic medication service.

PCS

PCS(SCDIA)(2010)1 *Scottish distant islands allowance* notified boards that rates for the Scottish distant islands allowance have been uplifted by 2.25% from 1 April 2010. The allowance is non-superannuable but is taxable and should be paid with salaries and wages. The rates for each island group are set out in the circular.

PCS(DD)(2010)5 *2004 consultant contract national salary scales and fees and allowances for 2010/11* notifies boards that the national salary scales and fees and allowance under the consultant contract remain unchanged for 2010/11 effective from 1 April 2010.

Dear colleague letter

Dear colleague letter dated 29 April 2010 Annual report on the Scottish advisory committee on distinction awards. See Other developments – Pay modernisation and workforce planning – 2009/10 consultants distinction awards.

Publications

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

Review of orthopaedic services

This report *Review of orthopaedic services* examines how effectively the NHS in Scotland manages orthopaedic services, how much is spent and whether this represents value for money. It also assessed whether there is scope to improve the efficiency of orthopaedic services, by comparing activity across Scotland and identifying areas of good practice. The key messages include the following

- There are some problems with the accuracy of national data on cost, quality and activity. It is essential that NHS boards and the Scottish Government develop better information to plan and deliver efficient services to a high quality.

- Boards are meeting national waiting times targets, but making further sustainable improvements to achieve the planned 18-week referral to treatment target will be challenging.

- There is variation across Scotland in the efficiency of orthopaedic services which is not fully explained by the resources available or by the types of procedures carried out. Efficiency savings can be made by moving more inpatient care to day surgery or outpatients and by reducing length of stay in hospital. Boards should monitor day case and out patient activity to assist delivery of care in the most efficient and effective setting. Savings can also be made by more efficient purchasing of surgical implants.

- Productivity indicators suggest that NHS boards which manage their planned and emergency orthopaedic activity separately have higher consultant activity and a lower cost per case. Boards should develop a better understanding of productivity, including activity, cost and quality indicators, to deliver efficient services

Auditor action

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

Section	**Action**
TSU developments – Responses to enquiries – Inventories	Auditors should confirm that their boards are aware of the requirements of IAS 2 and the relevant HMRC guidance.
Accounting developments – 2009/10 accounts manual	Auditors should confirm that their boards are aware of this guidance and consider the implications for the audit of the 2009/10 IFRS accounts.
Accounting developments – 2009/10 annual accounts checklist	Auditors should confirm that their boards have completed the checklist

Section	Action
Governance developments – Corporate governance – 2009/10 statement of internal control guidance	Auditors should confirm that their boards are aware of this guidance and that the disclosures in the SIC are not inconsistent with information of which they are aware.

Please take a moment to complete and return the feedback form

Central government chapter

Introduction

This chapter contains articles on central government technical developments and guidance relevant to external auditors' responsibilities under their audit appointment to give an opinion on the financial statements. It should be read by external auditors with appointments in the central government 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 specific matters are provided in separate notes published by the TSU (i.e. notes for guidance and urgent issue notes).

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

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note that the following articles in this chapter relates to 2009/10 audits

- discount rate on early retirement provisions
- banking arrangements.

There are also other articles on the following subjects: draft 2011/12 FReM; 2010/11 pensions earning cap; and 2010/11 public sector pay policies.

TSU developments

Guidance

Discount rate on early retirement provisions

There has been a change to the discount rate to be used in calculating early retirement provisions set out in *Note for guidance 2010/2 (CG) 2009/10 central government financial statements*. The note stated that all provisions should use the discount rate of 2.2%. However, a subsequent *Public expenditure system* (PES) paper advised that the discount rate to be applied to pension liabilities from 31 March 2010 was 1.8%, while the rate for general provisions remains at 2.2%. HM Treasury have confirmed that the pension discount rate has to be used for the calculation of injury benefits and early retirement costs provided for by bodies. Treasury have also confirmed that the effect of this change in interest rate should be taken to the operating cost statement.

Auditors should confirm that their bodies are aware of the guidance issued and that they have reflected this in the calculation of their 2009/10 provisions.

Accounting developments

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

Draft 2011/12 Government financial reporting manual

HM Treasury has issued a draft version of the *2010/11 Government financial reporting manual* (FReM). The draft shows the changes agreed so far and in particular the changes associated with the second stage of the implementation of the alignment project. This involves aligning the format of the statement of parliamentary supply with the proposed aligned estimates format based on Parliament's authorisation of departmental budgetary control totals. It also includes revising the departmental resource accounting boundary to include non-departmental public bodies, although the TSU understands that this will not apply in Scotland. The draft FReM has been published early to permit use for dry run purposes for changes related to this process.

The FReM will be subject to further changes which will be incorporated as they are agreed. The final version will require normal Financial Reporting Advisory Board approval following due process, expected to take place in December 2010.

2010/11 Pensions earning cap

The Cabinet Office has issued *EPN 272 Increase in the pensions earning cap 2010/11*. The rules of the civil service pension scheme limit the amount of salary that can be used in calculating the pensionable pay of civil servants. This limit is referred to as the earnings cap.

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

For the period 6 April 2010 to 5 April 2011, the cap is £123,600.

Corporate governance developments

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

2010/11 public sector pay policies

Staff pay remits

The Scottish Government has issued the *Public sector pay policy for staff pay remits 2010/11* which sets the parameters for public sector pay increases for public bodies in Scotland in 2010/11. The policy applies to staff in central government bodies that are due to enter into a new pay settlement between May 2010 and 31 March 2011.

The aim of the policy is to make sure that public bodies deliver pay settlements that are affordable, sustainable, fair and non-discriminatory. Bodies are required to target resources at addressing low pay and inequalities within pay and reward systems, including reducing the width of pay ranges.

Bodies are responsible for determining the pay and conditions for their staff that are appropriate for their business needs and which take account of the policy, and negotiate detailed pay settlements with trade unions and staff. The policy limits the basic award to 1.00% for 2010/11 and restricts the increase in the net paybill to 2%. During 2010/11, public bodies may only put in place pay awards for one year i.e. the policy precludes the agreement of any multi year deals in 2010/11.

Bodies are required to seek approval from the Scottish Government for their proposals, and the policy sets out what bodies need to do in order for the Scottish Government to approve the proposals. The chief executive, as accountable officer, has the responsibility to provide assurance that the proposals are in line with the pay policy.

Pay policy for senior appointments 2010/11

The Scottish Government has published the *Public sector pay policy for senior appointments 2010/11* which sets out the parameters for the remuneration of senior appointments in 2010/11. The policy covers the remuneration of chief executives of all public appointments i.e. chairs, members and non-executive directors to Scottish public bodies.

There will be no basic award in 2010/11. The decision is consistent with pay arrangements in 2010/11 for senior public sector staff not covered by the pay policy, including senior civil servants and consultant-grade doctors and dentists.

Where senior staff are remunerated on a pay range, the pay policy recognises that movement along defined pay ranges should continue as staff increase their effectiveness through knowledge and experience. However, under the pay policy, progression will be set at a maximum of 1.5 %. Any progression increase will be subject to the maximum of their pay range.

Scottish Government approval is required in relation to all aspects of the remuneration of senior appointments. There can be no introduction of, or change to, the remuneration of chief executives, chairs or members until appropriate Scottish Government approval to proposals has been obtained.

Other developments

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

Banking arrangements

New provider

The Government Banking Service (GBS) has changed its main provider of banking transaction services from the Bank of England (i.e. Office of the Paymaster General - OPG) to Citibank and the Royal Bank of Scotland Group (RBSG).

The GBS has issued a letter clarifying the accounting treatment of the new banking arrangements. It states that, while the new banking model involves the use of accounts with two different banks, the accounts effectively operate as one single 'account set'. During transition, an OPG ledger account also forms part of this account set. The GBS 'zero' all RBS accounts within a given account set with an equal but opposite entry applied to the linked Citi account in the same account set on the last working day of each month.

The letter advises bodies to use the aggregate position of each account set for accounting purposes, as this represents the balance with GBS. In the TSU's view, on the basis that the banking arrangement is between the public body and the GBS rather than with the individual banks, it is acceptable to be shown as one net amount in the accounts. This amount should be presented separately from any balances on non-GBS accounts held with commercial banks.

Auditors should confirm that their bodies are following this guidance.

In order to reflect these new banking arrangements, paragraph 5.4.46 of the 2009/10 *FReM* has been amended to refer to the GBS rather than the OPG.

Key circulars

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

Finance guidance notes

FGN 2010/02 SPFM amendments announced the following recent substantive amendments to the *Scottish public finance manual*

- The section on disposal of property, plant and equipment has been updated to make it explicit that disposal of assets at less than market value must be approved in advance by Ministers.
- The section on tax planning and avoidance has been updated to require bodies to obtain the approval of the relevant Portfolio Finance Team before putting in place any non-standard tax management arrangements.
- The section on procurement now includes a link to the *Scottish sustainable procurement action plan* which provides guidance on achieving sustainability in procurement activities.
- The section on acquisition of property now includes the requirement that lease contracts should be examined carefully to determine whether they are operating or finance leases and ensure that accounting treatment issues have been fully considered.
- The section on grant and grant-in-aid contains updated guidance on requirements for independent accountants providing statements on compliance with conditions of grant. The accountant must either be eligible for appointment as a company auditor or, where the total offer of grant is no more than £50,000, be a member of one of the listed accountancy bodies. Any discretion with regard to these requirements is subject to the prior approval of the relevant Portfolio Finance Team. The section on appointment of accountancy firms has been deleted.
- The section on fees and charges has been updated in light of the removal of the cost of capital charge. The calculation of costs should continue to include 'return on capital' and the standard rate remains at 3.5%.

Auditor action

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

Section	Action
TSU developments – Guidance – Discount rate on early retirement schemes	Auditors should confirm that their bodies are aware of the guidance issued and that they have reflected this in the calculation of their 2009/10 provisions.
Accounting developments – Banking arrangements – New provider	Auditors should confirm that their bodies are following the guidance on banking arrangements.

Please take a moment to complete and return the feedback form

Further education chapter

This chapter contains articles on further education technical developments and guidance relevant to external auditors' responsibilities under their audit appointment to give an opinion on the financial statements. 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 specific matters are provided in separate notes published by the TSU (i.e. notes for guidance and urgent issue notes).

Corporate governance developments

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

Proposed governance framework

The Scottish Funding Council (SFC) and CIPFA have issued *Delivering good governance in Scotland's colleges: a framework – consultation draft* which sets out a proposed framework of governance for colleges in Scotland. The proposed framework incorporates elements of the *Combined code on corporate governance* and the *Good governance standard for public service*, and it is intended that colleges will use it to evaluate the effectiveness of their governance arrangements.

The following six core principles are taken from the good governance standard and have been adapted for Scottish college purposes

- Focusing on the purpose of the college and on outcomes for students and other service users.
- Board of management and senior staff working together to achieve a common purpose with clearly defined functions and roles.
- Promoting values for the college and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
- Taking informed and transparent decisions which are subject to effective challenge and managing risk.
- Developing the capacity and capability of members and senior staff to be effective.
- Engaging with students and other stakeholders to ensure robust public accountability.

In addition, each core principle is characterised by a number of supporting principles. To achieve good governance, each college should be able to demonstrate through documentary evidence and action that their governance practices meet the core and supporting principles. A self-assessment section of the draft framework sets out for each of the six core principles and their supporting principles

- a summary of the framework provisions relating to each principle
- some examples of systems, processes and documentation that may be used to demonstrate compliance
- a self-evaluation that scores the college's arrangements on a three point scale (i.e. basic, better, or advanced). The results from the self-assessment should form the basis for an improvement plan.

Comments should be sent to angela.scott@cipfa.org.uk by 30 June 2010.

Key circulars

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

SFC circulars

SFC/9/2010 Final fee waiver grant 2008/09 provides details of the final fee waiver claims for 2008/09.

SFC/13/2010 Formula capital funding for 2010/11 announces formula capital funding for 2010/11.

SFC/14/2010 Main grants to colleges for academic year 2010/11 announces the allocation of main grants *to colleges for 2010/11.*

SFC/15/2010 Additional funding for colleges for academic year 2010/11 announces additional funding to colleges for 2010/11.

SFC/16/2010 Financial forecast return for colleges 2009/10 to 2012 requests that colleges complete a financial forecast for the period 2009/10 to 2012/13.

SFC/17/2010 Economic downturn: additional funding for rural colleges in academic year 2010/11 announces additional funding to rural colleges for 2010/11.

Please take a moment to complete and return the feedback form

Contact points

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

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Completed feedback forms on this TB should be returned to

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15 June 2010

User feedback

We received 65 responses to the user survey on TB 2010/1, and the results are summarized in the following table.

Feedback results on TB 2010/1

	Excellent	Good	Fair	Poor	No response
Structure and presentation	22%	75%	2%	2%	2%
Complete, clear and concise	23%	67%	3%	2%	5%
Helpful and relevant	31%	46%	12%	5%	6%

	Significant impact	Some impact	Limited impact	No impact	No response
Impact on quality of audit	25%	49%	15%	2%	9%

Feedback request on TB 2010/2

Please take a moment to complete the accompanying feedback form on this TB by answering the following questions, and return it to alewis@audit-scotland.gov.uk.

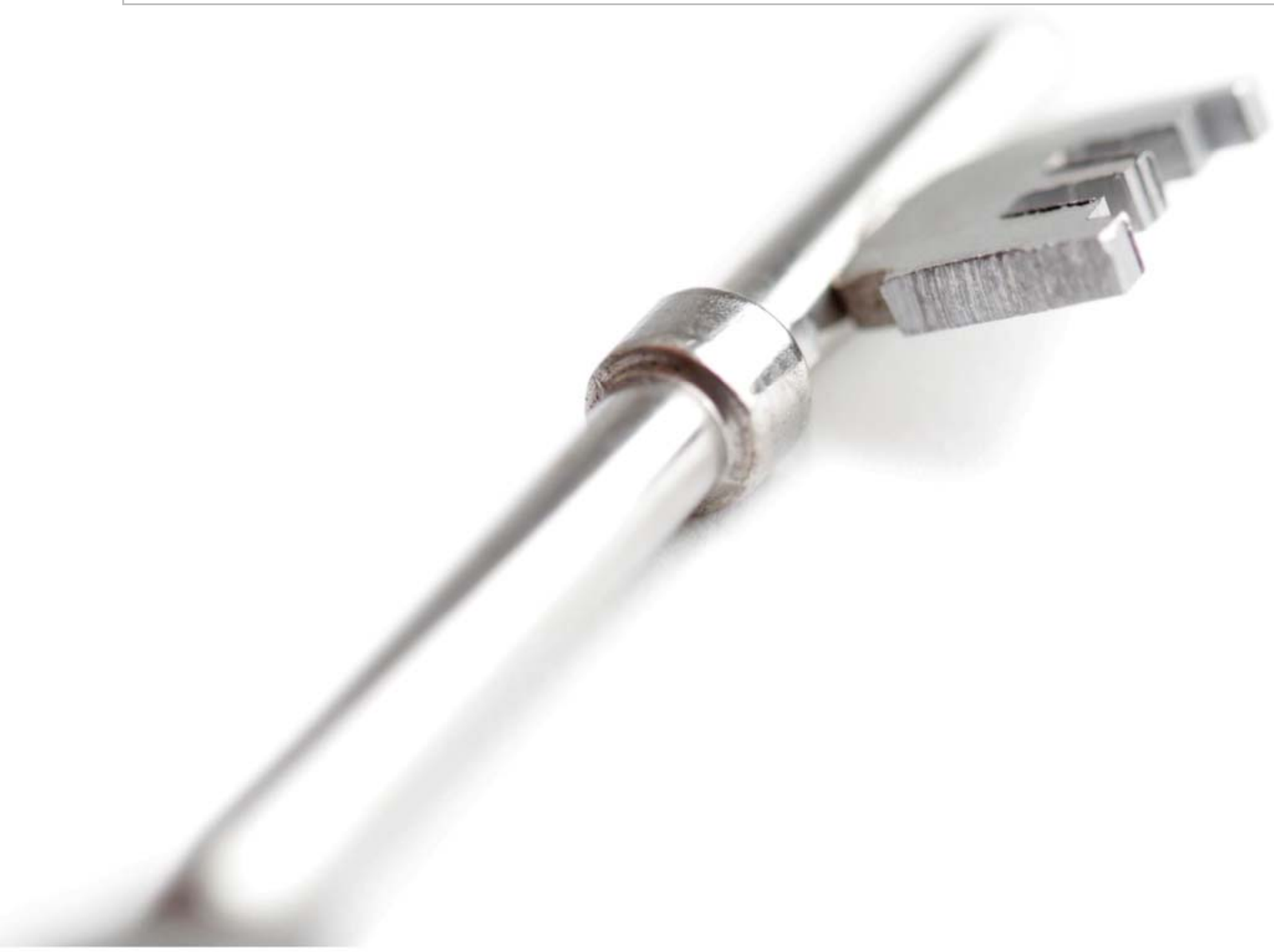
- How would you rate the structure and presentation of this technical bulletin?
- How would you rate the completeness of the content of this technical bulletin?
- How would you rate the clarity and conciseness of the content of this technical bulletin?
- How would you rate the helpfulness and relevance of the content of this technical bulletin?
- How would you rate the expected likely impact of this technical bulletin on the quality of your external audit work/your external auditors' work?
- Do you have any other comments on this technical bulletin?
- Do you have any suggestions for improving the next technical bulletin?

Technical bulletin 2010/3

July to September 2010

Published by the Technical Services Unit

24 September 2010



AUDIT SCOTLAND

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Foreword

Audit Scotland's Technical Services Unit (TSU) provides guidance and support to external auditors appointed by the Accounts Commission and Auditor General to assist them fulfil their responsibility under their audit appointment to give an opinion on the financial statements.

This includes the publication of technical bulletins (TBs) at quarterly intervals onto the TSU intranet/extranet. The purpose of TBs is to summarise technical developments in the quarter for external auditors, and to provide auditors with guidance where required.

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

TBs are also e-mailed to audited bodies and other stakeholders in order that they may be aware of the guidance that has been issued to auditors. In selecting items for inclusion in TBs the bias is towards those which are of particular interest to external auditors. TBs should not therefore be regarded as providing an exhaustive review of all matters relevant to audited bodies.

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

Please take a moment after reading this TB to complete and return the feedback form

Cross-sectoral chapter

Introduction

This chapter contains articles on cross-sectoral technical developments and guidance relevant to external auditors' responsibilities under their audit appointment to give an opinion on the financial statements. 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 specific matters are provided in separate 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 that are available from websites can be obtained by using the hyperlinks. They can also be downloaded by auditors from the TSU intranet/extranet.

The TSU encourages the completion of the feedback form that accompanies this TB. Completed forms should be returned to alewis@audit-scotland.gov.uk. A summary of feedback on the previous TB is available in this TB's user feedback chapter.

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 2009/10 audits. There are articles in this chapter on the following subjects: draft standard on the financial reporting of revenue; proposed disclosures on fair value measurements; proposed amendments to financial reporting of leases; draft revised code of audit practice; proposed audit appointment strategy; proposed changes to ethical standards on non-audit work; proposed changes to guidance on audit committees on non-audit work; proposed changes to standards on auditor's reports; proposed changes to practice notes on attendance at stocktaking and bank reports; proposed changes to standards on using internal audit; discussion paper on auditor scepticism; revised practice note on anti-money laundering; and proposals to revise publication schemes for, and extend the coverage of, freedom of information.

TSU developments

Publications

The following note has been published by the TSU since TB 2010/2 and can be downloaded by auditors from the TSU intranet/extranet. It can be sent to other TB recipients on request.

Note for guidance on auditing 2009/10 whole of government accounts

The TSU published *Note for guidance 2010/4 Audit of whole of government accounts 2009/10* to provide guidance to auditors in the central government and local government sectors on the audit arrangements for whole of government accounts (WGA) in 2009/10.

Accounting developments

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

Draft standard on the financial reporting of revenue

The International Accounting Standards Board (IASB) has issued *Exposure draft ED/2010/6 Revenue from contracts with customers* which contains a draft standard on the financial reporting of revenue from customer contracts. The proposed requirements specify the principles that an entity would apply to report information about the amount, timing and uncertainty of revenue and cash flows arising from its contracts to provide goods or services to customers.

In summary, the core principle would require an entity to recognise revenue for the transfer of goods or services to customers in an amount that reflects the consideration that it expects to receive. To apply that principle, an entity would

- identify the separate performance obligations in the contract
- determine the transaction price, and allocate it to the separate performance obligations
- recognise revenue when the entity satisfies each performance obligation.

The proposed requirements also specify that an entity should recognise the costs of obtaining a contract as expenses when incurred. If the costs incurred in fulfilling a contract are not eligible for capitalisation, an entity would recognise an asset only if those costs relate directly to a contract, generate resources that will be used in satisfying performance obligations, and are expected to be recovered.

For some contracts, the proposed requirements would have limited effect. However, they differ from current practice in the following ways

- Contracts for the development of an asset would result in continuous revenue recognition only if the customer controls the asset as it is developed.

- An entity would be required to divide a contract into separate performance obligations for goods or services that are distinct. As a result of those requirements, an entity might separate a contract into units of accounting that differ from those identified in current practice.

- The effect of a customer's credit risk (i.e. collectability) would affect how much revenue an entity recognises rather than whether an entity recognises revenue.

- An entity would be required to disclose more information on its contracts with customers than is currently required, including more disaggregated information on recognised revenue and more information on its performance obligations remaining at the end of the reporting period.

Comments should be made via the IASB website by 22 October 2010.

Proposed disclosures on fair value measurements

The IASB has issued *Exposure draft ED/2010/7 Measurement uncertainty analysis disclosure for fair value measurements* which contains further enhancements to proposed disclosures on fair value measurements.

In the earlier exposure draft on fair value measurement (see TB 2010/2 – page 7), the IASB proposed a hierarchy that categorises market data used for fair value measurements. According to that hierarchy, Level 3 inputs are 'unobservable inputs' used for the measurement of assets or liabilities for which market data is not available.

In response to comments received, the IASB is now proposing to enhance its original proposal by requiring the measurement uncertainty analysis disclosure to reflect the interdependencies between these unobservable inputs. This information would allow users of financial statements to assess the effect that the use of different unobservable inputs has on the fair value measurement.

Comments were required by 7 September 2010.

Proposed amendments to financial reporting of leases

The IASB has issued *Exposure draft ED/2010/9 Leases* which proposes amendments to the financial reporting of leases. The exposure draft proposes applying a right-of-use model in accounting for most leases. This would involve a lessee recognising an asset representing its right to use the leased asset for the lease term and a liability to make lease payments. A lessor would recognise an asset representing its right to receive lease payments and, depending on its exposure to risks or benefits associated with the underlying asset, would either

- recognise a lease liability while continuing to recognise the underlying asset (a performance obligation approach); or

- derecognise the rights in the underlying asset that it transfers to the lessee and continue to recognise a residual asset representing its rights to the underlying asset at the end of the lease term (a derecognition approach).

Assets and liabilities recognised by lessees and lessors would be measured on a basis that

- assumes the longest possible lease term
- uses an expected outcome technique to reflect the lease payments, including contingent rentals and expected payments under term option penalties and residual value guarantees, specified by the lease
- is updated when there are indications of a significant change in those assets or liabilities since the previous reporting period.

The exposure draft also proposes disclosures based on stated objectives, including disclosures on the amounts recognised in the financial statements arising from leases and the amount, timing and uncertainty of cash flows arising from those contracts.

The proposals would result in significant changes to the accounting requirements for both lessees and lessors

- Lessees would be most affected if they have a significant portfolio of assets held under operating leases as the proposals would require them to recognise the assets and liabilities arising from those leases.
- There would be significant changes in the measurement of the assets and liabilities arising from those leases because of the way the exposure draft proposes to account for options and contingent rentals.
- The pattern of income and expense recognition in profit or loss would change significantly.

The proposed changes do not apply to leases of intangible assets and some investment properties.

Comments should be made via the IASB website by 15 December 2010.

Proposed amendment to IFRS adoption standard

The IASB has issued *Exposure draft ED/2010/10 Removal of fixed dates for first-time adopters - proposed amendments to IFRS 1* which proposes an amendment to *IFRS 1 First-time adoption of international financial reporting standards*.

The proposal would amend IFRS 1 by replacing references to a fixed transition date of 1 January 2004 with 'the date of transition to IFRS'. As a result

- entities adopting international financial reporting standards (IFRS) for the first time would not have to restate derecognition transactions that occurred before the date of transition
- first-time adopters would not have to recalculate 'day 1' differences on initial recognition of financial instruments, where the transaction occurred before the date of transition.

Comments should be made via the IASB website by 27 October 2010.

Auditing developments

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

Draft revised code of audit practice

Audit Scotland has issued a consultation draft of a revised version of the *Code of audit practice* to apply from April 2011. The Code outlines the responsibilities of auditors appointed by the Auditor General for Scotland and the Accounts Commission and it is a condition of their appointment that they follow it.

The main revisions to the Code from the current version are to reflect changes in the audit of best value following the completion of the first round of audits, the new scrutiny arrangements introduced in the *Public Services Reform (Scotland) Act 2010* and shared risk assessments. A covering letter provides further background to the changes.

Comments were required by 3 September 2010.

Proposed audit appointment strategy

Audit Scotland has issued a letter asking for comments on its strategy for the next round of audit appointments which will apply for the five years commencing 2011/12. For the first time, evaluation of the tenders is to include price. Other key elements of the strategy are as follows

- A mixed market of private firms and Audit Scotland staff, with firms to undertake around 37% by value of the annual audit work
- Firms will be invited to bid to work in one or more sectors with specific audits being allocated only once successful firms have been identified.

- Before appointments are finalised, audited bodies will be given the opportunity to say if there are any reasons why the auditor proposed should not be appointed.

Comments were required by 3 September 2010.

Proposed changes to ethical standards on non-audit work

The Auditing Practices Board (APB) has issued *The provision of non-audit services by auditors – feedback and consultation paper* which provides feedback on its consultation on prohibiting auditors from providing non-audit services to the entities that they audit (see technical bulletin 2009/4 – page 17).

The overwhelming view of respondents is that there should be no outright prohibition on non-audit services. There is agreement, however, that improved transparency and governance would address concerns that auditor objectivity and independence may be adversely affected by the provision of non-audit services.

The APB is therefore proposing a number of changes to the *Ethical standards for auditors*. A key change is in respect of the disclosures of fees for non-audit services in financial statements. It is proposed that a new category of non-audit services should be introduced called 'audit related services' where, by virtue of the nature of the work done, the threats to the auditor's objectivity and independence are clearly insignificant. Audit related services include

- reporting required by law or regulation to be provided by the auditor
- reporting on government grants
- reporting on internal financial controls when required by law or regulation
- extended work undertaken at the request of those charged with governance on financial information and/or financial controls performed where this work is integrated with the audit work and is performed on the same principal terms and conditions.

Responses should be sent to h.osullivan@frc-apb.org.uk by 23 October 2010.

Proposed changes to standard on auditor's reports

The APB has issued *ISA (UK and Ireland) 700 (Revised) The auditor's report on financial statements - consultation draft* which contains a proposed revision to the auditor's report on financial statements.

Under ISA 700, auditors can choose to refer to the APB web site description of an audit in its auditor's report or incorporate verbatim the short form description. The APB has decided to replace the extant company specific descriptions with a generic description that can be applied to all entities, and the consultation paper includes proposed wording.

In addition, the APB proposes to amend the short form description to refer to the auditor's responsibility to read the narrative information in annual reports.

Responses should be sent to s.leonard@frc-apb.org.uk by 26 November 2010.

Proposed changes to guidance on audit committees on non-audit work

The Financial Reporting Council has issued *Revisions to FRC guidance on audit committees: non-audit services - consultation document* which sets out proposed changes to its guidance on audit committees. The changes proposed arise from the work undertaken by the APB on the provision of non-audit services, and include the following

- More prominence is given to the importance of non-audit services in the assessment of the objectivity and independence of the entity's auditor

- Additional guidance is given to help the audit committee distinguish between those non-audit services which are closely related to an audit and which give rise to a very low threat to auditor objectivity and those where the threats need more careful consideration. This is consistent with the identification of 'audit related services' as a separate category of non-audit services proposed in the APB's *Ethical standards for auditors*.

- Improved disclosures are required which give more detail on the nature of services provided by the auditor which outline the reasons why the audit committee decided to purchase non-audit services from the auditor rather than from another party.

Responses should be sent to corporategovernance@frc.org.uk by 23 October 2010.

Proposed changes to practice note on attendance at stocktaking

The APB has issued *Practice note 25 Attendance at stocktaking (Revised) – consultation draft* which contains proposed revisions to the practice note on attending stocktakes. The practice note is being updated as a result of the publication of the clarified international standards on auditing (ISAs) and most of the proposals are conforming changes.

ISA 501 Audit evidence – specific considerations for selected items includes requirements and application material relating to inventory, particularly obtaining audit evidence by attendance at stocktakes. Practice note 25 contains further guidance, including how the requirements of other ISAs may be applied in relation to attendance at stocktaking. The guidance in practice note 25 is currently also included in substance in ISA 501, but it has not been included in the clarified ISA 501 in order to keep supplementary material to a minimum.

When this practice note was first issued, auditing standards did not directly address stocktakes. Some of the more general references within it to auditing standards have therefore been replaced with more specific references to ISA 501.

Comments should be sent to k.billing@frc-apb.org.uk by 5 October 2010.

Proposed changes to practice note on bank reports

The APB has issued *Practice note 16 Bank reports for audit purposes in the United Kingdom (Revised) – consultation draft* which contains draft revisions to the practice note on bank reports.

The changes required to PN 16 are relatively limited, the main one being to recognise that the requirement for the auditor to consider whether external confirmation procedures are to be performed is now included in *ISA (UK and Ireland) 330 The auditor's responses to assessed risks*, rather than *ISA (UK and Ireland) 505 External confirmations*, which now focuses on the design and performance of external confirmation procedures to obtain relevant and reliable audit evidence.

No changes are proposed to the agreed procedures that auditors use when requesting confirmation of balances, transactions or arrangements from the bankers of an entity being audited.

Responses should be sent to k.billing@frc-apb.org.uk by 29 October 2010.

Proposed changes to standards on using internal audit

The International Auditing and Assurance Standards Board has issued *ISA 315 (Revised) Identifying and assessing the risks of material misstatement through understanding the entity and its environment and ISA 610 (Revised) Using the work of internal auditors - exposure draft* which proposes revised standards on the external auditor's use of internal audit work.

The exposure draft contains proposed revisions to ISA 315 and ISA 610 in order to enable external auditors to make better use of the knowledge and findings of an entity's internal audit function in making risk assessments. It also strengthens the framework for the evaluation and use of the work of internal auditors in obtaining audit evidence. Key proposals include the following

- It is proposed to establish requirements and guidance to ensure direct assistance to the external auditor through performance of audit procedures is obtained only in appropriate circumstances and to clearly set out the external auditor's responsibilities in such cases.

- The external auditor's initial assessment of whether the work of the internal audit function can be used for purposes of the audit should be based on an evaluation of the internal audit function's degree of objectivity, level of competence and application of a systematic and disciplined approach, including quality control. Where either the degree of objectivity or level of competence is assessed as low, the internal audit work should not be used for purposes of the audit.

- The external auditor should be required to take into account the amount of professional judgment that would be involved in planning and performing audit procedures, and in evaluating the audit evidence obtained by the internal audit function. The external auditor needs to make all significant judgments in the audit engagement and perform sufficient procedures directly to be able to draw reasonable conclusions on which to base the audit opinion.

- The external auditor should be required to make inquiries of the internal audit function about information of which they are aware that is relevant to identifying and assessing the risks of material misstatement due to fraud or error.

Comments should be made via the IAASB website by 15 November 2010.

Discussion paper on auditor scepticism

The APB has issued a paper called *Auditor scepticism: raising the bar* that discusses the degree of scepticism that auditors need to apply when conducting an audit. Auditing standards define professional scepticism as an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.

The discussion paper states that professional scepticism is a crucial component of an audit, and that the application of an appropriate degree of scepticism is an essential skill for auditors. Auditors should be prepared to challenge management's assertions in order to act as a deterrent to fraud. However, scepticism can be taken too far; challenging everything in a well run organisation will slow down the publication of its financial statements and risks unnecessary costs. The paper draws on recent research to stimulate debate about what actions may be needed to ensure that the appropriate degree of scepticism is applied by auditors in practice.

Comments should be sent to j.grant@frc-apb.org.uk by 31 October 2010.

Other developments

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

Anti-money laundering

Revised practice note

The APB has issued the final version of *Practice note 12 (Revised) Money laundering – Guidance for auditors on UK legislation*. This updated practice note focuses on the impact of the UK anti-money laundering regulations on auditors' responsibilities.

It has been updated to reflect the implementation of *The Money Laundering Regulations 2007* and an update to the *Proceeds of Crime Act 2002*, both of which have come into force since the last version of the guidance was issued. It has also been updated to reflect new international standards on auditing.

The practice note was originally issued as interim guidance in 2008 while approval from the Treasury was awaited. Approval has now been received and therefore this is the final version of the note.

Freedom of information

Proposed revisions to publication schemes

The Scottish Information Commissioner has issued *Revising the approach to publication schemes – a consultation paper* which sets out proposals for revising the arrangements for the publication schemes which public authorities are required to publish under the *Freedom of Information (Scotland) Act 2002*.

The Commissioner proposes developing a single model publication scheme suitable for adoption by all Scottish public authorities. It will provide a generic set of classes of information to describe the information which should be published by all public authorities. Authorities will not be able to depart from the classes of information, but they may publish more. The model scheme will include a standard charging policy for published information.

The Commissioner will replace his current scheme submission requirements with a notification procedure. Authorities will no longer have to make individual submissions to the Commissioner for approval of adoption of a model scheme. They will, instead, have to notify him that they have adopted the model scheme and advise where their guide to information is published.

Authorities will have to publish their own guide to information which will set out what information the authority publishes in accordance with the model publication scheme and how the public may access it. The format of the guide will be a decision for each individual authority, but it should demonstrate that the authority is actually publishing the information described in the model scheme, and clearly signpost the public to where they can easily find the information for themselves.

The Commissioner will develop a framework for monitoring whether authorities are complying with their duties. He intends that the new approach will apply to parts of the public sector as their publication schemes come up for renewal. The first tranche of authorities to adopt the new approach will be publicly owned companies and non-departmental public bodies as the publication schemes for these authorities are due for renewal by 1 June 2011. Thereafter the new approach will be applied to other sectors as their schemes expire:

- central government bodies in 2012
- local authorities in 2013
- health boards in 2014.

Responses should be sent to publicationschemes@itspublicknowledge.info by 29 October 2010.

Consultation on extending coverage

The Scottish Government has issued a *Consultation on extending the coverage of the Freedom of Information (Scotland) Act 2002*. It is proposed that the Act be extended to cover the following organisations

- contractors who run privately managed prisons and provide prisoner escort services
- leisure, sport and cultural trusts and bodies used by local authorities
- the Glasgow Housing Association, and the Association of Chief Police Officers in Scotland
- contractors who build and maintain schools, hospitals; and trunk roads under private finance contracts.

Comments should be sent to foi@scotland.gsi.gov.uk by 2 October 2010.

Legislation

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

Statutory instruments

Public services reform etc

The Public Services Reform (Scotland) Act 2010 (Commencement No. 1) Order 2010, *SSI 221* brought into force certain provisions of the Act from 1 July and 1 August 2010.

The Public Services Reform (Scotland) Act 2010 (Commencement No. 2) Order 2010, SSI 321 brings a number of provisions of the Act into force on 1 October 2010 including the following

- the publication of information on expenditure and certain other matters by the Scottish Ministers and certain public bodies
- listed scrutiny authorities to improve user focus in the exercise of their scrutiny functions and to have regard to relevant guidance
- scheduled scrutiny authorities to co-operate and coordinate activity with a view to improving the exercise of their scrutiny functions
- various amendments to the *Public Finance and Accountability (Scotland) Act 2000*, including: transferring responsibility for appointing the Audit Scotland Board to the Scottish Commission for Public Audit; restricting the period of appointment of the Auditor General for Scotland to eight years; disapplying the duty on Scottish Ministers to publish accounts and reports where these are published by the body in question.

The Public Services Reform (Scotland) Act 2010 (Ancillary Provisions) Order 2010, SSI 322 comes into force on 1 October 2010 and makes transitional, saving and other ancillary provisions in relation to the Act. These include disapplying the eight year appointment restriction for the Auditor General in respect of the current post-holder.

Public finance and accountability

The Budget (Scotland) Act 2010 Amendment Order 2010, SSI 282 came into force on 1 July 2010 and amended the *Budget (Scotland) Act 2010* for 2010/11.

Charities

The Charities Accounts (Scotland) Amendment Regulations 2010, SSI 287 come into force on 1 April 2011 and amend the principal 2006 Regulations by

- increasing the assets threshold above which an audit of the accounts is required from £2.8 million to £3.26 million
- increasing the gross income threshold for the preparation of fully accrued accounts from £100,000 to £250,000.

Publications

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

Audit Scotland

Getting it right for children in residential care

This report *Getting it right for children in residential care* examined how effectively councils use their resources on residential placements for their looked after children. Key messages include the following

- Professional practice and work with children in residential care is good in many respects, but not all children get the best quality of care and support.
- There are weaknesses in how councils plan and commission residential child care services.
- Councils cannot demonstrate that they are achieving value for money as there is insufficient clarity about the quality of services and outcomes and the costs of all types of provision available.
- There is considerable scope to improve commissioning through joint working between councils, their NHS partners and independent providers.

Local authority chapter

Introduction

This chapter contains articles on local authority technical developments and guidance relevant to external auditors' responsibilities under their audit appointment to give an opinion on the financial statements and to certify grant claims. 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 specific matters are provided in separate 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 that are available from websites can be obtained by using the hyperlinks. They can also be downloaded by auditors from the TSU intranet/extranet.

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note that the following articles in this chapter relate to 2009/10 audits

- TSU guidance on auditing the benefits subsidy claim
- guidance on accounting for police and fire injury benefits
- guidance on impairment of Icelandic bank deposits
- HB COUNT modules
- whole of government accounts FRS 17 disclosures, common errors, and police and fire injury benefits

and the following articles relate to 2010/11 audits

- note for guidance on 2010/11 local authority final accounts
- TSU guidance on financial statements requirements
- TSU guidance on requirements for transition to IFRS

- TSU guidance on charities disclosures
- TSU guidance on estimation of pension liabilities
- TSU guidance on trading accounts
- statutory guidance on short term accumulating absences
- guidance on accounting for components
- request for evidence to support statutory intervention
- new local government pension scheme regulations and guidance
- new pension fund annual report requirements
- new police and fire pension funding arrangements
- guidance on disposal of land regulations
- scheme to borrow for equal pay.

There are also other articles on the draft 2011/12 Code, and draft 2011/12 BVACOP.

TSU developments

Publications

Note for guidance on 2010/11 local authority final accounts

The TSU will shortly be publishing *Note for guidance 2010/6(LA) 2010/11 local authority final accounts* to give auditors guidance on auditing the 2010/11 accounts.

Responses to enquiries

The TSU operates a ‘help-desk’ for auditors which provides responses to ad hoc technical enquiries. Selected responses are added to the frequently asked questions section of the TSU intranet/extranet and include the following since the publication of TB 2010/2.

International financial reporting standards

What are the requirements in respect of financial statements from 2010/11?

The *Code of practice on local authority accounting in the UK* (the Code) requires authorities to prepare their financial statements in accordance with *IAS 1 Presentation of financial statements* (as interpreted by the Code) and *IAS 7 Statement of cash flows*.

The Code interprets the requirements of IAS 1 by specifying the format of the statements, disclosures and terminology that are appropriate for local authorities. It specifies the minimum level of disclosure, while permitting authorities to include more detail where appropriate. The Code requires a local authority to present a complete set of financial statements (including comparative information) annually, and states that this comprises

- a comprehensive income and expenditure statement, which replaces the income and expenditure account and the statement of total recognised gains and losses
- a movement in reserves statement, which replaces the statement of movement on the general fund
- a balance sheet as at the end of the period and, where an authority applies an accounting policy retrospectively, a balance sheet as at the beginning of the earliest comparative period (i.e. a third balance sheet). This includes a requirement for an opening IFRS-based balance sheet as at 1 April 2009 to be included in the 2010/11 accounts
- a cash flow statement
- notes comprising a summary of significant accounting policies and other explanatory information.

The Code requires authorities to

- present all of the financial statements with equal prominence. The order of the statements listed above is recommended by the Code but it allows authorities to present them in the order that best enables users to understand them
- clearly identify the financial statements and distinguish them from other information in the same published document
- include a description of the purpose of each statement, either in the explanatory foreword or on the face of the statement (or both)

- retain the presentation and classification of items in the financial statements from one period to the next unless the Code requires a change or another presentation would be more appropriate

- prepare group accounts where required that incorporate all the financial statements. Authorities may elect to present the group accounts alongside the authority-only accounts (i.e. a columnar approach) or as separate statements.

Auditors should confirm that their authorities are making the necessary arrangements to present their financial statements in accordance with the Code.

How should authorities account for the transition to IFRS in 2010/11?

The Code requires authorities to account for the transition to IFRS in accordance with *IFRS 1 First-time adoption of international financial reporting standards* (as interpreted and adapted by the Code).

Accounting policy changes arising out of the adoption of the Code should normally be accounted for retrospectively. However, IFRS 1 permits exemptions for certain items, and the Code requires some of these exemptions to be applied; they are listed in Code section 10.1 (exemptions not listed may not be applied). The required exemptions include the following

- The requirement for acquisition accounting under *IFRS 3 Business combinations* to be used for the acquisition of subsidiaries and associates applies prospectively from 1 April 2009. The treatment of acquisitions before this date should not be reviewed.

- The depreciated historical cost of an asset as at 1 April 2009 should be deemed to be the depreciated historical cost of that asset as at 31 March 2009 under the SORP.

- When adopting *IFRIC 4 Determining whether an arrangement contains a lease*, authorities should determine whether an arrangement existing as at 1 April 2009 contains a lease, but then account for it retrospectively from its commencement.

- Where an authority chooses to change its accounting policy in respect of borrowing costs, it should apply the change prospectively from 1 April 2009.

- The requirements of the Code in relation to accounting for the depreciation of significant components in respect of enhancement and acquisition expenditure incurred, and revaluations carried out, should be applied from 1 April 2010.

IFRS 1 requires an organisation to explain how the transition to IFRS affected its reported financial position, financial performance and cash flows by presenting reconciliations between UK GAAP and IFRS of its net worth and its total comprehensive income and expenditure. However, the Code does not require these reconciliations to be presented. Instead, an authority is required to disclose any material differences between amounts presented under the statement of recommended practice (SORP) for 2009/10 and the equivalent amounts under the Code. The reconciliations are nevertheless helpful in checking that all the transition adjustments have been included in the financial statement, and authorities are encouraged to carry out these reconciliations as part of the process of implementing IFRS, regardless of whether they are included in the financial statements.

The Code requires an opening IFRS-based balance sheet as at 1 April 2009 to be included in the 2010/11 accounts. When preparing the opening balance sheet, an authority's estimates in accordance with the Code at 1 April 2009 require to be consistent with estimates made for that date in accordance with the SORP. They should not be adjusted with the benefit of hindsight simply because more up to date information has become available. Authorities should treat the receipt of new information in the same way as non-adjusting events after the balance sheet date, and make any adjustments in later periods.

In some cases, additional estimates may be required under the Code that were not required under the SORP. In these circumstances, the estimates used in the preparation of the opening balance sheet should reflect conditions that existed at the transition date.

Auditors should confirm that their authorities are making the necessary arrangements to account for the transition to IFRS in accordance with the Code.

Benefits

When auditing the subsidy claim, is it necessary to confirm that there is evidence that a benefits claimant has paid the rent?

The Department for Work and Pensions (DWP) requires assurance that benefit is being awarded and entitlement calculated in accordance with the regulations. The DWP has agreed this is satisfied by cases having a number of approved attributes which are set out in the HB COUNT help files. The requirement for evidence to support the payment of rent is one of those attributes. In order to conclude that the claimant is entitled to benefit, an authority needs to establish not only that the claimant is liable for rent (by looking at a tenancy agreement) but also that the claimant is paying the rent by agreement to bank statements/rent books etc.

Are original claim forms required to support each benefits claim?

The key issue is whether the current prime documents support the current payment of benefit and claim for subsidy. There does not have to be an original claim therefore, but there should be documentation that relates to the current benefit award e.g. the last renewal or intervention claim or, for an element of the claim, a change of circumstances form. Where the documentation (paper, document image or electronic format) to support the claim is missing, the case should be excluded in its entirety from the subsidy claim form. The cell adjustment or extrapolation in a covering letter should remove all expenditure on the case from the subsidy claim form i.e. from the headline cell and detail cells.

Other guidance

Charities disclosures

The SORP required authorities to disclose details of the nature and amount of trust funds, including the common good, where an authority acts as sole trustee. In addition, LASAAC guidance requires disclosure of common good financial statements within the local authority financial statements. The SORP requirement, enhanced by the LASAAC guidance, has been deemed to satisfy the requirements of section 106 of the *Local Government (Scotland) Act 1973* which applies the auditing requirements of the 1973 Act to charities where a local authority (or its members) is the sole trustee. This is because disclosure of this information has allowed the trust funds to be audited as part of the audit of the accounts of the administering authority.

The disclosure requirement in the SORP in respect of trust funds is not included in the Code. However, the failure by authorities to make these disclosures in their accounts would necessitate the preparation and audit of separate accounts for charities in order to satisfy the requirements of section 106.

Auditors have also been advised (most recently in TB 2010/2 – page 22) of discussions with the Office of the Scottish Charity Regulator (OSCR) that have been ongoing for some time regarding the staged application of *The Charity Accounts (Scotland) Regulations 2006* to local authority trust funds. These discussions are continuing.

It is therefore recommended that authorities continue to make disclosures in respect of trust funds that are consistent with previous years until discussions with OSCR have been concluded. Auditors should confirm that their authorities are planning to make either appropriate disclosures for trust funds from 2010/11 in their financial statements or arrangements for the fund’s separate audit.

Pension liability estimation

Auditors will be aware that, as part of the emergency budget, the Chancellor announced that the up rating of public service pensions to reflect inflation will, in future, be based on the consumer price index (CPI) measure of price movements rather than the retail price index. The change will take effect from the next up rating in April 2011.

The pension liabilities in the balance sheet should be the best estimate of the future cash flows that will arise under the scheme liabilities, measured on an actuarial basis. This involves estimating the future cash flows arising under the scheme liabilities based on a number of actuarial assumptions, then discounting the cash flows at an appropriate rate. The actuarial assumptions should reflect expected future events that will affect the cost of the benefits to which the employer is committed at the balance sheet date. Price inflation is one of the assumptions used by actuaries, and the change to CPI will result in lower pension increases.

As this announcement was made after the balance sheet date but before the 2009/10 accounts were authorised for issue, it should be disclosed in those accounts as a non-adjusting event after the balance sheet date. However, the effect should be reflected in a reduced pension liability in the balance sheet in the 2010/11 accounts.

Auditors should confirm that their authorities are properly disclosing and accounting for this change.

Trading accounts – prescribed financial objective

The changes in accounting policies arising from the implementation of IFRS in 2010/11 will impact on the calculation of the revenue and expenditure of significant trading operations. Restatement of results for 2009/10 will be required in order to prepare authorities' 2010/11 financial statements.

However, for the purposes of determining in 2010/11 whether or not each significant trading operation has met its statutory objective to break-even over a three-year period, authorities should not restate the previous two years (i.e. 2008/09 and 2009/10) results onto an IFRS basis. The UK GAAP based results for those two years should simply be added to the IFRS-based 2010/11 results.

Accounting developments

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

Statutory guidance on accounting for short term accumulating compensated absences

The Scottish Government has issued *Finance circular 3/2010 Statutory guidance on accounting for short term accumulating compensated absences under international financial reporting standards*. The Code requires local authorities to account for benefits payable during employment in accordance with *IAS 19 Employee benefits* from 2010/11 (see TB 2010/1 – page 34). IAS 19 requires that all short-term employee benefits, including accumulating compensated absences (i.e. holidays, time in lieu and flexi-time) should be recognised as a cost in the accounts for the year to which they relate. Where full holiday entitlement has not been taken by the financial year end, the cost of the untaken days should be calculated and a provision charged to the comprehensive income and expenditure statement.

The value of the provision is likely to be significant, particularly in regard to teachers, and a statutory intervention is therefore appropriate which requires authorities to make an adjustment to exclude the value of this provision when determining the movement on the general fund for the financial year.

A sum equal to the provision requires to be transferred to a new employee statutory adjustment account. In the following year, this amount will be transferred back to the general fund. This mirrors the transactions required to be made for this provision following proper accounting practices.

Auditors should confirm that their bodies are making arrangements to comply with this guidance.

Guidance on accounting for components

The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued *LAAP Bulletin 86 Componentisation of property, plant & equipment under the 2010/11 IFRS-based Code* to provide practical guidance on establishing a process which will enable significant components of property, plant and equipment to be properly identified under the Code.

The Code requires each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item to be depreciated separately (see TB 2010/1 – page 30). Authorities are required to establish procedures that will enable them to identify significant components, establish the value of such components and determine an appropriate depreciation charge. The procedures should include a requirement to document assumptions and the basis on which estimates are made. The stages set out in the guidance require authorities to

- establish appropriate de minimis thresholds to identify individual assets that can be disregarded for componentisation. The threshold should be documented, used appropriately and applied consistently

- carry out a review to identify individual assets that are above the de minimis level and therefore require consideration as to whether they contain significant components

- establish the policy upon which components should be recognised and depreciated separately. The policy should specify the basis for determining whether the cost of a component is significant and is likely to refer to the cost of the component as a proportion of the overall cost of the asset rather than an absolute amount. Significance will be determined by comparing a component's cost against the overall cost and comparing the result against the agreed criteria

- apportion the value of assets over the recognised significant components.

Auditors should confirm that authorities have adequate arrangements in place for complying with the Code's requirements in respect of component accounting.

Guidance on accounting for police and fire injury benefits

The Scottish Government has issued guidance to clarify the statutory guidance on accounting for police and fire injury benefits from 2009/10 (see TB 2010/2 - page 27). Injury benefits were removed from the police and fire pension scheme regulations with effect from April 2006 and put on a separate statutory basis.

Authorities are required to ensure that actuaries provide information on the liabilities and assets for injury benefits separately from pension information. This is required in order to make the necessary adjustments to the employee statutory adjustment account (interest cost and actuarial loss) and disclosure notes in the financial statements.

The guidance clarifies that all injury benefits should be excluded from the pension liability calculation, not just those since April 2006.

Auditors should confirm that their authorities are properly accounting for police and fire injury benefits.

Guidance on impairment of Icelandic bank deposits

CIPFA has issued *LAAP Bulletin 82 Guidance on the impairment of deposits with Icelandic Banks update 3* to provide updated guidance on estimating the impairments to be recognised in 2009/10 for deposits in Icelandic banks.

The bulletin advises that there are no changes to the expected recoverable amounts from update 2 (see TB 2010/2 – page 28) for any of the banks.

For Heritable Bank and Kaupthing Singer & Friedlander Ltd (KSF), slightly higher than expected interim payments received since the last update have caused minor revisions to the expected repayments schedules, which have increased the carrying amounts by amounts which are not expected to be material (i.e. 0.1% and 0.9% respectively).

Draft 2011/12 Code

The CIPFA/LASAAC Local Authority Code Board has issued the *Code of practice on local authority accounting in the UK 2011/12 – exposure draft* which contains proposed amendments to the Code from 1 April 2011. Auditors' attention is drawn to the following significant proposed changes.

Heritage assets

It is proposed that authorities should account for tangible heritage assets in accordance with *FRS 30 Heritage assets* and for intangible heritage assets in accordance with *IPSAS 31 Intangible assets*. This was also proposed as part of the consultation on the 2010/11 Code, but CIPFA/LASAAC decided to defer adoption for a year. The implementation of the heritage assets requirements in the 2011/12 Code would represent a change in accounting policy.

Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. They include historical buildings, archaeological sites, scientific equipment of historical importance, civic regalia, museum and gallery collections and works of art. The following disclosures apply to all heritage assets

- an indication of their nature and scale
- the policy for their acquisition, preservation, management and disposal
- the accounting policies adopted
- a summary of transactions disclosing: the cost of acquisitions; the value acquired by donation; the carrying value of disposals and proceeds; and any impairment.

Where an authority has information on the cost or value of a heritage asset, or can obtain it at a cost commensurate with the benefits, it should be recognised in the balance sheet, normally at fair value. Where heritage assets are reported in the balance sheet, the following should be disclosed

- a reconciliation of their carrying amount at the beginning and end of the financial period showing additions and disposals; revaluation changes; impairment losses; and depreciation
- where assets are reported at valuation: the date of the valuation; valuation methods used to produce the valuation; details of valuer etc.

Where, it is not practicable to obtain a fair value, the asset should be measured at historical cost. For heritage assets that are not reported in the balance sheet, the reasons why should be explained.

Carbon reduction commitment scheme

Authorities covered by the *Carbon reduction commitment* (CRC) scheme will need to purchase allowances for carbon emissions during 2011/12. It is proposed to treat the allowances as current assets unless there is an intention to hold the asset for more than twelve months in which case they should be classified as intangible assets. In either case, they should be measured initially at cost.

A liability and an expense to deliver allowances is recognised as energy is consumed. The liability will usually be measured at the present market price of the number of allowances required to cover emissions made up to the reporting period date.

Authorities will receive income from recycled allowances. This income is based on emissions in the base year (2010/11) adjusted for the subsequent performance relative to other scheme participants. It is proposed that an authority should recognise income from recycled allowances as it becomes receivable rather than accruing for the income based on its performance in the year.

Exit packages disclosure

It is proposed to introduce a requirement for authorities to report summary information in relation to exit packages to ensure consistency with the rest of the public sector. Exit packages include compulsory and voluntary redundancy costs, pension contributions in respect of added years, ex-gratia payments and other departure costs. Authorities would be required to disclose

- the number of exit packages agreed (grouped in rising bands of £20,000 up to £100,000, and bands of £50,000 thereafter)
- the total cost of packages agreed in each band
- an analysis between compulsory redundancies and other departures.

Miscellaneous

Other proposed changes include

- A specific statement in the annual governance statement/statement on the system of internal financial control on whether the authority's financial management arrangements conform with the governance requirements of the CIPFA *Statement on the role of the chief financial officer in local government*; and, where they do not, an explanation of how they deliver the same impact.
- The disclosure requirements for related party transactions should not apply to central government departments and agencies, health boards and other local authorities. Instead, less detailed disclosures are required, such as the nature and amount of each individually significant transaction.
- Guidance on lease classification has been updated to include indicators of situations that could also lead to a lease being classified as a finance lease. This is to reflect amendments made by *Improvements to IFRSs* issued in April 2009.
- Additional disclosures are required where the level of concessionary loans granted by an authority is material, including details of nominal values, fair value adjustments, and loans repaid.

Responses were required by 24 September 2010.

Draft 2011/12 BVACOP

CIPFA has issued the *2011/12 Best value accounting code of practice – consultation paper* which proposes changes to the *Best value accounting code of practice* (BVACOP) for 2011/12.

The main proposed change is to the definition of total cost in respect of income and expenditure relating to the CRC scheme. It is proposed that CRC transactions are accounted for as non distributed costs.

In addition, in order to emphasise the developing role that BVACOP is expected to play in delivering the UK Government's transparency agenda, CIPFA is also proposing to rename it the *Transparent service reporting code of practice*.

Responses were required by 17 September 2010.

In addition, the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) has issued *Consultation on the Scottish police service expenditure analysis 2011/12* which proposes changes to the police service expenditure analysis for 2011/12. The proposed changes seek to align the Scottish analysis with that used in England and Wales.

Responses were required by 24 September 2010.

Proposal for remuneration report

The Scottish Government has issued a consultation paper proposing the introduction of a remuneration report. It is proposed that the report should provide information on the remuneration of the senior officers in each authority, senior elected members and anyone with a salary over £150,000 per year. Similar remuneration information should be disclosed for the chief executive of any local authority subsidiary.

Current requirements on disclosure do not include all elements of an individual's eligible remuneration, and it is therefore also proposed to extend the definition of remuneration to include salary, bonuses, performance pay, expense allowances, compensation for loss of office, benefits in kind and pension contributions.

Under current requirements, authorities disclose as a note to the accounts the number of officers whose salary is greater or equal to £50,000, grouped in rising bands of £10,000. It is proposed that the bandings are changed to £5,000, and that this disclosure forms part of the remuneration report. It will continue to include all staff earning over £50,000 including those senior officers who will be subject to the fuller disclosure requirements.

It is anticipated that the format of the report would be similar to the remuneration report required by the *Government financial reporting manual*, and an outline of what the report may look like is provided at Appendix 1 of the paper.

Comments should be sent to hazel.black@scotland.gsi.gov.uk by 29 October 2010. It is proposed that the new requirements would apply from 2010/11.

Other developments

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

International financial reporting standards

Request for evidence to support statutory intervention

LASAAC has issued *IFRS: collation of additional evidence to identify possible areas for statutory intervention – second request* to collect information on the need for statutory intervention arising from IFRS.

The Scottish Government has requested that local authorities provide evidence and quantification to support any request for statutory intervention to mitigate a significant impact on usable reserves caused by IFRS implementation. This paper highlights the key areas where IFRS implementation may affect usable reserves; these principally include employee benefits and leases.

This is a second request for information but the contents of the paper are largely the same as the original paper (see TB 2010/1 – page 43). One change however is that original paper noted that consideration was being given as to whether increments related only to length of service and additional leave entitlement should be treated as long-term employee benefits or as a change in an employee's rate of pay. This revised paper states that this is actually a matter of judgement for each authority.

Responses are required by 15 October 2010 to lasaac@cipfa.org.uk.

Benefits

20091/0 HB COUNT modules

The Audit Commission has issued modules 4 and 5 of the 2009/10 HB COUNT approach to the audit of benefit subsidy claims.

Module 4 provides the analytical review tool component and enables auditors to review benefits subsidy claim forms by comparing 2009/10 information with 2008/09 and with other authorities. 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.

Module 5 provides the software diagnostic tool component of HB COUNT. The aim of this module is to ensure that 2009/10 benefits subsidy claims have been completed using the recognised software version and standard year end claim completion program issued by the software supplier. It seeks to confirm that the benefits system has been internally balanced in terms of benefit 'granted' and benefit 'paid' using the software supplier's standard methodology.

The module contains a control matrix for each supplier at appendix 1 that requires to be completed by auditors. The non-compliance data return at appendix 2 should be submitted to Paul O'Brien in the TSU (and not HB leads as stated in the module).

Auditors should complete these modules as part of the audit of 2009/10 benefits subsidy claims.

Pension funds

New regulations and guidance

The Scottish Public Pensions Agency (SPPA) has issued *Local government pension scheme circular 4/2010 The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010* which notifies of the new pension fund investment regulations and attaches guidance from the Scottish Ministers.

The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 consolidate the 1998 Regulations and add new provisions. The main new provisions are as follows

- The provision which allows an administering authority to use money from its pension fund for any purpose for which it has a statutory right to borrow has been removed. Where a cash balance held by a pension fund is available for short-term investment and is used by the administering authority, the authority may pool the pension fund cash with its own cash and invest both together on the money markets. The new regulations provide that from 1 April 2011 such use will no longer count as an investment for the purposes of these Regulations.
- The Regulations give administering authorities a limited power to borrow on behalf of the pension fund for up to 90 days. The power can only be used for cash flow management in specified exceptional circumstances.
- The Regulations require pension fund money to be kept in a separate bank account held by the administering authority by 1 April 2010.
- The Regulations require administering authorities to state in their statement of investment principles the extent to which their policy complies with guidance given by the Scottish Ministers.

The guidance from the Scottish Minister accompanies the circular. It requires administering authorities to refer to the CIPFA guidance *Investment decision-making and disclosure in the local government pension scheme: A guide to the application of the Myners principles*.

Annual report

The SPPA has issued *Local government pension scheme circular 5/2010 The Local Government Pension Scheme Amendment (Scotland) Regulations 2010* to advise of *The Local Government Pension Scheme Amendment (Scotland) Regulations 2010*. The main purposes of the amendment regulations is to add to *The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008* a new requirement for administering authorities to prepare a pension fund annual report from 2010/11. The Regulations specify that the annual report should contain

- a report about the management and financial performance of the funds during the year, a report explaining the authority's investment policy and reviewing the performance during the year of the investments of each fund, and a report of the arrangements made during the year for the administration of the funds
- a statement by the actuary of the level of funding disclosed by their valuation
- the governance compliance statement, funding strategy statement, and statement of investment principles (or details of where these statements may be obtained)
- the fund account and net asset statement with supporting notes and disclosures prepared in accordance with proper practices
- the extent to which levels of performance set out in the pension administration strategy have been achieved.

Authorities are required to publish the pension fund annual report by 1 December following the year end. In preparing and publishing the annual report, authorities are required to have regard to guidance given by the Scottish Ministers.

The Scottish Government has issued a consultation paper proposing that the pension fund annual report should be subject to a separate audit. Under current arrangements, the audit of the pension fund accounts forms part of the audit of the administering council's accounts, and the audit opinion covers both the council's own accounts and the pension fund accounts. As the new pension fund annual report will contain accounts prepared in accordance with proper practices, if it is subject to a separate audit, pension fund accounts will no longer be included within the councils' main accounts.

Comments should be sent to hazel.black@scotland.gsi.gov.uk by 29 October 2010. It is proposed that the new requirements would apply from 2010/11.

New police and fire pensions funding

The SPPA has issued *Police pensions circular 5/2010 The Police Pension Account (Scotland) Regulations 2010* to provide guidance on *The Police Pension Account (Scotland) Regulations 2010* which set out the new financing system for police pensions from 2010/11.

Under the new arrangements, police service pension costs (with the exception of injury benefits and ill-health capital charges) are met through a combination of employee contributions, a new actuarially-based employer's contribution calculated as a percentage of pensionable pay and, as required, a 'top-up' payment by the Scottish Government. The regulations confirm that the employer contribution rate going forward from April 2010 is 24.7%.

Authorities are required to set up and maintain a new pension account into which defined income will be made (e.g. member and employer contributions) and out of which pensions in payment will be made. Any shortfall between the pension account income and expenditure will be met by top up payments from the Scottish Government and any surpluses will be taken into account as part of future pension funding.

The audited pension account will determine future funding of pension contributions and top up. It is expected that the audited accounts will be available in the October following the end of the financial year to which they refer, but it is likely that it will affect the top up due in the financial year the audited accounts are actually received and considered. However, the term 'future funding' is used in the Regulations to avoid the application of strict timescales on determining the impact that the audited accounts have on pension funding.

Similar arrangements have been put in place for fire and rescue authorities by *The Firefighters' Pension Scheme Amendment (Scotland) (No. 2) Order 2010* and *The Firefighters' Pension Scheme (Scotland) Order 2007 Amendment (No. 2) Order 2010*.

Whole of government accounts

FRS 17 disclosures

The Scottish Government has sent an email to provide additional guidance on accounting for FRS 17 for groups in the 2009/10 WGA return. The guidance clarifies that

- the I&E sheet (sheet 5) lines 29 and 30 should record the single entity plus subsidiaries, while associates and joint ventures should be recorded on lines 39 and 40

- the FRS 17 sheet (sheet 11) should be prepared on a group basis, including subsidiaries but excluding associates and joint ventures

- the FRS 17 reserve in the reserves sheet (sheet 12) should only record the statutory adjustment made for FRS17 of the single entity, rather than the group. Data integrity check 1 incorrectly compares this sheet with sheet 11 but this can be disregarded provided an explanation is given where an error arises

- the pensions reserves of subsidiaries, and the share of associate or joint venture pension reserves, should normally be shown in group account balance sheets on the line 'Profit and loss and other reserves of group entities and reporting authority's share of profit and loss and other reserves of associates and joint ventures'.

Auditors should confirm their authorities are complying with the guidance.

Common errors

The Scottish Government has issued a note that lists for each council a summary of common errors in the unaudited 2009/10 WGA returns. The common errors are

- a lack of explanations for validation errors in sheet 2. Where a validation error or data integrity check is flagged in sheet 2, it should be supported by an explanation of why the difference has arisen.
- significant balances in 'other movements' in reserves sheet 12 (data integrity check 6). Authorities are required to review the items that have been recorded here to check the accounting treatment and whether these balances should be recorded elsewhere.
- outstanding amounts in column C of CPID sheet 17 and incorrect CPID codes in column D.

Auditors should confirm that their authorities have addressed the errors identified by the Scottish Government.

Police and fire injury benefits

The Scottish Government has issued guidance on the treatment of police and fire injury benefits in 2009/10 whole of government accounts returns. Although injury benefits require to be presented separately from pension liabilities in the accounts, they should be included as part of the FRS 17 disclosures in the WGA return as there is not a separate line for injury benefits.

It is expected that the WGA return for 2010/11 will be corrected.

Disposal of land

Guidance on regulations

The Scottish Government has issued general guidance to assist local authorities in applying *The Disposal of Land by Local Authorities (Scotland) Regulations 2010*. The new Regulations set out the circumstances in which local authorities may dispose of land for a consideration less than the best that can reasonably be obtained (see TB 2010/2 – page 39).

The guidance states that authorities should undertake an assessment of the proposed disposal taking into account all relevant factors and available options. It recommends that authorities demonstrate that there has been a rigorous evaluation, supported by evidence that makes clear how they have reached their decision. For the purposes of assessing the value of a disposal, authorities are required to have regard to the *Statutory guidance on the duty to appoint and instruct a suitably qualified valuer* provided at Annex B of the guidance.

The guidance clarifies that land held on the housing revenue account also requires the consent of the Scottish Ministers under the *Housing (Scotland) Act 1987*.

When disposing of land at less than best consideration, the guidance reminds authorities that they are providing a subsidy. Authorities must ensure that the nature and amount of subsidy complies with the European Commission's state aid rules. Failure to comply means that the aid granted is viewed as unlawful and may result in the benefit being recovered with interest from the aid recipient.

Equal pay

Consent to borrow

The Scottish Government has issued *Finance circular 11/2010 Consent to borrow under para 1(2) of Schedule 3 of the Local Government (Scotland) Act 1975 – Equal pay* which attaches guidance on a scheme to allow local authorities to borrow to meet equal pay costs in 2010/11. The scheme is provided under the *Local Government (Scotland) Act 1975* which provides Scottish Ministers with the power to consent to a local authority borrowing to meet costs that it would not otherwise be able to meet from borrowing.

The scheme being made available for 2010/11 is similar to the 2009/10 scheme. As with last year, the Scottish Government requires applications in the form of a business case. Applications will be reviewed based on the need for the local authority to borrow to fund equal pay back payments. This will include a consideration of the level of provisions and reserves available to the local authority to meet equal pay costs. In making this assessment, Scottish Ministers will determine the level of available reserves that will be excluded from assessments of applications, based on a percentage of authorities' net revenue expenditure. Local authorities will need to make a very strong case for any earmarked portions of the general fund to be disregarded.

The only expenditure for which consent is likely to be given is the one-off lump sum back-pay payments to present or former employees in respect of equal pay. The local authority may not use a borrowing consent in the same year that there is a revenue contribution to the capital programme.

The consent to borrow is valid for the financial year in which it is issued, plus one further financial year. If the consent to borrow has not been used by this time the local authority may apply to the Scottish Government to extend the validity of the consent.

Within three months of each financial year end, the Director of Finance is required to advise the Scottish Government of the actual borrowing undertaken in respect of the consent, and to confirm that such borrowing has been used only for the expenditure as detailed in the consent letter.

The period for the repayment of the loans fund advance will be set out in the consent letter, and will not exceed 20 years. Capital receipts may be used to meet the cost of the principal element of the loans fund advance.

Expenditure, for which consent is provided, should be charged to the comprehensive income and expenditure statement. The consent then permits the general fund to be credited and the capital adjustment account debited.

Local authorities were required to apply for consent by 17 September 2010, and the Scottish Government intends to issue any consents by November.

Legislation

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

Statutory instruments

Pensions

The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010, *SSI 233* came into force on 5 July 2010. See Other developments – Pension funds – New regulations and guidance.

The Local Government Pension Scheme Amendment (Scotland) Regulations 2010, *SSI 234* came into force on 5 July 2010. See Other developments – Pension funds – Annual report.

The Police Pension Account (Scotland) Regulations 2010, *SSI 232* came into force on 5 July, but have effect from 1 April 2010. See Other developments – Pension funds – New police and fire pensions funding.

The Police Pensions (Additional Voluntary Contributions) Amendment (Scotland) Regulations 2010, *SSI 320* come into force on 1 October 2010 amend the principal 1991 Regulations so as to close the police additional voluntary contribution scheme to new business with effect from that date.

The Firefighters' Pension Scheme Amendment (Scotland) (No. 2) Order 2010, *SSI 32* comes into force on 31 October 2010 and has effect from 1 April 2010. See Other developments – Pension funds – New police and fire pensions funding.

The Firefighters' Pension Scheme (Scotland) Order 2007 Amendment (No. 2) Order 2010, SSI 33 comes into force on 31 October 2010 and has effect from 1 April 2010. See Other developments – Pension funds – New police and fire pensions funding.

Key circulars

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

Finance circulars

Finance circular 3/2010 Statutory guidance on accounting for short term accumulating compensated absences. See Accounting developments – Statutory guidance on accounting for short term accumulating compensated absences.

Finance circular 11/2010 Consent to borrow under para 1(2) of Schedule 3 of the Local Government (Scotland) Act 1975 – Equal pay. See Other developments – Equal pay – Consent to borrow.

Finance circular 12/2010 Scottish Government State Aid Unit highlights the role of the Scottish Government State Aid Unit, which provides free advice on state aid matters to the public sector, including local government.

Pension circulars

Local government pension scheme circular 4/2010 The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010. See Other developments – Pension funds – New regulations and guidance.

Local government pension scheme circular 5/2010 The Local Government Pension Scheme Amendment (Scotland) Regulations 2010. See Other developments – Pension funds – Annual report.

Police pension circular 5/2010 The Police Pension Account (Scotland) Regulations 2010. See Other developments – Pension funds – New police and fire pensions funding.

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 report has been prepared since TB 2010/2 and is available by using the hyperlink.

The Highland Council: Caithness heat and power

The purpose of this report is to bring to the attention of the Accounts Commission and the public the deficiencies in Highland Council's dealings with *Caithness heat and power* (CHaP) project, and to highlight matters for councils to consider in future when approving and governing projects of this nature. CHaP is a company set up by the council to deliver an innovative heating system for houses in Wick but it failed to deliver and experienced a range of problems.

An internal auditor's report identified fundamental failings in the way in which the project was initiated and authorised, and in risk management. There were also significant weaknesses in governance. Overall, the council failed to comply with *Following the public pound* principles which apply in cases such as this where councils decide to fund arms-length external organisations to provide services.

The council has agreed an action plan which sets out steps to prevent similar situations arising. Actions include training and awareness sessions for elected members and council managers to highlight weaknesses in the governance of the project and lessons learned.

Publications

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

Audit Scotland

Roles and working relationships: are you getting it right?

This publication *Roles and working relationships: are you getting it right?* looked at how well councillors and officers work together in local government. Key messages include the following

- Governance arrangements that are fit for purpose and up to date are critical in clarifying roles, responsibilities and expected behaviour.
- Councillors and officers generally understand their roles and responsibilities; but there can be difficulties in practice.
- Councillors need to ensure they have the skills and tools to carry out their role.

National scrutiny plan for local government 2010/11

This *National scrutiny plan for local government 2010/11* provides a summary of the scrutiny activity for each council in Scotland. The information is based on the risk assessment and scrutiny plans drawn up for each council and contained in the *Assurance and improvement plan*.

Auditor action

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

Section	Action
TSU developments – Responses to enquiries – International financial reporting standards	Auditors should confirm that their authorities are making the necessary arrangements to present their financial statements in accordance with the Code.

Section	Action
TSU developments – Responses to enquiries – International financial reporting standards	Auditors should confirm that their authorities are making the necessary arrangements to account for the transition to IFRS in accordance with the Code.
TSU developments – Other guidance – Charities disclosure	Auditors should confirm that their authorities are planning to make either appropriate disclosures for trust funds from 2010/11 in their financial statements or arrangements for the fund's separate audit.
TSU developments– Other guidance – Pension liability estimation	Auditors should confirm that their authorities are properly disclosing and accounting for this change.
Accounting developments – Statutory guidance on accounting for short term accumulating compensated absences	Auditors should confirm that their bodies are making arrangements to comply with this guidance.
Accounting developments – Guidance on accounting for components	Auditors should confirm that authorities have adequate arrangements in place for complying with the Code's requirements in respect of component accounting.
Accounting developments – Guidance on accounting for police and fire injury benefits	Auditors should confirm that their authorities are properly accounting for police and fire injury benefits.
Other developments – Benefits – HB COUNT modules	Auditors should complete these modules as part of the audit of 2009/10 benefits subsidy claims.
Other developments – Whole of government accounts – FRS 17 disclosures	Auditors should confirm their authorities are complying with the guidance.
Other developments – Whole of government accounts – Common errors	Auditors should confirm that their authorities have addressed the errors identified by the Scottish Government.

Please take a moment to complete and return the feedback form

Health chapter

Introduction

This chapter contains articles on health technical developments and guidance relevant to external auditors' responsibilities under their audit appointment to give an opinion on the financial statements. It should be read by external auditors with appointments in the health 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 specific matters are provided in separate 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 that are available from websites can be obtained by using the hyperlinks. They can also be downloaded by auditors from the TSU intranet/extranet.

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note the following articles in this chapter are of relevance to 2010/11 audits

- cross border healthcare
- pharmacy remuneration arrangements
- efficient purchasing programme clawback
- records management code of practice
- single room accommodation
- changes in RRL elements.

There are also articles on: proposed arrangements for managing capital resources; GP patient experience survey 2009/10; and quality improvements in primary care.

Developments

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

National agenda/direction

Cross border healthcare

Regulations have been issued that give effect to the judgement of the European Court of Justice ruling that the obligation to reimburse the cost of hospital treatment provided in another European economic area (EEA) state also applies to a tax funded national health service, such as in Scotland. *The National Health Service (Reimbursement of the cost of EEA Treatment) (Scotland) Regulations 2010* insert new sections into the *National Health Service (Scotland) Act 1978* to

- give health boards the power to secure the provision of services outwith Scotland
- place a duty on boards to reimburse the cost of eligible services received by NHS patients in another EEA state and sets out the limitations that may be imposed on the amount of reimbursement
- provide for prior authorisation to be obtained in respect of certain eligible services and set out when it must be given by a board
- provide for the rules on charges, remission from charges and exemptions to apply as if the services had been provided by the board.

CEL(2010)30 provides guidance to boards for considering patients' requests to travel to other countries in the EEA for treatment. Patients have the right to seek any health care service in another EEA member state and can claim reimbursement up to the amount that the treatment would have cost from their home healthcare system. Boards may use the tariffs established by the Scottish national tariff project, or local costings if available, to calculate the reimbursement for Scottish patients in these circumstances, or in charging patients from other EEA countries who wish to receive treatment in Scotland.

The guidance is an interim measure until the content of the proposed cross-border healthcare directive is announced.

Pay modernisation and workforce planning

2010/11 pharmacy remuneration arrangements

The Scottish Government Health Directorates (SGHD) has issued two letters informing boards of the remuneration arrangements for community pharmacy contractors and providing more detail of the payments around the implementation of the chronic medication service (CMS) in 2010/11.

PCA(P)(2010)15 gives details of the remuneration and reimbursement arrangements for community pharmacy contractors. In broad terms, the 2009/10 transitional payment regime is being rolled forward.

Payments for dispensing in 2010/11 continue at the rate in force at 31 March 2010, except for a number of changes including the following

- A new CMS implementation payment is being introduced.
- The public health service (PHS) core element continues but at the reduced monthly rate of £250.
- The monthly availability for service payment for PHS smoking cessation is discontinued with effect from 1 May 2010.
- The essential small pharmacy allowance will be £420 per month.

The second letter *PCA(P)(2010)19* gives details of the implementation payment for CMS. Contractors will be entitled to CMS implementation payments (CIP) providing they meet the requirements at each of the three payment phases of CMS implementation. Claim forms are included as an annex to the letter. The three payment phases are as follows

- Payment A supports the readiness of support systems and the establishment of a list of patients who would benefit from the service. The contractor will receive £750 where they can demonstrate that they are ready to provide CMS and have identified 50 patients for whom CMS will be provided. It may be claimed at any time until 31 December 2010.
- Payment B may be claimed between 1 October 2010 and 31 December 2010 and marks the completion of the roll out where CMS is being provided to no more than 50 patients. Contractors will be paid £750 where they meet these requirements.
- Payment C will be paid in two parts when contractors start to extend services beyond the first 50 patients. The first part will include a fixed payment of £500 which can be claimed between 31 March 2011 and 29 April 2011 and a variable payment based on a notional registration figure using the monthly dispensing volume of the contractor. The variable element of the payment will depend on the actual number of registrations and will be based on the March and April dispensings.

Family health services

2009/10 efficient purchasing programme clawback

PCA(P)(2010)17 advises of a change in the efficient purchasing and prescribing programme (ePPP) clawback rate for the dispensing period June 2010 to March 2011. The prescribing data for 2009/10 has been evaluated and the amount to be returned to boards by community pharmacy contractors has been calculated as £8.126 million. To effect this return, the clawback rate for the dispensing period June 2010 to March 2011 will be temporarily increased by 4.68% to 10.96%.

The ePPP is a two year programme and the clawback rate will revert to 6.28% in April 2011, but will be subject to ongoing review to deliver an agreed contractor retained profit of £67 million plus a formula share of actual profits.

GP patient experience survey 2009/10

The Scottish Government has issued the *Scottish GP patient experience survey 2009/10* which contains detailed findings from the 2009/10 GP patient survey. The survey asked a random sample of patients about their experience of arranging to see their GP. The response rate was 38%, and the key findings of the survey included

- 90% of patients rated the overall care provided by their GP practice as good or excellent
- 81% of patients said arrangements to see a doctor were good or excellent
- 87% rating the arrangements to see a nurse as good or excellent
- There were differences in the experiences of patients at different boards and patients at smaller practices were more likely to report a positive experience.

The results from the survey have been used to calculate payments to GP practices as part of the quality and outcomes framework (QOF) payments.

Auditors should confirm that their boards have reviewed the survey results as part of their verification of the QOF payments to GP practices.

Quality improvements in primary care

The Scottish Government has issued two reports on making quality improvements in primary care.

The first report *Scottish primary care collaborative* outlines the achievements of the GP practices participating in the Scottish primary care collaborative (SPCC) programme. The SPCC programme aimed at developing skills and knowledge in practice staff to deliver sustainable and systematic quality improvements. The improvements delivered included

- a 66% improvement in the average waiting time to see a GP
- patient satisfaction improving from 77% to 91%
- improvements in the management of people with coronary heart disease, chronic kidney disease and chronic obstructive pulmonary disease.

The report concluded that the SPCC delivered sustainable, patient focused service improvements.

The second report *Delivering quality in primary care national action plan* identifies priorities for action and a strategic vision for primary care over the next five years. The priorities for delivering quality in primary care services include

- increasingly integrated care
- patients being empowered to play a full part in the management of their care
- clinically safe and effective care delivered within agreed pathways.

The primary care workforce will be key to delivering these priorities. The action plan sets out eleven broad actions to support the delivery of quality care, including the following

- The *Scottish patient safety programme* will be implemented within primary care to ensure a culture of review and sharing of concerns leads to improvement in services.
- National quality indicators will be developed to drive continuous improvement.
- Effective partnerships will be developed between primary care professionals and those in secondary care.
- Performance management and accountability structures will reflect the importance of primary care.

A steering group will lead on the delivery of national actions, while the responsibility for delivering the vision locally will rest with boards through their community health partnerships (CHPs). Boards will be charged with enhancing the leadership role that GPs play within CHPs.

Information management

Records management code of practice

The Scottish Government has issued a revised *Records management: NHS code of practice* with *CEL(2010)31* as a guide to standards of records management practice in health boards. Scottish Ministers and health boards are obliged under data protection and freedom of information legislation to make arrangements for the safe keeping and eventual disposal of all types of their records. The Code provides a framework for consistent and effective records management and aims to establish records management best practice in relation to the creation, use, storage, management and disposal of NHS records. It also sets minimum periods for retention of records.

Each board should have in place an overall policy statement, endorsed by the board members, which should define roles and responsibilities within the organisation, and set out the process of managing records throughout their life cycle.

The Code requires the records management function to be recognised as a specific corporate responsibility within every board. Designated members of staff of appropriate seniority (i.e. board level or reporting directly to a board member) should have lead responsibility for corporate and health records management within the organisation. As accountable officer, the chief executive has overall responsibility for ensuring that records management operates legally within the board. The Caldicott Guardian is responsible for ensuring patient-identifiable information is shared in an appropriate and secure manner. In general, all individuals who work for a board are responsible for any records, which they create, or use in the performance of their duties and must be appropriately trained.

Boards should put in place robust procedures to manage control of access, retrieval and use of records for the duration of their retention until the time of their ultimate disposal. They should establish and maintain an information asset register and regularly audit its records management practices for compliance with this code of practice

A series of guidance notes have been issued to supplement the code of practice.

Capital

Single room accommodation

The SGHD has issued *CEL(2010)27* to inform boards of the results of the Chief Medical Officer's (CMO) consultation on the provision of single room accommodation. The consultation exercise has concluded that the current provision is not sufficient and that 100% single room provision is clinically appropriate in most settings. The guidance applies with immediate effect and covers all schemes for the replacement or refurbishment of patient accommodation whether they are within board's delegated limits or require Scottish Government approval.

For all new build facilities, there should be a presumption that all patients will be accommodated in single rooms, unless there are clinical reasons for multi-bedded rooms. The clinical reasons for not making 100% provision should be identified in the business case and will be subject to approval.

In developing proposals for refurbishing facilities, boards should aim to provide the maximum possible number of single rooms. The level of single rooms provided should be at least 50% of all accommodation.

Proposed arrangements for managing capital resources

The Capital Strategy Group has issued recommendations on the future arrangements for managing capital resources across NHSScotland after 2010/11 in *CEL(2010)32*. The Capital Strategy Group was established to consider the key strategic issues regarding capital.

The group recommended that the target *NHSScotland resource allocation committee* (NRAC) formula should replace the Arbuthnott formula as the basis for capital allocations. The formula allocation, adjusted for cross boundary flows and specialist service allocations, would primarily support routine capital expenditure and projects within board delegated limits. It would be initially based on the available budget less the sums identified for central budgets and contractual commitments of boards to date. There should be only a small number of central budgets, each supporting clear national priorities. It is proposed that the formula allocation would be set out for the spending review period to allow forward planning.

New projects with a capital value exceeding the board's delegated spending limit should be subject to a bid process for specific project funding. Transitional arrangements will be required over the next two to three years given the flow through of existing projects, but the scope for new projects will be limited. Project proposals should be based on an assessment against key criteria at the initial agreement stage. Proposals at this stage should be assessed at regional level before submission to the SGHD Capital Investment Group, which would be expanded to include service representation. A prioritisation exercise for specific project funding should be conducted on a six monthly basis.

For capital receipts not already identified as supporting projects with approved outline business cases, the capital element of receipts should accrue to SGHD and be used to support the overall capital programme. Any element of an asset disposal that scores as revenue income (i.e. profit on disposal) would be left with the board. Project specific funding could be allocated on the condition that repayment from anticipated receipts is made within a particular time period. If such receipts are not realised, subsequent projects in other board areas will be delayed or even cancelled.

It is proposed that delegated limits should be established on a stepped basis and limits for boards are attached as an annex to the circular.

Reversionary interest on existing PFI schemes should be taken into account in capital allocations through top slice arrangements. There is a need to establish a maximum percentage of a boards' revenue budget committed to unitary payments to ensure a sustainable revenue position over the long term.

Auditors should confirm that their boards are aware of these proposals and have considered the implications of the changes to the funding arrangements.

Performance management

Changes in RRL elements

The SGHD has issued a letter to clarify the changes in the differentiation between core and non core elements of the revenue resource limit (RRL) in the 2010/11 monitoring returns.

Core RRL expenditure is funded from each board's baseline allocation plus other revenue allocations. Allocations for other non-cash expenditure, such as depreciation and profit or loss on disposal of assets, has been moved from core RRL expenditure to non-core expenditure.

Non core RRL expenditure includes capital grants, family health service (FHS) non discretionary expenditure, expenditure on impairments eligible for annually managed expenditure (AME) funding, and other non cash expenditure items. Expenditure on PFI schemes that meet the IFRIC 12 definition scores as non core expenditure, while expenditure in respect of leases that came onto the balance sheet under IFRS will be included in the core RRL expenditure.

For the avoidance of doubt, the responsibility of a board to deliver a balanced outturn in year relates to the total allocation, including core and non-core elements.

The spend recorded in the monthly monitoring return against these allocations will be used to assess each board's financial position and key risks and assumptions during the course of the year. Boards have the opportunity to amend these allocations until the end of November 2010, when a final forecast will be requested.

Auditors should confirm that boards are aware of this guidance and have considered the implications of non core RRL allocations.

Legislation

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

Statutory instruments

National health service

The Smoking, Health and Social Care (Scotland) Act 2005 (Commencement No. 6) Order 2010, SSI 185 appoints the 20 May 2010 and 2 July 2010 for the coming into force of certain provisions of the 2005 Act. The provisions relate to general dental services and the management of boards' dental lists.

The National Health Service (General Dental Services)(Scotland) Regulations 2010, SSI 208 came into force on 2 July 2010 and made various amendments to the previous regulations relating to the provision of general dental services

- The scope and format of the dental list maintained by boards has been amended to record the dentists and bodies corporate approved to provide general dental services and emergency dental services in a board area.

- The general requirements which contractors need to comply with are set out along with the grounds for suspension or removal from the dental list.

- The arrangements for continuing care and capitation payments are also set out, along with the obligations for providing emergency services.

The National Health Service (Discipline Committees)(Scotland) Amendment Regulations 2010, *SSI 226* came into force on 2 July 2010 and amended the principal regulations to insert a new definition of dental body corporate.

The National Health Service (Tribunal)(Scotland) Amendment Regulations 2010, *SSI 227* came into force on 2 July 2010 and made various amendments to the principal regulations including inserting a new definition of dental body corporate and amending the rules covering the documents to be submitted to the tribunal.

The Scottish Dental Practice Board Amendment Regulations 2010, *SSI 228* came into force on 2 July 2010 and made various amendments to the principal regulations. Some of the amendments are as a consequence of the introduction of *The National Health Service (General Dental Services) (Scotland) Regulations 2010* while others are to take account of changes to the sanctions which can be imposed on dentists.

The National Health Service (Vocational Training for General Dental Practice)(Scotland) Amendment Regulations 2010 *SSI 229* came into force on 2 July 2010 and made various amendments to the principal regulations. Some of the amendments are a consequence of the introduction of *The National Health Service (General Dental Services)(Scotland)Regulations 2010* while others allow NHS Education for Scotland to issue a vocational training number for dentists wanting to specialise in orthodontic treatments.

The National Health Service (Tribunal)(Scotland) Amendment No.2 Regulations 2010, *SSI 266* came into force on 2 July 2010 and made further minor amendments to the principal regulations.

The National Health Service (Reimbursement of the cost of EEA Treatment)(Scotland) Regulations 2010 *SSI 283* came into force on 7 July 2010. See Other developments – National agenda/direction – Cross border healthcare.

The National Health Service (Travelling Expenses and Remission of Charges) (Scotland) Amendment (No. 2) Regulations 2010, *SSI 319* came into force on 2 October 2010 and amended the 2003 regulations in respect of income that may be disregarded when calculating the entitlement of students to the payment of travel expenses and the remission of charges.

Key circulars

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

Chief executive letters (CEL)

CEL(2010)27 Provision of single room accommodation and bed spacing. See Other developments – Capital – Single room accommodation.

CEL(2010)30 Cross border healthcare and patient mobility: advice on handling requests from patients for treatment in countries of the European economic area. See Other developments – National agenda/direction – Cross border healthcare.

CEL(2010)31 Records management: NHS code of practice. See Other developments – Information management – Records management code of practice.

CEL(2010)32 *Arrangements for the management of NHSScotland capital resources after 2010/11*. See Other developments – Capital – Proposed arrangements for managing capital resources.

PCA

PCA(P)(2010)15 Community pharmacy services : Drug tariff remuneration and pt 7 and pt 11 reimbursement arrangements for 2010/11 . See Other developments – Pay modernisation and workforce planning – 2010/11 pharmacy remuneration arrangements.

PCA(P)(2010)17 Pharmaceutical services: Efficient purchasing and prescribing programme 2009/10 and 2010/11 drug tariff pt7 clawback rate change. See Other developments – Family health service – 2009/10 efficient purchasing programme clawback.

PCA(P)(2010)19 Additional pharmaceutical services : chronic medication service – implementation payments. See Other developments – Pay modernisation and workforce planning – 2010/11 pharmacy remuneration arrangements.

Dear colleague letters

Dear colleague letter dated 2 September 2010 Monthly monitoring returns outturn statement – Clarification of core and non core elements. See Other developments – Performance management – Changes in RRL elements.

Publications

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

Audit Scotland

Emergency departments

This report *Emergency departments* examines the performance of emergency departments and how effectively they work with other services. The key messages include the following

- Emergency services have evolved over time and there is variation across Scotland. The Scottish Government should provide a clearer strategic direction about the services provided and national monitoring and reporting of the quality of patient care should be developed.

- Attendance at emergency departments is increasing. Boards should ensure that initiatives to reduce attendances are underpinned by evidence of their effectiveness, impact on patient care, costs and wider services

- Patient satisfaction with emergency care services is high. Closer working across the whole system is needed to make further improvements.

PFI

Performance and management of hospital PFI contracts

This report *Performance and management of hospital PFI contracts* from the National Audit Office (NAO) examines the performance of maintenance and support services under PFI contracts in the NHS in England.

In general, trusts are satisfied with the performance of services under PFI contracts, and the level of penalties for poor performance is low. Most contracts are delivering the expected value for money and most trusts are managing the day to day contract arrangements well, but they may need support on more complex issues.

Available information highlights that the cost and performance of hotel service contracts are similar to those services in non-PFI hospitals. There is therefore no evidence that including these services in PFI contracts provides better or worse value for money. However, hospitals with PFI buildings spend more on maintenance annually as the contract requires them to be maintained to a specified standard. The report recommends that future maintenance expenditure should be reviewed to allow opportunities for gain sharing to be identified.

The scope to make savings on PFI contracts is limited, but trusts can benefit from sharing refinancing gains and value testing reviews. Trusts need transparency and clarity over contractors' costs and activities to allow them to make efficiency savings without harming services to patients.

The report recommends that the Department of Health should work with Treasury to explore ways in which standard contracts can be adapted to encourage efficiency savings. It should develop the support it provides to trusts and the information it receives to obtain more assurance on the current value for money.

National agenda/direction

Tackling inequalities in life expectancy in areas with the worst health and deprivation

This report *Tackling inequalities in life expectancy in areas with the worst health and deprivation* from the NAO examines the Department of Health's approach to tackling health inequalities in England. In 2002, the government set a target to reduce life expectancy inequality by 2010 by 10%. The gap in life expectancy has continued to widen and this target will not be met if the current trend continues. The report found that

- The health inequalities strategy lacked effective mechanisms to deliver the target. Primary care trusts (PCTs) lacked evidence on the cost effectiveness of interventions and their commissioning role was underdeveloped. Locally focussed action only started from 2006/07, leaving little time for these actions to have an impact. More effective targeting of initiatives is required.

- Three key interventions have not yet been adopted on the scale required to close the inequalities gap. It is estimated that it would cost £24 million per year to implement these interventions, while £3.9 billion is spent on circulatory and respiratory conditions by PCTs in disadvantaged areas. Greater investment in prevention and less variation in the delivery of interventions is required.

- Funding, incentives and other targets are not sufficiently aligned with the health inequalities target. PCTs in disadvantaged areas receive some £230 per head more than other PCTs but there is evidence that this has been absorbed in higher hospital costs in deprived areas. It is not possible to identify how much money has been spent on tackling inequalities.

Equality and excellence: Liberating the NHS

This paper *Equality and excellence: Liberating the NHS* from the UK government sets out its strategy for the NHS in England. The paper sets out a number of proposals including the following

- Patients will have improved access to information, and will also be able to rate hospitals according to the quality of care. A new body, Health Watch England, will be established to provide a collective voice for patients and public.

- The NHS will be held to account against evidence-based outcome measures. Quality standards will inform the commissioning of care and payment systems, with providers being paid according to their performance and the outcomes they achieve.

- Responsibility for commissioning services will be devolved to consortia of GP practices, and an independent commissioning board will be established. All NHS trusts will become foundation trusts, and the freedoms of foundation trusts will be increased. Monitor will become an economic regulator.

- The NHS will need to achieve unprecedented efficiency gains, up to £20 billion by 2014, which will be reinvested. Management costs are to be reduced by 45% over the next four years.

The number of NHS bodies will be reduced along with the Department of Health's own functions. PCTs and practice based commissioners will be replaced by GP consortia and strategic health authorities will be abolished.

Finance

Making the most of NHS frontline staff

This briefing *Making the most of NHS frontline staff* from the Audit Commission identifies areas where trusts in England can make efficiency savings by making the most of their frontline staff.

Nurses account for over a quarter of trust spending, and the pay bill for hospital-based nurses is around £6 billion. While *Agenda for change* has resulted in improved pay for most nurses the expected productivity gains have not materialised.

The number of nurses per bed varies between 1.2 and 2.1. The Audit Commission estimate that £300 million of savings could be made nationally by reducing the nursing cost and a further £60 million by reducing the grade mix to the average level. Trusts should benchmark against other trusts to understand the variations in staffing, the number and types of nurses and the way they are used. Larger wards cost less in terms of nurses and, while there may be benefits to smaller wards, these should be weighed against the additional costs. Savings of around £50 million could also be made by reducing the sickness absence rate for nurses to the NHS average.

The number of hospital-based doctors has increased by 60% since 1999. However, the number and grade mix of doctors often does not seem to be the result of careful service planning. The cost of locum doctors also varies significantly between trusts.

Auditor action

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

Section	Action
Other developments – Family health service – Scottish GP patient experience survey 2009/10	Auditors should confirm that their boards have reviewed the survey results as part of their verification of the QOF payments to GP practices
Other developments – Capital – Managing capital resources	Auditors should confirm that their boards are aware of the proposals for managing capital resources and have considered the implications of the changes to the funding arrangements
Other developments – Performance management – Changes in RRL elements	Auditors should confirm that boards are aware of this guidance and have considered the implications of non core RRL allocations.

Please take a moment to complete and return the feedback form

Central government chapter

Introduction

This chapter contains articles on central government technical developments and guidance relevant to external auditors' responsibilities under their audit appointment to give an opinion on the financial statements. It should be read by external auditors with appointments in the central government 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 specific matters are provided in separate 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 that are available from websites can be obtained by using the hyperlinks. They can also be downloaded by auditors from the TSU intranet/extranet.

There are articles in this chapter on proposed amendments to the 2010/11 and 2011/12 *Government financial reporting manual* (the FReM).

Accounting developments

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

Proposed amendments to the 2010/11 FReM

HM Treasury has issued *Exposure draft (10)02 Accounting for loans, public dividend capital (PDC) and investments outside the departmental boundary* which contains proposed changes to the FReM in respect of accounting for loans and investments from 2010/11.

The FReM currently contains an interpretation of the measurement requirements of *IAS 39 Financial instruments: recognition and measurement* and requires loans, public dividend capital (PDC) and investments in public sector entities outside the departmental boundary to be reported at historic cost, less impairment.

It is proposed to maintain the FReM measurement interpretation for PDC, but have loans and investments in entities outside the boundary apply IAS 39 in full. This would require the measurement for loans on initial recognition to be at fair value (which is most likely to be cost) with subsequent measurement at amortised cost, and the measurement of investments to be at fair value.

Responses were required by 20 August 2010.

Proposed amendments to the 2011/12 FReM

Treasury has issued two exposure drafts which contain proposed changes to the FReM from 2011/12.

Exposure draft ED/2010/3 true and fair override provision proposes reinstating in the FReM the true and fair override.

The 2008/09 FReM included the provision for a true and fair view override where, in exceptional circumstances, compliance with the FReM would result in a compromised true and fair presentation. The 2009/10 FReM excluded the override provision on the basis that the provision in IAS1 would preclude the necessity to include it. However, the provision in IAS 1 is sufficient to override IFRS but it cannot be used to override the FReM.

It is proposed therefore that the true and fair override provision be reinstated within the FReM, for use in exceptional circumstances, applying the principles set out in IAS 1.

Responses were required by 17 September 2010.

Exposure draft ED/2010/4 Accounting for the CRC energy efficiency scheme contains proposed changes in respect of accounting for the *Carbon reduction commitment* (CRC) scheme. The CRC scheme is a new mandatory emissions trading scheme that aims to reduce carbon dioxide emissions through energy efficiency.

Reporting entities covered by the CRC will purchase allowances in April 2011 sufficient to cover estimated carbon emissions during 2011/12, which is the first year of operation. Assets are recognised at cost for the CRC allowances purchased which should be revalued where required. It is proposed that the allowances should be classified as current assets unless they are intended to be held for more than 12 months, when they should be classified as intangible assets.

As energy is used, a liability and an expense requires to be recognised for the obligation to deliver allowances equal to the actual carbon emissions that have been made.

Reporting entities will receive income in respect of recycled CRC allowances. This income is based on a body's emissions in the base year (2010/11) adjusted for subsequent performance relative to other scheme participants. There is therefore no direct link between a reporting entity's purchase of allowances and the income to be received. As a result, a reporting entity should recognise income from recycled allowances as it becomes receivable rather than accruing for the income based on its performance in the year.

Responses were required by 24 September 2010.

Key circulars

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

Finance guidance notes

FGN 2010/03 SPFM amendments announced the following recent substantive amendments to the *Scottish public finance manual*

- The section on major investment has been updated to clarify that the Scottish Government's *Gateway review* process should be used to support all high risk projects regardless of their funding profile.
- The section on disposal of property, plant and equipment has been revised to provide additional guidance for properties that may be exempt from the requirement for the Scottish Government's Property Advice Division to be notified in advance of disposal (e.g. properties being disposed of by sponsored bodies as part of their core business activities, and properties for sale to sitting tenants). The revised guidance also limits the notification process to a single stage to be undertaken at least one month before relevant surplus properties are advertised on the open market.
- The internal control checklist within the section on certificates of assurance has been updated to clarify requirements with regard to procurement
  - There is a requirement to consult the Scottish Procurement Directorate from the earliest stage on proposals that may involve procurement action.
  - Purchasing authority should be delegated by using written authorisation from the Director of Procurement, following a request from the individual's line manager.
  - Contracts for external consultancy of up to £10,000 require to be approved at Deputy Director rather than Director General level.

Please take a moment to complete and return the feedback form

Further education chapter

This chapter contains articles on further education technical developments and guidance relevant to external auditors' responsibilities under their audit appointment to give an opinion on the financial statements. 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 specific matters are provided in separate 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 that are available from websites can be obtained by using the hyperlinks. They can also be downloaded by auditors from the TSU intranet/extranet.

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note that the following articles in this chapter relate to 2009/10 audits

- TSU guidance on financial statements
- SFC guidance on financial statements
- early retirement provision discount factor
- model financial statements.

TSU developments

Publications

The following have been published by the TSU since TB 2010/2 and can be downloaded by auditors from the TSU intranet/extranet. It can be sent to other TB recipients on request.

Note for guidance on 2009/10 further education financial statements

The TSU has published *Note for guidance 2010/5(FE) 2009/10 further education financial statements* to provide auditors with guidance on certain risk areas that they should pay particular consideration to when auditing the 2009/10 financial statements.

Other guidance

Pension liability estimation

Auditors will be aware that, as part of the emergency budget, the Chancellor announced that the up rating of public service pensions to reflect inflation will, in future, be based on the consumer price index (CPI) measure of price movements rather than the retail price index. The change will take effect from the next up rating in April 2011.

The pension liabilities in the balance sheet should be the best estimate of the future cash flows that will arise under the scheme liabilities, measured on an actuarial basis. This involves estimating the future cash flows arising under the scheme liabilities based on a number of actuarial assumptions, then discounting the cash flows at an appropriate rate. The actuarial assumptions should reflect expected future events that will affect the cost of the benefits to which the employer is committed at the balance sheet date. Price inflation is one of the assumptions used by actuaries, and the change to CPI will result in lower pension increases.

As this announcement was made during 2009/10, the effect should be reflected in a reduced pension liability in the balance sheet at 31 July 2010. The TSU is discussing with HM Treasury and the other audit agencies a consistent accounting treatment for this change and will advise auditors of the outcome in due course.

Accounting developments

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

Guidance on 2009/10 financial statements

The Scottish Funding Council has issued *Detailed notes for guidance on completion of 2009/10 financial statements* to supplement the accounts direction. The guidance covers key disclosures in the financial statements, including model notes and a report on the accounting treatment of local government pension schemes. In certain cases, the additional disclosures are required to reflect the situation in Scotland.

Auditors' attention is drawn to the following changes since 2008/09.

- Paragraph 27 has been amended to clarify that subsequent expenditure incurred in replacing or renewing a component of a tangible fixed asset that has been accounted for separately should be treated as an addition to the asset and the carrying amount of the replaced asset should be removed from the balance sheet. Paragraph 28 has been added to highlight that land and buildings are separate components and are dealt with individually for accounting purposes even when they are acquired together. It also states that another example of separable components is the structure of a building and items within the structure such as general fittings.

- Paragraphs 36 and 37 have been added to reflect the change in the calculation of the net (real) interest rate for early retirement provisions from 31 July 2009 onwards. This is as a result of the actuaries changing the basis for calculation to reflect the requirement of FRS17 to use the return on corporate AA bonds as a basis for the net interest rate.

2009/10 early retirement provision discount factor

The SFC has advised of the net interest rate that could be used when preparing the early retirement pension provision in 2009/10. It advises that an appropriate rate is 2.0%.

Auditors should confirm their colleges have used an appropriate discount rate when calculating their early retirement pension provision, and that there is reasonable justification if they have used a rate other than the one suggested by the SFC.

2009/10 model financial statements

The SFC has issued model statements for colleges to use in the preparation of their 2009/10 financial statements.

Key circulars

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

SFC circulars

SFC/26/2010 Educational maintenance allowance 2010/11 describes the education maintenance allowance programme for 2010/11.

SFC/27/2010 Student support funds: carry-forward and clawback of AY 2008-09 funds informs colleges of funds to be clawed back and carried forward from the 2008/09 student support allocations.

SFC/28/2010 Collection of college student activity data asks colleges to provide their 2009/10 student activity data and provides audit guidance.

Please take a moment to complete and return the feedback form

Contact points

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

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Completed feedback forms on this TB should be returned to

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24 September 2010

User feedback

We received 31 responses to the user survey on TB 2010/2, and the results are summarized in the following table.

Feedback results on TB 2010/2

	Excellent	Good	Fair	Poor	No response
Structure and presentation	13%	84%	3%	-	-
Complete	23%	74%	3%	-	-
Clear and concise	13%	84%	3%	-	-
Helpful and relevant	23%	64%	3%	-	10%

	Significant impact	Some impact	Limited impact	No impact	No response
Impact on quality of audit	19%	62%	13%	3%	3%

Feedback request on TB 2010/3

Please take a moment to complete the accompanying feedback form on this TB by answering the following questions, and return it to alewis@audit-scotland.gov.uk.

- How would you rate the structure and presentation of this technical bulletin?
- How would you rate the completeness of the content of this technical bulletin?
- How would you rate the clarity and conciseness of the content of this technical bulletin?
- How would you rate the helpfulness and relevance of the content of this technical bulletin?
- How would you rate the expected likely impact of this technical bulletin on the quality of your external audit work/your external auditors' work?
- Do you have any other comments on this technical bulletin?
- Do you have any suggestions for improving the next technical bulletin?

Technical bulletin 2010/4

October to December 2010

Published by the Technical Services Unit 15 December 2010

AUDIT SCOTLAND

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Foreword

Audit Scotland's Technical Services Unit (TSU) provides guidance and support to external auditors appointed by the Accounts Commission and Auditor General to assist them fulfil their responsibility under their audit appointment to give an opinion on the financial statements.

This includes the publication of technical bulletins (TBs) at quarterly intervals onto the TSU intranet/extranet. The purpose of TBs is to summarise technical developments in the quarter for external auditors, and to provide auditors with guidance where required.

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

TBs are also e-mailed to audited bodies and other stakeholders in order that they may be aware of the guidance that has been issued to auditors. In selecting items for inclusion in TBs the bias is towards those which are of particular interest to external auditors. TBs should not therefore be regarded as providing an exhaustive review of all matters relevant to audited bodies.

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

Please take a moment after reading this TB to complete and return the feedback form

Cross-sectoral chapter

Introduction

This chapter contains articles on cross-sectoral technical developments and guidance relevant to external auditors' responsibilities under their audit appointment to give an opinion on the financial statements. 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 specific matters are provided in separate 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 that are available from websites can be obtained by using the hyperlinks. They can also be downloaded by auditors from the TSU intranet/extranet.

The TSU encourages the completion of the feedback form that accompanies this TB. Completed forms should be returned to alewis@audit-scotland.gov.uk. A summary of feedback on the previous TB is available in this TB's user feedback chapter.

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 2010/11 audits

- fraud returns
- new member of TSU staff
- draft guidance on moving to consumer price index for pension uplifts
- revised practice note on auditing the public sector
- statement on the role of head of internal audit
- statutory guidance on duty to publish information
- changes to carbon reduction commitment scheme.

There are also articles in this chapter on the following subjects: revised international framework for financial reporting; amended international standard on financial assets disclosure; amended international standard on financial liabilities; various amended UK standards; a review of the Financial Reporting Advisory Board; a paper on transition to new international standards; proposals for future of UK financial reporting; proposed changes on practice note on auditing charities; proposed changes to international auditing practice statements; efficiencies from improvement to external scrutiny; and procurement reform.

TSU developments

General matters

Fraud returns

Auditors are reminded that they are required by the *Code of audit practice* to submit information about instances of fraud and irregularity to the TSU. Under current requirements, auditors of local authorities and non-departmental public bodies (NDPBs) are required to complete proforma returns for cases of fraud in excess of £5,000 discovered in those bodies. The completed fraud returns should be emailed to the TSU (Alewis@audit-scotland.gov.uk) as soon as practicable after the fraud has been discovered. Guidelines on the preparation and submission of the returns, along with the proforma, are provided on the TSU intranet/extranet.

However, very few completed returns have been submitted recently and the TSU believes there may be significant under-reporting. Auditors may wish to check with their audited bodies that the arrangements for them being notified of frauds are continuing to operate properly.

New member of staff

Owen Smith has joined the TSU as Manager – Benefits (Technical). Owen replaces Andrew Reddish, who has retired, and is responsible for

- providing support and guidance to auditors in the local government sector in respect of housing and council tax benefits
- managing the collection of fraud information
- managing the benefits performance audit.

Accounting developments

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

Revised conceptual framework

The International Accounting Standards Board (IASB) has issued the first two chapters of its revised *Conceptual framework for financial reporting 2010.* The objective of the conceptual framework is to create a foundation for future accounting standards that are principles-based, internally consistent and internationally converged. This first phase of the framework deals with the objective and qualitative characteristics of financial reporting.

The first chapter states that the objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. General purpose financial reporting is directed at those users who provide resources to an entity, but who lack the ability to compel the entity to provide them with the information they need.

The chapter on qualitative characteristics deals with the attributes that make financial information useful, whether it is provided in financial statements or in other ways. They are

- relevance and faithful representation, which are considered to be fundamental
- comparability, timeliness, verifiability and understandability, which are described as enhancing characteristics.

The framework is available to eIFRS subscribers from the IASB website.

Amended standard on financial assets disclosure

The IASB has issued *Disclosures – Transfers of financial assets (Amendments to IFRS 7)* which sets out new disclosure requirements for the transfer of financial assets. The IASB had previously published proposals to replace the existing derecognition model in *IAS 39 Financial instruments: Recognition and measurement* and the associated disclosure requirements in IFRS 7 (see TB 2009/2 – page 5). However, in response to the feedback received, the IASB decided to retain the existing requirements and to finalise improved disclosure requirements.

The amended disclosures are intended to allow users of financial statements to improve their understanding of transfer transactions of financial assets, including the possible effects of any risks that remain with the entity that transferred the assets. Disclosures are therefore required on transferred financial assets

- that are not completely derecognised
- where the transferor has some continuing involvement

- if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

The amended standard is available to eIFRS subscribers only from the IASB website.

Amended standard on financial liabilities

The IASB has issued *IFRS 9 Financial instruments – amendments* which adds requirements on accounting for financial liabilities to the new standard on financial instruments (see TB 2009/4 – page 5). In response to feedback received, the IASB decided to maintain the existing amortised cost measurement for most liabilities.

The new requirements are limited to addressing the problem of volatility in profit or loss arising from an issuer choosing to measure its own debt at fair value (often referred to as the 'own credit' problem). An entity choosing to measure a liability at fair value should now present the portion of the change in its fair value due to changes in its own credit risk in the other comprehensive income section of the income statement, rather than within profit and loss.

These requirements complete the classification and measurement phase of the IASB's project to replace *IAS 39 Financial instruments: recognition and measurement*. IFRS 9 applies for annual periods beginning on or after 1 January 2013 but early adoption is permitted. The amended standard is available to eIFRS subscribers from the IASB website.

Amended UK standards

The Accounting Standards Board has issued *Improvements to financial reporting standards 2010* which contains amendments to three UK financial reporting standards. The changes include

- consequential amendments to *FRS 29 (IFRS 7) Financial Instruments: Disclosures* arising from recent changes to the credit risk disclosure requirements in IFRS 7

- consequential amendments to *FRS 8 Related party disclosures* arising from recent amendments to IAS 24 which providing a partial exemption to the disclosure requirements for government-related entities. Under the previous standard, if a government controlled, or significantly influenced, an entity, the entity was required to disclose information about all transactions with other entities controlled, or significantly influenced, by the same government. The amendment requires these disclosures only if they are individually or collectively significant

- amending *SSAP 25 Segmental reporting* to extend the existing exemption from making segmental disclosures to subsidiary undertakings whose parent undertaking provides segmental information in accordance with IFRS.

The amendments apply for annual periods beginning on or after 1 January 2011.

Draft guidance on accounting for CPI as pension inflation index

The Urgent Issues Task Force (UITF) has issued a draft abstract *Accounting implications of the replacement of the retail prices index with the consumer prices index for retirement benefits* which provides guidance on replacing the retail prices index (RPI) with the consumer prices index (CPI) for retirement benefits. This is in response to the UK government's announcement in July of the intention to move to using the CPI as the inflation measure for determining the minimum pension increases to be applied to the statutory index-linked features of retirement benefits.

The draft extract states that recognition of the change is dependent on whether the obligation is to pay pensions with increases based on at least the RPI, or more generally with inflation–linked increases. Scheme liabilities comprise benefits promised under the formal terms of the scheme but also any constructive obligation for further benefits that has created a valid expectation that such benefits will be granted

- Where the scheme liabilities are linked to at least RPI, the change to these liabilities is a change in benefit and gives rise to a past service cost, which should be recognised in the accounting period when necessary consultations have been concluded i.e. when the change has been agreed and announced.

- Where scheme liabilities are not linked to at least RPI, a change to CPI is a change in the assumption about inflation used to measure the liabilities and represents an actuarial gain or loss. An entity should use assumptions that reflect market expectations at the balance sheet date, and the ministerial announcement forms a reasonable basis for a change in market expectations regarding inflation to be assumed in calculating pension obligations under FRS 17.

Comments were required by 10 November 2010.

Review of the Financial Reporting Advisory Board

The Financial Reporting Advisory Board Review Group Review has issued the *Financial Reporting Advisory Board: a consultation* to set out its preliminary views arising from a review of the Financial Reporting Advisory Board (FRAB).

FRAB is an independent body that advises HM Treasury on financial reporting principles and standards. Its main focus is on examining proposals for amending or implementing accounting policies in the accounting guidance for various branches of government. It ensures that any interpretations or adaptations of financial reporting standards for the public sector are justifiable and appropriate.

The aim of the review is to ensure that FRAB remains fit for purpose for the future, given its role, structure and operational arrangements. It is viewed to be operating efficiently and effectively and it has provided a significant contribution to raising the standard of financial reporting by government. However, the review group has identified several potential areas for improvement, including the following

- While FRAB performs the independent role expected of it, a change in membership (e.g. the addition of another independent accountant member) would improve its balance and enhance its actual and perceived independence.
- FRAB should confirm whether it is to have a secondary role of responding to the development of financial reporting standards.
- The requirement for periodic future reviews of FRAB should be included in its terms of reference.
- FRAB should consider formalising and documenting the process it follows when considering proposals for the interpretation or adaptation of financial reporting standards.

Comments should be sent to frab.review@hmtreasury.gsi.gov.uk by 10 January 2011.

Paper on transition to new standards

The IASB has issued a *Request for views on effective dates and transition methods* which requests views on when, and how, new standards on financial instruments, revenue recognition and leases should become effective.

The paper invites views on the transition method that should be applied for each standard. Retrospective application is the default approach, but exceptions are made in some circumstances, and the IASB may decide to limit the extent to which entities need to revise previously issued financial information (the limited retrospective method) or require the new standards to apply only to transactions and events after a particular effective date (the prospective method).

The paper also asks whether there should be a single effective date approach, whereby all of the new standards would become effective at the same date, or whether each new standard should become effective at different dates spanning a number of years.

Comments should be made via the IASB website by 31 January 2011.

Proposals for UK financial reporting

The ASB has issued a booklet on *Proposals for the future of financial reporting in the UK*. At present, quoted groups are obliged to report to their shareholders using international financial reporting standards

(IFRS), as adopted by the EU. Other companies use UK standards unless they are small, in which case they may use the *Financial reporting standard for smaller entities* (FRSSE) which is a simplified standard.

The ASB proposes no change for quoted groups or those eligible to use the FRSSE. For unquoted companies and others that currently apply UK standards, the ASB is proposing a new standard based on the international standard for small and medium-sized entities (IFRS for SMEs). This would mean reduced disclosure requirements for most group subsidiaries.

As part of the revision of UK accounting standards, some sector-specific statements of recommended practice (SORPs) will be phased out, although others will be retained where there is a clear need.

Responses should be sent to the ASB by 30 April 2011.

The changes will affect charities and other public benefit entities that use UK standards, and the ASB is developing a tailored standard for this sector which is due to be issued as an exposure draft in 2011.

Auditing developments

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

Revised practice note on auditing public sector

The Auditing Practices Board (APB) has issued *Practice note 10 Audit of financial statements of public sector bodies in the UK (revised)* which contains updated guidance on the application of auditing standards to the audit of public sector bodies in the UK.

The practice note has been updated to provide guidance on the new clarified auditing standards, and takes account of a small number of relevant legal and regulatory developments since the previous edition was issued. Most of the amendments are therefore conforming changes.

Guidance on user focus duty

The Scottish Government has issued *Public Services Reform (Scotland) Act 2010: Guidance on duty of user focus for listed scrutiny authorities* to provides a framework to help scrutiny bodies comply with the duty of user focus under the *Public Services Reform (Scotland) Act 2010* (see TB 2010/2 – page 12).

The Act requires specified scrutiny bodies, which include the Accounts Commission, to make arrangements which secure continuous improvement in user focus in the exercise of their scrutiny functions (including regulation, audit and inspection) and demonstrate that improvement. The guidance requires the arrangements to have regard to five principles of scrutiny, i.e. public focus, independence, proportionality, transparency and accountability.

The guidance states that arrangements to secure continuous improvement in user focus requires scrutiny bodies to

- have a clear, written description of who they consider to be a service user, and have a user involvement strategy which should be publicly available and which should be developed involving users
- engage directly with service users as early as possible when developing plans and designing relevant scrutiny
- involve service users in the evaluation of scrutiny, and routinely take into account the feedback they give
- involve users in carrying out scrutiny e.g. by engaging them as "lay assessors"
- work together to devise common language and gradings to ensure that service users can more easily understand assessments and reports.

Scrutiny bodies should consider how best to measure their success in achieving continuous improvement, and should provide timely feedback to all those who participate on the impact of their collective input.

Proposed changes to practice note on auditing charities

The APB has issued *Practice note 11(Revised) The audit of charities in the UK - exposure draft* which contains proposed changes to the practice note on charities.

The proposed changes are in respect of the new clarified auditing standards and changes in legislation including *The Charities Accounts (Scotland) Amendment Regulations 2010*.

Comments should be sent to h.osullivan@frc-apb.org.uk by 22 January 2011.

Proposed changes to IAPSs

The International Auditing and Assurance Standards Board (IAASB) has issued *Proposals relating to international auditing practice statements – exposure drafts* which covers proposed changes to international auditing practice statements (IAPSs).

IAPSs are issued to provide interpretive guidance and practical assistance in implementing auditing standards and to promote good practice. It is proposed that auditors should determine whether any IAPS is relevant to the circumstances of the audit and, if so, obtain an understanding of its content.

In addition, the exposure draft contains a proposed *IAPS 1000 Special considerations in auditing complex financial instruments* which highlights practical considerations for auditors when dealing with complex financial instruments. The pronouncement gives particular emphasis to auditing considerations relating to valuation and disclosure issues for items measured at fair value.

Comments should be made via the IAASB website by 11 February 2011.

Corporate governance developments

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

Statement on role of head of internal audit

The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued *The role of the head of internal audit in public service organisations* to set out the role of the head of internal audit (HIA) in public bodies. The statement is intended to provide best practice for HIAs to achieve, and for audit committees to measure internal audit against. The statement sets out an overarching principles-based framework which applies across the UK public sector. It states that the HIA plays a critical role in delivering an organisation's strategic objectives by

- championing best practice in governance and management, objectively assessing the adequacy of the management of existing risks, and commenting on responses to emerging risks and proposed developments
- giving an objective and evidence-based opinion on all aspects of governance, risk management and internal control.

To perform this role, the HIA must

- be a senior manager with regular and open engagement across the organisation, particularly with the leadership team and with the audit committee
- lead and direct an internal audit service that is resourced to be fit for purpose
- be professionally qualified and suitably experienced.

For each principle, the statement sets out the governance arrangements required within an organisation to ensure that HIAs are able to operate effectively and perform their core duties. The statement also sets out the core responsibilities of the HIA.

CIPFA recommends that organisations should use the statement as the framework to assess their existing arrangements, and that they should report publicly on compliance to demonstrate their commitment to good practice. CIPFA also proposes that organisations should report publicly where their arrangements do not conform with the compliance framework in the statement, explaining the reason for this, and how they achieve the same impact.

Other developments

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

Duties to publish information

Statutory guidance on publication

The Scottish Government has issued *Public Services Reform (Scotland) Act 2010: Duties on public bodies to provide information* to assist public bodies undertake their duties under *Public Services Reform (Scotland) Act 2010* to publish specified information (see TB 2010/2 – page 12). The Act imposes new duties on the Scottish Government and listed public bodies, including other central government bodies, health boards, and regional transport partnerships, to publish information on expenditure and certain other matters as soon as is reasonably practicable after the end of each financial year.

Section 31(1) and (2) require public bodies to publish a statement of any expenditure they have incurred in connection with

- public relations, which is concerned with expenditure on external communications relating to the services which the public body provides e.g. marketing, PR campaigns, media relations, marketing research and evaluation, conferences and exhibitions, and publications and printing

- overseas travel, which should include the full costs incurred in connection with the trip from departure until return, e.g. the cost of hotels, conference fees, and subsistence, and not simply the cost of the journey itself

- hospitality and entertainment, including any gifts, meals, parties, receptions, or tickets to events by a public body to its own members, employees or third parties. Gifts and benefits below a recommended threshold of £25 may be excluded as de minimis. If a different de minimis threshold is adopted, it should be set out in the statement

- external consultancy, including management consultancy and consultancy related to IT, financial matters, construction or infrastructure, research and evaluation, and policy development. It does not include specialist services such as legal advice and representation, or recruitment services.

Public bodies are required to publish the total amount of expenditure for each of the specified categories, but may also publish a more detailed breakdown.

Section 31(3) requires each public body to publish a statement specifying the amount, date, payee and subject-matter of any payment made in excess of £25,000 (inclusive of VAT)

- Payments include all individual payment transactions, including payments for goods and services, grants or grant-in-aid to third parties and transactions with government departments or other public bodies. It relates to cash payments, not accruals or invoices, and does not include remuneration made to members or employees.

- There is no statutory duty to publish multiple payments which cumulatively, but not individually, exceed £25,000 but it is good practice to do so.

- Public bodies may publish statements monthly or quarterly as the basis of the annual statement.

These duties do not apply to expenditure incurred or payments made where disclosure would breach the terms of a contract entered into before 1 October 2010. Although the information for 2010/11 requires to cover only the period from 1 October to 31 March, it is good practice for information for the first six months to also be published if it can be readily obtained.

The other matters on which information requires to be published are as follows

- Section 31(4) requires the publication of a statement specifying the number of members and employees who received remuneration in excess of £150,000. Remuneration includes salary, discretionary performance payments, and allowances, but does not include pension, voluntary severance, compromise agreements or redundancy payments.

- Section 32(1)(a) requires the publication of a statement of the steps taken to promote and increase sustainable growth. Sustainable growth is defined as building a dynamic and growing economy that will provide prosperity and opportunities, while ensuring that future generations can enjoy a better quality of life.

- Section 32(1)(b) requires publication of a statement of the steps taken to improve efficiency, effectiveness and economy in the exercise of the public body's functions. Specifically, details should be provided of the current level of shared service activity and the steps taken to improve procurement processes and capability.

Auditors should confirm their bodies are aware of this guidance and that they are putting in place arrangements to comply with their statutory duties.

Sustainability

Changes to carbon reduction commitment scheme

CIPFA has issued a note that highlights changes to the *Carbon reduction commitment scheme* (CRC scheme – see TB 2009/4 – page 22) announced by the UK Government. They include the following

- The first sale of allowances will be in April 2012 rather than 2011. Government allowances will therefore be bought using actual data for 2011/12 rather than forecast energy data.
- There will be no allowances revenue recycling payment and no related bonus and penalty calculations, which means no allowance monies from the government sale will be received back by participants.
- While the league table will be retained, their impact is now limited to reputation only with no bonus or penalty calculations.

Efficient government

Efficiencies from improvement to external scrutiny

The Scottish Government has issued *Efficiencies from improvement to scrutiny (The regulation, audit and inspection of public services)* to provide an overview of the actions being taken to reduce the burden of, and improve, external scrutiny.

The paper emphasises that Scottish scrutiny bodies play an extremely important role within Scotland's public sector in ensuring service improvement and high performance. However, the *Crerar review* identified that external scrutiny had become disproportionate to the benefit delivered and was potentially distracting resources from front-line delivery. It made a number of recommendations to improve the system, and the Scottish Government is taking a number of actions to ensure that where scrutiny is applied, it is more focussed on the needs of users and is more proportionate to identified risks. The scrutiny bodies themselves have been engaged in a programme of continuous reform, efficiency and improvement

The paper reports on the actions that have been taken since the *Crerar review* to reduce the burden and the costs of scrutiny, while making improvements to the system which will allow the required levels of assurance about services. These include

- a reduction in the number of scrutiny and complaints-handling bodies
- the new duties of user focus and cooperation for scrutiny bodies

- a reduction in the time which scrutiny bodies spend in local authorities arising from the co-ordination of local government scrutiny led by the Accounts Commission

The paper also confirms the Government's intention to achieve at least 20% savings in the overall direct costs of scrutiny from the baseline of the 2010/11 budget.

Procurement

Procurement reform

The Scottish Government has issued *Efficiencies from procurement* which describes the vision and strategic objectives for procurement reform in Scotland. The paper highlights the progress that has been made over the first three years of the procurement reform programme and explains that the strategy for the second phase places an emphasis on accelerating the pace of change and the delivery of benefits, and embedding initiatives into 'business as usual'. Value for money in procurement means an informed balance between cost, quality and sustainability, and the strategy focuses on the four key priorities of

- maximising efficiency and collaboration
- delivering and demonstrating real cash savings
- improving access to public sector contracts, particularly for small businesses
- embedding sustainable procurement at the heart of the reform agenda.

Next steps include

- reviewing existing national frameworks to ensure they remain competitive, and represent best value for money
- identifying opportunities to maximise national or cross-sector collaboration on contracts, best practice and eCommerce tools
- improving how savings and wider benefits from procurement can be captured and recorded in a more consistent manner.

Legislation

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

Statutory instruments

Public finance and accountability

The Public Finance and Accountability (Scotland) Act 2000 (Economy, efficiency and effectiveness examinations) (Specified bodies etc.) Order 2010, SSI 389 comes into force on 20 December 2010 and specifies the bodies into which that the Auditor General for Scotland may initiate examinations under section 23(1) of the *Public Finance and Accountability (Scotland) Act 2000*. The changes since the previous 2004 Order include the addition of the Scottish Futures Trust Limited.

Publications

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

Audit Scotland

The role of boards

This report *The role of boards* covers the boards of the public bodies audited by the Auditor General that existed on 31 March 2009, and examines their accountability to the Scottish Government, the appointment of members, and how the boards operate. Key messages include the following

- The make-up of boards and their role has evolved over time rather than as a result of any objective evaluation of the best model for public accountability. Chief executives and their boards have parallel lines of accountability and this can cause confusion over who leads the organisation.

- The appointments process for non-executives is improving but there are still weaknesses. The length of time it can take to make an appointment remains too long, and the overall number of people applying to be non-executives is falling.

- Boards are not consistently good at the scrutiny of risk, financial management and performance. Responsibility for risk management is largely delegated to audit committees, rather than being led by the board.

Improving energy efficiency - a follow-up report

This report *Improving energy efficiency - a follow-up report* re-evaluates the performance of the public sector in improving its energy efficiency and follows up the key recommendations from the 2008 report. Key messages include

- There was little change in the public sector's energy use from 2006/07 to 2008/09, but spending on energy increased by 21%.

- Public bodies are adopting a more strategic approach to improving energy efficiency. However, the public sector as a whole is not yet reducing emissions at a sufficient pace to set a good example or influence others.
- On the seven point scale used to show the energy performance of buildings, over 70% of large public buildings are rated in the poorest three levels. Only 4% are rated in the top two levels.
- The CRC scheme has raised the profile of energy efficiency, and over half of public bodies are well prepared for involvement in it.

Scottish budget

Scotland's budget documents – the 2010/11 autumn budget revision

This publication from the Scottish Government *Scotland's budget documents – the 2010/11 autumn budget revision* provides information in support of the 2010/11 autumn budget revision.

Spending plans and draft budget for 2011/12

This publication from the Scottish Government sets out its *Spending plans and draft budget for 2011/12*.

Fraud cases

The following are summaries of fraud cases at audited bodies that have been reported by auditors to the TSU.

Expenditure

(i) A third party defrauded £370,000 from two councils by re-directing payments intended for legitimate suppliers. The defaulter sent a forged letter on headed paper purporting to be from the supplier requesting a change in bank details. BACS payments were then made to the new bank account. The fraud was discovered when the suppliers queried why their invoices had not been paid. The fraud was facilitated by the councils not checking with the supplier to confirm the amended details. Arrangements have been put in place to confirm changes with suppliers before payments are made.

(ii) A private care home defrauded £47,000 by continuing to claim payments from a council in respect of a deceased resident. The care home continued to submit returns indicating the resident was still under the care of the home for two years after the individual had died. The fraud was discovered when council staff raised queries in relation to the care home not returning required independent sector forms which resulted in discovering the individual's death. The council now cease payments when the required forms are not submitted and the matter has been reported to the police.

(iii) An employee defrauded over £87,000 from a council by submitting fictitious invoices for services not provided. The employee submitted eight invoices over a three year period for training services that were either not delivered, or should have been delivered at no cost to the council as part of the day to day duties and responsibilities of the post-holder. As a budget manager, she was aware of the funding available for training in the budget and, by remaining within the allocated budget, was able to conceal the payments. The fraud was discovered when an anonymous letter was received and led to an internal audit investigation. Expenditure incurred by the service now requires to be authorised independently by a senior officer, the employee has been dismissed, and the matter has been reported to the police.

Equipment and stores

(i) An employee defrauded over £20,000 from a council by selling stock and keeping the proceeds. The employee was a storeman at a trading operation who had unrestricted access to the stock and the fraud was facilitated by insufficient controls in respect of ordering stock, management supervision and stock checks. The fraud was discovered when employees working at the trading operation became aware of the illegal activity and reported the matter to management, and internal audit were asked to investigate the matter. Internal audit had previously reported concerns about the lack of control over ordering in previous internal audit reviews. Ordering of goods now requires to be authorised by a suitable manager, who is an authorised signatory, before it can be placed by stores staff. Internal audit has advised management to undertake regular independent stock checks and implement better supervision within the stores function. The employee has been dismissed and the matter has been reported to the police.

(ii) An unknown party stole a council vehicle worth £10,000 from a depot. The defaulter obtained the vehicle’s spare key, and drove it through open security gates. The theft was facilitated by poor control over the vehicle keys and the incorrect operation of procedures by security guard. The matter was reported to the police.

Income

(i) An employee defrauded £15,000 from a council by undercharging for building warrant fees. The employee was a building standards surveyor who undertook work on applications for building warrants in a freelance capacity, then approved them himself in his council role. He also undercharged building warrant fees for these jobs. The fraud was discovered when colleagues reported their concerns, and was facilitated by a lack of segregation of duties and poor working practices. Stricter control procedures have been put into place and the matter has been reported to the police.

(ii) An employee defrauded £26,000 from a council by failing to bank cash receipts. The employee was in charge of a catering operation and was able to alter till rolls and not complete documentation in order to cover up the fraud. The fraud was discovered when year end management accounting checks identified a discrepancy. It was facilitated by a lack of facility manager checks and inadequate financial monitoring.

Procedures have been amended to introduce better documentation, increased checking, and better financial monitoring, and the employee has been dismissed.

Private funds

An employee defrauded £54,000 from social work clients by taking money from their bank accounts and using it for his own purposes. The defaulter was the DWP corporate appointee for five clients and operated bank accounts on their behalf. The fraud was discovered when the defaulter was unable to repay funds due on the death of one of the clients and he admitted fraud to a senior member of staff. The fraud was facilitated by there being no controls or audit of client funds. Arrangements are being put in place to ensure that there is regular review and audit of financial transactions undertaken by council employees. The matter is currently under investigation by the police and the defaulter has resigned.

Auditor action

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

Section	**Action**
TSU developments – General matters – Fraud returns	Auditors may wish to check with their audited bodies that the arrangements for them being notified of frauds are continuing to operate properly.
Other developments – Duties to publish information	Auditors should confirm their audited bodies are aware of the statutory guidance on publishing information and that they are putting in place arrangements to comply with their statutory duties.

Local authority chapter

Introduction

This chapter contains articles on local authority technical developments and guidance relevant to external auditors' responsibilities under their audit appointment to give an opinion on the financial statements and to certify grant claims. 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 specific matters are provided in separate 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 that are available from websites can be obtained by using the hyperlinks. They can also be downloaded by auditors from the TSU intranet/extranet.

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note that the following articles in this chapter relate to 2010/11 audits

- note for guidance on 2010/11 local authority final accounts
- guidance on valuing council dwellings
- general consent to borrow
- illustrative financial statements
- charities issues
- trading accounts break even requirement
- updated benefit overpayments guide
- new approach to benefits performance information.

There are also other articles on: the 2011/12 service reporting code; the draft 2011/12 interest rates for trading accounts; and the *Tax incremental financing scheme* for non-domestic rates.

TSU developments

Publications

Note for guidance on 2010/11 local authority final accounts

The TSU has published *Note for guidance 2010/6(LA) 2010/11* to provide auditors with guidance on subjects where the risk of non-compliance with the *Code of practice on local authority accounting in the UK* (the Code) is considered to be particularly high in the audit of the 2010/11 accounts.

Grant notes

Grant notes (GNs) are published to provide local authority auditors with guidance on the audit of approved grant claims. The TSU has published *GN/NDR/10 Non domestic rate income returns* since TB 2010/3.

Accounting developments

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

Guidance on valuing council dwellings

The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) has issued *Mandatory guidance on the valuation methodology for council dwellings* to provide guidance on valuing council dwellings.

The Code states that the fair value of council dwellings should be measured using existing use value – social housing (EUV–SH). However, the variety of valuation methods currently in use is unlikely to achieve the level of comparability in asset valuation that LASAAC believes to be desirable. The guidance therefore requires authorities to adopt a beacon approach (adjusted vacant possession) methodology.

As the immediate adoption of this policy in 2010/11 would require some authorities to disrupt the 'five year' formal valuation cycle, affected authorities are required to move to this methodology at their next full revaluation, and in any event no later than 2015/16. Comparative figures will also require restatement.

The guidance states that it would be inappropriate to use a mixture of valuation methods to value council dwellings in any given year.

Auditors should confirm that their authorities are either using a beacon approach (adjusted vacant possession) methodology or, if not, are planning to do so at their next full revaluation.

2010/11 general consent to borrow

The Scottish Government has issued *Finance circular 13/2010 Consent to borrow under para 1(2) of Schedule 3 of the Local Government (Scotland) Act 1975 – General scheme* which attaches guidance on a general borrowing consent scheme for local authorities in 2010/11. The aim of the general scheme is to assist local authorities in addressing exceptional financial difficulties arising from revenue cost pressures.

Consent to borrow should only be sought for costs which are due to factors beyond the local authority's control. It is only likely to be granted where a local authority is placed in an unavoidable situation and where a strong case, based upon the need to borrow for the costs identified, can be established by the local authority.

Applications from authorities require to be in the form of a business case, and details of the information that should be included are set out in Annex A to the circular. Decisions on providing consent will be primarily based on financial need. In general, applications will be considered against the following two tests

- The affordability test is that the costs to be financed from borrowing should exceed both 5% of available reserves anticipated at 31 March 2011, and 0.25% of budgeted expenditure for 2010/11.
- The second test assesses whether borrowing is necessary to help an authority manage exceptional difficulties. An application must meet all of the following three conditions: the expenditure for which consent is requested is unavoidable; the authority could not meet the expenditure out of revenue resources without there being an unacceptably adverse impact on those who use or pay for its services; and there is no alternative way of ensuring that the expenditure could be met.

Consents granted may only be applied to the expenditure identified in the consent letter, and only to actual expenditure incurred. Consents that are not used may not be carried forward to future years.

Borrowing is generally only appropriate for one-off payments, such as severance costs, rather than indefinitely continuing payments such as salaries, and consent is only likely to be given for statutory severance costs rather than any enhancements made to packages. The exceptional difficulties test will not apply to severance costs.

Within three months of each financial year end, the Director of Finance is required to advise the Scottish Government of the actual borrowing undertaken under the scheme. The local authority must confirm that the borrowing has been applied only for the expenditure as detailed in the consent letter.

The repayment period of the advance from the loans fund will be set by Scottish Ministers taking into consideration the information provided in the business case but will not normally exceed 10 years. Capital receipts may be used to meet the cost of the principal element of the loans fund advance.

A condition of any consent is that it may not be used in the same year that there is a revenue contribution to finance the capital programme, or where there is a revenue contribution to the capital fund. The exception is for PPP/PFI lifecycle replacement costs which are met from the unitary payment and required by statutory guidance to be charged to the general fund.

Expenditure, for which consent is provided, should be accounted for in accordance with the Code. This requires the expenditure to be charged to the comprehensive income and expenditure statement, and neutralised by debiting the capital adjustment account (and crediting the general fund).

2011/12 Service reporting code

CIPFA has issued the *2011/12 Service reporting code of practice for local authorities* which sets out proper accounting practice for financial reporting below the level of the financial statements. The service reporting code, which has been renamed from the *Best value accounting code of practice*, contains changes in the service expenditure analysis for

- police services to align it with England and Wales
- housing services to align the housing revenue account with the accounting Code.

The consultation on the draft code proposed that income and expenditure of the CRC scheme should be accounted for as non distributed costs. However, as a result of changes to the scheme announced by the UK Government (see Cross-sectoral chapter – Other developments – Sustainability – Changes to carbon reduction commitment scheme), it has been decided that accounting for the scheme should not be included in this edition of the service reporting code.

Example financial statements for 2010/11

CIPFA has issued *Example financial statements and notes to the accounts for local authorities 2010/11* to provide illustrative financial statements and notes for 2010/11.

The illustrations have been prepared to meet the minimum requirements of the Code but they are not intended to contain all the disclosures that individual authorities might need to make, and should not therefore be treated as a template.

It should be noted that, for the purposes of providing comprehensive examples of the individual notes, the illustrations are not fully consistent internally e.g. the narrative in several of the notes is contradictory compared with other notes.

Other developments

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

Charities

Paper on accounting

LASAAC has issued *Scottish local authority charities 'questions and answers' sheet* to summarise issues in respect of local authority charities.

The paper highlights that section 106 of *the Local Government (Scotland) Act 1973* includes Scottish local authority charities within the remit of the Accounts Commission, and requires the accounts to be included within the authority's financial statements and audited by the authority's external auditors. However, the Office of the Scottish Charity Regulator (OSCR) has a duty to ensure charities comply with the *Charities and Trustees Investment (Scotland) Act 2005*, which requires each registered charity to prepare a trustees' report each year which, together with the accounts, is required to be audited or independently reviewed; this has created an overlap with the Accounts Commission's remit.

Consideration is being given to amending the 1973 Act to remove charities from the Accounts Commission remit. This would mean the accounts would no longer be included within the authority's financial statements and would not be part of the same audit arrangements. OSCR consider this to be the eventual resolution of the current overlap.

The paper also states that authorities may apply to OSCR to amalgamate, wind up or reorganise charities, transfer their assets to another charity or change their purposes. A further option is to deregister a charity in order to avoid having to comply with the 2005 Act, but this is only in relation to the future as the resources that existed at 'deregistration' are still regarded as being 'charitable' resources and still need to be used for the original charitable purposes.

Significant trading operations

Guidance on 2010/11 break even requirement

LASAAC has issued *Significant trading operations – Statutory 3 year rolling break even requirement under IFRS* to provide guidance on calculating whether trading accounts meet their statutory requirements in 2010/11 and 2011/12. The *Local Government in Scotland Act 2003* requires the revenue of significant trading operations to be not less than expenditure over a rolling three year period (i.e. break-even).

The implementation of IFRS from 2010/11 changes some of the accounting policies that are applied in determining revenue and expenditure. However, the paper states that it would be inappropriate to re-state the 2008/09 and 2009/10 figures onto an IFRS basis when determining whether the three year break even target has been met in 2010/11. This principle also applies (for 2009/10) in 2011/12.

Any presentation of the three year calculation should explicitly state that it consists of a combination of SORP-based and Code-based data. An illustrative example is provided in Appendix A to the paper.

It should also be noted that

- the guidance applies only to the calculation of the statutory three year break-even calculation; restatement of results for 2009/10 to an IFRS basis is required to prepare the 2010/11 financial statements
- mitigation provided by statutory guidance applies only to the general fund and does not impact on the three year break-even calculation.

Auditors should confirm that their authorities are planning on calculating the break even position of their trading accounts in accordance with this guidance.

2011/12 interest rates

CIPFA has issued *LAAP bulletin 87 – Capital interest rates 2011/12* which specifies the notional interest rate to be applied in calculating the capital financing charge for 2011/12.

Although the Code no longer has a requirement to make a capital financing charge to services, some authorities may wish to continue to include such a charge for management accounting purpose. The main application of these rates in Scotland is in respect of charges to the accounts of significant trading operations.

The rates are as follows

- For assets carried at current value, the rate of interest to be applied is 3.5%.
- For assets carried at historical cost, the rate is 4.13%.

Auditors should confirm that a capital financing charge is being made to trading accounts.

Benefits

Updated overpayments guide

The Department for Work and Pensions (DWP) has issued an updated *HB/CTB overpayments guide* which gives information and advice on benefits overpayments. An overpayment of benefit occurs where an amount has been paid to a claimant where there was no entitlement. This may be due to, for example, claimant error or fraud, an error by local authority or DWP staff, or an administrative delay. Local authorities have primary responsibility for all action on overpayments and are required to

- establish the cause of the overpayment
- identify the period and calculate the amount
- classify and record overpayments so the correct rate of recovery can be made

- decide whether it is recoverable.

The guide gives local authorities guidance on undertaking their responsibilities. This version has been completely rewritten and the most significant changes are to guidance on

- classifying overpayments in cases where: claimants have reported changes to different departments in the local authority; benefit should have been suspended because further information/evidence is needed; sufficient information is provided by a third party, such as a landlord or the DWP; and the council tax or rental liability on a council property has ceased. In addition, the definition of a fraud overpayment has been revised

- deciding whether local authority official error or administrative delay is appropriate

- calculating overpayments when a claimant has changed address within the same council area and the subsidy that should be claimed

- deciding who overpayments are recoverable from, recovery from a partner's benefit and via rent accounts, and a new referral process to the DWP's Debt Management team

- the time limits for recovering overpayments, methods of diligence, and the different methods of insolvency and how they affect the recovery of overpayments.

New approach to performance information

The DWP has issued circular *A18/2010* to explain how it is reviewing its approach to measuring and publishing performance information derived from the *Single housing benefit extract*.

DWP will no longer be able to provide information for the right benefit indicator from December 2010. However, it is focussing on developing a new approach to improve the information provided to local authorities from 2011/12.

Also from 2011/12, DWP will release information on new claims and changes processing times separately, rather than combined, with the right time indicator (RTI). They also intend releasing the number of new claims and changes of circumstance processed.

Non-domestic rates

New tax incremental financing scheme

The Scottish Government has introduced a *Tax incremental financing administration pilot scheme* (TIF scheme) from 2011/12 which allows authorities to retain an agreed amount of growth in non-domestic rates for approved projects for an area and to use that income stream to fund investment in that area. A TIF project is one approved by the Scottish Ministers which enables an authority to meet the costs of borrowing for construction and development works from the non-domestic rate income expected to result from the project.

The Non-Domestic Rating Contributions (Scotland) Amendment Regulations 2010 amend the rules for the calculation of non-domestic rating contributions contained in *The Non-Domestic Rating Contributions (Scotland) Regulations 1996* as a result of this scheme. The Regulations insert a new paragraph in Schedule 1 to the 1996 Regulations to allow the authority to retain additional revenue that they collect in a financial year. Additional revenue is the revenue collected discounted for the non-domestic rate income that would be expected to have arisen without the investment in the area; this is to ensure that the amount retained by the authority represents additional income that has flowed from the investment.

In any year where a project does not generate additional revenue, there is nothing for the authority to retain. Where the authority has repaid all borrowing in respect of the TIF project before the end of the project period, the amount they retain will be reduced by 50% for the remainder of that period.

Legislation

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

Statutory instruments

Local government

The Non-Domestic Rating Contributions (Scotland) Amendment Regulations 2010, SSI 391 come into force on 31 December 2010. See Other developments – Non-domestic rates – Tax incremental financing scheme.

Social security

The Housing Benefit and Council Tax Benefit (Miscellaneous Amendments) Regulations 2010, SI 2449. See Key circulars – Benefits circulars – HB/CTB circular A19/2010 The Housing Benefit and Council Tax Benefit (Miscellaneous Amendments) Regulations 2010.

Key circulars

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

Finance circulars

Finance circular 13/2010 Consent to borrow under para 1(2) of Schedule 3 of the Local Government (Scotland) Act 1975 – General scheme. See Accounting developments – 2010/11 general consent to borrow.

Pension circulars

Firefighters' pension scheme circular 13/2010 Pension scheme amendments confirming new pension finance arrangements from April 2010 confirms amendments to both pension schemes for firefighters from 1 April 2010 under the *The Firefighters' Pension Scheme Amendment (Scotland) (No. 2) Order 2010* and *The Firefighters' Pension Scheme (Scotland) Order 2007 Amendment (No. 2) Order 2010* (see TB 2010/3 – page 30).

Benefits circulars

Adjudications and operations

HB/CTB circular A18/2010 Measuring right benefit and right time information – an update for local authorities. See Other developments – Benefits – New approach to performance information.

HB/CTB circular A19/2010 The Housing Benefit and Council Tax Benefit (Miscellaneous Amendments) Regulations 2010 summarises the main changes to the benefits regulations by *The Housing Benefit and Council Tax Benefit (Miscellaneous Amendments) Regulations 2010.* The amendment regulations bring provisions into force on 1 November 2010 which

- remove an anomaly in the principal regulations whereby pensioners could receive benefits for three months more than was intended

- specify that a backdated claim is not a separate claim where there is no gap between the backdating period and any current claim, and that the local housing rate to apply will be established from the start of the backdated period with this rate also applied to the ongoing claim

- allow local authorities to accept more changes of circumstances by phone even if they do not wish to offer a phone service for taking new claims. If an authority decides to do this, it must ensure that an adequate audit trail for any benefit decisions made is in place

- allow the first payment of rent allowance to be made directly to landlord's bank account rather than sending a cheque to the claimant which is payable to the landlord. Normal rules apply to future payments.

In addition, provisions come into force from 1 April 2011 which

- reflect the abolition of the 'baby element' of child tax credits (CTC) from 6 April 2011. Where claimants receive the 'baby element' for HB/CTB but are not in receipt of CTC they will lose this element from 1 April 2011. From 7 April 2011, all other claims will need to be reassessed as the 'baby element' is removed from payment of CTC
- allow full disregards for working age HB/CTB.

HB/CTB circular A24/2010 Changes to HB and CTB overpayment classifications provides clarification on amendments to overpayment classifications in the subsidy order from April 2011 which have

- amalgamated the excess benefit arising from budget substitution/transitional relief/reduced council tax liability classification with the technical overpayment classification
- revised the technical overpayment definition to remove a number of anomalies and cover the correct circumstances of when a technical overpayment can occur
- replaced indicative rent level overpayments with a classification that covers overpayments resulting from a payment on account being made.

Publications

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

Audit Scotland

Physical recreation services in local government

This publication *Physical recreation services in local government* examines how councils provide their physical recreation services. Findings include the following

- The number of arms-length and external organisations (ALEOs) has increased by almost 50% in the last decade, and 23 councils use a total of 44 ALEOs.
- All councils have a named committee that deals with physical recreation services, but there is limited scrutiny of financial or service performance.
- Where councillors sit on the boards of ALEOs, they need to be aware of the potential for conflicts of interest that could limit their scrutiny role.
- The current financial outlook for public spending will make it difficult to find the investment that is needed in local facilities and to sustain service levels and quality over the longer term.

Auditor action

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

Section	Action
Accounting developments – Guidance on valuing council dwellings	Auditors should confirm that their authorities are either using a beacon approach (adjusted vacant possession) methodology for valuing council dwellings or, if not, are planning to do so at their next full revaluation.
Other developments – Significant trading operations – Guidance on 2010/11 break even requirement	Auditors should confirm that their authorities are planning on calculating the break even position of their trading accounts in accordance with the LASAAC guidance.
Other developments – Significant trading operations – 2011/12 interest rates	Auditors should confirm that a capital financing charge is being made to trading accounts.

Please take a moment to complete and return the feedback form

Health chapter

Introduction

This chapter contains articles on health technical developments and guidance relevant to external auditors' responsibilities under their audit appointment to give an opinion on the financial statements. It should be read by external auditors with appointments in the health 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 specific matters are provided in separate notes published by the TSU (i.e. notes for guidance and urgent issue notes).

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

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note the following articles in this chapter are of relevance to 2010/11 audits

- TSU guidance on the removal of the cost of capital charge
- guidance on asset lives and depreciation
- governance arrangements in GP practices
- changes to investigatory powers
- role of armed forces champions
- statement of financial entitlements and directed enhanced services for GPs
- pharmacy remuneration arrangements
- changes to the *Agenda for change* handbook
- drug tariff clawback
- property and asset management policy

- changes in RRL elements.

There are also articles on counter fraud, and guidance on 2011/12 local delivery plans.

TSU developments

Responses to enquiries

The TSU operates a ‘help-desk’ for auditors which provides responses to ad hoc technical enquiries. Selected responses are added to the frequently asked questions section of the TSU intranet/extranet and include the following since the publication of TB 2010/3.

Property, plant and equipment

What disclosures are required for the removal of the cost of capital charge?

The guidance contained in the 2010/11 *Government financial reporting manual* (FReM) at paragraph 11.5.2 states that from 2010/11 onwards, bodies are no longer required to account for the cost of capital within their accounts. In accordance with *IAS 8 Accounting policies, changes in accounting estimates and errors*, this should be treated as a change an accounting policy.

A prior year adjustment will therefore be required along with all necessary disclosures for transparency. The disclosures, in accordance with IAS 8, for a change in accounting policy are as follows

- the nature of the change
- the reasons why applying the new accounting policy provides reliable and more relevant information
- for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected
- the amount of the adjustment relating to periods before those presented, to the extent practicable
- if retrospective application is impracticable for a particular period, the reason why, and a description of how, and from when, the change has been applied.

Auditors should confirm that their boards are aware of this change in accounting policy and the requirement for a prior period adjustment.

Accounting developments

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

Asset lives and depreciation

The SGHD has issued a letter providing details of a review undertaken by NHS Greater Glasgow and Clyde (NHSGG&C) of their depreciation policy for buildings and the basis for calculating their useful lives. The review identified an approach which faithfully reflects the pattern of consumption of the board's assets as required by *IAS 16 Property, plant and equipment*.

Under this approach, the land and the buildings are not identified as separate assets. As a result, the hospital site is treated as a single fixed asset as it is deemed that the whole of the hospital would operate as a single, integrated, interdependent set of buildings that would be sold on a going concern basis.

The approach assumes that each major building, external works and the land are significant in relation to the total cost of the hospital site asset and that they therefore represent the significant components for depreciation. It recognises that many of the shorter-life elements of the building will be replaced or maintained over the useful life of the building. An overall 'design life' for that component can then be identified for depreciation purposes which equates to the life of the significant elements i.e. the total period the board expects to derive economic benefit from a building.

The depreciable amount is calculated by splitting the elements into two categories based on the pattern of consumption and future maintenance and capital expenditure. The significant elements, upon which any future expenditure will be classed as capital spend, are depreciated by dividing the depreciated replacement cost by the remaining useful life of the element. For the less significant, shorter life elements, this method takes account of the impact of regular maintenance expenditure on these elements and the fact their lives will therefore be more aligned with the overall life of the building. Any future expenditure on these elements will be classed as revenue.

The SGHD believe that adopting this approach will improve compliance with international financial reporting standards and ensure a more appropriate and accurate accounting policy. They now plan to implement this approach on a consistent basis across NHSScotland in 2010/11. They will therefore be updating technical guidance in the accounting manuals and obtaining sign off through the Technical Accounting Group (TAG). The financial implications of this change requires to be managed at local level and factored in to boards' year end positions.

PriceWaterhouseCooper (PwC), who prepared the report (which is attached to the letter), will provide support to boards through regional workshops in January and support for each board with hospital sites.

Auditors should confirm that their boards are aware of this guidance and, where appropriate, are taking steps to implement the proposed approach to depreciation and asset lives.

Governance developments

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

Clinical and staff governance

Governance arrangements in GP practices

The Scottish Government Health Directorate (SGHD) has issued *PCA(M)(2010)18* to provide guidance to those working in primary medical services on best practice in clinical and staff governance.

The guidance aims to facilitate the establishment of robust systems of clinical governance which will enable quality assurance, improvement of services and enhanced patient safety. The starting point is the contractual requirement for GP practices to have a nominated clinical governance lead, which is usually allocated to a senior clinical member of the practice team.

Staff governance is a key component of high quality care. Practices should be able to demonstrate that staff are: well informed and appropriately trained; involved in decisions which affect them; treated fairly and consistently; and provided with a safe working environment.

Implementation of the key tasks set out in this guidance will contribute to a GP practice meeting the revalidation readiness criteria, which include effective appraisal and clinical governance, for the purposes of revalidation by the General Medical Council.

Other developments

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

National agenda/direction

Counter fraud

The NHS Counter Fraud Services (CFS) has issued a report *Protecting Scotland's NHS: A decade of counter fraud activities* which highlights the ways it has been combating fraud since it was established ten years ago. The guiding principles for CFS include aiming to change perceptions and attitudes to make fraud unacceptable, carrying out professional investigations, and sharing and acting on the lessons learnt.

CFS works with boards who have endorsed a partnership agreement which outlines the roles each partner should play in counter fraud activities. Each board has appointed a counter fraud champion and has identified a fraud liaison officer to act as the point of contact with CFS and provide and receive intelligence on local cases of possible fraud. In addition

- A communications team has been set up to deliver counter fraud awareness presentations and workshops to highlight the deterrence aspect of CFS's work. They have developed an e-learning package, a staff training DVD and a website to report suspected frauds and learn about CFS and its activities.

- Memoranda of understanding have been developed with representative bodies and those bodies involved in operational activities, such as the Association of Chief Police Officers in Scotland and the General Medical Council.

The CFS patient claims' team undertake a national programme of checking to confirm patients' entitlement to NHS services free of charge. Charges are recovered from patients not entitled to free services and a civil penalty charge can be applied. The results of risk measurement exercises demonstrate a continuing downward trend in fraud and error across NHS primary care services.

To date, the work of CFS in the area of overseas visitors inappropriately obtaining NHS services free of charge has resulted in estimated savings of more than £1 million.

CEL(2010)33 announced the launch of a DVD, and associated training notes, developed to support those who may be involved in situations where fraud is suspected. The overall objective of the DVD is to raise awareness of fraud within NHSScotland and assist staff in understanding the role of line managers and human resource departments when a potential fraud situation arises. It is also aimed at helping trade union and professional organisation representatives in understanding the role of CFS. The DVD is an integral component of the Scottish Government's NHS counter fraud strategy.

Changes to investigatory powers

The SGHD has issued *CEL(2010)40* to provide updated guidance on the authorisation of functions under the *Regulation of Investigatory Powers (Scotland) Act 2000* . It advises that boards are no longer able to grant authorisations for the use of directed surveillance and covert human intelligence sources from 29 November 2010.

Where such authorisation may be necessary in cases of potential criminal activity involving NHS fraud or other irregularities, the matter should be passed to CFS.

Where there are cases which may involve the prevention of disorder, the protection of public health or public safety, boards are required to advise the public body with power in that area, e.g. the police force. CFS are able to assist in identifying whether any course of action is appropriate and the body to contact.

Role of armed forces champion

The SGHD has issued *CEL(2010)39* to set out the roles and responsibilities of a board's Armed Forces Champion. The champion is a senior member of staff who is responsible for leading and coordinating armed forces issues in their board area. The champion needs to

- take a proactive role in the local implementation of the Scottish Government's policies, and act as the board's chief representative in supporting armed forces personnel, their families and veterans
- take responsibility for monitoring and evaluating the operation of the services provided in the area
- engage regularly and work closely with the local authority champions and the army champion
- take responsibility for ensuring that appropriate systems for communicating sensitive patient information comply with patient confidentiality guidance and regulations.

A list of all the armed forces champions representing the territorial boards is attached as an Annex. The functions and responsibilities of armed forces champions also apply to special health boards.

Pay modernisation and workforce planning

2010/11 statement of financial entitlements and directed enhanced services for GPs

A revised statement of financial entitlements (SFE) for GPs for 2010/11 has been introduced by *PCA(M)(2010)19*. The SFE relates to payments to be made under a general medical services (GMS) contract. The amendments compared with the previous version include the following

- The national patient experience survey will be offered to practices which did not achieve the full points in 2009/10. Quality and outcomes framework (QOF) points will be calculated against the most recent survey in which the practice participated. From 2011/12, the survey will be undertaken biennially.
- The total global sum amount for Scotland increases from £378.1 million to £387.7 million with effect from 1 April 2010.

The SGHD has issued the following further three letters relating to the directed enhanced services (DES) element of the GMS contract.

PCA(M)(2010)17 advises of updated directions which came into force on 1 October 2010 for changes to DES since 2006. The directions place a duty on boards to establish the nine specified DES but do not cover the specific H1N1 vaccination programme DES for which there are separate directions.

The second letter *PCA(M)(2010)16* provides revised guidance on the influenza and pneumococcal DES. The new national vaccination target for those in the 65 and over age group is 75%. With the aim of improving levels of vaccination in this age group, the following new payment rates will apply for influenza

- £7.17 per immunisation for the first 40% of the age group
- £8.85 per immunisation between 40% and 75%
- £9.39 per immunisation for more than 75%.

A flat fee of £7.67 will be paid per influenza immunisation for those in other target groups, and for the pneumococcal immunisation for those aged 65 and over. The immunisation programme runs between 1 October and 31 March 2011 but GPs have been asked to concentrate the programme during the period 1 October to 30 November.

PCA(M)(2010)20 provides additional information regarding certain DES in operation in 2010/11. The DES for palliative care, osteoporosis, ethnicity and the H1N1 vaccination programme will continue for 2010/11. The payment arrangements for these services are set out in an annex to the letter.

The ethnicity DES will run until 31 March 2011 and the other services will be revised from next year.

2010/11 pharmacy remuneration arrangements

PCA(P)(2010)26 advises boards of revised funding arrangements for the chlamydia testing and treatment element of the public health service provided by pharmacy contractors. A review of the effectiveness of the service has concluded that it should be withdrawn as part of the national sexual health service and replaced by a service locally negotiated by boards.

Revised funding arrangements will be put in place to allow community pharmacy contractors currently providing the full service to continue to do so for the remainder of 2010/11. Those contractors not actively providing the full testing and treatment service will cease to receive the monthly availability payment of £40 from the 1 October 2010.

No decision on future funding by the Scottish Government can be made until budgets from 2011/12 have been set. A revised service specification for adaptation by boards who wish to use it will be issued in April 2011.

A review of the smoking cessation and emergency hormonal contraception services is ongoing, and current funding arrangements will continue until 31 March 2011.

Changes to the *Agenda for change* handbook

PCS(AFC)(2010)4 informs boards of the following changes to the *Agenda for change terms of conditions handbook*

- Section 2 has been amended to reflect that the NHS Staff Council has agreed a set of principles to underpin local negotiations to harmonise on-call payments. The negotiations will be taken forward through the Scottish Terms and Conditions Committee.

- In section 17, the paragraph relating to the use of the public transport rate where an employee declines the use of a lease car has been expanded to introduce a test of 'reasonableness'.

- Also in section 17, a new principle confirms that leased car schemes should provide for cars to be accepted on the basis of either business only use or a combination of business and personal use. Leased vehicles which are for business use only are to be treated as 'pool' cars. Leased, pooled and hire car policies remain the responsibility of employers to determine locally.

Family health services

2010/11 drug tariff clawback

PCA(P)(2010)27 advises of a change to the clawback rate in the efficient purchasing and prescribing programme for the dispensing period from 1 October 2010.

As a consequence of changes to individual part 7 prices, the discount clawback rate has been reset to 4.68%. The clawback rate will be subject to ongoing review.

Capital

New property and asset management policy

The Scottish Government has issued CEL(2010)35 to set out its new policy for property and asset management in NHSScotland. This is defined as the strategic management of land, buildings, and other assets to optimise their use in terms of service benefit and financial return.

The policy establishes the framework for monitoring the performance and management of assets used in the provision of services by NHSScotland. It is intended to implement the recommendations in the Audit Scotland report *Asset management in the NHS in Scotland* which highlighted that existing policies did not cover all assets and that there was limited monitoring of how assets were managed.

The policy aims to ensure that assets are used efficiently and strategically and that the performance of assets is monitored and reviewed. It also seeks to support and facilitate joint asset planning and management with other public sector organisations, including further development of the HUB initiative. A principal requirement of the policy is that all health bodies should have appropriate board level and supporting governance, with assurance regarding these arrangements provided within property and asset management strategies.

The requirements of the policy are set out under the headings of governance, planning, acquisition and disposal, and operation and management. Annexes to the policy set out the minimum data that should be recorded for assets and key performance indicators.

Performance management

Changes in 2010/11 RRL elements

The SGHD has issued a letter to clarify its previous letter on the changes in the differentiation between core and non core elements of the revenue resource limit (RRL) in the 2010/11 monitoring returns (see TB 2010/3 – page 44). This letter clarifies changes in the treatment of provisions. Until 2009/10, all movements on provisions were charged against the RRL

- From 2010/11, the creation of provisions, and any movements relating to them, will be treated as annually managed expenditure (AME) and charged against a separate non core RRL. However, the cash payment made against the provision will be charged to the core RRL.
- All provisions created before 31 March 2010 will have been charged to the prior years' RRL. However, any movements on these provisions will now score in AME and be charged against the non core RRL.
- Some provisions, such as early retirement costs, are in effect made up of many individual provisions. The provisions as at 31 March 2010 will need to be recorded and managed separately from any new retirements from 2010/11.
- Accruals will continue to be accounted for within the charge to the core RRL.

The guidance also highlights that underspends on non core RRL may not be used to subsidise an overspend on the core RRL, and that boards will be measured against the total RRL and capital resource limit outturn. Boards were required to submit a return outlining their budget requirements by 11 October 2010.

Auditors should confirm that boards have considered the implications of non core RRL allocations and submitted the required budget return.

Planning

Guidance on 2011/12 local delivery plans

The Scottish Government has issued *NHS Scotland local delivery plan guidance 2011/12* to provide guidance on the preparation of local delivery plans (LDPs) for 2011/12. The guidance sets out the key operational targets and performance measures for NHSScotland and reiterates the purpose of LDPs, their format, content and timescales for completing them.

LDPs should cover a period of three years, with the opportunity to review and adjust future years' plans each year. The ten performance management principles, which were developed last year, continue to be relevant and are set out in an appendix. LDPs should include the boards' quality ambitions and contributions to single outcome agreements, financial plans and efficiency savings and workforce issues. Boards are required to develop their LDPs in consultation with stakeholders.

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.

The guidance sets out the key health improvement, efficiency, access and treatment (HEAT) themes. For 2011/12, there are 17 HEAT targets which include waiting time targets and a sickness absence rate of 4%. The targets set out the performance contract between the Scottish Government and boards, and therefore the Scottish Government will continue to monitor them.

Boards are required to submit draft LDPs by 18 February 2011, with final versions submitted by 18 March 2011. They are expected to be signed-off by boards and Scottish Government by 31 March 2011.

Legislation

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

Statutory instruments

National health service

The National Health Service (Charges for Drugs and Appliances) (Scotland) Amendment (No. 2) Regulations 2010, *SSI 366* came into force on 15 November 2010 and amended the principal 2008 regulations to provide that

- a chemist will not make, and recover, any charge where the patient presents a Northern Irish prescription form, and the sum which a board pays to a chemist will not be reduced due to the use of such a prescription form

- the supply of the same drug in more than one strength is deemed to be only one quantity of the drug.

The National Health Service (Superannuation Scheme, Pension Scheme, Injury Benefits and Additional Voluntary Contributions) (Scotland) Amendment (No. 2) Regulations 2010, *SSI 369* came into force on 17 November 2010 and make a number of amendments to the principal 1995 superannuation and 2008 pension scheme regulations. The amendments mainly come into effect from 1 April 2010 though some provisions have earlier effect. The amendments that affect both regulations include

- arrangements for certain re-employed pensioner members of the 1995 scheme section to join the 2008 scheme section once a specified period of time has passed since retirement

- clarifying that persons who have opted out of the 1995 scheme section, and members of other UK health service schemes, will not be permitted to join or re-join that section

- introducing uprated pay/earnings bands for the purpose of assessing tiered contribution rates for members and removing the provisions which permit the Scottish Ministers to change the bands and tiered contribution rates by making a determination

- specifying that the current employer contribution rate is 13.5%

- allowing 'pension credit members' to take their benefits early on an actuarially reduced basis and to commute pension on serious ill-health.

The regulations also include an option for 1995 section members to join the 2008 section, with retrospective effect from 1st October 2009.

Deferred members detrimentally affected by these regulations may elect for the provisions not to apply to them by giving notice within six months of them coming into force.

The National Health Service (General Ophthalmic Services and General Dental Services) (Scotland) Amendment Regulations 2010 *SSI 378* make amendments to the 2006 ophthalmic regulations and the 2010 dental regulations. They come into force on whatever day is appointed for section 44 of the *Protection of Vulnerable Groups (Scotland) Act 2007*. The regulations

- change the process for boards to make decisions on applications to join their ophthalmic and dental lists related to the new vetting and disclosure scheme established by the 2007 Act.

- allow for an ophthalmic medical practitioner, optician or dentist to be suspended or removed from the ophthalmic list if they become barred from working with children or adults or leave the new vetting and disclosure scheme. They oblige a board to seek disclosure records for such applications unless it has already received a valid enhanced criminal record certificate relating to the applicant.

The National Health Service (General Medical Services Contracts) (Scotland) Amendment Regulations 2010, *SSI 394* come into force on the 22 December 2010 and amend the principal 2004 regulations to make provision for the new eligibility criteria for primary medical services following the commencement of the *Tobacco and Primary Medical Services (Scotland) Act 2010*

- A contractor is required to be engaged in the provision of primary medical services for no less than a total of 10 hours each week for the duration of the contract in order to meet the criteria.

- Where a contractor sub-contracts any of their rights or duties under the contract, the required notification to the board must include a statement that the sub-contractor has sufficient involvement in patient care. A board may object to a sub-contract if the involvement is not sufficient.

- A new paragraph has been inserted to make specific notice requirements for those practising in a limited liability partnership.

The National Health Service (Primary Medical Services Section 17C Agreements) (Scotland) Amendment Regulations 2010, *SSI 395* come into force on the 22 December 2010 and make the equivalent provisions for Section 17C agreements as *The National Health Service (General Medical Services Contracts) (Scotland) Amendment Regulations 2010.*

The Community Health Partnerships (Scotland) Amendment Regulations 2010, *SSI 442* come into force on the 28 January 2011 and amend the principal 2004 regulations to

- recognise the establishment of Healthcare Improvement Scotland

- allow dental, pharmaceutical and ophthalmic contractors to become members of a community health partnership.

Key circulars

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

Chief executive letters (CEL)

CEL(2010)33 Tackling NHS fraud training DVD. See Other developments – National agenda/direction – Counter fraud.

CEL(2010)35 A policy for property and asset management in NHSScotland. See Other developments – Capital – New property and asset management policy.

CEL(2010)39 Health services for armed forces serving personnel, their families and veterans. See Other developments – National agenda/direction – Role of armed forces champion.

CEL(2010)40 Regulation of investigatory powers (Scotland) Act 2000. See Other developments – National agenda/direction– Changes to investigatory powers.

PCA

PCA(P)(2010)15 Community pharmacy services : Drug tariff remuneration and pt 7 and pt 11 reimbursement arrangements for 2010/11 . See Other developments – Pay modernisation and workforce planning – 2010/11 pharmacy remuneration arrangements.

PCA(M)(2010)16 Influenza and pneumococcal directed enhanced service – amended. See Other developments – Pay modernisation and workforce planning – 2010/11 statement of financial entitlements and directed enhanced services for GPs.

PCA(M)(2010)17 The Primary Medical Services (Directed Enhanced Services) (Scotland) Directions 2010. See Other developments – Pay modernisation and workforce planning – 2010/11 statement of financial entitlements and directed enhanced services for GPs.

PCA(M)(2010)18 Clinical and staff governance for general practice in Scotland. See Governance developments – Staff and clinical governance - Governance arrangements in GP practices.

PCA(M)(2010)19 General medical services statement of financial entitlements for 2010/11. See Other developments – Pay modernisation and workforce planning – 2010/11 statement of financial entitlements and directed enhanced services for GPs.

PCA(P)(2010)26 Community pharmacy contract: public health service chlamydia testing and treatment service. See Other developments – Pay modernisation and workforce planning – 2010/11 pharmacy remuneration arrangements.

PCA(P)(2010)27 Community pharmacy services: Drug tariff pt7 reimbursement amendment to pt7 discount clawback rate. See Other developments – Family health services – 2010/11 drug tariff clawback.

PCA(M)(2010)20 The Primary Medical Services (Directed Enhanced Services) (Scotland) Directions 2010. See Other developments – Pay modernisation and workforce planning – 2010/11 statement of financial entitlements and directed enhanced services for GPs.

PCS

PCS(AFC)(2010)4 Changes to the Agenda for change terms and conditions handbook. See Other developments – Pay modernisation and workforce planning – Changes to the *Agenda for change* handbook.

Dear colleague letters

Dear colleague letter on annually managed expenditure (AME). See Other developments – Performance management – Changes in 2010/11 RRL elements.

Dear colleague letter on IFRS transition in NHSScotland – Meeting the requirements of IAS 16(Property, plant and equipment). See Accounting developments – Asset lives and depreciation.

Publications

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

International financial reporting standards

NHS IFRS briefing paper 8- Learning lessons from the audit IFRS-compliant accounts 2009/10

This *NHS IFRS briefing paper 8* from the Audit Commission considers the findings from the audit of the first full set of IFRS compliant accounts of NHS bodies in England. Auditors identified the following key messages from the final accounts audit

- Overall, NHS bodies coped well with producing their IFRS compliant accounts for 2009/10, and auditors did not issue any qualified audit opinions.
- The exercise to restate comparatives was important in identifying and resolving significant accounting issues including accounting for local improvement finance trust and PFI, leases and legal charges.
- Disclosures, property plant and equipment, and leases were the most significant financial reporting issues.
- Most NHS bodies engaged effectively with auditors to resolve IFRS reporting issues.

Auditor action

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

Section	Action
TSU developments – Responses to enquiries – Property, plant and equipment	Auditors should confirm that their boards are aware that the removal of the cost of capital requirement is a change in accounting policy which requires a prior period adjustment.
Accounting developments – Asset lives and depreciation	Auditors should confirm that their boards are aware of SGHD guidance and, where appropriate, are taking steps to implement the proposed approach to depreciation and asset lives.
Other developments – Performance management – Changes in 2010/11 RRL elements	Auditors should confirm that boards have considered the implications of non core RRL allocations and submitted the required budget return.

Central government chapter

Introduction

This chapter contains articles on central government technical developments and guidance relevant to external auditors' responsibilities under their audit appointment to give an opinion on the financial statements. It should be read by external auditors with appointments in the central government 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 specific matters are provided in separate 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 that are available from websites can be obtained by using the hyperlinks. They can also be downloaded by auditors from the TSU intranet/extranet.

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note that the following articles in this chapter relate to 2010/11 audits

- TSU guidance on the removal of the cost of capital charge
- the financial guide for non-executive directors.

There are also other articles on 2011/12 public sector pay policies.

TSU developments

Responses to enquiries

The TSU operates a 'help-desk' for auditors which provides responses to ad hoc technical enquiries. Selected responses are added to the frequently asked questions section of the TSU intranet/extranet and include the following since the publication of TB 2010/3.

Property, plant and equipment

What disclosures are required for the removal of the cost of capital charge?

The guidance contained in the 2010/11 *Government financial reporting manual* (FReM) at paragraph 11.5.2 states that from 2010/11 onwards, bodies are no longer required to account for the cost of capital within their accounts. In accordance with *IAS 8 Accounting policies, changes in accounting estimates and errors*, this should be treated as a change an accounting policy.

A prior year adjustment will therefore be required along with all necessary disclosures for transparency. The disclosures, in accordance with IAS 8, for a change in accounting policy are as follows

- the nature of the change
- the reasons why applying the new accounting policy provides reliable and more relevant information
- for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected
- the amount of the adjustment relating to periods before those presented, to the extent practicable
- if retrospective application is impracticable for a particular period, the reason why that is the case, and a description of how, and from when, the change has been applied.

Auditors should confirm that their bodies are aware of this change in accounting policy and the requirement for a prior period adjustment.

Corporate governance developments

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

2011/12 public sector pay policies

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

Policy for senior appointments

The Scottish Government has published the *Public sector pay policy: Policy for senior appointments 2011/12* which sets out the parameters for the remuneration of senior appointments in 2011/12. The policy covers the remuneration of chief executives and chairs and members of Scottish public bodies.

There will be no basic award in 2011/12, and all pay progression increases and access to non-consolidated pay is suspended.

New appointments and pay reviews will continue to require Scottish Government approval. Guidance on arrangements for new appointments and pay reviews will be published in early 2011.

Pay policy for staff remits

The Scottish Government has published the *Public sector pay policy for staff pay remits 2011/12* which sets the parameters for public sector pay increases for public bodies in Scotland. The policy for 2011/12 applies to public bodies with settlement dates between April 2011 and March 2012. The aim of the policy, which is now aligned with the financial year, is to allow organisations to maintain, as far as possible, staff numbers and employment opportunities at a time of reduced budgets.

There will be a zero percent basic award for all staff subject to measures to address low pay, and non-consolidated pay has been suspended.

In addition, the Scottish Government has reviewed its commitment to no compulsory redundancies but believes the policy can be sustained on the condition that agreements are reached on flexible working practices which reduce costs.

Publications

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

Audit Scotland

National concessionary travel

This report *National concessionary travel* examines the development and management of the national concessionary travel scheme and its impact and cost. Key messages include the following

- At the outset, there was no clear statement on what the scheme was expected to achieve, a full options appraisal was not carried out, and Parliament considered the proposals with only limited cost information.
- Robust systems were not in place when the scheme was first introduced to effectively administer and manage it or to minimise the risk of error and fraud. Progress is slow in developing performance measures to assess the impact of the scheme.
- Technology key to the design of the scheme could not be introduced in the timescales set.
- The cost of the scheme has increased each year and is expected to continue to increase.

The Scottish Police Services Authority

This report *The Scottish Police Services Authority* provides an assessment of the Scottish Police Services Authority's development, achievements and future challenges. Key messages include the following

- The agency's early development was hampered by a lack of clarity on how it was to deliver its long-term benefits, poor information about the services transferred, and leadership problems.
- The quality of its services has improved, but it is not yet able to meet all of its customers' ICT needs.
- Efficiency targets have been achieved and significant savings have been made in the three years since it was set up.

Corporate governance

Forward planning, reporting back: a financial guide for non-executive directors of Scottish Government executive NDPBs

The guide from the Institute of Chartered Accountants of Scotland called *Forward planning, reporting back: a financial guide for non-executive directors of Scottish Government executive NDPBs* is designed to support non-executive directors of executive NDPBs to gain a better understanding of the financial aspects of their role. The guide

- provides information on how the Scottish Government executive NDPBs are funded and how funding flows between the Scottish Government and its executive NDPBs, and details the notification, draw-down and accounting for grant-in-aid
- examines the role of the NDPB board in translating strategy into plans and actions, including information about setting and monitoring the annual budget and the relationship between budget monitoring and the wider performance monitoring arrangements
- provides information about the preparation and content of the annual report and accounts to enable the board to provide scrutiny and challenge surrounding the year-end reporting process
- gives an overview of external audit
- examines the role of the chief financial officer in both accounting for the financial transactions of the executive NDPB and in providing a strategic, leadership role as a member of the executive NDPB's management team.

Auditor action

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

Section	Action
TSU developments – Responses to enquiries – Property, plant and equipment	Auditors should confirm that their boards are aware that the removal of the cost of capital requirement is a change in accounting policy which requires a prior period adjustment.

Further education chapter

This chapter contains articles on further education technical developments and guidance relevant to external auditors' responsibilities under their audit appointment to give an opinion on the financial statements. 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 specific matters are provided in separate 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 that are available from websites can be obtained by using the hyperlinks. They can also be downloaded by auditors from the TSU intranet/extranet.

Auditors may wish to note that the article in this chapter on accounting for the move to CPI relates to 2010/11 audits.

TSU developments

Guidance

Accounting for move to CPI

The cross-sectoral chapter (see Accounting developments - Draft guidance on accounting for CPI as pension inflation index) advises auditors of the issue surrounding replacing RPI with CPI for determining minimum pension increases.

As the announcement was made during 2009/10, the effect of the change requires to be recognised in colleges' balance sheets at 31 July 2010. The TSU's view is that recognition is possible in either the income and expenditure account or the statement of recognised gains and losses depending on each college management's interpretation of the draft UITF Abstract. The key issue involves reaching a judgement as to whether RPI represents a constructive obligation. Consideration would need to be given as to whether any associated literature made reference to the RPI or whether the general understanding of scheme members was that increases would be calculated using that basis.

As this is a matter of judgement, the TSU does not believe that auditors can insist on a college adopting a particular treatment. If any auditor is considering a qualification to their audit opinion as a result of their college's accounting treatment of this change, they are requested to contact the TSU to discuss the matter.

The TSU recommends that colleges include a disclosure note in their accounts that explains the issue, and sets out their conclusions (change in benefits or change in assumptions) and the consequent accounting treatment adopted.

Key circulars

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

SFC circulars

SFC/30/2010 Student support funds: result of the in-year management of funds 2010/11 announces the outcome of the in-year management of student support funds for 2010/11.

SFC/32/2010 Efficient government requests efficient government outturn figures for 2009/10 and revised plans for 2010/11.

SFC/33/2010 Financial statements and returns 2009/10 requests copies of audited 2009/10 financial statements and supporting information to be sent to the Scottish Funding Council. The circular also requests colleges to clarify in their returns whether they have accounted for the impact of the indexation change for pension increases as a change in benefits or as a change in liabilities.

Auditor action

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

Section	Action
TSU developments – Guidance – Accounting for move to CPI	Any auditor considering a qualification to their audit opinion as a result of their college's accounting treatment of the move to CPI is requested to contact the TSU to discuss the matter.

Contact points

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

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Completed feedback forms on this TB should be returned to

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15 December 2010

User feedback

We received 22 responses to the user survey on TB 2010/3, and the results are summarized in the following table.

Feedback results on TB 2010/3

	Excellent	Good	Fair	Poor	No response
Structure and presentation	45%	55%	-	-	-
Complete	36%	59%	-	-	5%
Clear and concise	41%	45%	5%	-	9%
Helpful and relevant	23%	73%	4%	-	-

	Significant impact	Some impact	Limited impact	No impact	No response
Impact on quality of audit	9%	59%	18%	5%	9%

Feedback request on TB 2010/4

Please take a moment to complete the accompanying feedback form on this TB by answering the following questions, and return it to alewis@audit-scotland.gov.uk.

- How would you rate the structure and presentation of this technical bulletin?
- How would you rate the completeness of the content of this technical bulletin?
- How would you rate the clarity and conciseness of the content of this technical bulletin?
- How would you rate the helpfulness and relevance of the content of this technical bulletin?
- How would you rate the expected likely impact of this technical bulletin on the quality of your external audit work/your external auditors' work?
- Do you have any other comments on this technical bulletin?
- Do you have any suggestions for improving the next technical bulletin?