

# Technical bulletin 2012/1 January to March



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

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# Foreword

Audit Scotland's Technical Services Unit (TSU) provides guidance to external auditors appointed by the Accounts Commission and Auditor General to support them in carrying out their responsibilities under the *Code of audit practice* to

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

This includes the preparation of technical bulletins (TBs) by the TSU at quarterly intervals, which are approved by the Assistant Auditor General for Scotland. They are available to inhouse auditors from Audit Scotland's *Technical reference library* and published on the Audit Scotland website. TBs provide a composite of technical developments in the quarter that are relevant to external auditors' responsibilities referred to above, and provide auditors with guidance on any emerging issues. The overall purpose of TBs is to inform auditors' professional judgment in making informed decisions about the courses of action that are appropriate in the circumstances of the audit appointment.

TBs contain information which is of importance to the conduct of audits and frequently recommend that auditors take certain actions, and a summary of these actions is provided at the end of each chapter. It is important that a mechanism is in place for senior audit staff to review the TB promptly and to ensure that steps are taken to consider such recommendations.

While auditors act independently, and are responsible for their own conclusions and opinions, consistency in similar circumstances is important and **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 provided on a significant issue** (e.g. a matter that requires consideration to be given to modifying the audit opinion on the financial statements of a number of audited bodies).

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

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

# Headlines

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

Cross-sectoral chapter	Reference
<p>The TSU has</p> <ul style="list-style-type: none"> <li>• published a note for guidance on 2011/12 model auditor's reports on the financial statements</li> <li>• provided guidance on reviewing the use of government procurement cards and corporate credit cards</li> <li>• provided an update on the development of the new Extranet</li> <li>• provided a summary of some reported frauds.</li> </ul>	<p>Paragraph 1</p> <p>Paragraph 6</p> <p>Paragraph 8</p> <p>Paragraph 54</p>
<p>The International Accounting Standards Board has issued</p> <ul style="list-style-type: none"> <li>• an amended standard on disclosures when financial assets and liabilities are set off</li> <li>• amendments to IFRS 9 on financial instruments</li> <li>• proposed amendments to IFRS 10 on consolidated financial statements.</li> </ul>	<p>Paragraph 10</p> <p>Paragraph 14</p> <p>Paragraph 17</p>
<p>The International Public Sector Accounting Standards Board has issued a consultation paper on presentation concepts for financial reporting.</p>	<p>Paragraph 16</p>
<p>The International Auditing and Assurance Standards Board has issued</p> <ul style="list-style-type: none"> <li>• a practice note on auditing financial instruments</li> <li>• a paper on professional scepticism.</li> </ul>	<p>Paragraph 28</p> <p>Paragraph 36</p>

Cross-sectoral chapter	Reference
The Auditing Practices Board has issued proposed revisions to ISA 705 on modifications to the audit opinion.	Paragraph 30
The Financial Reporting Council has issued a paper on the 'comply or explain' concept.	Paragraph 42
Audit Scotland has published reports on <ul style="list-style-type: none"> <li>• greenhouse gas emissions</li> <li>• commissioning social care.</li> </ul>	Paragraph 45 Paragraph 46
The Chartered Institute of Public Finance and Accountancy has published guides on <ul style="list-style-type: none"> <li>• internal audit skills and competencies</li> <li>• whole life costing.</li> </ul>	Paragraph 47 Paragraph 52

Local authority chapter	Reference
The TSU has provided guidance on audit access to the Department for Works and Pensions customer information system.	Paragraph 64
The CIPFA/LASAAC Local Authority Code Board has issued <ul style="list-style-type: none"> <li>• an update to the 2011/12 accounting code</li> <li>• the 2012/13 accounting code.</li> </ul>	Paragraph 70 Paragraph 104
The Chartered Institute of Public Finance and Accountancy has issued <ul style="list-style-type: none"> <li>• the 2011/12 guidance notes on the accounting code</li> <li>• 2011/12 guidance on accounting for the carbon reduction commitment scheme</li> <li>• 2011/12 disclosure checklist</li> </ul>	Paragraph 78 Paragraph 91 Paragraph 97

Local authority chapter	Reference
<ul style="list-style-type: none"> <li>• 2012/13 service reporting code</li> <li>• 2011/12 illustrative pension fund financial statements.</li> </ul>	<p>Paragraph 106</p> <p>Paragraph 111</p>
<p>The Local Authority (Scotland) Accounts Advisory Committee has issued good practice guidance on the presentation of local authority financial statements.</p>	<p>Paragraph 101</p>
<p>The Scottish Government has issued circulars on</p> <ul style="list-style-type: none"> <li>• 2011/12 to 2014/15 funding</li> <li>• 2012/13 non-domestic rates interest rate</li> <li>• 2012/13 non-domestic rates deferral scheme.</li> </ul>	<p>Paragraph 110</p> <p>Paragraph 119</p> <p>Paragraph 120</p>
<p>The Department for Work and Pensions has issued circulars on</p> <ul style="list-style-type: none"> <li>• changes to the shared accommodation rate</li> <li>• 2012/13 benefits rates.</li> </ul>	<p>Paragraph 131</p> <p>Paragraph 135</p>
<p>The Audit Commission has issued some of the 2011/12 HB COUNT modules.</p>	<p>Paragraph 125</p>
<p>Statutory instruments have been issued on</p> <ul style="list-style-type: none"> <li>• 2012/13 finance</li> <li>• 2012/13 non-domestic rates levying changes</li> <li>• 2012/13 non-domestic rates relief for enterprise areas</li> <li>• 2012/13 teachers' pension contribution rates</li> <li>• 2012/13 police pension contribution rates.</li> </ul>	<p>Paragraph 110</p> <p>Paragraph 118</p> <p>Paragraph 123</p> <p>Paragraph 116</p> <p>Paragraph 140</p>



Local authority chapter	Reference
A bill has been introduced on police and fire reform.	Paragraph 137
<p>The Scottish Public Pensions Agency has issued circulars on</p> <ul style="list-style-type: none"> <li>• the introduction of tiered member contributions for the teachers' scheme from 2012/13</li> <li>• 2012/13 police employee pension contributions.</li> </ul>	<p>Paragraph 116</p> <p>Paragraph 140</p>
The Controller of Audit has issued a section 102 statutory report on Shetland Islands Council.	Paragraph 152
Audit Scotland has published an overview report on local government.	Paragraph 155

Central government chapter	Reference
<p>The TSU has</p> <ul style="list-style-type: none"> <li>• published a note for guidance on planning and performing the audit of the 2011/12 central government financial statements</li> <li>• provided guidance on obtaining confirmations from the Government Banking Service.</li> </ul>	<p>Paragraph 156</p> <p>Paragraph 160</p>
<p>HM Treasury has issued</p> <ul style="list-style-type: none"> <li>• amendments to the 2011/12 financial reporting manual</li> <li>• the 2012/13 financial reporting manual</li> <li>• a guide setting out accounting standards issued in 2011/12</li> <li>• the discount rate for post employment benefits 2012/13.</li> </ul>	<p>Paragraph 163</p> <p>Paragraph 173</p> <p>Paragraph 176</p> <p>Paragraph 184</p>

Central government chapter	Reference
<p>The Scottish Government has issued guidance on</p> <ul style="list-style-type: none"> <li>• government grants and donated assets</li> <li>• 2011/12 governance statements</li> <li>• 2011/12 sustainability reports</li> <li>• the governance of public-private sector projects</li> <li>• payment arrangements which seek to minimise the tax liability.</li> </ul>	<p>Paragraph 181</p> <p>Paragraph 187</p> <p>Paragraph 192</p> <p>Paragraph 197</p> <p>Paragraph 200</p>
<p>The National Audit Office has issued a disclosure guide for 2011/12.</p>	<p>Paragraph 203</p>
<p>The Auditor General has issued a section 22 statutory report on the National Library of Scotland.</p>	<p>Paragraph 206</p>

Health chapter	Reference
<p>The TSU has requested auditors to provide copies of their ISA 260 written communications.</p>	<p>Paragraph 211</p>
<p>The Scottish Government Health and Social Care Directorates has issued</p> <ul style="list-style-type: none"> <li>• the 2011/12 annual accounts manual</li> <li>• the 2011/12 capital accounting manual</li> <li>• guidance on governance statements for 2011/12</li> <li>• a refreshed code of practice on records management</li> <li>• a revised policy and strategy on sustainable development</li> <li>• revised partnership information network policies</li> </ul>	<p>Paragraph 213</p> <p>Paragraph 219</p> <p>Paragraph 222</p> <p>Paragraph 229</p> <p>Paragraph 231</p> <p>Paragraph 236</p>

Health chapter	Reference
<ul style="list-style-type: none"> <li>• guidance on the annual leave policy under <i>Agenda for change</i></li> <li>• letters on an additional public holiday in 2012</li> <li>• guidance on the preparation of workforce plans</li> <li>• a letter on changes to the Scottish enhanced services programme for 2012/13</li> <li>• a letter clarifying ophthalmic procedures</li> <li>• a letter on 2011/12 pharmacy remuneration</li> <li>• a circular on changes to the discount clawback rate for proprietary drugs</li> <li>• a letter on 2011/12 executive and senior managers pay</li> <li>• a letter on changes to the pay and conditions of medical directors.</li> </ul>	<p>Paragraph 238</p> <p>Paragraph 242</p> <p>Paragraph 245</p> <p>Paragraph 249</p> <p>Paragraph 251</p> <p>Paragraph 253</p> <p>Paragraph 256</p> <p>Paragraph 257</p> <p>Paragraph 261</p>
<p>Statutory instruments have been issued on</p> <ul style="list-style-type: none"> <li>• travelling expenses</li> <li>• general medical services contracts</li> <li>• section 17C agreements</li> <li>• the commencement of the patient rights Act and complaints procedures</li> <li>• 2012/13 pension contribution rates</li> <li>• redemption value of optical vouchers</li> <li>• prescription charges</li> <li>• personal injuries.</li> </ul>	<p>Paragraph 272</p> <p>Paragraph 273</p> <p>Paragraph 274</p> <p>Paragraph 275</p> <p>Paragraph 278</p> <p>Paragraph 279</p> <p>Paragraph 280</p> <p>Paragraph 281</p>
<p>NHS Scotland has issued</p> <ul style="list-style-type: none"> <li>• a report on the NHS estate</li> <li>• guidance on the preparation of local delivery plans for 2012/13.</li> </ul>	<p>Paragraph 264</p> <p>Paragraph 267</p>

Health chapter	Reference
Audit Scotland has issued a report on the review of cardiology services.	Paragraph 282

Further education chapter	Reference
The Scottish Funding Council has issued circulars on <ul style="list-style-type: none"> <li>• 2011/12 student support funds</li> <li>• 2012/13 indicative financial decisions.</li> </ul>	Paragraph 287 Paragraph 288
An independent report has been issued on the review of further education governance in Scotland.	Paragraph 283
The Scottish Government has issued a letter confirming the new regional structure for further education from 2013/14.	Paragraph 285

# Cross-sectoral chapter

## Introduction

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

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

The TSU encourages feedback on this TB. Comments should be sent to [alewis@audit-scotland.gov.uk](mailto:alewis@audit-scotland.gov.uk).

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note that the following articles in this chapter relate to 2011/12 audits

- Note for guidance on 2011/12 model auditor's reports on the financial statements.
- TSU guidance on reviewing the use of government procurement cards and corporate credit cards.
- TSU update on the development of the new Extranet.
- New practice note on auditing financial instruments.
- Paper on professional scepticism.
- Paper on 'comply or explain' concept.

## TSU developments

### Publications

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The following note has been published by the TSU since TB 2011/4. It can be obtained by using the hyperlink and is available to inhouse auditors from Audit Scotland's *Technical reference library*.

#### Note for guidance on 2011/12 model auditor's reports on the financial statements

1. The TSU has published [Note for guidance 2012/2 2011/12 model auditor's reports on the financial statements](#) to provide auditors with model forms of auditor's reports on the 2011/12 financial statements, and guidance on their use.
2. The wording of the model reports for each type of body are based on the illustrative examples contained in the Auditing Practices Board (APB) *Bulletin 2010/2 (Revised) Compendium of illustrative auditor's reports on United Kingdom private sector financial statements*. The wording in the APB bulletin has been amended by the TSU to reflect public sector legislation and the requirements of Audit Scotland.
3. The note for guidance provides guidance on the application of the model reports. It also provides guidance on modifications to the audit opinions, and the consequent changes that require to be made to wording in each case, as well as guidance on emphasis of matter paragraphs and other matter paragraphs.
4. The note refers to the relevant sources of guidance for the opinion on the financial statements and the other reporting requirements, e.g. regularity opinion, remuneration reports, governance statements etc. It also includes enhanced guidance and clarification in respect of the other information in a document containing financial statements.
5. Auditors should use these model reports and the application guidance when reporting on the 2011/12 financial statements.

### Other guidance

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The following articles provide other guidance, updates or requests from the TSU.

#### Use of government procurement cards and corporate credit cards

6. There have been a couple of recent instances of frauds at audited bodies resulting from the misuse of a government procurement card (see paragraph 206) and corporate credit card (see paragraph 52). This has prompted Audit Scotland to prepare a checklist of questions that auditors may wish to ask when reviewing an audited body's use of such cards. The questions are intended to be used to obtain a high level view of the cards' use, and the controls applied to them. The questions cover
  - the authorisation of cards for issue to individuals, the number of cards in issue, the individuals who hold them, and the review of individual's continuing need to hold them

- monthly limits, total spend, and credit limits
  - the types of expenditure that cards are used for, how it is authorised, and the required supporting evidence
  - the monitoring arrangements for overall card use
  - the policy on personal expenditure.
7. Auditors should consider this checklist when reviewing an audited body's processes for the use of such cards. A recent NAO [publication](#) on government procurement cards may also be of interest.

### Extranet update

8. TB 2011/4 (page 12) advised auditors that the facility for Audit Scotland's *Technical reference library* to be made available to appointed firms via a new Extranet was expected to be operational in February 2012. The TSU has been advised that the planned date for the implementation of the Extranet is now 1 May.
9. The TSU will keep firms apprised of progress and will advise, in due course, as to how the new Extranet can be accessed.

## Accounting developments

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

### Amended standard on disclosing financial assets and liabilities

10. The [International Accounting Standards Board](#) (IASB) has issued *Disclosures - offsetting financial assets and financial liabilities (Amendments to IFRS 7)* which contains new disclosure requirements for the exceptional cases when financial assets and financial liabilities have been off set in the balance sheet.
11. Accounting standards generally require bodies to present recognised financial assets and liabilities separately in the balance sheet at their gross amounts, and therefore treat offsetting as an exception only where there is a legally enforceable right of set off. However, where they have been set off, there are new requirements to disclose the
- gross amounts of financial assets and financial liabilities before offsetting
  - amounts set off
  - net amount presented in the balance sheet.
12. The standard is available from the IASB website to subscribers.
13. The new disclosure requirements are effective in the private sector for periods beginning on or after the 1 January 2013. Application to the public sector has yet to be determined.

## Amendments to IFRS 9 on financial instruments

14. The IASB has issued an amendment to *IFRS 9 Financial instruments* to defer the standard's mandatory effective date in the private sector from 1 January 2013 to 1 January 2015. Earlier application continues to be permitted. The deferral will make it possible for all three phases of the project to have the same mandatory effective date. It should be noted that application to the public sector has yet to be determined.
15. The amendments also provide relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9. This relief was originally only available to organisations that chose to apply the standard prior to 2012. Instead, additional transitional disclosures will be required to help users understand the effect that initial application has on the classification and measurement of financial instruments.
16. The standard is available from the IASB website to subscribers.

## Proposed amendments to IFRS 10 on consolidated financial statements

17. The IASB has issued [ED/2011/7 Transition guidance - proposed amendments to IFRS 10](#) to clarify the transitional guidance in *IFRS 10 Consolidated financial statements*. The proposed changes explain that the 'date of initial application' in IFRS 10 means the beginning of the annual reporting period in which the standard is applied for the first time. They also clarify
  - that an entity is not required to make adjustments to the previous accounting for its involvement with entities if the consolidation conclusion reached at the date of initial application is the same under the previous standards
  - how an entity should adjust comparative periods retrospectively if the consolidation conclusion reached at the date of initial application is different under the previous standards.
18. Comments were required by 21 March 2012. It is proposed that the amendments would apply for annual periods beginning on or after 1 January 2013, which is the effective date for IFRS 10 in the private sector.

## Consultation on presentation concepts for financial reporting

19. The [International Public Sector Accounting Standards Board](#) (IPSASB) has issued [Conceptual framework for general purpose financial reporting by public sector entities: consultation paper](#) as part of its project to develop a conceptual framework for financial reporting by public sector bodies. The purpose of the conceptual framework project is to develop concepts, definitions, and principles to guide the development of international public sector accounting standards and other documents dealing with financial reporting.
20. The consultation paper describes presentation concepts for application to general purpose financial reports (GPFRs). GPFRs are more comprehensive than financial statements and encompass financial and non-financial information, past and prospective information, and reporting on compliance. The paper describes presentation concepts that cover



- selecting information that meets user needs, satisfies the cost-benefit test, and is sufficiently timely
  - locating information to meet user needs
  - organising information to make important relationships clear and support comparability.
21. Presentation is defined in the paper as the selection, location and organisation of information in the GPFRs to meet the objectives of financial reporting, needs of users, and qualitative characteristics (i.e. relevance, representational faithfulness, understandability, timeliness, comparability, and verifiability).
22. The paper distinguishes between two types of information
- Core information which is central to meeting financial reporting objectives and user needs. It should be displayed prominently, kept to an understandable level, and be sufficient to effectively communicate the key messages related to an information area.
  - Supporting information which provides detail that will help users to understand the core information.
23. Presentation covers both
- the display of information on the face of a statement or, for information in GPFRs, the ways in which core information is shown
  - disclosure which is the term used to describe presentation of supporting information, which should be presented less prominently than core information.
24. Comments should be made to the IASB by 31 May 2012.

### Revised proposals on the future of UK financial reporting

25. The [Accounting Standards Board](#) (ASB) has issued [The future of financial reporting in the UK](#) which sets out revised proposals for UK financial reporting.
26. The revised proposals continue to recommend replacing all current UK accounting standards with a single standard based on the international standard for small and medium sized entities (*IFRS for SMEs*) issued by the IASB. However, the exposure draft contains the following significant changes to the ASB's previous proposals referred to in TB 2010/4 (page 8)
- The proposed tier system, whereby there would have been a differential reporting framework based on public accountability, has been removed.
  - The proposal to drop certain accounting treatments permitted under current accounting standards (e.g. options to revalue land and buildings, capitalise borrowing costs or carry forward certain development expenses) has been withdrawn.
27. Comments should be made to the ASB by 30 April 2012. The ASB expects to issue the final standard by the end of the year, effective for accounting periods beginning on or after 1 January 2015.

## Auditing developments

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

### New practice note on auditing financial instruments

28. The [International Auditing and Assurance Standards Board](#) has issued [IAPN 1000 Special considerations in auditing financial statements](#) to provide practical guidance on auditing financial instruments.
29. International auditing practice notes are a new category of publication which provide guidance but do not impose additional requirements on auditors. This practice note has the following two sections
  - Section 1 provides background and educational material to assist auditors who are inexperienced in financial instruments in understanding some of their common features.
  - Section 2 is focussed on auditors with previous experience of financial instruments and covers areas such as
    - assessing and responding to risks of material misstatement e.g. high measurement uncertainty; a lack of evidence; a lack of management understanding of its financial instruments; and the significance of valuation adjustments
    - valuation issues, including the fair value hierarchy.

### Proposed revisions to ISA 705

30. The APB has issued a [consultation paper](#) on proposed revisions to *ISA 705 Modifications to the opinion in the independent auditor's report*.
31. Paragraph 23 of ISA 705 requires auditors, when expressing a qualified opinion due to a material misstatement, to state in the opinion paragraph that, except for the effects of the matter giving rise to the qualification, the financial statements give a true and fair view 'in accordance with the applicable financial reporting framework'. It is proposed that the reference to the applicable framework be deleted as this expression may not be used in UK auditor's reports under the *Companies Act 2006*. It is also proposed that it be deleted from paragraph 24 in respect of an adverse opinion.
32. Paragraph 26 requires auditors to amend the description of the auditor's responsibility when expressing a qualified or adverse opinion to state that the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's modified opinion. It is proposed to delete this requirement as this gives rise to unnecessary clutter in the auditor's report.
33. When auditors disclaim an opinion, paragraph 27 requires the inclusion of a statement in the responsibility and scope paragraphs that auditors have been unable to obtain sufficient appropriate audit evidence. It is proposed to delete this requirement as the inability to obtain evidence is also stated in the opinion paragraph and this repetition is unnecessary.

34. It is proposed to amend the headings used when auditors modify their opinion to make it clear the modification relates to the opinion on the financial statements, e.g. the heading would be 'Qualified opinion on financial statements', rather simply 'Qualified opinion'.
35. Comments should be made to [s.leonard@frc-apb.org.uk](mailto:s.leonard@frc-apb.org.uk) by 31 May.

## Paper on professional scepticism

36. The IAASB has issued [Professional scepticism in an audit of financial statements](#) to highlight the importance of professional scepticism when auditing the financial statements. Auditing standards explicitly recognise the fundamental importance of professional scepticism, and define it 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. They require auditors to plan and perform an audit with professional scepticism recognising that circumstances may exist that cause the financial statements to be materially misstated.
37. This publication, in a question and answer format, focuses on considerations in the standards that are of particular relevance to the proper understanding and application of professional scepticism.
38. It states that a high-quality audit features a mindset that includes professional scepticism throughout the planning and performance of the audit. This includes being alert for contradictory audit evidence or any matters that bring into question the reliability of information obtained from management and those charged with governance.
39. Adopting and applying a sceptical mindset is a personal and professional responsibility. It is an integral part of the auditor's skill set and is closely interrelated to the fundamental concepts of auditor independence and professional judgment.
40. Financial reporting is currently seeking to address information that is more relevant to users, and more judgment and increased subjectivity is involved in management's accounting and reporting decisions. Also, many entities face difficult economic conditions that give rise to unique financial reporting and auditing challenges. Recent audit inspection reports have noted areas (e.g. fair values, related party transactions, and going concern assessments) where regulators and oversight bodies believe that auditors should have more clearly demonstrated professional scepticism.
41. These developments heighten the importance of professional scepticism by auditors, especially in areas of financial reporting that are complex or highly judgmental.

## Corporate governance developments

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

### Paper on 'comply or explain' concept

42. The [Financial Reporting Council](#) has issued [What constitutes an explanation under comply or explain](#) in respect of corporate governance reporting. Under the concept of 'comply or explain', organisations are required to explain any deviation from the provisions of the *Corporate governance code*.
43. However, research has indicated that some explanations are merely asserting that there is a difference, rather than providing a full explanation of why the organisation has chosen to deviate from agreed best practice. The paper states that a meaningful explanation should
  - be specific to the organisation's position, rather than generic or 'off-the-shelf'.
  - only apply to deviations from the provisions of the governance code, not to deviations from its main principles, which organisations are expected to apply
  - set the context and historical background
  - give a convincing rationale for the action taken
  - describe mitigating action to address any additional risk and maintain conformity with the relevant principle
  - indicate whether the deviation from the governance code's provisions is time-limited, and when the organisation intends to return to conformity with the code's provisions.

## Legislation

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

### Statutory instruments

#### Public finance and accountability

44. [The Budget \(Scotland\) Act 2011 Amendment Order 2011, SSI 434](#) came into force on 7 December 2011 and amended the *Budget (Scotland) Act 2011* in respect of 2011/12.

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## Publications

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The following publications can be obtained by using the hyperlinks.

### Audit Scotland

#### Reducing Scottish greenhouse gas emissions

45. This report from Audit Scotland [Reducing Scottish greenhouse gas emissions](#) assesses the progress in reducing greenhouse gas emissions, and evaluates the Scottish Government's approach to reducing emissions. Key messages include the following
- Scottish emissions have reduced by more than a quarter since 1990, and they must continue to fall at a similar rate to meet the statutory target of reducing emissions by 42% by 2020.
  - A third of planned emissions reductions are expected to come from policies solely under the Scottish Government's control.
  - The report estimates that the total cost of meeting the Scottish 2020 target will be around £10 billion. The Scottish Government has not established how much of the total cost will fall on the public sector.
  - The Scottish Government has difficulty in assessing its performance, due to delays in the availability of emissions data, and needs to make further progress in improving its management of emissions reductions.

#### Commissioning social care

46. This report from Audit Scotland [Commissioning social care](#) reviews how effectively the public sector commissions social care services. Key messages include the following
- Councils and health boards need to do much more to improve how social care services are planned, procured and delivered through better engagement with users and providers and better analysis and use of information.
  - There are indications that councils are continuing to focus resources on people who need more intensive support. There is a risk that people who need a small amount of support are not being offered preventative services.
  - Providers deliver a significant proportion of social care services in Scotland in addition to services provided in-house by councils. More needs to be done to manage the risks to users when a voluntary or private sector provider goes out of business or closes.

### Corporate governance

#### The excellent internal auditor - a good practice guide to skills and competencies

47. This guide from the [Chartered Institute of Public Finance and Accountancy \(CIPFA\)](#) provides suggested competencies for internal audit roles and contains a matrix setting out the key skills

that are needed. The skills are broadly generic across all levels of audit staff, and are split into three main skill sets, i.e. behavioural, technical and management.

48. This edition of the guide includes additional skills and competencies for the specialisms of contract and procurement audit and IT audit.
49. The guide can be purchased from the [CIPFA shop](#).

## Procurement

### Whole life costing

50. This guide from CIPFA covers the fundamentals of whole life costing (WLC), which is the systematic consideration of all relevant costs associated with the acquisition and ownership of an asset. The guide states that decisions made in an investment options or asset purchasing appraisal often focus on the initial capital costs, with limited attention given to the longer term costs, e.g. future likely maintenance or energy costs. The guide
  - highlights WLC's potential as an aid to improving long term value for money
  - provides an understanding of cost drivers originating from asset purchasing decisions
  - looks at the potential wider application of WLC to different types of purchase options appraisals
  - considers a wider range of costs and benefits that are not usually factored in to calculations, e.g. wider social and environmental outcomes.
51. The guide can be purchased from the [CIPFA shop](#).

## Fraud cases

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

### Expenditure

52. A third party defrauded £104,000 from a non-departmental public body (NDPB) by misusing a corporate credit card. The fraud was facilitated by the failure to carry out monthly credit card statement reconciliations. It was identified by a member of the finance team during a routine check.
53. Credit card reconciliation controls have been re-introduced and enhanced, and credit card limits have been reduced.

### Income

54. A childcare practitioner defrauded a council of over £5,000 by failing to bank income from an out-of-school club. The fraud was possible due to a lack of management controls resulting in the team leader being unaware of how much income had been generated and whether or not it had been banked.

55. The fraud was identified when a member of staff identified that cheques being banked were out of date. Further investigations identified that there were several months when no income was banked.
56. Procedures have been reviewed and clients are now invoiced for fees, rather than making payments in cash. The employee was dismissed and the matter reported to the police.

## Payroll

57. An employee defrauded a council of over £12,000 by overstating mileage in their expense claims. The fraud was possible due to weaknesses in the authorisation and checking of claims.
58. The fraud was discovered following an anonymous telephone call to the council alleging that the employee was overheard advising a colleague to overstate their mileage claims.
59. Additional controls have been introduced regarding checking and authorising expense claims, and a report is being submitted to the Procurator Fiscal.

## Private funds

60. A social care officer defrauded £14,000 from a social work client over a 4 month period. The officer concerned was a home carer and had requested a replacement bank card for the client when the original card was still in the client's possession. The replacement card was then used to make a number of cash withdrawals from the client's bank account.
61. The fraud was discovered when the family of the client noticed the money was missing and notified the police, who then contacted the council.
62. The employee has been suspended and has appeared in court. Police are reviewing other clients the officer was involved with to determine whether this was a one-off case.

## Auditor action

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

Section and paragraph	Action
TSU developments - paragraph 1	Auditors should use the model reports and guidance in note for guidance 2012/2 when reporting on the 2011/12 financial statements.
TSU developments - paragraph 6	Auditors should consider Audit Scotland's checklist when reviewing an audited body's processes for the use of government procurement cards and corporate credit cards.

# Local authority chapter

## Introduction

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

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

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note that the following articles in this chapter relate to 2011/12 audits

- TSU guidance on access to the DWP customer information system.
- 2011/12 accounting code update.
- 2011/12 guidance notes on the accounting code.
- 2011/12 guidance on accounting for the carbon reduction commitment scheme.
- 2011/12 disclosure checklist.
- Good practice on the presentation of financial statements.
- 2011/12 illustrative pension fund financial statements.
- 2011/12 HB COUNT modules.

## TSU developments

### Guidance

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The following articles provide other guidance, updates or requests from the TSU.

#### **Audit access to the DWP customer information system**

64. The Department for Work and Pensions (DWP) has revised the arrangements for allowing external auditors 'read only' access to its customer information system (CIS) as set out in TB 2011/1 (page 21). From 1 April 2012, auditors who need access to housing and council tax



benefits (HB/CTB) data on the CIS will need to complete the employee authentication service (EAS) registration process with one of the local authorities at which they will be undertaking the work. Registration is completed by the EAS agent at the authority. It is not possible to provide access to CIS other than via the registration process.

65. Auditors should

- arrange an appointment with a local authority EAS agent to complete the registration process
- produce three documents from the DWP's approved list to support their registration application. The approved list is available to inhouse auditors from the *Technical reference library* and has been emailed to the firms. Applicants are required to provide two documents from list (a) and one from list (b). The DWP has confirmed that the agent will not retain copies of any documentation shown by the auditor to support registration.

66. When registering an auditor's application, the local agent will

- take a photograph of the applicant
- record the name, surname, and first four characters of the home postcode of the applicant
- record the serial numbers only of the documents provided to support the application.

67. The DWP requires that identity documents presented to support registration must be dated. They have suggested that a combination of a passport, a driving licence and a utility bill would be acceptable for auditor registration.

68. Once the applicant has been registered by the local authority agent, the application is authorised centrally by the DWP. During this process, the auditor's record will be removed from the local authority's control and view, and will be managed centrally by the DWP. When the registration has been authorised, the auditor can use the electronic token allocated to them at all authorities at which they undertake benefits work.

69. Auditors should ensure they follow this registration process. The DWP is intending to write to local authorities confirming these arrangements.

## Accounting developments

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

### 2011/12 accounting code update

70. The [CIPFA/LASAAC Local Authority Code Board](#) has issued [Code of practice on local authority accounting in the UK - 2011/12 code update](#) to provide an update to the 2011/12 *Code of practice for local authority accounting in the UK* (the 2011/12 Code).

71. The update has been issued to reflect various developments since the 2011/12 Code was published. The amendments to the Code arising from the update that apply to Scottish local authorities are fairly minor, and the main points are summarised in the following paragraphs.
72. References have been added in respect of the requirements for the production of a remuneration report and for reporting local authority pension funds, as well as statutory guidance on accounting for investments, capital grants, and investment properties. The items reflect the requirements of the regulations and statutory guidance, and do not introduce new requirements.
73. Paragraph 9.1.2.46 previously gave police and fire boards as examples of where an authority is a party to a joint venture, and has significant influence over that joint venture, but does not have joint control. It was intended to confirm the existing accounting treatment for police and fire joint boards in group financial statements, i.e. included as associates. These examples have been removed as the rationale for the confirmation was based on the erroneous assumption that joint boards were parties to a joint venture. However, authorities are still expected to account for joint boards as associates. Further guidance is provided at paragraph 310 of note for guidance 2011/10(LA).
74. Appendix C has been updated to set out the additional disclosures that will be required in the 2011/12 financial statements in respect of accounting changes that are introduced by the adoption of amendments to *IFRS 7 Financial Instruments: Disclosures* by the 2012/13 Code (see paragraph 104).
75. The disclosures for 2011/12 include a discussion of the impact that initial application of the amendment to IFRS 7 is expected to have on the financial statements. The update states that it is likely that this standard will not have a material impact on the financial statements of local authorities. If this is the case, a statement to that effect in the financial statements is likely to be sufficient to meet the requirements of the Code.
76. Other amendments include the following
  - The definitions of a related party, a related party transaction and close members of the family of a related party have been updated to reflect amendments to *IAS 24 Related party disclosures*. There is also additional guidance on public utilities, departments and agencies of a government that do not control, jointly control or significantly influence the authority.
  - Additional clarification has been added that local authorities in Scotland are able to post capital receipts to a statutory capital fund rather than to a capital receipts reserve.
  - The statutory requirement to disclose the audited memorandum account of a fund established under the *Community Care and Health (Scotland) Act 2002* has been added.
77. Auditors should confirm that their authorities are making the necessary arrangements to comply with the new requirements in the Code update.

## 2011/12 guidance notes on the accounting code

78. CIPFA has published the *Code of practice on local authority accounting in the UK - Guidance notes for practitioners - 2011/12 accounts* which are intended to assist in understanding how to apply the accounting requirements of the 2011/12 Code.
79. The guidance notes provide background to the Code's requirements and include detailed illustrations, but are not prescriptive. They have been updated to reflect the changes to the 2011/12 Code and to clarify other matters. They are available to inhouse auditors from Audit Scotland's *Technical reference library* or can be ordered from the [CIPFA shop](#). The following paragraphs draw auditors' attention to particular points highlighted in the guidance notes.

### Heritage assets

80. Section N has been added to Module 4 of the guidance notes to provide guidance on the Code's requirements for heritage assets.
81. It highlights that the Code distinguishes heritage assets from property, plant and equipment by defining them as being held and maintained principally for their contribution to knowledge and culture. For example, a museum is an operational asset, and therefore within property, plant and equipment, as it is providing one of the services of an authority, but the artefacts and exhibits inside the museum are held for their contribution to knowledge and culture and therefore are heritage assets.
82. In most cases, assets meeting the definition of heritage assets will have been recognised in previous years as community assets, which are defined in the Code as an asset that an authority intends to hold in perpetuity. Paragraph N9 provides guidance on how assets should be classified as heritage assets or community assets. For example, while a park would normally be a community asset, a statue in the park held principally for its contribution to knowledge and culture would be classified as a heritage asset.
83. There will however be marginal cases where the distinction is not clear and, for this reason, the Code permits authorities to measure community assets in the same way as heritage assets, i.e. at valuation rather than historical cost. Where authorities take this option, all community assets will need to be measured on that basis. However, these assets retain the classification of community assets within property, plant and equipment.
84. The Code requires authorities to recognise heritage assets where the authority has information on the cost or value of the asset, with an expectation that they are normally measured at valuation. Paragraph N21 provides an example to illustrate the various options for obtaining valuations of heritage assets, e.g. insurance valuations for works of art. Where it is not practicable to obtain a valuation for an asset (at a cost commensurate with the benefits) and
- cost information is available, the Code permits the asset to be carried at historical cost (less any accumulated depreciation and impairment losses)
  - information on cost is also not available, the Code does not require that the asset is recognised on the balance sheet, but requires additional disclosures.

85. Adoption of the revised requirements for accounting for heritage assets (and community assets) amounts to a change in accounting policy, which will need to be accounted for retrospectively. A revised opening balance sheet as at 1 April 2010 will be required where adoption of the revised requirements results in a material restatement.

### **Control of leisure trusts**

86. Section A of Module 9 has been amended to provide guidance on determining whether or not an authority controls a charitable trust in which it has an interest e.g. leisure trusts. It states that *SIC 12 Consolidation – special purpose entities* needs to be considered where the authority's relationship with the charity is such that its charitable objects coincide with the activities of the local authority and the authority benefits from the operation of the charity. This is consistent with guidance issued by the TSU (see paragraph 63 of TB 2011/4).
87. The guidance advises that all four indicators of control in SIC 12 could possibly apply in relation to local authority charitable trusts. It also clarifies that SIC 12 does not require that all these indicators should be satisfied.

### **Pension strain on the fund**

88. Section D of Module 6 provides guidance on accounting for strain on the fund costs which arise from an employee retiring early, without actuarial reduction of pension. Where the fund imposes a charge on the employer, and the authority has agreed with the fund to spread the payment, the implications of early retirement decisions will normally take effect in the employer's financial statements through the IAS 19 charges produced by the actuary, with the increase in liability arising from the early retirement being reflected in the employer's past service cost charge in the cost of services. Where the actuary's statement does not reflect these charges, the employer should ensure the amounts are nevertheless taken into account.
89. The amounts charged to the general fund should be the normal contributions, and contributions for recovering a deficit, as well additional contributions (such as strain contributions) that are due to be paid in the year by the employer under agreement with the pension fund.

### **Auditor action**

90. Auditors may wish to have regard to these guidance notes when auditing the 2011/12 financial statements.

### **Guidance on accounting for the carbon reduction commitment scheme in 2011/12**

91. CIPFA has issued [LAAP bulletin 91 Accounting for the carbon reduction commitment scheme in 2011/12](#) to provide guidance on accounting for the *Carbon reduction commitment* (CRC) scheme in 2011/12.
92. 2011/12 is the first year for which there will be an obligation for participating authorities to purchase and surrender CRC allowances in relation to carbon dioxide emissions. The

retrospective purchase of allowances is anticipated to take place from 1 June 2012, and participating authorities are then required to surrender allowances to the scheme by the last working day in July.

93. The bulletin explains that the obligating event occurs when participating authorities have produced emissions that require it to purchase and surrender allowances in accordance with the CRC scheme's requirements. Therefore the obligation to meet the participating authority's CRC responsibilities arises during 2011/12, and should be recognised at 31 March 2012. It should be measured in accordance with the requirements of the Code in relation to accounting for provisions. Participating authorities should ensure that they have effective procedures for estimating carbon dioxide consumption to ensure accurate measurement of the liability at the reporting date.
94. The bulletin recommends that the cost of the obligation, as an operating cost of the participating authority, should be allocated to services in 2011/12 in line with the requirement from 2012/13 (see paragraph 108).
95. Participating authorities are required to ensure their accounting policies extend to cover the recognition of the obligations for CRC, and an illustration of an example accounting policy is included in the bulletin's appendix.
96. Auditors should confirm that participating authorities are aware of this guidance and are giving it due regard when accounting for the CRC scheme in 2011/12.

### 2011/12 disclosure checklist

97. CIPFA has published the *Code of practice for local authority accounting in the UK - Disclosure checklist for 2011/12 accounts* which reflects the disclosure requirements of the 2011/12 Code. The checklist is intended to be an aide-memoire for local authorities and auditors to ensure the Code's disclosure requirements are met.
98. If the answer to a question in the checklist is 'no', a justification for departing from the Code requires to be given by the authority and, where the impact is material, disclosed in the financial statements.
99. The checklist may be ordered from the [CIPFA shop](#).
100. Auditors may find it helpful to obtain and review a completed checklist as part of their testing of an authority's compliance with the Code's disclosure requirements when auditing the 2011/12 financial statements.

### Good practice on presentation of financial statements

101. The [Local Authority \(Scotland\) Accounts Advisory Committee](#) has issued [IFRS presentation - review of 2010/11 financial statements](#) which identifies good practice in the presentation of local authority financial statements. The report arises from a review of the 2010/11 financial statements, and considered the extent to which they were focused, open, understandable, and engaging.

102. The report highlights a number of practices concerned with overall presentation, including
- the inclusion of financial statements within a wider annual report
  - using a few simple charts and graphs to illustrate key facts
  - providing an index for disclosure notes, possibly with page numbers.
103. Practices highlighted in respect of the financial statements include
- clear cross-references to the disclosure notes.
  - consideration of whether individual items are sufficiently material to warrant presentation on the face of a statement
  - references in the disclosure of key judgments in applying accounting policies to, for example, the determination of leases, group relationships, employee benefits and equal pay.

### 2012/13 accounting code

104. The CIPFA/LASAAC Local Authority Code Board has issued the 2012/13 Code. In addition to the changes arising from the 2011/12 Code update, the main amendments to the Code are as follows
- Chapter 2 has been amended in respect of the objective of financial statements and qualitative characteristics of useful financial information to reflect the first phase of the IPSASB's new conceptual framework.
  - Encouragement has been added to section 3.1 for authorities to base the explanatory foreword on the requirements of the *Government financial reporting manual* (the FReM). It should be noted that the proposed option of basing the explanatory foreword on the IASB's practice statement on management commentaries has been dropped.
  - As indicated at paragraph 74, the Code has been amended (at paragraph 7.4.2.4) to incorporate the amendments to IFRS 7 for the transfers of financial assets. Authorities will be required to provide disclosures specified in IFRS 7 for all transferred financial assets that are not derecognised and for any continuing involvement in a transferred asset, existing at the reporting date.
105. It should be noted that the proposal to allow voluntary adoption of the *Code of practice on transport infrastructure assets* in 2012/13 has not been taken forward.

### 2012/13 service reporting code

106. CIPFA has issued the *Service reporting code of practice for local authorities 2012/13* (SeRCOP) which sets out proper accounting practice for financial reporting below the level of the financial statements in 2012/13.
107. Section 2, which defines total cost, and Section 3, which sets out the service expenditure analysis (SEA), provide the mandatory requirements of SeRCOP. The SEA provides for the service reporting requirements of the financial statements, and is required by the Code to be followed.



108. Section 4 includes the recommended standard subjective analysis. It also incorporates amendments regarding accounting for CRC allowances, which is the only change to this edition that affects Scottish authorities. SeRCOP requires the cost of the CRC allowances to be charged to services on a reasonable basis that fairly reflects the production of CRC carbon emissions. As the calculation of carbon emissions is primarily based on energy bills, it is recommended that the cost of CRC allowances is apportioned to services in accordance with the method of apportionment used for other energy cost charges, as part of premises costs.
109. SeRCOP will be available in due course to inhouse auditors from Audit Scotland's *Technical reference library* or may be ordered from the [CIPFA shop](#).

## Other developments

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

### Finance

#### 2011/12 to 2014/15 revenue support grant and non domestic rate income

110. The [Scottish Government](#) has issued several finance circulars (i.e. [11/2011](#), [12/2011](#) and [1/2012](#), [3/2012](#)) to support [The Local Government Finance \(Scotland\) Order 2012](#) and [The Local Government Finance \(Scotland\) Amendment Order 2012](#). The circulars provide details of the
- total revenue and capital funding allocations for 2012/13 to 2014/15
  - non-domestic rate (NDR) poundage and distributable amount for 2012/13
  - provisional 2012/13 targets for the new *Business rates incentivisation* scheme
  - the latest information on current known redeterminations for 2011/12.

### Pension funds

#### 2011/12 example accounts and disclosure checklist

111. CIPFA has issued *Local government pension scheme fund accounts 2011/12 example accounts and disclosure checklist* to provide an illustration of the 2011/12 financial statements of local government pension scheme funds.
112. The publication provides an example set of accounts that meet the minimum requirements of the Code. It sets out a fund account and a net assets statement as well as information to be disclosed in the notes. Disclosures required by the Code include the following
- The note on key judgments in applying accounting policies highlights the highly subjective nature of determining the fair value of private equity investments. It also explains the calculation of the pension fund liability and the fact that the estimate is subject to significant variances based on changes to the underlying assumptions.

- The note on assumptions about the future and other sources of estimation uncertainty considers the items in the net assets statement for which there is a significant risk of material adjustment in the forthcoming year e.g. actuarial present value of promised retirement benefits, debtors, private equity and hedge funds.
  - The note on events after the end of the review period highlights as a non-adjusting event the marked decline in the global stock markets which would impact on the market value of the fund's investments were they to be valued as at the date the accounts were authorised.
  - The note on the nature and extent of risks arising from financial instruments provides illustrative wording for explaining market risk, credit risk and liquidity risk.
  - The note on related party transactions describes the relationship between the administering council and the pension fund, including the costs incurred and reimbursed in administering the fund and the amount paid as contributions. It also gives details of the members of the pension fund committee who are in receipt of pension benefits, and the employees of the administering council who hold key positions in the financial management of the fund.
113. The publication also includes a disclosure checklist that identifies the Code's requirements in relation to pension funds.
114. It is available to inhouse auditors from Audit Scotland's *Technical reference library* or can be ordered from the [CIPFA shop](#).
115. Auditors may wish to have regard to this publication when auditing the 2011/12 pension fund financial statements. Auditors may also find it helpful to obtain and review a completed checklist as part of their testing of an administering authority's compliance with the Code's disclosure requirements.

### **2012/13 Teachers pension contributions**

116. The [Scottish Public Pensions Agency](#) has issued [Teachers superannuation scheme circular 3/2012 Introduction of tiered member contribution structure etc](#) to advise of the introduction of tiered member contributions for the teachers' superannuation scheme from 1 April 2012 by [The Teachers' Superannuation \(Scotland\) Amendment Regulations 2012](#).
117. The contributions are based on seven salary tiers based on teachers' full time equivalent contributable salaries. The circular sets out the rates for each tier for 2012/13. The increases for 2013/14 have still to be decided.

### **Non domestic rates**

#### **2012/13 rate, interest and levying**

118. The following statutory instruments have been made in respect of NDR for 2012/13
- [The Non-Domestic Rate \(Scotland\) Order 2012](#) prescribes a rate for NDR to be levied of 45 pence.



- [The Non-Domestic Rates \(Levying\)\(Scotland\) Regulations 2012](#) provide
  - for the general reduction in rates for NDR subjects with a rateable value of £18,000 or less
  - a formula for the additional amount payable as NDR for lands and heritages with a rateable value exceeding £35,000.
- [The Non-Domestic Rates \(Levying\)\(Scotland\) \(No 2\) Regulations 2012](#) provide a formula for an additional amount payable as NDR for off-licences which have a rateable value of £300,000 or more.

119. In addition, the Scottish Government has issued [Finance circular 4/2012 The non-domestic rate interest rate for 2012/13](#) to specify rate of 0% to be applied in 2012/13 for calculating the interest due when repaying overpaid interest.

### 2012/13 deferral scheme

120. The Scottish Government has issued [Finance circular 2/2012 The non-domestic rates deferral scheme 2012/13](#) to set out the NDR deferral scheme for 2012/13.
121. Under this scheme, rate paying businesses can opt to defer payment of part of the increase in their 2012/13 business rates bills as a result of the 5.6% increase in the poundage until 2013/14 and 2014/15.
122. In practice, this deferred amount is equal to 3.2% of the 2012/13 bill, which will be repaid half in 2013/14 and half in 2014/15.

### 2012/13 enterprise areas

123. [The Non-Domestic Rates \(Enterprise Areas\) \(Scotland\) Regulations 2012](#) have been passed to provide relief for NDR in four enterprise areas in 2012/13.
124. The regulations provide that NDR relief is available on a sliding scale in specified enterprise areas for new businesses, and businesses set up in vacant premises, if they carry out an activity listed in the regulations.

## Benefits

### 2011/12 HB COUNT modules

125. The Audit Commission has issued modules 1 to 3 of the [2011/12 HB COUNT](#) which set out its approach to the certification of HB/CTB subsidy claims for 2011/12. HB COUNT was designed by the Audit Commission but external auditors in Scotland should also use the HB COUNT testing and reporting approach when certifying HB/CTB subsidy claims.
126. HB COUNT comprise six modules that are updated and agreed with the DWP each year, and the following have been issued for 2011/12
- Module 1 provides an overview of the approach.

- Module 2 contains a checklist to help auditors ensure that the authority's system is using the correct benefit parameters to calculate benefit entitlement and for the authority to claim the correct amount of subsidy.
  - Module 3 comprises workbooks to be completed for detailed testing, incorporating step-by-step guidance and a test result summary.
127. 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.
128. For 2011/12, the key changes to HB COUNT are to reflect DWP changes to the regulations and subsidy order. The most significant of these are
- revisions to the caps for temporary accommodation and registered housing associations
  - revisions to local housing allowance (LHA) to reflect the removal of the £15 excess, the revised caps, and transitional protection
  - a change to the definition of technical overpayments, with different scenarios now applying between benefit types.
129. An [e-learning package](#) setting out the principles of the HB COUNT approach is available. The package has been designed for those new to benefits work or HB COUNT, and those who wish to refresh their understanding of elements of the HB COUNT approach.
130. Auditors should use the HB COUNT modules for the certification of the 2011/12 subsidy claim. Guidance on the HB COUNT testing and reporting approach will be provided by the TSU in due course.

### Changes to shared accommodation rate

131. The DWP has issued two circulars on changes to the shared accommodation rate from January 2012.
132. [HB/CTB circular A12/2011 \(Revised\) Changes to shared accommodation rate](#) explains that the age threshold for where the level of help for single people who live on their own is restricted to the shared accommodation rate has now been increased from those aged under 25 to those under 35. Most current exemptions have been amended to reflect the new age threshold.
133. [HB/CTB circular A14/2011 Changes made to the use of the shared accommodation rate](#) supplements the guidance included in circular A12/2011 regarding the following two further exemptions that have been introduced for those aged 25 and over
- Ex-offenders who pose a risk of serious harm to the public and who are managed by multiagency agreements. Local authorities are notified of individuals meeting the exemption criteria by the lead support agency or social work officer using a standard proforma notification form (set out at Annex B to the circular).
  - Claimants who have spent at least three months in a hostel for homeless people. The circular confirms that claimants must be in receipt of rehabilitation and resettlement

support to qualify for an exemption. Self contained flats and temporary accommodation are outside the exemption qualification criteria.

134. Changes to individual benefit claims will be introduced at different times depending on a number of factors
- For existing claims awarded before the introduction of LHA in April 2008, and still subject to local rent reference rules, the changes apply from the next annual review.
  - For existing LHA cases with transitional protection, the changes apply from when the transitional protection ends.
  - For LHA cases awarded between 1 April 2011 and 31 December 2012, the changes will apply from the first anniversary of the claim.

### 2012/13 benefits rates

135. The DWP has issued [HB/CTB circular A01/2012 Housing benefit & council tax benefit: 2012/13 uprating](#) to advise that most HB/CTB will be uprated by 5.2% from April 2012 in line with the consumer price index.
136. The completion of Module 2 of HB COUNT (see paragraph 125) will help auditors ensure that the authority is using the correct parameters.

## Police and fire

### Reform

137. The [Police and Fire Reform \(Scotland\) Bill](#) has been introduced to the Scottish Parliament to replace the existing unitary police and fire authorities and joint boards with a single police service and a single fire and rescue service.
138. The bill provides for the establishment of the Scottish Police Authority (SPA), which will be responsible for the governance, oversight and maintenance of the police service; for holding the Chief Constable to account; and for providing forensic services. It also requires the SPA to prepare a statement of accounts as soon as practicable after the end of the year and send a copy to the Auditor General to be audited.
139. The bill also provides for the establishment of a new Scottish Fire and Rescue Service (SFRS) with responsibility for the delivery of fire and rescue functions, and for employing the Chief Officer, fire-fighters and other staff. The SFRS is also required to prepare a statement of accounts as soon as practicable after the end of the year and send a copy to the Auditor General to be audited.

### 2012/13 police pension contributions

140. The SPPA has issued [Police pension scheme circular 1/2012 Increase in employee contributions](#) to advise of an increase in police employee pension contributions from 1 April 2012 under [The Police Pensions \(Contributions\) Amendment \(Scotland\) Regulations 2012](#).

141. The contributions are based on three salary tiers (under £27,000, between 27,000 and 60,000, and 60,000 and over). The tier into which each officer falls depends on basic annual salary.
142. The annex sets out the rates for the old and new schemes for each tier for 2012/13. The increases for 2013/14 have still to be decided.

## Legislation

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

### Statutory instruments

#### Local government

143. [The Local Government Finance \(Scotland\) Order 2012, SSI 41](#) came into force on 10 February 2012. See paragraph 110.
144. [The Local Government Finance \(Scotland\) Amendment Order 2012, SSI 94](#) came into force on 16 March 2012. See paragraph 110.

#### Rating and valuation

145. [The Non-Domestic Rate \(Scotland\) Order 2012, SSI 27](#) comes into force on 1 April 2012. See paragraph 118.
146. [The Non-Domestic Rates \(Levying\)\(Scotland\) Regulations 2012, SSI 28](#) come into force on 1 April 2012. See paragraph 118.
147. [The Non-Domestic Rates \(Levying\)\(Scotland\) \(No 2\) Regulations 2012, SSI 29](#) come into force on 1 April 2012. See paragraph 118.
148. [The Non-Domestic Rates \(Enterprise Areas\) \(Scotland\) Regulations 2012, SSI 48](#) come into force on 1 April 2012. See paragraph 123.

#### Police

149. [The Police Grant and Variation \(Scotland\) Order 2012, SSI 49](#) comes into force on 1 April 2012 and
  - determines the amount of grant for police authorities for 2012/13
  - varies the grant for 2010/11 on the basis of audited financial statements.

#### Pensions

150. [The Teachers' Superannuation \(Scotland\) Amendment Regulations 2012, SSI 70](#) come into force on 1 April 2012. See paragraph 116.

151. [The Police Pensions \(Contributions\) Amendment \(Scotland\) Regulations 2012, SSI 71](#) come into force on 1 April 2012. See paragraph 140.

## Section 102 reports

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**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 2011/4 and can be obtained by using the hyperlink.**

### **Shetland Islands Council - follow-up**

152. The purpose of this [follow-up report](#) on Shetland Islands Council is to update the Accounts Commission on the progress the council has made on its improvement action plan. The report includes the outcome of further audit work requested by the Commission in August 2010 following a public hearing.
153. The report concludes that the council has taken prompt action to address the issues highlighted and has made good progress to date on implementing many important elements of its improvement plan. However, the auditor's opinion on the financial statements was again qualified due to the omission of the Shetland Charitable Trust results from the group financial statements.
154. The Commission welcomed the prompt action and progress made by the council with its improvement plan, and is encouraged that the council has now put in place many of the essential building blocks of best value. However, the Commission is seriously concerned that the auditors have qualified their opinion on the financial statements for the sixth year in succession.

## Publications

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**The following publication can be obtained by using the hyperlink**

### **Audit Scotland**

#### **An overview of local government in Scotland - Challenges and change in 2012**

155. This report from Audit Scotland [An overview of local government in Scotland - Challenges and change in 2012](#) provides the Accounts Commission's perspective on local government in Scotland based on recent audit work. Key messages include the following
- The pressures on local government finances present a substantial challenge, and strong leadership and governance is required. It is vital that the statutory officer for finance has appropriate access and influence.
  - Local authorities need to take a structured approach to options appraisal and demonstrate the basis for decisions.

- Councils and their partners need to develop partnership working to ensure that partnership performance systems are sound and that accountabilities are clear.
- Councils coped well with the change to international financial reporting standards, but some auditors highlighted concerns about the quality of the financial statements presented for audit and the need for significant changes as a result of the audit. However, unmodified audit opinions were issued on the financial statements for all authorities except Shetland Islands Council.

## Auditor action

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

Section and paragraph	Action
TSU developments - paragraph 64	Auditors should ensure they follow the revised registration process to gain access to the DWP's CIS
Accounting developments - paragraph 70	Auditors should confirm that their authorities are making the necessary arrangements to comply with the new requirements in the 2011/12 Code update
Accounting developments - Paragraph 78	Auditors may wish to have regard to the guidance notes on the accounting code when auditing the 2011/12 financial statements.
Accounting developments - Paragraph 91	Auditors should confirm that participating authorities are aware of the guidance on the CRC scheme and are giving it due regard when accounting for the scheme in 2011/12.
Accounting developments - paragraph 97	Auditors may find it helpful to obtain and review a completed disclosure checklist as part of their testing of an authority's compliance with the Code's disclosure requirements when auditing the 2011/12 financial statements.
Other developments - Paragraph 111	Auditors may wish to have regard to the pension fund publication when auditing the 2011/12 financial statements. Auditors may also find it helpful to obtain and review a completed disclosure checklist as part of their testing of an administering authority's compliance with the Code's disclosure requirements.
Other developments - Paragraph 125	Auditors should use the HB COUNT modules for the certification of the 2011/12 subsidy claim.

# Central government chapter

## Introduction

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

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

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note that the following article in this chapter relates to 2011/12 audits

- Note for guidance on auditing the 2011/12 financial statements.
- TSU guidance on the GBS.
- Amendments to the 2011/12 FReM.
- Guide on international financial reporting standards issued in 2011/12.
- Guidance on government grants and donated assets.
- Guidance on governance statements.
- Guidance on the preparation of sustainability reports.
- Guidance on the governance of public-private sector projects.
- Changes to the SPFM.
- Guidance on payment arrangements which seek to minimise the tax liability.
- 2011/12 disclosure guide.



## TSU developments

### Publications

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The following note has been published by the TSU since TB 2011/4. It can be obtained by using the hyperlink and is available to inhouse auditors from Audit Scotland's *Technical reference library*.

#### Note for guidance on auditing 2011/12 central government financial statements

156. The TSU has published [Note for guidance 2012/1\(CG\) Audit of 2011/12 central government financial statements](#) to provide auditors with guidance on planning and performing the audit of the 2011/12 central government financial statements.
157. ISA 315 *Identifying and assessing the risks of material misstatement through understanding the entity and its environment* requires auditors to identify and assess the risks of material misstatement in the financial statements. The TSU has published this note for guidance to assist auditors in meeting that requirement by highlighting the areas that the TSU considers represent a generic risks of material misstatement in the 2011/12 financial statements.
158. Paragraph 285 of the note for guidance highlights the new requirement for a governance statement which replaces the previous requirement for a statement of internal control (SIC). The note states that the *Scottish public finance manual* (SPFM) had not yet been updated for this change, but that it would provide a pro-forma. The SPFM has subsequently been updated (see paragraph 187), but it should be noted that it does not provide a proforma.
159. Auditors should use this note for guidance when planning and performing the audit of the 2011/12 central government financial statements.

### Other matters

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The following article provides a request and update from the TSU.

#### Government banking service account details

160. The TSU has contacted the Government Banking Service (GBS) and has confirmed that the arrangements for the TSU to obtain the year end account balances for central government and health bodies will again be employed for 2011/12. The GBS operates accounts with the Royal Bank of Scotland and Citibank.
161. The GBS require bodies to submit an auditor authorisation form to allow disclosure of account balances to auditors.
162. Auditors should confirm the account details at their bodies have not changed from 2010/11 and confirm that their bodies have submitted an auditor authorisation form to the GBS.



## Accounting developments

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

### Amendments to 2011/12 FReM

163. [HM Treasury](#) has issued amendments to the 2011/12 *Government financial reporting manual* (the FReM).
164. The main amendment is to [chapter 5](#) in respect of new disclosure requirements for top to median pay multiples. FReM paragraph 5.2.20e now requires bodies to disclose within the remuneration report
- the median remuneration of the body's staff
  - the mid-point of the banded remuneration of the highest paid director
  - the ratio between the two
  - information explaining the calculation, including the causes of significant variances where applicable.
165. The FReM requires the calculation to be based on the full-time equivalent staff at the reporting period end date on an annualised basis.
166. Treasury has also issued [Hutton review of fair pay - implementation guidance](#) to provide additional guidance on this new requirement. The guidance explains that the median remuneration relates to the staff member lying in the middle of the linear distribution of the total remuneration of all staff, excluding the highest paid director. It should be rounded to the nearest pound.
167. For remuneration calculations
- Remuneration is the sum of the amounts already required to be disclosed for directors by the FReM, including salary, non-consolidated performance-related pay, benefits-in-kind allowances, and severance payments.
  - Employer pension contributions and cash equivalent transfer values should be excluded, and this exclusion should be noted in the narrative disclosure.
  - Agency staff, other temporary staff covering staff vacancies, and any premium paid to an employee to cover a short term vacancy should be included within the median calculation. However, consultancy services and agency fees should be excluded.
168. Disclosure of comparatives is encouraged in 2011/12, but will be required for future years.
169. A suggested format is attached to the guidance at Appendix A.
170. As indicated at paragraph 158, a further significant change to the FReM is that references to a SIC have been replaced with references to a governance statement (see paragraph 187 for guidance on this).

**171.** Other changes to the FReM include the following

- The FReM previously interpreted *IFRS 8 Operating segments* so that operating segments for departments required to be their agreed strategic objectives (DSOs). As the requirement for DSOs has been removed, the interpretation no longer applies, and IFRS 8 now applies in full without interpretation or adaptation.
- The requirement for bodies to disclose an analysis of net operating costs by spending body in a note to the financial statements has been removed.
- The FReM has been amended to provide guidance on the applicability of *IFRIC 19 Extinguishing financial liabilities with equity instruments*, which sets out the accounting treatment for when a body extinguishes a financial liability by issuing equity, rather than settling in cash. The FReM now requires bodies to apply IFRIC 19, without interpretation and adaptation, and requires the equity to be reported at fair value.

**172.** Auditors should confirm that their bodies are aware of the changes and are making the necessary arrangements to comply.

## 2012/13 FReM

**173.** Treasury has issued the [2012/13 FReM](#).

**174.** There is only one substantive change from 2011/12 FReM, which required investments in public bodies outside the departmental boundary to be reported at historic cost less impairment as an interpretation of *IAS 39 Financial instruments: Recognition and measurement*.

**175.** This interpretation has been removed which means IAS 39 now applies in full to these investments.

## Guide on IFRSs issued in 2011/12

**176.** Treasury has issued an [Analysis of new IFRS issued in 2011/12](#) to set out international financial reporting standards (IFRS) issued and/or effective during 2011/12.

**177.** New or amended standards that are effective for the first time in 2011/12 include

- The amendment to *IFRS 3 Business combinations* which states that the choice of measuring non-controlling interests (i.e. either at fair value or the proportionate share of the acquiree's net assets) only applies where ownership interest entitles the holder to a proportionate share of net assets. The amendment applies to all combinations involving an entity within the public sector with an entity outside the sector.
- The amendment to *IFRS 7 Financial instruments: Disclosures* which requires disclosure of the nature and extent of risks arising from financial instruments, in particular, linking qualitative and quantitative disclosures and clarifying collateral disclosure applies in full from 2011/12.
- The amendments to *IAS 24 Related parties* which clarify the definition of a related party and simplify the disclosure requirements for bodies that are controlled, jointly controlled

or significantly influenced by a government were already covered by an interpretation to the FReM.

178. The guide also lists the standards that have been issued but are not yet effective and therefore require disclosure in 2011/12 in accordance with *IAS 8 Accounting policies, changes in accounting estimates and errors*. They includes an amendment to *IFRS 7 Financial Instruments: disclosures* which has increased disclosure requirements for transfers of financial assets which applies in full from 2012/13.
179. The guide also refers to standards that have not yet been approved by the EU, the application of which to the FReM is being reviewed by Treasury before being subject to consultation. They include the following
- *IAS 1 Presentation of financial statements (Other comprehensive income)* which requires items of other comprehensive income to be grouped on the basis of whether they might be reclassified to profit
  - An amendment to *IAS 19 Post-employment benefits* which introduces new presentation and disclosure requirements which may impact on bodies with defined benefit pension schemes. There may also be an impact from modifications to accounting for termination benefits.
  - *IFRS 10 Consolidated financial statements, IFRS 11 Joint arrangements and IFRS 12 disclosure of interests in other entities* which affect the consolidation and reporting of subsidiaries, associates and joint ventures.
  - *IFRS 13 Fair value measurement* which has been issued to provide consistent guidance on fair value measurement for all relevant balances and transactions.
180. Auditors should confirm that their audited bodies are complying with the new requirements effective for 2011/12, and are making appropriate disclosures under IAS 8 for standards issued but not yet effective.

### Guidance on government grants and donated assets

181. The Scottish Government has issued guidance on the change to the 2011/12 FReM in respect of the treatment of capital grants and donated assets (see TB 2011/1 - page 68). Auditors will be aware that the value of the financing now normally requires to be recognised immediately rather than being taken to the government grant reserve or donated asset.
182. The guidance confirms that this should be treated as a change in accounting policy and illustrates the accounting entries required for the prior year adjustment.
183. The guidance also advises that the change does not apply to charitable NDPBs, which should continue to follow the charities SORP.

### 2012/13 discount rate for pension liabilities

184. Treasury has issued *PES(2011)08* which advises that the discount rate for post employment benefits will change from 2.9% real to 2.8% real from 31 March 2012.

185. This will effect the accounting arrangements for pension liabilities as follows

- The pension liability at 31 March 2012 will be discounted at the new rate, resulting in an increase in the value of the pension liability. The change in the value of the pension liability will be reflected through other comprehensive expenditure and not in the main body of the statement of comprehensive net expenditure for 2011/12.
- There will be a change to the interest in the statement of comprehensive net expenditure in 2012/13 as a result of a lower level of discount being unwound that applies to a higher starting liability figure.
- There will also be a higher current service cost for 2012/13.

186. For early departure provisions, the movement in liabilities arising from the change in discount rate should be recognised in the main body of the statement of comprehensive net expenditure.

## Corporate governance developments

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

### Guidance on governance statements from 2011/12

187. The Scottish Government has issued a new section of the SPFM on [governance statements](#) to replace the previous section on SICs. This is in line with the recent change to the 2011/12 FReM referred to at paragraph 170 which requires a governance statement instead of a SIC.

188. The new section explains that a governance statement should provide a clear understanding of a body's internal control structure and its management of resources. The statement should be informed by work undertaken to gain assurance about performance and risk management, providing an insight into the body's risk profile and its responses to identified and emerging risks.

189. The SPFM previously provided a pro-forma SIC, but there is no set format for a governance statement. The new section, however, sets out the statement's essential features, and requires it to include

- the governance framework of the body, including information about the committee structure of the governing board, and its operation during the period
- an assessment of corporate governance with reference to compliance with generally accepted best practice principles and relevant guidance (e.g. *On board: A guide for board members of public bodies in Scotland*), and explanations where a different approach has been adopted
- an assessment of the body's risk management arrangements and risk profile
- a record of any written authorities provided to the Accountable Officer
- details of any significant lapses of data security.

190. It requires the preparation of the governance statement to be informed by
- the views of the audit (and risk) committee on the assurance arrangements
  - the opinion of internal and external audit on the quality of the systems of governance, management and risk control
  - assurances from senior staff along the lines of the framework described in the section of the SPFM on certificates of assurance
  - feedback from within the body in respect of its use of resources, responses to risks, and the extent to which in-year budgets and other targets have been met.
191. Auditors should confirm that their bodies are aware of this guidance and are making the necessary arrangements to comply. Auditors should also pay due regard to the guidance when reviewing and reporting on the governance statement.

## Other developments

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

### Sustainability

#### New guidance on the preparation of sustainability reports

192. The Scottish Government has issued [guidance](#) on the preparation of sustainability reports from 2011/12.
193. In line with the requirements of the FReM, from 2011/12, relevant bodies are expected to produce a sustainability report alongside (though not necessarily integral to) their annual report and accounts covering their performance on sustainability during the year.
194. Treasury guidance on sustainability reports does not apply in Scotland, and therefore this guidance has been developed which is appropriate to Scottish circumstance. The aim of the guidance is to encourage and support a consistent and comparable approach to the publication of sustainability information.
195. The guidance identifies suggested minimum reporting requirements which bodies are expected to meet. From 2011/12, all relevant bodies are encouraged to produce a *Scottish public sector sustainability report* including
- a simple overview commentary covering a body's performance in the reported year along with an overview of forward plans
  - a report comprising a table of financial and non-financial information covering the body's emissions, waste, water and any other finite-resource consumption for the financial year to which it relates.

196. However, bodies are encouraged to report beyond these minimum requirements, and in particular to consider and report on the economic, social and environmental factors that are most material and how these relate to policy, procurement and operations.

## Finance guidance notes

### Guidance on the governance of public-private sector projects

197. The Scottish Government has issued [Finance guidance note 2012/01 Governance of public-private sector projects](#) to promote good practice in the governance of public-private sector projects.
198. It advises that bodies should give due consideration to the Auditor General's recommendations on the governance arrangements of public-private sector projects. These include recommending that bodies should
- ensure good communication between joint funding bodies through regular exchange of information and agreeing roles and responsibilities
  - consider carefully the role, remits, membership and reporting line of steering groups. The note clarifies that the Scottish Government would not normally seek membership of steering groups unless it was directly providing a significant proportion of the core funding, but that consideration will be given to membership where the project is of national significance
  - ensure that the accountability for spending public money is always clearly understood
  - set out clear expectations for financial reports. Consideration should also be given to the recommendation by the Public Audit Committee that relevant financial reports should include details of all actual income and expenditure to date.

### Changes to SPFM

199. The Scottish Government has issued [Finance guidance note 2012/2 SPFM amendments](#) to advise of the following substantive amendments to the SPFM
- In the section on [major investment projects](#), the de minimis for defining such projects has increased from £2 million to £5 million, inclusive of fees and VAT.
  - The [procurement section](#) has been amended to state that the use of consultants can only be justified where the required knowledge and expertise is not available in-house. It also sets out de minimis levels where specific prior approval is required.
  - The new section on governance statements referred to at paragraph 187.

### Guidance on payment arrangements intended to minimise tax liability

200. The Scottish Government has issued [Finance guidance note 2012/03 Tax arrangements of public sector appointments](#) on payment arrangements which seek to minimise the tax liability of either an individual or the paying body.

201. There is a presumption against such arrangements, which can only be justified in the most exceptional circumstances and with the agreement of the Scottish Ministers. There is therefore a requirement for bodies to consult the Scottish Government Finance Directorate before any such arrangements are put in place.
202. This requirement has been included in the [tax planning and tax avoidance](#) section of the SPFM.

## Disclosure guides

### 2011/12 FReM disclosure guide

203. The [National Audit Office](#) (NAO) has issued the [2011/12 disclosure guide](#) which is designed to ensure that entities covered by the FReM have prepared their 2011/12 financial statements in the appropriate form and have complied with all disclosure requirements.
204. The guide is cross-referenced to the 2011/12 FReM, and to individual standards, the *Companies Act 2006* and other relevant documents. In order to ensure that the guide is applied correctly, auditors may need to follow the cross-references to ascertain the full nature of the requirements and any exceptions.
205. While the guide is designed primarily for the NAO's internal uses, auditors in Scotland may also find it helpful.

## Section 22 reports

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**Under section 22(3) of the *Public Finance and Accountability (Scotland) Act 2000*, the Auditor General may prepare a report to Scottish Ministers on the accounts sent to him by auditors. The following report has been prepared since TB 2011/4 and can be obtained by using the hyperlink.**

### 2010/11 audit of National Library of Scotland

206. The Auditor General issued this report [2010/11 audit of National Library of Scotland](#) to update Parliament on a financial misappropriation which was reported on the financial statements for 2009/10.
207. The body's former Chief Information Officer has pleaded guilty to defrauding the body of £500,000 over a four year period. The fraud arose from misuse of a government purchasing card and through a contract awarded to a company owned by the former Chief Information Officer.
208. The body has improved its procedures to ensure that a similar fraud could not take place in future. Strengthened procedures require managers to examine procurement methods more closely before authorising expenditure, and a replacement finance system is designed to increase the effectiveness of internal controls and financial management.



## Auditor action

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

Section and paragraph	Action
TSU developments Paragraph 156	Auditors should use note for guidance 2012/2(CG) when planning and performing the audit of the 2011/12 central government financial statements.
TSU developments Paragraph 160	Auditors should confirm the bank account details at their bodies have not changed from 2010/11 and confirm that their bodies have submitted an auditor authorisation form to the GBS.
Accounting developments Paragraph 163	Auditors should confirm that their bodies are aware of the changes to the 2011/12 FReM and are making the necessary arrangements to comply.
Accounting developments - paragraph 176	Auditors should confirm that their audited bodies are complying with the new IFRS requirements effective for 2011/12, and are making appropriate disclosures under IAS 8 for standards issued but not yet effective.
Other developments - Paragraph 187	Auditors should confirm that their bodies are aware of the guidance on governance statements and are making the necessary arrangements to comply. Auditors should also pay due regard to the guidance when reviewing and reporting on the governance statement.



# Health chapter

## Introduction

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

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

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note that the following articles in this chapter relate to 2011/12 audits

- TSU request for ISA 260 written communications.
- 2011/12 accounts manual.
- 2011/12 capital accounting manual.
- 2011/12 governance statements guidance.
- Sustainable development policy and strategy.
- Partnership information network policies.
- Guidance on annual leave policy.
- Guidance on workforce plans.
- 2011/12 pharmacy remuneration.
- Discount clawback rate.
- Additional public holiday in 2012.
- 2011/12 executive and senior managers' pay.
- Medical director's remuneration arrangements.
- Annual report on NHS estate.

## TSU developments

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The following article provides a request from the TSU.

### ISA 260 communications

211. *ISA 260 Communication with those charged with governance* requires auditors to communicate in writing with those charged with governance regarding significant findings from the audit.
212. In order to enhance the TSU's understanding of the type of technical matters being reported, with a view to informing future notes for guidance, auditors are requested to send a copy of their ISA 260 written communications in respect of health bodies for 2011/12 to [ncameron@audit-scotland.gov.uk](mailto:ncameron@audit-scotland.gov.uk).

## Accounting developments

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The documents referred to in the following articles are available to inhouse auditors from Audit Scotland's *Technical reference library*.

### 2011/12 accounts manual

213. The [Scottish Government Health and Social Care Directorates](#) (SGHSCD) has issued the 2011/12 *NHS boards accounts manual for directors' report and accounts* (the accounts manual). The accounts manual interprets the accounting guidance contained in the 2011/12 FReM for health boards. The main changes to the accounts manual from the previous version are summarised in the following paragraphs.
214. References to the donated asset reserve and government grant reserve have been removed from the manual. This is due to the change in treatment in the 2011/12 FReM (referred to at paragraph 181) where capital grants received and the funding element of donated assets require to be credited to income rather than to reserves.
215. The new requirement in the 2011/12 FReM for bodies to publish their top to median pay multiples (referred to at paragraph 164) has been reflected on page 22 of the accounts manual.
216. Other changes include the following
- The narrative on page 46 has been amended to refer to the need for a prior year adjustment for the transfer to boards of responsibility for the provision of healthcare in prisons in November 2011.
  - References to SICs have been replaced with governance statements in line with the change in FReM requirements (see paragraph 222 for more guidance).
  - The proforma disclosure for the remuneration report has been amended on page 20 to change the bandings for disclosing the real increase in pension at pensionable age from £5,000 to £2,500.

- Clarification has been added to page 31 that PFI depreciation should be included within the PFI line rather than the depreciation line in the summary of resource outturn.
- The narrative on page 102 has been updated to reflect that the discount rate for provisions has reduced from 2.9% to 2.8% at 31 March 2012 (though the manual incorrectly states 2011).

217. The accounts manual is accompanied by a paper which outlines the main changes. It refers to the accounting treatment for the *Carbon reduction commitment* (CRC) scheme, and states that the current advice of the SGHSCD is that boards should not accrue or provide for the costs of the purchase of allowances for emissions in 2011/12. However, the TSU considers that the obligating event for the CRC scheme occurs when boards have produced emissions that require them to purchase allowances. The obligation therefore arises during 2011/12 and should be recognised at 31 March 2012. It is understood that the SGHSCD now share this view and will be changing their advice in due course.

218. Auditors should confirm that their boards are

- aware that the manual has been issued, and should consider the implications for the audit of the 2011/12 financial statements
- planning to accrue for the costs of the CRC scheme in 2011/12.

### 2011/12 capital accounting manual

219. The SGHSCG has issued the 2011/12 *NHSScotland capital accounting manual* which interprets for health boards the accounting guidance in the 2011/12 FReM on capital accounting issues.

220. The main change from the previous version of the manual is the removal of references to the donated asset reserve and government grant reserve. Other changes include the following

- Chapter 12 has been amended to provide guidance on accounting for the HUB initiative. It requires lead boards to account for their investment in a HUB company as a non-current financial asset, charge initial set up costs as an expense, and treat funding for the HUB company working capital as a loan.
- Chapter 12 has also been amended to reflect changes in the funding arrangements for reversionary interest for PPP/PFI/HUB projects. For projects that reached financial close from 1 April 2009 onwards, the funding is now dealt with centrally rather than through deduction from the capital resource limit.

221. Auditors should confirm that their boards are aware that the manual has been issued, and consider the implications for the audit of the 2011/12 financial statements.

## Governance developments

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

### Corporate governance

#### 2011/12 governance statements guidance

222. The SGHSCD has issued guidance on the preparation of governance statements which, as stated at paragraph 216, have replaced the SIC from 2011/12. The guidance is intended to assist boards identify sources of assurance and evidence of compliance to be considered when preparing the statement. The format of the governance statement and the extant guidance on governance issues are set out in annexes to the letter.
223. The guidance sets out the essential features for inclusion in the governance statement and states that the statement should provide an overview of
- the governance framework, including information on the board's committee structure
  - an assessment of the effectiveness of the board's performance
  - an assessment of the board's compliance with the *Corporate governance code*, with explanations for any departures
  - risk management, including the board's risk profile. While avoiding lengthy descriptions of process, the statement should comment on the effectiveness of risk management and internal control
  - any significant control weaknesses for significant risks that have materialised or are anticipated.
224. The guidance also covers
- the review of the effectiveness of the internal control framework by the chief executive. At a minimum, this should cover an assessment of the effectiveness of governance, risk management and internal control arrangements
  - sources of assurance, including the work of internal and external audit
  - the role of the audit committee for reviewing the disclosures included in the governance statement. The audit committee should receive the information provided to the chief executive in support of the governance statement and should also consider in advance the other information it wishes to receive. It may wish to receive from external auditors a description of their processes and judgments in the review of the reliance that can be placed on the work of internal audit
225. It highlights that boards should have in place a framework that provides overt assurance on best value for 2011/12.
226. The governance statement requires to be approved by each board's chief executive, and endorsed by its audit committee along with the financial statements.

227. Boards are required to apply the guidance fully and consistently to enable the Scottish Government Health and Wellbeing Audit Committee to form an opinion on internal control across NHSScotland. The Chair of boards' audit committees are also required to send a letter to the chief accountable officer of NHSScotland to advise of any governance issues that should be brought to their attention. As a minimum, this letter should include the issues disclosed in the governance statement.
228. Auditors should confirm that their boards are aware of this guidance and that they are taking the necessary steps to comply. Guidance for auditors on reviewing the governance statement will be provided in due course.

## Information governance

### Refreshed code of practice on records management

229. The SGHSCD has refreshed the [Records management: NHS code of practice](#) to take account of the *Public Records (Scotland) Act 2011*. The main changes to the code are to
- incorporate the guidance and retention schedules for both health records and administrative records in a single document
  - reflect the recommendations made by NHS Quality Improvement Scotland in response to person identifiable information being found in disused hospital buildings.
230. The code provides a key component of the information governance arrangements necessary to support the *Healthcare quality strategy* for NHSScotland.

## Other developments

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

### National agenda/direction

#### Revised sustainable development policy and strategy

231. The SGHSCD has issued [CEL\(2012\)2](#) setting out the requirements of the revised policy and [strategy](#) on sustainable development for NHSScotland.
232. The aim of the policy is to improve the sustainability of NHSScotland's activities, principally in respect of asset management but also regarding the wider sustainability agenda, which focuses on six strands of activity: travel, procurement, facilities management, community engagement, workforce, and buildings.
233. The policy statement requires health bodies to be able to demonstrate that they have assessed all relevant legislation, and have a formal plan to comply with, or exceed, its requirements, and have a clear and active approach to sustainable development.
234. The policy's mandatory requirements require each body to

- implement a strong management structure to support delivery of the sustainable development policy
- appoint a board member to promote sustainability at a strategic level
- appoint an environmental management representative with responsibility for the implementation of effective environmental management systems, and an officer with responsibility for all aspects of waste management
- have in place a sustainable development action plan which sets out the board's contribution to the Scottish Government's sustainable development aims and objectives. It should be consistent with the board's property and asset management strategy, and be signed off annually by the chief executive

235. The supporting strategy provides guidance on implementing these mandatory requirements.

## Pay and workforce planning

### Revised partnership information network policies

236. The SGHSCD has issued six revised partnership information network (PIN) policies with [CEL\(2011\)28](#), which the staff governance standard requires to be implemented. The revised policies include the implementation of whistleblowing arrangements, personal development, and preventing bullying and harassment.

237. The PIN policies aim to achieve a consistent approach in the way NHSScotland deals with its employees, and are intended as a foundation for local strategies. Boards are expected to provide evidence of adherence to the PIN policies, and where local adaptations are agreed, these should meet the minimum standards set out in the policies.

### Guidance on annual leave policy

238. The SGHSCD has issued [CEL\(2011\)31](#) to provide refreshed guidance on implementing the annual leave policy in the *Agenda for change* agreement. The policy aims to provide a uniform and equitable approach to calculating annual leave and public holiday entitlements. The policy determines annual leave in hours rather than days. It applies to all employees on *Agenda for change* terms and conditions and the principles should also be applied to bank workers.

239. The calculation of annual leave is set out in an annex to the circular. An employee's reckonable service includes previous periods of NHS service and, at the discretion of the employer, any other service deemed to be relevant.

240. Full time staff are entitled to eight days paid public holiday in addition to their annual leave entitlement. Part time staff are entitled to a proportion of these public holidays based on their basic contracted hours.

241. The annual leave period is from 1 April to 31 March each year. It is expected that employees will take their annual leave entitlement within the leave year. In certain circumstances up to one working week of basic contracted hours may be carried over with the agreement of their

manager. The guidance has been amended to entitle an employee unable to take their full entitlement due to sick leave to carry over the balance to the new leave year.

### **Additional public holiday in 2012**

242. The SGHSCD has issued three letters advising that a special public holiday has been granted to celebrate the Queen's diamond jubilee on Tuesday 5 June 2012.
243. [PCS\(DD\)\(2012\)1](#) and [PCS\(AFC\)\(2012\)1](#) announced that doctors and dentists and staff covered by the *Agenda for change* agreement will be entitled to the day's paid annual leave. Staff required to work on the day will be paid for a normal days work and receive a day off in lieu.
244. GP contractors are entitled to public and local holidays that are not less favourable than those available to staff employed by boards. [PCA\(M\)\(2012\)3](#) asked boards to confirm in writing with GP contractors the arrangements that will apply.

### **Guidance on workforce plans**

245. The SGHSCD has issued [CEL\(2011\)32](#) to provide a framework to support the preparation of evidence-based workforce plans from 2012. The guidance is designed to support and assist those responsible for leading on workforce planning. It is also intended to help boards demonstrate how they contribute to better quality outcomes for patients and deliver the quality ambitions set out in the *Healthcare quality strategy*.
246. Boards are required to submit workforce projections annually, using a template provided by the SGHSCD. The period the projections are required to cover has been reduced from five years to three years to align the projections exercise with the spending review period.
247. The guidance outlines a six step methodology to
- define the purpose, scope and ownership of the workforce plan
  - identify the options for future service delivery, the goals and benefits of change and any preferred options
  - outline the workforce required to meet the predicted service need
  - describe the current workforce and identify options for managing the future supply
  - set out an action plan and how this will be managed by the board
  - explain the monitoring processes.
248. Boards are required to publish their workforce plans on their website by the 30 June each year and submit their workforce projections to the SGHSCD by the same date.

### **2012/13 Scottish enhanced services programme**

249. The SGHSCD has issued [PCA\(M\)\(2012\)2](#) to advise boards of the funding arrangements for the continuation of the Scottish enhanced services programme (SESP) for 2012/13. Funding allocations remain the same as 2011/12 and are detailed in an annex to the circular. Funding requires to be spent on local enhanced services within primary care.



250. Boards are expected to consider opportunities to support whole system working and to combine SESP funding with *Change fund* resources to reshape care pathways and move service provision towards anticipatory care and preventative services. The requirement to use SESP funding to 'pump prime' services has been removed.

### Clarification of ophthalmic procedures

251. Clarification has been issued regarding NHS eye examinations and the issue of optical vouchers in [PCA\(O\)\(2012\)1](#). The circular clarifies that intervals set out in regulations between free primary eye examinations are minima, and are not to be read as a mandatory requirement to recall all patients. The decision whether an examination is a primary or supplementary eye examination should be taken before the examination takes place.
252. Optometrists should only issue a voucher where a change in prescription is clinically significant. Where the patient's existing glasses are more than two years old a voucher may be issued on the basis that the glasses need to be replaced due to fair wear and tear. Vouchers issued for small changes in prescription will be monitored.

### 2011/12 pharmacy remuneration

253. The SGHSCD has issued two letters highlighting changes to the pharmacy remuneration arrangements for 2011/12.
254. [PCA\(P\)\(2012\)2](#) informs boards of a one off payment for 2011/12 to support contractors implement the chronic medication service. All contractors with at least fifty registered patients who have a completed pharmacy care record assessment will receive a one off payment of £400 automatically by May 2012.
255. [PCA\(P\)\(2012\)3](#) advises of the availability of the electronic claim training module and changes to the associated payment arrangements. All relevant contractor staff are required to complete the electronic claim training module which is available online. The following changes have been made to the previously advised payment arrangements
- The deadline for completion of the training has been removed.
  - The submission of a claim form confirming completion of the training is no longer required
  - An automatic payment will be paid no later than 30 April 2012 to contractors who meet the 80% target submission rate.

### Discount clawback rate

256. The SGHSCD has issued [PCA\(P\)\(2011\)16](#) which advises of an amendment to the discount clawback rate for proprietary drugs from 1 January 2012. The discount rate has been reset and will be subject to ongoing review to achieve an overall discount rate of 6.54%.

### 2011/12 executive and senior managers' pay

257. The SGHSCD has announced minor changes to the mandatory executive and senior management pay arrangements for 2011/12 in [PCS\(ESM\)\(2012\)1](#).



258. There is no change to the pay ranges under the executive and senior management arrangements for grades A to I, and consolidated pay progression for employees on grade D to I will be set at zero.
259. The consolidated pay progression for employee grades A to C should be applied with effect from 1 October 2011, based on their 2010/11 performance. Employees will not receive more than the maximum consolidated salary for their pay range. The increases based on individual manager's performance are set out in the circular.
260. The settlement date for the executive and senior management cohort is being moved from 1 October to 1 April to align the pay year with the performance year. The change will be implemented through the 2012/13 pay settlement for the performance year 2011/12.

### Medical director's remuneration arrangements

261. The SGHSCD has issued [PCS\(MD\)\(2012\)1](#) which announces changes to the pay and conditions for health board medical directors for 2008/09 to 2010/11.
262. The eligibility to access any non-consolidated equivalent discretionary performance points for the performance years 2008/09 and 2009/10, and any equivalent discretionary performance points for the 2010/11, has ceased.
263. The value of the levels of management fee has been increased for 2008/09 and frozen for 2009/10, 2010/11 and 2011/12. The management fee levels applicable from 1 October 2008 are set out in the letter.

## Capital

### 2011 annual report on NHS estate

264. NHSScotland has issued [State of the NHSScotland estate 2011](#) to highlight best practice and areas for improvement in the management of the NHS estate. This new report is intended to be a first step in establishing a framework to measure asset performance across NHSScotland, and will be published annually. The report includes a number of case studies illustrating best practice. Key points include the following
- The NHS asset base is valued at approximately £5 billion, with approximately 35% more than fifty years old.
  - 79% of the estate overall is owned, but some boards have a significant proportion of leased or PPP/PFI properties. Property maintenance accounts for 34% of spend on the estate and PFI facilities management 27%.
  - The total backlog maintenance costs are estimated at around £1,010 million. However, investment in new facilities, disposals and planned maintenance expenditure is intended to reduce this backlog to around £535 million.
  - Approximately 64% of accommodation is reported as functionally suitable and results of patient satisfaction surveys on accommodation are positive.

265. The report highlights that work is required to improve the consistency and accuracy of available information to allow boards to provide effective management and rationalisation of the estate. A new performance framework, including comparative analysis and performance indicators, has been developed to assess current performance, and link specific areas for improvement to board plans. Boards are expected to use the framework to review performance annually.
266. The Scottish Government has put in place revenue financed infrastructure investment of £750 million over the four year period of the comprehensive spending review to supplement capital resources. All capital investment proposals will be subject to local and national scrutiny prior to approval.

## Planning and performance management

### 2012/13 local delivery plan guidance

267. NHSScotland has issued [NHSScotland local delivery plan guidance](#) to provide guidance on the preparation of local delivery plans (LDPs) in 2012/13. It sets out the key operational targets and performance measures, and reiterates the purpose, format, and content of LDPs, and the timescales for completing them.
268. LDPs are required to include the boards' quality ambitions and contributions to single outcome agreements, financial plans and efficiency savings and workforce issues. They are required to cover a period of three years, but may be subject to review each year. Boards are required to develop their LDPs in consultation with stakeholders.
269. 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.
270. The guidance also sets out the key *Health improvement, efficiency, access and treatment* (HEAT) themes. For 2012/13, there are 15 HEAT targets, including some in respect of waiting times, the achievement of financial balance, and tackling climate change. The targets set out the performance contract between the Scottish Government and boards, and therefore the Scottish Government will continue to monitor them.
271. The LDPs are expected to be signed off by the boards and Scottish Government by 31 March 2012.

## Legislation

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

### Statutory instruments

#### National health service

272. [The National Health Service \(Travelling Expenses and Remission of Charges\)\(Scotland\) \(No 2\)Amendment Regulations 2011, SSI 449](#) came into force on 6 February 2012 and amended the travelling expenses regulations to update references to student funding regulations in Wales.
273. [The National Health Service\(General Medical Services Contracts\)\(Scotland Amendment Regulations 2012, SSI 9](#) came into force on 26 February 2012 and amended the general medical services contract regulations to update the circumstances when a board can terminate a general medical services contract.
274. [The National Health Service \(Primary Medical Services Section 17C\)\(Scotland\) Amendment Regulations 2012 SSI 10](#) came into force on 26 February 2012 and amended the principal regulations to update the circumstances when a board can terminate a section 17C agreement.
275. [The Patients Rights \(Scotland\) Act 2011 Commencement Order 2012, SSI 35](#) sets out the dates for sections of the *Patients Rights (Scotland) Act 2011* to come into force. The order brings sections of the Act into force on 1 April 2012 and others on 1 October 2012.
276. [The Patients Rights \(Complaints Procedures and Consequential Provisions\)\(Scotland\) Regulations 2012, SSI 36](#) set out the arrangements for the handling of feedback, concerns and complaints relating to health care. Each relevant NHS body and service provider must appoint
- a feedback and complaints officer to manage arrangements
  - a feedback and complaints manager to ensure compliance with these regulations. The functions of this post should be undertaken by the chief executive or an appropriately senior person.
277. Where a complaint has been raised before or relates to an incident before 1 April 2012, it should be handled in accordance with the former complaints legislation.
278. [The National Health Service \(Superannuation and Pension Schemes\)\(Scotland\) Regulations 2012, SSI 69](#) came into force on 26 February 2012 and amended the principal pension regulations to provide for changes to pensionable pay and earnings bands and employee contribution rates for 2012/13.
279. [The National Health Service\(Optical charges and Payments\)\(Scotland\) Amendment Regulations 2012, SSI 73](#) come into force on 1 April 2012 and amend the principal regulations

to increase the redemption value of vouchers issued towards the cost of replacing a single contact lens, repairing a frame and for small glasses and special frames.

280. [The National Health Service \(Free Prescriptions and Charges for Drugs and Appliances\)\(Scotland\) Amendment Regulations 2012, SSI 74](#) come into force on 1 April 2012 and amend the principal regulations so that the charge for a prescription presented on an English prescription form reflects the English rate from 1 April 2012. The charges that will apply are

- £7.65 for the supply of drugs and appliances
- £15.30 for the supply of a pair of elastic hosiery.

281. [The Personal Injuries \(NHS Charges\)\(Amounts\)\(Scotland\) Regulations 2012, SSI 76](#) come into force on 1 April 2012 and amend the principal regulations to increase the charges in respect of which a person who pays compensation to an injured person must pay for NHS treatment.

## Publications

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The document referred to in the following article can be obtained by using the hyperlink.

### Audit Scotland

#### Cardiology services

282. This report [Cardiology services](#) examines the efficiency of the management of cardiology services. Key messages include the following

- There is scope for some boards to carry out additional procedures as day cases and improve the efficiency of diagnostic services and outpatient clinics. Boards should work with regional planning groups to ensure that strategic plans meet patients' needs and address gaps in services. Boards should implement Healthcare Improvement Scotland's recommendations on improving services.
- The NHS could improve its prescribing of more cost-effective drugs. Around £70.7 million was spent on statins in 2010/11 and prescribing information highlights considerable variation across boards. Boards should ensure that patients are prescribed appropriate drugs.
- Information on the cardiology workforce and costs is not used or recorded consistently. The Scottish Government and boards should ensure that consistent and accurate information on activity, workforce and costs is available and shared nationally.

## Auditor action

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

Section and paragraph	Action
TSU developments - paragraph 211	Auditors are requested to send a copy of their ISA 260 written communications in respect of health bodies for 2011/12 to the TSU.
Accounting developments - paragraph 213	Auditors should confirm that their boards are aware that the accounts manual has been issued, and consider the implications for the audit of the 2011/12 financial statements. Auditors should confirm that their boards are planning to accrue for the costs of the CRC scheme in 2012.
Accounting developments - paragraph 219	Auditors should confirm that their boards are aware that the capital accounting manual has been issued, and consider the implications for the audit of the 2011/12 financial statements.
Governance developments – paragraph 222	Auditors should confirm that their boards are aware of the guidance on governance statements and that they are taking the necessary steps to comply.

# Further education chapter

## Introduction

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This chapter contains articles on further education technical developments and guidance relevant to external auditors' responsibilities under their audit appointment. It should be read by external auditors with appointments in the further education sector. Auditors should also read the cross-sectoral chapter which covers developments and guidance that are relevant to all sectors. More in-depth and extensive guidance on 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 can be obtained by using the hyperlinks. They are also available to inhouse auditors from Audit Scotland's *Technical reference library*.

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note that the following article in this chapter relates to 2011/12 audits

- 2011/12 college students support funds.

## Corporate governance developments

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

### Report on review of governance

283. An independent report on the [Review of further education governance in Scotland](#) has been submitted to the Scottish Government which proposes a new governance structure for the further education sector.
284. The proposed new structure is based on moving to a regional model. Under this new structure, there will be one regional board for each area which receives funding from the Scottish Funding Council (SFC), and decides how to manage what it controls. It was proposed that the new regional structure be implemented as soon as is practicable and, if possible, by 2013/14.
285. The Scottish Government has subsequently written a [letter](#) to the SFC to confirm the regions and the colleges that fall within them.

286. The report makes a number of recommendations to support regionalisation, which includes the following
- New Chairs and Boards should be appointed to manage and govern the new regions. The Chair of the new regional entity should lead the process of appointing the Board
  - The sector should move to an outcomes based funding model where each college is given a small number of outcomes which will fulfil Government policy and aspirations and is then allocated a sum of money to deliver those. Colleges would not be judged on yearly surpluses but on a longer term sustainable financial model.
  - Each Regional Chair and Board should be audited to ensure that they are fulfilling their agreed outcomes. By December 2012, Audit Scotland, Education Scotland, and the SFC should put in place an auditing framework.
  - There should be a limit of initially 10% of annual revenue on the surpluses a college is allowed to create for its own use. All reserves held that exceed that limit have to be used for the betterment of the sector overall.
  - The Scottish Government should take total responsibility for funding major capital projects in the sector.

## Other guidance

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

### Finance

#### 2011/12 student support funds

287. The SFC has issued [SFC/25/2011 - College student support funds: outcome of the in-year management of funds 2011/12](#) to announce the outcome of the in-year management of college student support for 2011/12.

#### 2012/13 indicative allocations

288. The SFC has issued [SFC/02/2012 - Indicative college sector financial decisions for academic year 2012/13](#) to announce an indicative overall budget and allocations to regions for 2012/13.

# 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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# Technical bulletin 2012/2

April to June



Prepared by the Technical Services Unit  
20 June 2012

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

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# Foreword

Audit Scotland's Technical Services Unit (TSU) provides guidance to external auditors appointed by the Accounts Commission and Auditor General to support them in carrying out their responsibilities under the *Code of audit practice* to

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

This includes the preparation of technical bulletins (TBs) by the TSU at quarterly intervals, which are approved by the Assistant Auditor General for Scotland. They are available to external auditors from Audit Scotland's *Technical reference library* and published on the Audit Scotland website. TBs provide a composite of technical developments in the quarter that are relevant to external auditors' responsibilities referred to above, and provide auditors with guidance on any emerging issues. The overall purpose of TBs is to inform auditors' professional judgment in making informed decisions about the courses of action that are appropriate in the circumstances of the audit appointment.

TBs contain information which is of importance to the conduct of audits and frequently recommend that auditors take certain actions, and a summary of these actions is provided at the end of each chapter. It is important that a mechanism is in place for senior audit staff to review the TB promptly and to ensure that steps are taken to consider such recommendations.

While auditors act independently, and are responsible for their own conclusions and opinions, consistency in similar circumstances is important and **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 provided on a significant issue** (e.g. a matter that requires consideration to be given to modifying the audit opinion on the financial statements of a number of audited bodies).

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

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

# Headlines

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

Cross-sectoral chapter	Reference
<p>The TSU has</p> <ul style="list-style-type: none"> <li>published an operational plan for 2012/13</li> <li>provided an update on the development of the new Extranet</li> <li>provided a summary of some reported frauds.</li> </ul>	<p>Paragraph 1</p> <p>Paragraph 2</p> <p>Paragraph 48</p>
<p>The International Accounting Standards Board has issued</p> <ul style="list-style-type: none"> <li>amendments to various international financial reporting standards</li> <li>proposed amendments to various international financial reporting standards.</li> </ul>	<p>Paragraph 4</p> <p>Paragraph 9</p>
<p>The Sharman Inquiry has published a report on going concern and liquidity risks.</p>	<p>Paragraph 19</p>
<p>The International Public Sector Accounting Standards Board has issued a proposed standard on how management commentaries should be prepared and presented.</p>	<p>Paragraph 21</p>
<p>The Auditing Practices Board has issued proposed changes to international standards on auditing on the use of internal audit.</p>	<p>Paragraph 32</p>
<p>The Financial Reporting Council has issued</p> <ul style="list-style-type: none"> <li>proposed changes to international standards on auditing on communication with those charged with</li> </ul>	<p>Paragraph 26</p>

Cross-sectoral chapter	Reference
governance <ul style="list-style-type: none"> <li>• proposed changes to the <i>UK Corporate governance code</i> and <i>Guidance on audit committees</i>.</li> </ul>	Paragraph 36
The International Auditing and Assurance Standards Board has issued a standard on greenhouse gas statements.	Paragraph 40
Statutory instruments have been issued on <ul style="list-style-type: none"> <li>• the 2011/12 Budget Act</li> <li>• the 2012/13 pension increase.</li> </ul>	Paragraph 44 Paragraph 45
Audit Scotland has published a report on the 2010/11 national fraud initiative.	Paragraph 46

Local authority chapter	Reference
The TSU has published <ul style="list-style-type: none"> <li>• a note for guidance on certifying 2011/12 local authority whole of government accounts returns</li> <li>• a grant note giving general guidance on the certification of 2011/12 grant claims</li> <li>• 2011/12 grant notes on certifying claims for               <ul style="list-style-type: none"> <li>– education maintenance allowance</li> <li>– benefits subsidy</li> <li>– Bellwin scheme</li> <li>– safety camera programme</li> <li>– criminal justice social work services.</li> </ul> </li> <li>• a data capture worksheet for the 2011/12 analytical review database.</li> </ul>	Paragraph 73  Paragraph 77  Paragraph 82 Paragraph 86 Paragraph 91 Paragraph 94 Paragraph 97 Paragraph 100

Local authority chapter	Reference
<p>The Chartered Institute of Public Finance and Accountancy has issued</p> <ul style="list-style-type: none"> <li>• guidance on closing the 2011/12 accounts</li> <li>• updated guidance on impairing deposits in Icelandic banks.</li> </ul>	<p>Paragraph 102</p> <p>Paragraph 121</p>
<p>The Chartered Institute of Public Finance and Accountancy (Scotland) has issued guidance on the presentation of non-domestic rates in 2011/12.</p>	<p>Paragraph 116</p>
<p>The Local Authority (Scotland) Accounts Advisory Committee has issued guidance on accounting for heritage assets.</p>	<p>Paragraph 127</p>
<p>PricewaterhouseCoopers has issued a report on IAS 19 reporting in 2011/12.</p>	<p>Paragraph 133</p>
<p>The Department for Work and Pensions has issued</p> <ul style="list-style-type: none"> <li>• a letter and guidance on the 2011/12 subsidy claim</li> <li>• the 2011/12 subsidy guidance manual</li> <li>• circulars on <ul style="list-style-type: none"> <li>– changes to the contribution-based employment and support allowance</li> <li>– duplication of new tax credit data.</li> </ul> </li> </ul>	<p>Paragraph 140</p> <p>Paragraph 148</p> <p>Paragraph 153</p> <p>Paragraph 157</p>
<p>The Audit Commission has issued modules 4 and 5 of the 2011/12 HB COUNT.</p>	<p>Paragraph 142</p>
<p>An Act has been passed on welfare reform.</p>	<p>Paragraph 150</p>



Local authority chapter	Reference
The Scottish Public Pensions Agency has issued a circular on 2012/13 fire-fighters pension contributions.	Paragraph 161
Audit Scotland has issued a report on the use of cost information.	Paragraph 166

Central government chapter	Reference
The TSU will shortly published a note for guidance on certifying 2011/12 central government whole of government accounts returns.	Paragraph 167
The Cabinet Office has issued guidance on 2011/12 remuneration reports.	Paragraph 168
<p>The Scottish Government has issued guidance on</p> <ul style="list-style-type: none"> <li>• the 2011/12 accounting boundary for the preparation of its consolidated accounts</li> <li>• guidance on the preparation of its 2011/12 consolidated accounts.</li> </ul>	<p>Paragraph 173</p> <p>Paragraph 176</p>
<p>HM Treasury has issued</p> <ul style="list-style-type: none"> <li>• guidance on 2011/12 whole of government accounts</li> <li>• the 2011/12 whole of government accounts consolidation pack and accompanying guidance.</li> </ul>	<p>Paragraph 185</p> <p>Paragraph 189</p>
Audit Scotland has issued a report on the merger of public bodies.	Paragraph 191

Health chapter	Reference
<p>The TSU has</p> <ul style="list-style-type: none"> <li>• published a note for guidance on auditing the 2011/12 health financial statements</li> <li>• provided guidance on annual reports.</li> </ul>	<p>Paragraph 192</p> <p>Paragraph 196</p>
<p>The Scottish Government Health and Social Care Directorates has issued</p> <ul style="list-style-type: none"> <li>• three letters on changes to the directed enhanced services programme for 2012/13</li> <li>• a circular on arrangements for English prescription forms from 2012/13</li> <li>• revised partnership information network policies</li> <li>• a circular on 2012/13 pay for doctors and dentists.</li> </ul>	<p>Paragraph 199</p> <p>Paragraph 204</p> <p>Paragraph 207</p> <p>Paragraph 209</p>
<p>Statutory instruments have been issued on</p> <ul style="list-style-type: none"> <li>• charges to overseas visitors</li> <li>• the treatment time guarantee</li> <li>• amendments to the superannuation regulations.</li> </ul>	<p>Paragraph 211</p> <p>Paragraph 212</p> <p>Paragraph 213</p>

# Cross-sectoral chapter

## Introduction

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

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

The TSU encourages feedback on this TB. Comments should be sent to [alewis@audit-scotland.gov.uk](mailto:alewis@audit-scotland.gov.uk)

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note that the following articles in this chapter relate to 2011/12 audits

- 2012/13 TSU operational plan
- TSU update on the development of the new Extranet.

## TSU developments

### Publications

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The following document has been published by the TSU since TB 2012/1. It is available to external auditors from Audit Scotland's *Technical reference library*.

#### 2012/13 TSU operational plan

1. The TSU has issued an operational plan for the financial year 2012/13. The plan sets out how the TSU will
  - identify, and explain to auditors, relevant new technical developments
  - provide guidance on the risks of material misstatements in the financial statements, the audit requirements for other information published with the financial statements, and other required opinions, and provide model auditor's reports on the financial statements

- provide guidance on the certification of local authority grant claims, and whole of government accounts (WGA) returns
- support the application of the guidance, and respond to issues arising at individual bodies
- engage with standard setters and other stakeholders on technical matters
- disseminate information on instances of fraud and irregularity at audited bodies.

## Other matters

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The following article provides an update from the TSU.

### Extranet

2. The facility for Audit Scotland's *Technical reference library* to be made available to appointed firms via a new Extranet has become operational. Firms have been provided with the necessary information to be able to access the Extranet.
3. Feedback from firms on the helpfulness of this facility, and any suggestions for improvements, is strongly encouraged and should be sent to [alewis@audit-scotland.gov.uk](mailto:alewis@audit-scotland.gov.uk).

## Accounting developments

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

### Amendments to IFRS

4. The [International Accounting Standards Board](#) (IASB) has issued *Annual improvements 2009-2011 cycle* which contains a collection of amendments to various international financial reporting standards (IFRS). The document is currently only available to subscribers to the IASB website, but will be added to the *Technical reference library* in due course.
5. The main changes are to
  - *IFRS 1 First-time adoption of international financial reporting standards*
  - *IAS 1 Presentation of financial statements*
  - *IAS 16 Property, plant and equipment.*

### IFRS 1 First-time adoption of international financial reporting standards

6. IFRS 1 has been amended in respect of borrowing costs to clarify that
  - an entity that capitalised borrowing costs before the date of transition to IFRS may carry forward, without adjustment, the amount previously capitalised in the opening statement of financial position at the date of transition

- borrowing costs incurred after the date of transition that relate to qualifying assets under construction at the date of transition should be accounted for in accordance with *IAS 23 Borrowing costs*.

### **IAS 1 Presentation of financial statements**

7. IAS 1 has been amended to remove the previous requirement for notes to support the opening statement of financial position. It has also been amended to clarify that
  - additional financial statement information need not be presented in the form of a complete set of financial statements for periods beyond the minimum comparative information requirements
  - the appropriate date for the opening statement of financial position is the beginning of the required comparative period (rather than an earlier period where additional comparative information is provided voluntarily).

### **IAS 16 Property, plant and equipment**

8. IAS 16 has been amended to clarify that servicing equipment should be classified as property, plant and equipment when it is used during more than one period; and as inventory if it is not.

### **Proposed changes to IFRS**

9. The IASB has issued [ED/2012/1 Annual improvements to IFRSs 2010-2012 cycle](#) which proposes amendments to various IFRSs. Comments should be made via the IASB website by 5 September 2012.
10. The main proposed changes are to
  - *IFRS 8 Operating segments*
  - *IAS 1 Presentation of financial statements*
  - *IAS 16 Property, plant and equipment*
  - *IAS 24 Related party disclosures*
  - *IAS 36 Impairment of assets*.

### **IFRS 8 Operating segments**

11. The draft proposes amending IFRS 8 to require entities, where operating segments have been aggregated, to disclose the judgements made by management in applying the aggregation criteria. In particular, the following should be disclosed
  - A brief description of the operating segments that have been aggregated.
  - The economic indicators that have been assessed in determining that the segments share similar economic characteristics.

### **IAS 1 Presentation of financial statements**

12. It is proposed to amend IAS 1 to clarify that where an entity expects to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility, the obligation should be classified as non-current if it is
- with the same lender; and
  - on the same or similar terms, i.e. if the amendment of the terms would not result in substantial change to the rights and obligations of the parties involved.

### **IAS 16 Property, plant and equipment**

13. IAS 16 currently states that when an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation should be restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.
14. However, in practice, the restatement of the accumulated depreciation is not always proportionate to the change in the gross carrying amount, particularly when the residual value, the useful life or the depreciation method has been amended before the revaluation.
15. Consequently, it is proposed to amend IAS 16 to state that the accumulated depreciation should be calculated as the difference between the gross and the net carrying amount after restating the gross carrying amount in a manner consistent with the net carrying amount.

### **IAS 24 Related party disclosures**

16. It is proposed to extend the definition of related parties in IAS 24 to include an entity that provides key management personnel services. Transactions for the provision of key management personnel services would require to be separately disclosed.

### **IAS 36 Impairment of assets**

17. There is a proposal to amend IAS 36 to require the disclosure of the discount rate used if fair value less costs of disposal is used to determine the recoverable amount.
18. This is to bring disclosures in line with the requirements where value in use is used to determine the recoverable amount.

### **Report on going concern and liquidity risk**

19. The Sharman Inquiry has issued a report entitled [Going concern and liquidity risks: Lessons for companies and auditors](#) which contains a number of recommendations for the Financial Reporting Council (FRC) in respect of going concern reporting. The report recommends that
- the primary purpose of the going concern assessment and reporting should be to reinforce responsible behaviour in the management of going concern risks
  - going concern considerations should cover both solvency and liquidity

- the FRC should seek to clarify and harmonise the differing definitions of going concern and related risks in accounting, auditing and governance requirements
  - going concern reporting should be integrated with the FRC's effective company stewardship proposals to present a fuller picture of the principal risks the entity is facing, rather than only highlighting going concern risks when there are significant doubts about the entity's survival.
20. The paper also recommends enhancing the role of external auditors by seeking an explicit statement in the auditor's report on whether they have anything to add or emphasise in relation to the narrative disclosures made by the directors about the robustness of the process of assessing going concern and its outcome.

### Proposed international public sector standard on management commentaries

21. The [International Public Sector Accounting Standards Board](#) (IPSASB) has issued [ED 47 Financial statement discussion and analysis](#) which contains a proposed standard on how financial statement discussion and analysis should be prepared and presented.
22. Financial statement discussion and analysis is defined in the standard as an explanation of the significant items, transactions, and events presented in an entity's financial statements and the trends, conditions, and factors that influenced them. In the UK, it is usually described as a management commentary.
23. The exposure draft proposes that the management commentary should be issued in conjunction with an entity's annual financial statements, and that it should be
- consistent with those financial statements
  - based on currently-known facts and supportable assumptions
  - subject to the same qualitative characteristics as financial statements.
24. The management commentary should include the following minimum content
- An overview that helps users understand the entity and how the environment in which it operates affect its financial statements.
  - Information on the entity's objectives and strategies that enables users of the financial statements to identify the resources that must be managed to achieve its objectives.
  - An analysis of the entity's financial statements including a description of the significant events, trends, conditions, and factors that affected the current period, and changes in financial position and performance over a period of time.
  - Information on the entity's risks and uncertainties to help users evaluate their impact in the current period, as well as expected outcomes.
25. Comments should be made via the IPSASB website by 31 July 2012.

## Auditing developments

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

### Proposed changes to auditing standards on communicating with those charged with governance

26. The [FRC](#) has issued a [consultation paper](#) which proposes changes to international standards on auditing in the UK (ISAs) on communication with those charged with governance.
27. It is proposed that *ISA 260 Communication with those charged with governance* be amended to require auditors to communicate to the audit committee the information needed to understand the rationale and the evidence relied upon when making significant professional judgments in the course of the audit and reaching an opinion on the financial statements.
28. The information should include any matters identified in the course of the audit that are relevant to the audit committee's advice to the board as to whether the annual report is fair, balanced and understandable and provides the information necessary for users to assess the entity's performance, business model and strategy (see paragraph 37).
29. It is also proposed that *ISA 265 Communicating deficiencies in internal control to those charged with governance and management* be amended to require the auditor to communicate to the audit committee the auditor's views on the effectiveness of the entity's system of internal control, based on the audit procedures performed in the audit of the financial statements. This would include the auditor's views on the effectiveness of that system in addressing risks arising from the entity's business model which should be disclosed by the entity in the annual report.
30. There are also proposals to amend *ISA 700 The auditor's report on financial statements* and *ISA 720A The auditors responsibilities relating to other information in documents containing audited financial statements* to require auditors to report by exception if they identify information included in the annual report that is apparently incorrect based on, or materially inconsistent with, the knowledge acquired by the auditor.
31. Comments should be sent to [k.billing@frc-apb.org.uk](mailto:k.billing@frc-apb.org.uk) by 13 July 2012. It is proposed that the revisions would apply to reporting periods beginning on or after 1 October 2012.

### Proposed changes to auditing standards on using internal audit

32. The [Auditing Practices Board](#) has issued [Consultation paper - proposed revisions to international standards on auditing addressing the use of internal audit](#) which proposes revisions to ISAs in respect of using internal audit. The proposals reflect recent changes made by the International Auditing and Assurance Standards Board to their standards.
33. Proposed revisions to *ISA (UK and Ireland) 610 Using the work of internal auditors* include the following



- The establishment of more robust safeguards against the inappropriate use of internal audit work which clarify the circumstances when the work of the internal audit function cannot be used, i.e.
    - If the internal audit function’s organisational status and relevant policies and procedures, do not support the objectivity of the internal auditors.
    - The internal audit function does not apply a systematic and disciplined approach, including quality control.
  - There is a proposed new requirement for the auditor to evaluate whether, in aggregate, using the work of the internal audit function to the extent planned would result in the external auditor still being sufficiently involved in the audit.
  - The external auditor’s procedures need to be responsive to the evaluation of the internal audit function, the amount of judgment involved, and the assessed risk of material misstatement in the areas where work has been performed, e.g.
    - There is a proposed new requirement for the external auditor to read the reports of the internal audit function relating to the work that the external auditor plans to use.
    - There is also a new requirement that the external auditor re-perform some of the work of the internal audit function.
  - In respect of internal auditors providing direct assistance, there are proposed requirements for the external auditor to
    - obtain written agreement from an authorised representative of the entity that the internal auditors will be allowed to follow the external auditor’s instructions, and that the entity will not intervene in the work performed by the internal auditor
    - direct, supervise and review the work performed by internal auditors in accordance with ISA 220. The external auditor’s review procedures should include checking the underlying audit evidence for some of the work performed by the internal auditors.
34. It is also proposed that *ISA (UK and Ireland) 315 Identifying and assessing the risks of material misstatement through understanding the entity and its environment* be revised to introduce a new requirement for the auditor’s risk assessment procedures to include enquiries of appropriate individuals within the internal audit function.
35. Comments should be sent to [k.billing@frc.org.uk](mailto:k.billing@frc.org.uk) by 31 August 2012. It is proposed that the revised standards should be effective for audits of financial statements for periods ending on or after 15 December 2013.

## Corporate governance developments

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

### Proposed changes to governance code

36. The FRC has issued a [consultation paper](#) which proposes changes to the *UK corporate governance code* and *Guidance on audit committees*.
37. As indicated at paragraph 28, there is a proposal to extend the remit of the audit committee to include consideration of the whole annual report, including the narrative sections, with a view to determining whether it provides the information necessary for users to assess the entity's performance, business model and strategy and whether the annual report, viewed as a whole, is fair and balanced. There would be a requirement for the audit committee to report to the board on this issue, and for the board subsequently to publish this assessment in the annual report.
38. Organisations are required to provide clear and meaningful explanations when they choose to deviate from the code under the 'comply or explain' principle. It is proposed to set out in the preface to the code the features that the FRC regards as the characteristics of an informative explanation. The explanation should
  - set out the background
  - provide a clear rationale for the action the organisation is taking
  - describe any mitigating actions taken to address any additional risk and maintain conformity with the relevant principle
  - indicate whether the deviation from the code's provisions is time-limited and, if so, when the organisation intends to return to conformity.
39. Comments should be sent to [codereview@frc.org.uk](mailto:codereview@frc.org.uk) by 13 July 2012. It is proposed that the revisions would apply to reporting periods beginning on or after 1 October 2012.

## Other developments

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

### Sustainability

#### New standard on greenhouse gas statements

40. The [International Auditing and Assurance Standards Board](#) has issued [ISAE 3410 Assurance engagements on greenhouse gas statements](#) on providing assurance on greenhouse gas (GHG) statements. A GHG statement is a quantified statement of an entity's emissions over a particular period.

41. The standard has been issued to enhance the quality and consistency of assurance engagements that report on GHG statements by setting out requirements and providing guidance that address the responsibilities and work effort of the practitioners undertaking such engagements.
42. The objective of an engagement under ISAE 3410 is to provide assurance as to whether the GHG statement is free from material misstatement, whether due to fraud or error. Practitioners are required to
  - obtain an understanding of the entity and its environment, including the entity's internal control
  - identify and assess the risk of material misstatement in the GHG statement
  - perform procedures to address the identified risks
  - report in accordance with the practitioner's findings.
43. The standard is effective for assurance reports covering periods ending on or after 30 September 2013.

## Legislation

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

### Statutory instruments

#### Public finance and accountability

44. [The Budget \(Scotland\) Act 2011 Amendment Order 2012, SSI 105](#) came into force on 23 March 2012 and amended the *Budget (Scotland) Act 2011*.

#### Pensions

45. [The Pensions Increase \(Review\) Order 2012, SI 782](#) came into force on 9 April 2012 and prescribes the increase in the rates of public service pensions for 2012/13
  - For pensions which began before 11 April 2011, the increase is 5.2%.
  - For pensions which began on or after that date the increases are set out in the Order.

## Publications

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The following publication can be obtained by using the hyperlink.

### Audit Scotland

#### The national fraud initiative in Scotland

46. This publication [The national fraud initiative in Scotland](#) reports the results of the 2010/11 national fraud initiative (NFI) exercise. The NFI uses data matching to compare a range of

information held on bodies' systems to identify potential indications of fraud or error. Where such indications are identified, they are made available to audited bodies to investigate and record appropriate outcomes.

47. In the 2010/11 NFI exercise

- 81 public bodies took part
- 145 alleged frauds were reported to the Procurator Fiscal
- 1,681 overpayments are being recovered
- total outcomes amounted to £19.8 million (£78 million cumulatively).

## Fraud cases

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

### Expenditure

48. (1) The owners of a care home claimed £10,000 of payments from a council to which they were not entitled. The payments were made under the national care homes contract on the basis that the provider had met required staffing targets. However, the provider falsified staffing returns by amending the target to a lower figure.
49. The fraud was possible as the staffing return was in the form of a spreadsheet that could be overwritten and the change was not identified when reviewed by social work officers.
50. The fraud was identified following receipt of a letter from a former member of care home staff. The police investigation is still on-going but the council intend to seek recovery from the care home.
51. (2) A team leader working in a council debt recovery department defrauded £100,000 over a six year period by
- re-routing refund cheques that had been returned to the council (e.g. because the payee had moved) to his personal bank account
  - amending cheque request forms, in cases where duplicate payments had been made to the council for services received, to refund the payments to his own account.
52. The fraud was possible due to a lack of supervision of the employee, and because cheque request forms were processed despite being obviously altered.
53. The fraud was discovered when the finance department noted a suspicious payment authorised by the employee. Internal audit and external consultants carried out an investigation before referring the matter to police.

## Income

54. An employee defrauded £43,000 from a school over a two year period. The fraud was possible due to the employee, who had built up a significant level of trust over a number of years, having a significant degree of autonomy in dealing with financial systems. Record-keeping was inadequate and there was a lack of segregation of duties.
55. The fraud was not discovered until the employee confessed. The matter was reported to the police who charged the employee with embezzlement.
56. Financial management training has been delivered outlining officers' roles and responsibilities.

## Payroll

57. An apprentice in a nursery received £10,000 in payroll payments after they had left the council's employment and made no attempt to notify the council of the continuing payments.
58. The payments continued to be made as, due to a lack of clear guidance regarding the steps to be taken when an apprentice resigns, the service had not notified Human Resources (HR) of the resignation. The fraud was discovered following a whistleblowing allegation.
59. There has been a review of responsibilities for dealing with HR issues relating to apprentices and a system has been put in place to compare staff in post to the payroll system.

## Theft

60. (1) A third party stole over £16,000 of school funds by gaining access to the safe. The theft was possible as the thief stole master keys from the unlocked janitor's office and used them to gain access to the bursar's office where he obtained and used the key to the safe. Cash had not been banked due to the bursar being on sick leave.
61. The school's CCTV system recorded the incident and police were able to identify the culprit. Weekly cash pick ups have now been arranged, and a replacement safe requires a PIN code to be entered.
62. (2) A third party stole equipment valued at £8,000 from council premises. The perpetrators entered the premises by forcing the fire door at the back of the building. The theft was facilitated by the premises not having an alarm.
63. The theft was discovered by the police who noticed the door had been forced. Security has been improved by using more substantial external locks and by requiring all internal doors to be locked at night.

## Private funds

64. A social care officer defrauded £7,000 from a social work client over a seven year period. The carer had access to a post office account card to withdraw money on the client's behalf. However, the card was used to make a number of cash withdrawals for the carer's own use.

65. The fraud was discovered when a family member noticed funds were missing and contacted the council. The carer was dismissed, and home care staff have been reminded of procedures in relation to accessing client funds.

### Expenditure and private funds

66. A manager in a care home defrauded £12,000 from its clients and other parties over a twelve month period. Cheques were cashed from the council's account and the funds retained by the perpetrator, clients' benefit money was not banked, and funds were misappropriated from fundraising activities. The fraud was possible due to the manager having sole responsibility for all finance and banking, including client's money and donations.
67. The fraud was discovered following a request by the council's social work department for information to allow the reconciliation of various bank accounts. The matter was reported to the police.
68. Controls within the care home have been tightened, and the internal audit section plan to carry out a review of all care homes.

### Equipment and stores

69. (1) An employee misappropriated blue parking badges for people with mobility problems and sold them for £8,000 for his own gain. The fraud was possible due to a lack of controls regarding access to the blue badges, and was facilitated by a lack of reconciliations between the number of blue badges issued and income collected.
70. The fraud was discovered following an anonymous telephone call to the council's fraud line. The badges are now distributed directly to badge holders from a secure printing provider.
71. (2) An unknown third party was able to gain unauthorised access to a body's telephone system and make outgoing calls to a premium rate number. The individual was able to gain access to the system through the voicemail inboxes of several members of staff.
72. The body has disabled the remote calling and virtual calling card features of the system to prevent a recurrence, and has strengthened the password policy for voicemail.

# Local authority chapter

## Introduction

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

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

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note that the following articles in this chapter relate to 2011/12 audits

- Note for guidance on certifying 2011/12 whole of government accounts returns.
- 2011/12 grant notes.
- 2011/12 analytical review data capture request.
- Guidance on closing 2011/12 accounts.
- Guidance on presentation of non-domestic rates.
- Updated guidance on impairing Icelandic bank deposits.
- Guidance on heritage assets.
- Report on actuaries.
- 2011/12 benefits subsidy claim.
- 2011/12 HB COUNT modules.
- 2011/12 subsidy guidance manual.

## TSU developments

### Publications

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The following documents have been published by the TSU since TB 2012/1. They can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

#### Note for guidance on certifying 2011/12 WGA returns

73. The TSU has published [Note for guidance 2012/5\(LA\) Auditor certification of 2011/12 whole of government accounts returns](#) to provide auditors with guidance on certifying 2011/12 local authority WGA returns.
74. WGA is the consolidated financial statements for all branches of government in the UK. Local authorities (and central government bodies) are required to provide information for the preparation of WGA. External auditors are required to certify WGA returns over a prescribed threshold.
75. Auditors should expect to receive the draft 2011/12 returns by 12 August 2012, and the deadline for the submission of the certified returns is 5 October. The results of the auditors' work require to be reported in an assurance statement which accompanies the note for guidance.
76. Auditors should use this note for guidance when reviewing and reporting on 2011/12 local authority WGA returns.

#### Guidance on the certification of approved local authority grant claims and returns

77. The TSU has published [Grant note GN/GEN/12 General guidance on the certification of approved local authority grant claims and returns](#) to provide general guidance to auditors on the certification of approved grant claims and other returns submitted to grant-paying bodies by local authorities.
78. Although carried out under the overall audit appointment, the certification of grant claims and other returns is not an audit, but rather it is an engagement to provide reasonable assurance that claims and returns are fairly stated and in accordance with specified terms and conditions. The list of grant claims and other returns which external auditors are required to certify in 2011/12 under their audit appointment is provided at Appendix 1.
79. The TSU also separately publishes a grant note on each significant approved claim to provide auditors with specific guidance on certifying that claim.
80. In summary, appointed external auditors are required to
  - examine the claim or return and related accounts and records of the authority in accordance with the general grant note and the claim-specific grant note



- direct work to those matters that, in the auditor's view, significantly affect the claim or return
- plan and complete their work in a timely fashion so that deadlines are met
- form a conclusion as to whether the claim or return is fairly stated and in accordance with the relevant terms and conditions
- complete the appointed auditor's certificate, qualified as necessary, in accordance with the guidance in this grant note and submit it to the grant-paying body.

81. Auditors should use GN/GEN/12 when examining and reporting on 2011/12 grant claims.

### **Guidance on certifying 2011/12 education maintenance claims**

82. The TSU has published a grant note [GN/EMA/12](#) to provide guidance on certifying 2011/12 education maintenance allowance (EMA) grant claims. EMA is a means tested weekly allowance payable to young people from low income families to encourage them to remain in full time education beyond the minimum school leaving age.
83. The grant offer letter contains an auditor's certificate at annex 5; however, this should not be used. Auditors should instead use the format and wording shown at Appendix 3 to this grant note.
84. The deadline for the submission of the auditor certified claim is 31 July 2012.
85. Auditors should use GN/EMA/12 when examining and reporting on 2011/12 EMA grant claims.

### **Guidance on certifying 2011/12 benefits subsidy claims**

86. The TSU has published grant note [GN/HBS/12](#) to provide guidance on certifying 2011/12 housing and council tax benefit (HB/CTB) subsidy claims. This is a scheme by which local authorities claim funding from the Department for Work and Pensions (DWP) towards the cost of paying HB/CTB in their local areas.
87. It is a condition of the DWP that external auditors in Scotland should use the testing and reporting approach set out in the Audit Commission's HB COUNT approach. This grant note therefore provides guidance on the application of HB COUNT to the certification of subsidy claims of Scottish authorities.
88. Where the results of testing do not allow agreed amendments to be made, the results of the testing should be set out in a covering letter. Appendix 4 provides examples of how the results of testing should be reported to the DWP in covering letters.
89. The auditor's certificate to be used is incorporated in the claim. The certified copy of the claim form should be submitted by 30 November 2012. Auditors should send a copy of the certified claim form and their covering letter to the TSU.
90. Auditors should use GN/HBS/12 when examining and reporting on 2011/12 benefits subsidy claims.

### **Guidance on certifying 2011/12 Bellwin scheme claims**

91. The TSU has published grant note [GN/BEL/12](#) to provide guidance on certifying 2011/12 Bellwin scheme claims. This is a scheme to provide special financial assistance to authorities who would otherwise incur an undue financial burden as a result of providing relief and carrying out immediate work resulting from large-scale emergencies.
92. The claim form contains an external auditor's report; however, this should not be used. Auditors should instead use the format and wording shown at Appendix 3 to this grant note.
93. Auditors should use GN/BEL/12 when examining and reporting on 2011/12 Bellwin scheme claims.

### **Guidance on certifying 2011/12 safety camera scheme claims**

94. The TSU has published grant note [GN/FPN/12](#) to provide guidance on certifying 2011/12 safety camera programme claims. This programme is aimed at accident and casualty reduction through the use of speed and red light enforcement cameras.
95. The deadline for the submission of the auditor certified claim is 31 July 2012.
96. Auditors should use GN/FPN/12 when examining and reporting on 2011/12 safety camera programme claims.

### **Guidance on certifying 2011/12 criminal justice social work services claims**

97. The TSU has published grant note [GN/CJS/12](#) to provide guidance on certifying 2011/12 criminal justice social work services claims. This is a scheme to fund local authority expenditure on the provision, management and administration of criminal justice social work services.
98. Auditors should use the format and wording for their certificate shown at Appendix 4 to this grant note. The deadline for the submission of the certified claim is 30 September 2012.
99. Auditors should use GN/CJS/12 when examining and reporting on 2011/12 criminal justice social work services claims.

### **Other matters**

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#### **The following article contains a request from the TSU.**

#### **2011/12 analytical review database**

100. The TSU is co-ordinating the production of the 2011/12 database of financial information which auditors can use for analytical review comparisons with other local authorities. The database is based on councils' unaudited financial statements.
101. In order to populate the analytical review database, auditors are requested to complete the data capture workbook, available from the *Technical reference library*, and submit it to [tbridle@audit-scotland.gov.uk](mailto:tbridle@audit-scotland.gov.uk) by Friday 6 July. Assuming this deadline is met, the TSU plans

to publish the database in the week beginning 16 July so that it may inform the audit of the 2011/12 financial statements.

## Accounting developments

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

### Guidance on closing 2011/12 accounts

102. The [Chartered Institute of Public Finance and Accountancy](#) (CIPFA) has issued [LAAP bulletin 93 Closure of the 2011/12 accounts and related matters](#) to provide guidance and clarification on the 2011/12 financial statements. Auditors' attention is particularly drawn to guidance on the following points

- Disclosure of exit packages.
- Component accounting.
- Changes to teachers' terms and conditions.
- Disclosure of critical judgements in applying accounting policies.
- Definition of statement of accounts.
- Financial ratios.

### Disclosure of exit packages

103. The bulletin offers the view that the new requirement in the *Code of practice on local authority accounting in the UK 2011/12* (2011/12 Code) to disclose the number and cost of agreed exit packages should reflect the termination benefits recognised in the financial statements (i.e. those to which the authority is demonstrably committed). It also recommends that the exit package disclosure should be amalgamated with the disclosure of termination benefits.

104. The bulletin acknowledges that authorities may not know the precise numbers to be allocated into the exit packages bands. It therefore provides illustrative commentary that may be added to the note to set out any packages that are not able to be included in the appropriate bands of the disclosure note table.

105. An additional complication of the approach set out in the bulletin is that there may be occasions where the actual cost for exit packages is different from the estimate in the provision. The bulletin therefore recommends that an adequate explanation is given to ensure that it is clear which packages are disclosed in each financial year's statements.

106. The Code's disclosure requirement applies to exit packages that have been agreed, rather than the wider scope of those to which the authority is demonstrably committed. The TSU believes that compliance with the Code can best be achieved by disclosing the full cost (including the capitalised cost of added years granted) of those packages that have been agreed in the year, rather than being concerned with matching the total termination benefits in any year, given the differences in calculation bases that could be used. Following the

narrower requirement to only disclose the packages that have been agreed in year eliminates the complications highlighted in the bulletin.

### **Component accounting**

107. The bulletin reminds authorities that where an item of property, plant and equipment has major components with a cost that is significant in relation to the total cost of the item
- the components should be depreciated separately where their useful life or method of depreciation is different to that of the overall asset
  - when replaced, the carrying amount of the old component should be derecognised and the new component reflected in the carrying amount.
108. The bulletin highlights that, in many cases, asset registers have not been set up to capture the detail required to enable authorities to comply with this requirement.
109. It also clarifies that, although investment properties are not depreciated, component accounting applies in respect of the recognition and derecognition of components.

### **Changes to teachers' terms and conditions**

110. The bulletin highlights that changes to the terms and conditions for Scottish teachers during 2011/12 (i.e. 26 of the previous 66 days of annual leave entitlement are now 'school closure' days, for which there is no carry-forward entitlement) will
- lead to a change in the calculation of the untaken annual leave accrual for teachers as at 31 March 2012
  - affect the accrual of salary at the 31 March 2012.

### **Disclosure of critical judgements in applying accounting policies**

111. The bulletin reminds authorities that, when disclosing the critical judgements made in applying accounting policies, it is essential to also provide an appropriate explanation of the factors that were taken into account, any assumptions made, and the outcome. For example, it is not sufficient for an authority to state that it has analysed its leases into finance and operating; it should also set out what the determining factors were in its assessments and how particular significant leases have been classified.
112. It is also important that judgements to exclude material items are disclosed, e.g. a decision not to treat a possible future transaction as a contingent liability.

### **Definition of statement of accounts**

113. The Code makes various references to the 'statement of accounts' but there is no formal definition of this term. The bulletin suggests that it comprises the financial statements and the notes, including the summary of significant accounting policies.
114. Under this definition, it would exclude the annual governance statement, the auditors report and the explanatory foreword.

## Financial ratios

115. The Scottish local authority 'Directors of Finance section' has agreed in principle that selected financial ratios may be appropriately used or referred to in the explanatory foreword. The ten financial ratios are set out in the bulletin and cover reserves, council tax, financial management, and debt and borrowing.

## Guidance on presentation of NDR from 2011/12

116. CIPFA Scotland has provided [Advice on presentation of the non domestic rate account 2011/12](#) to provide guidance on presenting the non domestic rate (NDR) income account from 2011/12. This arises from a change in the calculation methodology for the amount to be distributed to each council for 2011/12 which is now based on mid-year collection estimates.
117. Any difference between actual values collected during 2011/12 and the distributed amount will be taken into consideration when setting the distributed amounts for 2012/13.
118. Changes in the NDR distributed amount arising from the new calculation methodology are neutralised by adjusting the general revenue grant support so the overall funding position of each council is not affected. An illustration provided with the guidance shows an increase in the distributed amount as a result of it being aligned with the amount expected to be collected and an equivalent reduction in the amount of government grant.
119. Local authorities continue to collect NDR on behalf of the Scottish Government and therefore the relationship is still an agency arrangement. The guidance highlights that the following should be clearly emphasised and distinguished in the financial statements
- The gross amount of NDR collected by the council on behalf of the Scottish Government in the NDR income account.
  - The gross amount of NDR income distributed to the council and which will appear in the comprehensive income and expenditure statement.
120. Auditors should confirm that authorities are presenting NDR in accordance with this guidance from 2011/12.

## Updated guidance on impairing Icelandic bank deposits

121. CIPFA has issued [LAAP bulletin 82 Guidance on the impairment of deposits with Icelandic banks](#) to provide updated guidance on impairments of deposits in Icelandic banks in 2011/12.
122. For the two Icelandic-domiciled banks, the Icelandic Supreme Court has ruled that UK local authorities' qualify as priority claims. This means that the claims are now final and will be equal to the value of the original deposit plus interest accrued to 22 April 2009 or, if earlier, the maturity date.
123. Payment of each depositor's claim has been made in a basket of currencies. The amounts received by local authorities in currencies other than Icelandic kroner were converted into sterling when received. The amount of Icelandic kroner was transferred to an escrow account being maintained on local authorities' behalf on 16 March 2012, pending permission from the

Central Bank of Iceland. Authorities should account for the final amount of any impairment by comparing the carrying value of the impaired deposit with the sum of the amount actually received in sterling and the amount of Icelandic kroner in escrow (which should be translated into sterling)

124. The amount held in escrow should be treated as a new short term investment and accounted for accordingly. *IAS 21 The effects of changes in foreign exchange rates* applies and the investments should be revalued at 31 March 2012 based on the sterling exchange rate at that date. Any changes in value due to differences in exchange rate between the 16 March and the 31 March should be taken to the comprehensive income and expenditure statement in 2011/12. In addition, the balance on the account is earning interest which should also be recognised in the comprehensive income and expenditure statement.
125. For the two UK-domiciled banks
- the total amount to be received for Kaupthing Singer & Friedlander Ltd is estimated to be in a range between 81% to 86%, and the bulletin therefore recommends that the estimate of the recoverable amount remains based on the mid point, which has now increased from 82% to 83.5%.
  - the total amount to be received for Heritable Bank continues to be estimated at 88%.
126. Auditors should confirm that authorities are accounting for impairments in Icelandic banks in 2011/12 in accordance with this guidance.

### Guidance on heritage assets

127. The [Local Authority \(Scotland\) Accounts Advisory Committee](#) has issued [Guidance on accounting for heritage assets](#) to encourage an appropriate and proportionate approach to the accounting and disclosure of heritage assets as required by the 2011/12 Code.
128. The paper draws attention to the objectives of *FRS 30 Heritage assets*, on which the Code's requirements are based, i.e.
- Where information is available on cost or value, heritage assets should be reported in the balance sheet.
  - Enhanced disclosures apply to all heritage assets, regardless of whether they are reported in the balance sheet.
129. LASAAC considers that a prime goal of applying FRS 30 is to ensure that the financial stewardship and management of heritage assets is properly presented in an authority's financial statements.
130. When assessing materiality, authorities should consider the nature of the item and not just the amount, and the paper advises that materiality by nature may be particularly relevant in the context of heritage assets. Any de minimis levels adopted should therefore be appropriate.
131. The paper also highlights that the Code explicitly allows consideration of costs and benefits in respect of whether a heritage asset should be

- recognised on the balance sheet. Paragraph 4.10.2.6 of the Code states that where information on cost or value is not available, and cannot be obtained at a cost commensurate with the benefits, the asset should not be recognised in the balance sheet. Specific additional disclosures are, however, required in this case
  - measured using a current valuation required. Paragraph 4.10.2.8 states that where it is not practicable to obtain a valuation at a cost commensurate with the benefits, heritage assets should be measured at historical cost.
132. The paper also considers the approach adopted by national museums and galleries which recognise in the balance sheet only heritage assets acquired since 1 April 2001. Appendix 1 of FRS 30 advises that this is an acceptable approach.

## Other developments

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

### Retirement benefits

#### 2011/12 report on actuaries

133. [PricewaterhouseCoopers](#) has prepared a report called *Review of IAS 19 reporting* to assess the competency of actuaries providing retirement benefit information for 2011/12. The report was commissioned by Audit Scotland (and the other UK audit agencies) to provide support to auditors when assessing the actuaries who produce retirement benefits figures under IAS 19 as at 31 March 2012. The report covers the local government, police and fire pension scheme schemes.
134. The work carried out for the report involved assessing the competence and objectivity of, and assumptions and approach adopted by, the relevant actuaries.
135. The work found that actuaries signing-off the calculation of the figures are appropriately qualified, and the actuarial firms are experienced and well-reputed. There are no known circumstances which would impair their objectivity to produce the figures.
136. The main findings in respect of the assumptions are
- the actuarial assumptions proposed by the actuaries are considered to be appropriate for a typical employer (with broadly equal numbers of active, deferred and pensioner members). However, the report recommends further investigation into the actuarial assumptions where an employer has a significantly different membership profile to a typical employer or where an employer has requested different assumptions than those proposed by the actuary
  - each actuary has taken a reasonable approach to the most material assumptions for each employer.



137. However, there is concern that accurate cashflows and details of significant events may not always be communicated to the actuaries. The report recommends that auditors consider extra tests on the cashflow data provided by employers, and satisfy themselves that any special events that they are aware of have been communicated to the actuaries.
138. It should be noted that the report does not cover
- the precise scope of the actuary's work as this is specific to each authority. Auditors will need to consider the instructions issued locally by admitted bodies, whether local issues have been covered adequately by those instructions, and the additional audit procedures they will need to undertake
  - accounting policies or any disclosures.
139. Auditors should use this report as evidence when assessing their authorities' retirement benefit information provided by actuaries in respect of 2011/12.

## Benefits

### 2011/12 subsidy claim

140. The DWP has issued a letter to provide information and guidance on the HB/CTB subsidy claim for 2011/12. The letter also confirms the amounts paid in 2011/12 in respect of administration subsidy and interim benefit subsidy.
141. The DWP has also issued *Notes on completion of form MPF720B-final subsidy claim 2011/12* setting out how the subsidy claim should be completed.

### 2011/12 HB COUNT

142. The Audit Commission has issued modules 4 and 5 of the [HB COUNT](#) approach to the certification of 2011/12 benefit subsidy claims.
143. Module 4 provides an analytical review tool which enables auditors to review subsidy claim forms by comparing 2011/12 information with 2010/11 and with other authorities. It provides a number of useful worksheets including the following two which require to be completed
- The year-to-year worksheet where 2010/11 claim data is entered manually for comparison against 2011/12 data. Any significant variances identified should be explained in column I.
  - The key ratios worksheet that allows comparison with other authorities. Any ratios highlighted in grey, pink or purple should be reviewed to establish the reason.
144. The information is for the use of auditors only. If auditors wish to provide authorities with outputs, they should ensure that the data for other authorities is anonymised.
145. Module 5 provides the software diagnostic tool component of HB COUNT which aims to ensure that
- benefits subsidy claims have been completed using the recognised software version and standard year end claim completion program issued by the software supplier



- the benefits system has been internally balanced in terms of benefit 'granted' and benefit 'paid' using the supplier's standard methodology
  - the claim form has been completed in accordance with the requirements of the subsidy order on a relevant financial year basis
  - deviations from the software supplier's standard claim completion methods are identified and assessed so that appropriate action can be taken.
146. The module contains a control matrix for each software supplier at Appendix 1 that requires to be completed by auditors. Where control questions fail, auditors should complete the non-compliance data return at Appendix 2 and submit it to the TSU.
147. Auditors should complete modules 4 and 5 as part of the certification of the 2011/12 benefit subsidy claims.

### 2011/12 subsidy guidance manual

148. The DWP has issued a revised [Housing benefit/council tax benefit subsidy guidance manual](#) detailing the subsidies that will be paid to local authorities in respect of HB/CTB costs in 2011/12.
149. The manual has been updated to reflect
- changes to the regulations and subsidy order, e.g. revisions to the caps for temporary accommodation and registered housing associations
  - the effective dates of rent officers' determination
  - subsidy arrangements for hostel accommodation
  - administration subsidy distribution for 2011/12.

### Welfare reform

150. The [Welfare Reform Act 2012](#) has received Royal Assent and provides for the UK Government's welfare reforms. The provisions in the Act will result in a number of significant changes for how local authorities deliver benefits services.
151. The most significant change is the introduction of universal credit (UC), which is an integrated working age benefit which will replace existing benefits including HB. It is expected that HB will start to migrate to UC from October 2013, which will result in HB case loads being significantly reduced by 2017.
152. Changes also include the following
- The setting of local housing allowance rates by reference to the bottom 30th percentile of private sector rents, rather than the 50th percentile.
  - The creation of a Single Fraud Investigation Service (SFIS) resulting in council staff currently employed on welfare benefit investigations working under SFIS policies and procedures.

- The introduction of size criteria for working age tenants in the social rented sector claiming HB.
- The implementation of a benefits cap limiting the total benefit that working age people can receive. This will initially be deducted by councils from HB payments until UC is in place
- The replacement of CTB with a localised council tax reduction scheme.

### **Changes to contribution-based employment and support allowance**

153. The DWP has issued [HB/CTB circular A3/2012\(Revised\) Changes to contribution-based Employment and Support Allowance \(ESA \(C\)\) for claimants in Great Britain](#) to provide details of the impact on HB/CTB of changes to contribution-based employment and support allowance (ESA (C)) from 1 May 2012.
154. The *Welfare Reform Act* introduced changes which limit the period claimants in the work related activity group can receive ESA (C) to 365 days. This may affect claimants' entitlement to HB/CTB, and local authorities have a responsibility to reassess HB/CTB claims where ESA (C) has ceased due to time-limiting.
155. Following the cessation of ESA(C), HB/CTB claims require to be reassessed as follows
- For claimants moving on to income-related ESA, authorities should recalculate HB/CTB based on entitlement to that benefit.
  - Claimants not moving on to income-related ESA will continue to qualify for the work-related activity component within their HB/CTB applicable amount, as well as any transitional addition that might have been previously awarded.
  - Claimants moving to another benefit, such as jobseekers allowance, should have their HB/CTB reassessed and the local authority should consider removing the work related component and any transitional addition from the applicable amount.
156. The circular also advises that the 104 week linking rule, which protected HB/CTB transitional additions within applicable amounts when certain conditions were met, has been withdrawn.

### **Duplication of new tax credit data**

157. The DWP has issued [HB/CTB circular S3/2012 Duplication of NTC data in ATLAS notifications](#) to advise of an error included in data files transferred to local authorities in April 2012.
158. Local authorities received automated transfer (ATLAS) files that included duplicated new tax credit data. The DWP has agreed to a temporary easement of the overpayment classification rules to help mitigate any impact on subsidy.
159. Any overpayment that occurred because of an unactioned ATLAS notification can be treated as 'departmental error' instead of 'local authority error' if the notification was received between 9 April and 19 April 2012.

160. However, the easement is temporary as any overpayments continuing after 11 July 2012 will need to be classed as 'local authority error' for the whole period.

## Fire

### 2012/13 fire service pension contributions

161. The [Scottish Public Pensions Agency](#) has issued [Firefighters pension scheme circular 1/2012 Increase in employee contributions](#) to advise of an increase in firefighters pension contributions from 1 April 2012 under *The Firemen's Pension Scheme Amendment (Scotland) Order 2012* and *The Firefighters Pension Scheme (Scotland) Amendment Order 2012*.
162. The contributions are based on eight salary tiers. The tier into which each firefighter falls depends on basic annual salary.
163. The annex sets out the rates for the old and new schemes for each tier for 2012/13. The increases for 2013/14 have still to be decided.

## Legislation

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

### Statutory instruments

#### Fire

164. [The Firemen's Pension Scheme Amendment \(Scotland\) Order 2012, SSI 106](#) came into force on 1 April 2012. See paragraph 161.
165. [The Firefighters Pension Scheme \(Scotland\) Amendment Order 2012, SSI 107](#) came into force on 1 April 2012. See paragraph 161.

## Publications

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The following publication can be obtained by using the hyperlink

### Audit Scotland

#### Using cost information to improve performance: are you getting it right?

166. Audit Scotland has published [Using cost information to improve performance: are you getting it right?](#) on making use of cost information. Key messages include
- Councillors need good cost information to make well-informed policy decisions, and scrutinise performance effectively.
  - Cost information needs to be presented in an open and accessible way along with policy options and performance information.

- Officers need good-quality cost information to help them manage services efficiently, assess performance and demonstrate value for money.
- A council's approach to using cost information should be driven by its priorities and objectives, with a focus on outcomes for service users and communities.

## Auditor action

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

Section and paragraph	Action
TSU developments - paragraph 73	Auditors should use note for guidance 2012/5(LA) when examining and reporting on 2011/12 local authority WGA returns.
TSU developments - paragraph 77	Auditors should use GN/GEN/12 when examining and reporting on 2011/12 grant claims.
TSU developments - paragraph 82	Auditors should use GN/EMA/12 when examining and reporting on 2011/12 EMA grant claims.
TSU developments - paragraph 86	Auditors should use GN/HBS/12 when examining and reporting on 2011/12 benefits subsidy claims.
TSU developments - paragraph 91	Auditors should use GN/BEL/12 when examining and reporting on 2011/12 Bellwin scheme claims.
TSU developments - paragraph 94	Auditors should use GN/FPN/12 when examining and reporting on 2011/12 safety camera programme claims.
TSU developments - paragraph 97	Auditors should use GN/CJS/12 when examining and reporting on 2011/12 community justice social work services claims.
TSU developments - paragraph 100	Auditors are requested to complete the data capture workbook for the 2011/12 Analytical review database and submit it to <a href="mailto:tbridle@audit-scotland.gov.uk">tbridle@audit-scotland.gov.uk</a> by Friday 6 July.

Section and paragraph	Action
Accounting developments - paragraph 116	Auditors should confirm that authorities are presenting NDR in accordance with the CIPFA Scotland guidance from 2011/12.
Accounting developments - paragraph 121	Auditors should confirm that authorities are accounting for impairments in Icelandic banks in 2011/12 in accordance with the CIPFA guidance.
Other developments - paragraph 133	Auditors should use the PWC report as evidence when assessing their authorities' retirement benefit information provided by actuaries in respect of 2011/12.
Other developments - paragraph 142	Auditors should complete modules 4 and 5 of HBCOUNT as part of the certification of the 2011/12 benefit subsidy claims.

# Central government chapter

## Introduction

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

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

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note that the following article in this chapter relates to 2011/12 audits

- Note for guidance on certifying 2011/12 whole of government accounts returns.
- Guidance on 2011/12 remuneration reports.
- Consolidation of 2011/12 Scottish Government accounts.
- Guidance on whole of government accounts for 2011/12.
- 2011/12 whole of government accounts consolidation pack.

## TSU developments

### Publications

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The following note will shortly be published by the TSU. It will be available to external auditors from Audit Scotland's *Technical reference library*.

#### **Note for guidance on certifying 2011/12 whole of government accounts returns**

167. The TSU will shortly be publishing *Note for guidance 2012/4(CG) 2011/12 whole of government accounts* to provide auditors with guidance on certifying the 2011/12 WGA returns for central government bodies.

## Accounting developments

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

### Guidance on 2011/12 remuneration reports

168. The [Cabinet Office](#) has issued [EPN 327 Disclosure of salary, pension and compensation information for 2011/12](#) which provides guidance on the preparation of a remuneration report for 2011/12.
169. Remuneration reports contain information about the pay and pension packages of Ministers and the senior management team. They should include information about remuneration policy and the individuals' contract of employment. As well as salary and pension information, they should also include detailed information about compensation paid to senior management.
170. The main change from 2010/11 is the requirement to disclose the median earning of the body's workforce and the ratio between this and the earnings of the highest paid director (see paragraph 164 of TB 2012/1).
171. In addition, the actuarial factors used in the calculation of cash equivalent transfer values mean that the value shown for 31 March 2011 will not be the same as the corresponding figure shown in the 2010/11 report. Bodies are required to add a footnote to explain this.
172. An example remuneration report is provided at [Annex 13C](#).

### Consolidation of Scottish Government 2011/12 accounts

#### Accounting boundary

173. The Scottish Government has issued *Application note: Scottish Government accounting boundary 2011/12* to set out its consolidation accounting boundary for 2011/12. The accounting boundary consists of the ministerial portfolios, their executive agencies, the Crown Office and Procurator Fiscal Service, and NHS bodies.
174. During 2011/12, the ministerial portfolios changed and the financial statements will be reported against the consequent reshaped budgets. The new core portfolios, and the agencies for which they have responsibility, are as follows
- Finance, Employment & Sustainable Growth
    - Scottish Public Pensions Agency
    - Accountant and Bankruptcy
  - Health, Wellbeing & Cities
    - NHS bodies
  - Education & Lifelong Learning
    - Education Scotland. This is a new agency following the merger on 1 July 2011 of Her Majesty's Inspectorate of Education and Learning and Teaching Scotland.

- Disclosure Scotland
- Student Awards Agency for Scotland
- Parliamentary Business & Government Strategy
- Justice
  - Scottish Prison Service
- Rural Affairs & the Environment
- Culture & External Affairs
  - Historic Scotland
- Infrastructure & Capital Investment
  - Scottish Housing Regulator
  - Transport Scotland
- Local Government
- Administration.

175. In addition to Education Scotland, the other change to the list of agencies is Social Work Inspection Agency which was wound up on 31 March 2011. Social Care and Social Work Improvement Scotland has taken over that role but is not an agency.

### Preparation guidance

176. The Scottish Government has issued *The Scottish Government preparation of consolidated accounts - consolidation process guidance 2011/12* to provide guidance on the preparation of its consolidated financial statements for 2011/12.

177. From 2011/12, the Scottish Government is producing the main financial statements for its consolidated financial statements directly from Scottish Executive Accounting System (SEAS), using financial statement generator (FSG) reports which bodies within the consolidation boundary are required to complete and submit. The additional disclosures that cannot be derived from the financial ledger, including prior year adjustments, will be collected using a supporting notes workbook. Entities that do not use SEAS are required to provide a completed trial balance.

178. Any transactions, balances, and profit arising on trading or transfers between bodies within the accounting boundary requires to be identified and eliminated on consolidation. Bodies are required to agree the relevant figures with the other entity, and report the necessary figures for adjustment on consolidation.

179. From 2011/12, the supporting workbook will also request information in respect of WGA, e.g. more details on income, expenditure and related party transactions, and information on transactions with other UK public bodies. Bodies within the consolidation boundary will therefore not be required to prepare separate WGA returns.

180. Bodies are required to produce and submit the following returns



- Draft FSG reports (or trial balance) and supporting notes workbook were to be submitted to external auditors and the Scottish Government by 31 May 2012.
- Final FSG reports (or trial balance) and supporting notes workbook that have been reviewed by auditors require to be submitted to the Scottish Government by 13 July 2012.
- A signed consolidation certificate from both the body and auditor requires to be submitted by 31 August 2012.

181. A signed copy of the financial statements should also be submitted.

182. Annex 2B of the guidance sets out a pro-forma auditors report template, but the TSU is discussing revised wording with the Scottish Government. The TSU will advise auditors of the outcome of the discussions in due course and may provide further guidance at that time.

183. Auditors of bodies within the consolidation boundary should ensure that they review and certify the consolidation information in accordance with this guidance.

184. It should be noted that non-departmental public bodies (NDPBs) are not within the consolidation boundary, and therefore continue to require to prepare WGA returns (see paragraph 185).

## Other developments

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

### Whole of government accounts

#### 2011/12 guidance

185. HM Treasury has issued [Guidance on the whole of government accounts - year ended 31 March 2012](#). WGA requires government departments (including agencies) to consolidate their NDPBs with their own information and eliminate intra-group data.
186. WGA bodies submit their data to departments in an Excel spreadsheet called a C-Pack. The departments upload the C-Packs into Treasury's combined on line system (COINS), which is the consolidation software used to produce WGA. The Treasury then consolidate all the completed C-Packs, with information from the rest of the public sector, to prepare WGA for the UK.
187. Each WGA body is issued by Treasury with a unique counter-party identification (CPID), which is used to identify other WGA bodies in the process for agreeing transaction streams and balances. A list of all bodies within the WGA boundary for 2011/12 is included in the C-Pack.
188. There are no significant changes from 2010/11 which apply to Scotland.

## 2011/12 consolidation pack

189. HM Treasury has issued the [2011/12 C-Pack](#) and accompanying [instructions](#) on how to complete the C-Pack, and how it should be uploaded to COINS.
190. There has been very little change made to the C-Pack for 2011/12. The main changes include the following
- A new accounting test has been added (Test 34) which highlights, and requires explanation of, any differences between grant income/expenditure and the related CPID data.
  - Capital commitments are broken down between property, plant and equipment and intangible assets.
  - Wage costs now include ministers and special advisors.
  - Contingent assets and liabilities now ask for internal balances with other WGA entities (no CPID data required).

## Publications

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The following publication can be obtained by using the hyperlink.

### Audit Scotland

#### Learning the lessons of public body mergers

191. This report from Audit Scotland [Learning the lessons of public body mergers](#) reviews nine recent mergers of public sector bodies. Key messages include the following
- The absence of permanent leaders early in the planning and implementation stages In some cases meant that some important decisions were deferred and key elements were not well developed when the new body began to operate.
  - The objectives set in the planning stage for the mergers were very broad, and more attention should have been given to how organisations would develop after the merger.
  - The four mergers examined in depth were expected to make net savings of around £63 million. However, it is not possible to confirm the actual savings accurately because of inadequate analysis of savings and efficiencies.
  - The reported £42 million merger costs incurred so far for the four mergers examined in depth are higher than the £30 million initially forecast.
  - Weaknesses in performance measures and baseline information will make it difficult for merged bodies to demonstrate the impact of changes in the way they deliver services.

## Auditor action

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

Section and paragraph	Action
Accounting developments - Paragraph 176	Auditors of bodies within the consolidation boundary should ensure that they review and certify the consolidation information in accordance with the Scottish Government guidance.

# Health chapter

## Introduction

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

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

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note that the following articles in this chapter relate to 2011/12 audits

- Note for guidance on auditing 2011/12 health financial statements.
- Preparation of annual reports.
- Partnership information network policies.

## TSU developments

### Publications

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The following note has been published by the TSU since TB 2012/1. It can be obtained by using the hyperlink and is available to external auditors from Audit Scotland's *Technical reference library*.

#### Note for guidance on auditing 2011/12 health financial statements

192. The TSU has published [Note for guidance 2012/3\(H\) Audit of 2011/12 health financial statements](#) to provide auditors with guidance on planning and performing the audit of the 2011/12 health financial statements.
193. ISA 315 *Identifying and assessing the risks of material misstatement through understanding the entity and its environment* requires auditors to identify and assess the risks of material misstatement in the financial statements. The TSU has published this note for guidance to

assist auditors in meeting that requirement by highlighting the areas that the TSU considers represent generic risks of material misstatement in the 2011/12 financial statements.

194. The note for guidance also provides guidance on
- the opinion on the regularity of income and expenditure, the part of the remuneration report that is audited, and the consistency of the directors' report and operating and financial review with the financial statements
  - matters on which auditors are required to report by exception, e.g. on the governance statement
  - providing assurance on the consolidation templates
  - the opinion on the consistency of the summary financial information within the 'glossy' annual report with the full financial statements (see paragraph 196).
195. Auditors should use this note for guidance when performing the audit of the 2011/12 health financial statements.

## Other guidance

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**The following article provides guidance from the TSU.**

### Preparation of annual reports

196. Auditors are reminded that boards are required by statute to prepare a 'glossy' annual report in accordance with Scottish Government guidance and publish it by 31 October each year.
197. The report should summarise the boards' activities and achievements, and is also required to contain a minimum set of summary financial information. As indicated at paragraph 194, auditors are required to express an opinion on the consistency of the summary financial information with the full financial statements.
198. Auditors should confirm that their boards are aware of this continuing requirement and are familiar with the Scottish Government guidance.

## Other developments

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

### National agenda/direction

#### 2012/13 directed enhanced services programme

199. The [Scottish Government Health and Social Care Directorates](#) (SGHSCD) has issued three letters relating to the directed enhanced services (DES) for 2012/13.
200. [PCA\(M\)\(2012\)4](#) advises boards of the directions for the year which have revised to reflect

- the removal of the osteoporosis DES, although contractors are allowed to continue with an arrangement entered into under the 2011/12 DES for a transitional period
- the introduction of a revised extended hours access DES (see paragraph 201)
- a revised palliative care DES (see paragraph 202).

201. [PCA\(M\)\(2012\)5](#) provides guidance on the revised extended hours access DES, which replaces the previous DESs that covered extended hours for GP practices and nursing. Practices are required to sign a declaration to confirm that they are meeting the requirements of the DES, which include the following

- GP practices undertaking this DES will be required to provide a minimum of an additional 30 minutes of GP (or other healthcare professional) consultation time per 1,000 registered patients per week (less frequently for smaller practices).
- The additional sessions should be provided on a consistent basis, e.g. at the same time each week, where practicable.
- Practices are required to publicise their extended hours arrangements.
- There should be no diminution in the current core hours level of service.

202. [PCA\(M\)\(2012\)6](#) summarises the arrangements for the DES which supports practices in taking a systematic approach to palliative and end-of-life care needs. To be eligible, practices need to have at least one palliative care patient on their registered list. The DES requires practices to

- include patients with palliative care needs on their palliative care register
- assess patients and compile an initial care plan and electronic palliative care summary (ePCS)
- make the care summary available to professionals involved in the patients' out of hours care within four weeks of inclusion on the register
- undertake a programme to reflect on the care process.

203. Practices will receive

- an initial payment of £250 for administration and infrastructure costs
- £68 per ePCS completed
- £58 per reflective practice up to a maximum of fifteen at a maximum rate of one per 1000 patients.

### **Arrangements for English prescription forms from 2012/13**

204. The SGHSCD has issued [PCA\(P\)\(2012\)7](#) to advise boards that, from 2012/13, prescription forms from England, and Scottish prescription forms presented for dispensing in England, will be charged at the new rate of £7.65 per item, unless they are exempt.

205. Patients resident in Scotland and registered with a GP in England will require a valid entitlement card to obtain free prescriptions when dispensed at a pharmacy in Scotland.

206. Where an overseas visitor is deemed eligible to access NHS services and is provided with a Scottish prescription form they will be entitled to have the prescription dispensed free of charge if presented at a pharmacy in Scotland.

## Pay and workforce planning

### Revised partnership information network policies

207. The SGHSCD has issued two revised partnership information network (PIN) policies with [CEL\(2012\)9](#), which the staff governance standard requires to be implemented. The two revised policies are
- Use of fixed term contracts within NHSScotland
  - Secondment.
208. The PIN policies aim to achieve a consistent approach in the way NHSScotland deals with its employees. They provide up to date guidance on people management issues and are intended as a foundation for local strategies. Where local adaptations are agreed, these should meet the minimum standards set out in the nationally agreed policies. Boards are expected to provide evidence of adherence to the PIN policies.

### 2012/13 hospital and community medical and dental staff pay

209. The SGHSCD has issued [PCS\(DD\)\(2012\)2](#) to announce the pay rates for hospital and community medical and dental staff for 2012/13. Pay and associated allowances will remain at current levels. However, incremental progression will continue to apply for those eligible. The circular also includes revised progression tables for those covered by the 2004 consultant contract.
210. There will be no increase in the value of distinction awards, new awards or progression through the award scheme during 2012/13. Discretionary points will be paid in 2012/13 in respect of work done in 2011/12, and work undertaken from 1 April 2012 onwards should not count towards discretionary points.

## Legislation

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

### Statutory instruments

#### National health service

211. [The National Health Service \(Charges to Overseas Visitors\)\(Scotland\) Amendment Regulations 2012 SSI 87](#) came into force on 1 May 2012 and amended the principal regulations to extend the categories of overseas visitors exempt from NHS charges to include those taking part, or involved, in the Olympic or Paralympic Games in 2012.

212. [The Patients Rights \(Treatment Time Guarantee\)\(Scotland\) Regulations 2012 SSI 110](#) come into force on 1 October 2012 and make further provision about the treatment time guarantee established by the *Patients Rights (Scotland) Act 2011*. The regulations set out how the guarantee is to operate in practice and include the following provisions

- Patients due to receive planned treatment on an inpatient or day case basis are eligible for the treatment time guarantee.
- The calculation of the waiting time starts from the date on which the patient agrees to proceed with the agreed treatment.
- Specified periods of time may be disregarded for the purposes of calculating the waiting time, e.g. when the patient is unavailable.
- When a health board is unable to meet the treatment time guarantee within its own area, it is required to take all reasonably practicable steps to arrange for the provision of the agreed treatment by another board or provider.
- Boards are obliged to provide patients with clear and accurate information about how the waiting time is calculated.

213. [The National Health Service Superannuation Scheme etc \(Miscellaneous Amendments\)\(Scotland\) Regulations 2012 SSI 163](#) come into force on 28 June 2012 and make miscellaneous amendments to the principal superannuation regulations mainly arising from changes made by the *Finance Act 2011*, e.g. in relation to individuals' annual and lifetime allowances.

## Auditor action

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

Section and paragraph	Action
TSU developments – paragraph 192	Auditors should use note for guidance 2012/3(H) when performing the audit of the 2011/12 health financial statements.
TSU developments – paragraph 196	Auditors should confirm that their boards are aware of the continuing requirement to publish an annual report and are familiar with the Scottish Government guidance.



# 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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20 June 2012



# Technical bulletin

## 2012/3

### July to September



Prepared by the Technical Services Unit  
19 September 2012

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

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# Foreword

Audit Scotland's Technical Services Unit (TSU) provides guidance to external auditors appointed by the Accounts Commission and Auditor General to support them in carrying out their responsibilities under the *Code of audit practice* to

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

This includes the preparation of technical bulletins (TBs) by the TSU at quarterly intervals, which are approved by the Assistant Auditor General for Scotland. They are available to external auditors from Audit Scotland's *Technical reference library* and published on the Audit Scotland website. TBs provide a composite of technical developments in the quarter that are relevant to external auditors' responsibilities referred to above, and provide auditors with guidance on any emerging issues. The overall purpose of TBs is to inform auditors' professional judgment in making informed decisions about the courses of action that are appropriate in the circumstances of the audit appointment.

TBs contain information which is of importance to the conduct of audits and frequently recommend that auditors take certain actions, and a summary of these actions is provided at the end of each chapter. It is important that a mechanism is in place for senior audit staff to review the TB promptly and to ensure that steps are taken to consider such recommendations.

While auditors act independently, and are responsible for their own conclusions and opinions, consistency in similar circumstances is important and **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 provided on a significant issue** (e.g. a matter that requires consideration to be given to modifying the audit opinion on the financial statements of a number of audited bodies).

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

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

# Headlines

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

Cross-sectoral chapter	Reference
The International Public Sector Accounting Standards Board has issued a consultation paper on public sector combinations.	Paragraph 1
The European Financial Reporting Advisory Group and Financial Reporting Council have issued a discussion paper on a notes disclosure framework.	Paragraph 7
The Chartered Institute of Public Finance and Accountancy has issued proposed internal audit standards for the public sector.	Paragraph 11
The TSU has provided a summary of some reported fraud cases.	Paragraph 16

Local authority chapter	Reference
The CIPFA/LASAAC Local Authority Code Board has issued an exposure draft of the 2013/14 <i>Code of practice on local authority accounting in the UK</i> and draft 2012/13 update.	Paragraph 28
The Chartered Institute of Public Finance and Accountancy has issued <ul style="list-style-type: none"> <li>an exposure draft of the 2013/14 <i>Service reporting code of practice</i></li> <li>a draft application note on the proposed internal audit standards for public sector.</li> </ul>	Paragraph 43 Paragraph 49

Local authority chapter	Reference
The Scottish Government has issued a letter on implications of the <i>Long Leases (Scotland) Act 2012</i> on common good property.	Paragraph 47
The Local Authority (Scotland) Accounts Advisory Committee has issued guidance on local government pension scheme financial statements.	Paragraph 52
Treasury has issued whole of government accounts matches reports for 2010/11 and 2011/12.	Paragraph 55
The Department for Work and Pensions has issued a circular on housing benefit size criteria restrictions.	Paragraph 57
Audit Scotland has issued an overview report on fire and rescue services.	Paragraph 60

Central government chapter	Reference
The TSU has published a note for guidance on certifying 2011/12 central government whole of government accounts returns.	Paragraph 61
<p>Treasury has issued exposure drafts of proposed amendments to the</p> <ul style="list-style-type: none"> <li>• 2012/13 <i>Government financial reporting manual</i> in respect of business combinations under common control</li> <li>• 2013/14 <i>Government financial reporting manual</i> in respect of IPSAS 32 Service concession arrangements: Grantor</li> <li>• 2013/14 <i>Government financial reporting manual</i> in respect of <i>IFRS 13 Fair value</i></li> </ul>	<p>Paragraph 63</p> <p>Paragraph 73</p> <p>Paragraph 79</p>



Central government chapter	Reference
<p><i>measurement</i></p> <ul style="list-style-type: none"> <li>• <i>2013/14 Government financial reporting manual</i> in respect of amendments to <i>IAS 1 Presentation of financial statements</i>.</li> </ul>	Paragraph 84
Treasury has issued the whole of government accounts matches report 2010/11 and 2011/12.	Paragraph 88
The Scottish Government has issued a finance guidance note to advise of amendments to the <i>Scottish public finance manual</i> .	Paragraph 90
Audit Scotland has issued a report on managing information and communications technology projects.	Paragraph 94

Health chapter	Reference
<p>The Scottish Government Health and Social Care Directorates has issued</p> <ul style="list-style-type: none"> <li>• a revised mobile data protection standard</li> <li>• revised guidance on managed clinical networks</li> <li>• guidance on delivering waiting times standards</li> <li>• revised partnership information network policies</li> <li>• guidance on medical revalidation for doctors</li> <li>• a progress report on reducing senior management posts.</li> </ul>	<p>Paragraph 95</p> <p>Paragraph 103</p> <p>Paragraph 105</p> <p>Paragraph 111</p> <p>Paragraph 113</p> <p>Paragraph 116</p>
<p>The Scottish Government has issued</p> <ul style="list-style-type: none"> <li>• a revised staff governance standard</li> </ul>	Paragraph 98

Health chapter	Reference
<ul style="list-style-type: none"> <li>2012/13 workforce forecasts.</li> </ul>	Paragraph 118

Further education chapter	Reference
<p>The TSU has published a note for guidance on auditing the 2011/12 further education financial statements.</p>	Paragraph 121
<p>The Scottish Funding Council has issued</p> <ul style="list-style-type: none"> <li>the accounts direction from 2011/12</li> <li>guidance notes on 2011/12 financial statements</li> <li>a suggested discount factor for early retirement provision.</li> </ul>	<p>Paragraph 125</p> <p>Paragraph 129</p> <p>Paragraph 132</p>
<p>The Scottish Government has issued a response to the review of further education governance in Scotland.</p>	Paragraph 134
<p>Scotland's Colleges has issued guidance on governance to college board members.</p>	Paragraph 139

# Cross-sectoral chapter

## Introduction

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

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

The TSU encourages feedback on this TB. Comments should be sent to [alewis@audit-scotland.gov.uk](mailto:alewis@audit-scotland.gov.uk)

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note that there are no articles in this chapter that relate to 2011/12 audits.

## Accounting developments

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

### Consultation on accounting treatment for public sector combinations

1. The [International Public Sector Accounting Standards Board](#) (IPSASB) has issued [Public sector combinations - consultation draft](#) on the accounting treatment for public sector combinations. A public sector combination is defined as the bringing together of separate operations into one body, either as an acquisition or an amalgamation.
2. An acquisition results in a recipient body gaining control of one or more operations. Where there is a combination in which all of the bodies or operations involved are ultimately controlled by the same body both before and after the combination, it is referred to as an acquisition under common control. The recipient body recognises the carrying amount of the acquired operation's assets and liabilities, with amounts adjusted to align the accounting policies.

3. The consultation paper also sets out possible approaches to determining the measurement basis that could be applied to acquisitions that are not under common control. This generally requires the recipient body recognising the acquired operation's assets and liabilities at fair value.
4. An amalgamation is where two or more operations combine, but none gains control of the others. The resulting body would apply a modified form of merger accounting which requires
  - the point of recognition to be the date of the amalgamation
  - the combining operations' financial statement items to be recognised at carrying amount, with amounts adjusted to align the accounting policies
  - the surplus or deficit recognised in the statement of financial performance to commence from the date of the amalgamation
  - no comparatives in the year of the amalgamation.
5. Comments should be made via the IPSASB website by 31 October 2012.
6. In addition, Treasury has issued a consultation paper on combinations in the central government sector (see paragraph 63).

### Discussion paper on notes disclosure framework

7. The [European Financial Reporting Advisory Group](#) and the [Financial Reporting Council](#) have issued [Towards a disclosure framework for the notes - discussion paper](#) which considers a disclosure framework for the notes to the financial statements. The objective of the disclosure framework is to ensure that all, and only, relevant information is disclosed in an appropriate manner, and is not obscured by unnecessary detail.
8. The paper proposes a set of key principles as essential qualities of an effective disclosure framework. Disclosure requirements should
  - be developed and justified with the same level of depth and scrutiny as recognition, measurement and presentation requirements, and not be used to compensate for inadequacies in those requirements
  - be set in a consistent manner across the whole set of accounting standards
  - be applied with a view to communicating information to users rather than a compliance exercise, and be principle-based with detailed rules being avoided
  - achieve proportionality to the users' needs, meet a reasonable cost-benefit trade-off, and avoid any possible overlap within notes
  - be reviewed over time to eliminate requirements that are no longer relevant.
9. The purpose of the notes should be to provide a relevant description of the items presented in the primary financial statements, any unrecognised arrangements, and claims against and rights of the body that exist at the reporting date. Notes should have the following features
  - The disclosures should provide information which amplifies and explains the primary financial statements.

- The notes should focus on past transactions and other events existing at the reporting date; information about the future that is unrelated to those past transactions and other events should not be provided.
  - Information in the notes should be entity-specific. Information on situations that do not apply in practice to the reporting entity should not be disclosed.
  - Notes should provide information such as assumptions and judgments in respect of reported items in the financial statements, and on risks that may affect these reported numbers, as well as alternative measurements where this information would be relevant.
  - The materiality principle should be applied as disclosing immaterial information reduces the relevance and the understandability of the disclosures.
10. Comments should be made to [commentletters@efrag.org](mailto:commentletters@efrag.org) by 31 December 2012.

## Corporate governance developments

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

### Proposed internal audit standards for public sector

11. The [Chartered Institute of Public Finance and Accountancy](#) (CIPFA) has issued [Public sector internal audit standards - consultation draft](#) which contains proposed internal audit standards that will apply throughout the UK public sector.
12. Public sector bodies in the UK are currently covered by different internal audit standards. The Relevant Internal Audit Standard Setters (including the Scottish Government in respect of central government and health, and CIPFA in respect of local authorities) have developed draft *Public sector internal audit standards* (PSIAS) to be applicable to all areas of the UK public sector.
13. The draft PSIAS is based on the mandatory elements of the Institute of Internal Auditors' (IIA) *International professional practices framework* (IPPF) which includes standards for the professional practice of internal auditing. The IIA standards are reproduced in the consultation paper, with public sector requirements and interpretations included where additional sector-specific detail is needed, i.e.
- in order to achieve consistent application in the UK public sector
  - where the issue is not addressed adequately by the current IIA standards
  - where the IIA standard would be inappropriate or impractical in the context of public sector governance.
14. Responses were required by 14 September 2012, and it is proposed that PSIAS will come into force from 1 April 2013.
15. CIPFA has issued a proposed application note for local authorities (see paragraph 49).

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## Fraud cases

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

### Expenditure

16. A third party defrauded £25,000 from a non-departmental public body (NDPB) by re-directing payments intended for a legitimate supplier. The fraudster sent a forged letter on headed paper to the NDPB purporting to be from the supplier requesting a change in bank details. A payment was then made to the new bank account. The fraud was possible due to officers not confirming the amended bank details with the supplier.
17. The fraud was discovered when the legitimate supplier queried why they had received a remittance, but had not received the payment into their bank account. The police were informed and their investigations resulted in the recovery of £22,000.
18. A review has been carried out on all changes to suppliers' bank details made since April 2011. Staff have been reminded of procedures for confirming any changes with suppliers before payments are made.

### Income

19. (i) An employee defrauded £8,000 over a four year period from events that used council property. The employee misappropriated cash collected from the events, amended invoices to make him the payee, and awarded catering contracts to family members without following normal procedures.
20. The fraud was discovered following a report to internal audit from a third party. A subsequent investigation found that the fraud had been possible due to invoices being raised on the employee's PC rather than the corporate debtors system, reconciliations to agree income banked to events held not being prepared, and a lack of controls on the access and usage of council assets.
21. Disciplinary action is currently underway against the employee. Following the internal audit review, an action plan is in place to address the control weaknesses identified.
22. (ii) An estates manager defrauded over £33,000 from a council by agreeing rent free periods with certain tenants without any justification under the terms of the leases. In doing so, the employee deliberately acted in the interests of a number of estates customers that he dealt with exclusively, and to the disadvantage of the council.
23. The fraud was possible due to a lack of segregation of duties. The employee failed to set up debtors' accounts for the collection of rent, carry out committee decisions and comply with statutory requirements.
24. The fraud was discovered by internal audit and disciplinary action is underway. Procedures in the estates department are to be reviewed.

25. (iii) Catering employees acting separately defrauded £13,000 and £12,000 from two councils by not banking school meal income. The frauds were possible due to control weaknesses in the collection and banking of cash.
26. Both frauds were discovered by finance officers when reconciling catering returns to income banked. The frauds were possible due to bank reconciliations not being carried out regularly.
27. The employees have been prosecuted with one employee receiving a fine and community service while the other employee is awaiting sentencing. In both councils, reconciliations between the financial ledger and catering returns have been brought up to date and the procedures for collecting and banking income have been revised.

# Local authority chapter

## Introduction

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

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

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note that the following article in this chapter relates to 2011/12 audits

- WGA matches reports.

## Accounting developments

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

### Draft 2013/14 Code and 2012/13 update

28. The [CIPFA/LASAAC Local Authority Code Board](#) has issued an [exposure draft](#) of the *Code of practice for local authority accounting in the UK* (the Code) for 2013/14. Auditors' attention is drawn to the following significant proposed changes
  - Fair value measurement (see paragraph 31).
  - Service concession arrangements (see paragraph 33).
  - Employee benefits (see paragraph 35).
29. There are also minor proposed changes to the Code for 2013/14 (see paragraph 40); a proposed update to the 2012/13 Code (see paragraph 41); and possible future changes to the Code from 2014/15 (see paragraph 42).
30. Comments should be sent to [code.responses@cipfa.org](mailto:code.responses@cipfa.org) by 1 October 2012.



## Fair value measurement

31. It is proposed to add a new section to the Code on measuring fair value to reflect IFRS 13 *Fair value measurement*. Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. There are also significant new fair value disclosure requirements.
32. However, the definition of fair value in IFRS 13 is based on an exit value and does not recognise the potential for an asset to contribute to the provision of services. CIPFA/LASAAC considers that this is not an appropriate measure of the benefits to local authorities of assets used to deliver services. The proposed amendments to the Code therefore include the following additions to the scope exclusions in the standard (which already include leases)
- Property, plant and equipment, as it is considered that these assets are largely not profit-generating assets (though this is subject to a rebuttable presumption).
  - Non-current assets within service concession arrangements.
  - Assets held for sale that meet the definition of right-to-buy assets.
  - Heritage assets.

## Service concession arrangements

33. It is proposed that the provisions in the Code in relation to PFI/PPP arrangements be augmented by the new guidance in *IPSAS 32 Service concession arrangements: Grantor*. Key proposed changes are in the accounting treatment for compensating the operator for the service concession asset
- Where the compensation is in the form of payments to the operator, IPSAS 32 requires the liability to be recognised as a financial liability measured under *IAS 39 Financial instruments; Recognition and measurement*. The exposure draft therefore proposes that the liability be recognised and measured as a financial liability in line with IAS 39 rather than a finance lease liability under IAS 17 (as currently required).
  - Where the authority compensates the operator by granting a right to earn revenue from users of the asset, it is proposed that exchange be regarded as a transaction that generates revenue. Authorities should recognise the revenue over the period of the arrangement and reduce the liability as the revenue is recognised.
34. In the event of a hybrid arrangement, whereby the operator is compensated partly by a series of payments and partly by the right to charge users, it will be necessary to divide the arrangement.

## Employee benefits

35. There are proposed amendments to chapter 6 of the Code to reflect recent amendments to *IAS 19 Employee benefits*.
36. The most significant changes are to section 6.4 where the components of defined post-employment benefits have been reclassified into

- service cost, which comprises the current service cost, past service cost (which would include curtailments), and any gain or loss on settlement, and is recognised in the surplus or deficit on the provision of services
  - net interest on the net defined benefit liability, which is recognised in the surplus or deficit on the provision of services
  - remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, return on plan assets, and any refunds or reductions in future contributions, and are recognised in other comprehensive income and expenditure.
37. The amended standard introduces explicit disclosure objectives and is more of a principle-based approach. The new disclosure requirements are also more detailed for many of the disclosures than required previously.
38. There are also new disclosure requirements for defined benefit schemes that are accounted for on a defined contribution basis. These include more description of the funding arrangements and the risks and obligations of the authority, and additional requirements relating to the expected contributions and a comparison of the level of participation that an authority might have in the plan in comparison with other bodies.
39. In addition, section 6.3 has been revised to set out more precisely when a liability and expense for termination benefits should be recognised. In particular, it is proposed that the recognition point should be based on the date when an authority can no longer withdraw an offer of termination benefits (rather than the previous test of being demonstrably committed to terminations).

### Minor proposed changes to the 2013/14 Code

40. Other proposed changes to the Code for 2013/14 include the following
- A requirement for authorities to group items in accordance with an amendment to *IAS 1 Presentation of financial statements* where they have items in other comprehensive income and expenditure that are reclassifiable to the surplus or deficit on the provision of services (e.g. gains or losses on available for sale financial assets).
  - A change to section 7.4 requiring authorities to disclose information that will enable users to evaluate the effect of netting financial assets and financial liabilities in accordance with an *Amendment to IFRS 7 Offsetting financial assets and liabilities*.
  - An explicit requirement for any balances of unspent revenue grant with restrictions regarding the expenditure against which the grant can be applied to be held in a earmarked part of the general fund.
  - The removal of the requirement to disclose members' allowances and expenses.
  - The removal of the terms 'enhancement' and 'exception items' from the Code.

### Proposed update to the 2012/13 Code

41. There is a proposed update to the 2012/13 Code to reflect developments since that Code was issued. It includes requirements to

- recognise an intangible asset for allowances held under the *Carbon reduction commitment scheme*, and a liability for their surrender. Allowances should be recognised initially at cost, and should be revalued unless there is no evidence of an active market
- determine whether authorities continue to act as agents when collecting non-domestic rates under *Tax increment financing* and the *Business rate incentivisation scheme*, and account for the collection as a principal if they do not.

### **Possible changes to the 2014/15 Code**

42. Possible other changes to future editions of the Code that auditors should note are as follows
- The new standards on group financial statements (IFRSs 10 to 12) have been adopted by the European Union for application from 1 January 2014, with early adoption permitted. CIPFA/LASSAC is not minded to adopt them early, and therefore they are not included in the 2013/14 exposure draft.
  - CIPFA/LASAAC is proposing to require full adoption of the measurement requirements of the *Transport Infrastructure code* (i.e. a depreciated replacement cost approach) from 2014/15.

### **Draft 2013/14 SeRCOP**

43. CIPFA has issued a [consultation paper](#) which proposes amendments to the *Service reporting code of practice* (SeRCOP) 2013/14.
44. The principal proposal in the consultation paper that applies to Scottish authorities arises from proposed changes in the exposure draft for the 2013/14 Code arising from amendments to *IAS 19 Employment benefits* (see paragraph 35).
45. This SeRCOP consultation proposes that current service cost should be included in the total cost of services, while past service costs and gains and losses on settlements should be included in non-distributed costs.
46. Comments should be sent to [laura.deery@cipfa.org](mailto:laura.deery@cipfa.org) by 1 October 2012.

### **Accounting for compensatory payments under the Long Leases (Scotland) Act 2012**

47. The Scottish Government has issued a letter to local authorities on the accounting implications for common good property of the *Long Leases (Scotland) Act 2012*. Under the Act, leases that were let for more than 175 years and, at the appointed day (expected to be 28 November 2015), have more than 175 years (non-residential leases) or 100 years left to run (residential leases) convert to ownership.
48. Under the Act, landlords are entitled to claim compensatory payments from tenants. The letter sets out the Scottish Government's view that any such payments made to local authorities relating to common good land or land held in trust by authorities should be credited to the common good fund or relevant trust fund.

## Corporate governance developments

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

### Draft application note on proposed internal audit standards for public sector

49. Paragraph 11 in the cross-sectoral chapter advises that CIPFA has issued proposed internal audit standards that will apply throughout the UK public sector.
50. CIPFA has also issued a draft application note which is intended to provide guidance on the proposed standards to local authorities. It provides further explanation and practical guidance on how to apply them.
51. Responses should be sent to [lgapplicationnote.consultation@cipfa.org.uk](mailto:lgapplicationnote.consultation@cipfa.org.uk) by 1 October 2012. It is proposed that application note will come into force from 1 April 2013, when the standards come into force.

## Other developments

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

### Pension funds

#### Guide to financial statements

52. The [Local Authority \(Scotland\) Accounts Advisory Committee](#) has issued [The Scottish local government pension scheme - using the financial statements](#) which is intended for use as an initial reference point for those with an interest in Scottish local government pension scheme (LGPS) financial statements. It is intended to support specific training of those elected members with pension fund responsibilities.
53. The guide provides a brief overview of the financial statements with supporting chapters providing basic information about the LGPS so that informed use may be made of the financial statements.
54. Example questions for those interested in governance are also provided.

### Whole of government accounts

#### Matches reports

55. Treasury has issued the whole of government accounts (WGA) matches reports for 2010/11 and 2011/12, which identify mismatches in the counterparty data of WGA bodies. They flag instances where matches input into COINS for 2010/11 are outwith tolerance levels or where one party has reported an amount and the other party has not.

56. WGA bodies are expected to have reviewed these reports and investigated any underlying reasons for significant differences. Auditors should have reviewed the reports, and the work undertaken by the WGA bodies, and considered whether they have addressed any identified 'no matches' or 'matches out of tolerance'.

## Benefits

### Housing benefit size criteria restrictions

57. The [Department for Work and Pensions](#) has issued [HB/CTB circular A4/2012 Housing benefit size criteria restrictions for working age claimants in the social rented sector](#) to announce the introduction of size criteria for the social rented sector (SRS) from April 2013. Regulations issued under the *Welfare Reform Act 2012* will apply local housing allowance (LHA) size criteria for the private rented sector (PRS) to the SRS (i.e. accommodation let by a local authority, registered housing association or other registered provider) for all those of working age.
58. Claimants receiving housing benefit for SRS housing will have the amount they can receive restricted based on the number of bedrooms their household requires measured against the same size criteria already used in LHA. Those found to have more bedrooms than they are entitled to under the size criteria rules (known as 'under-occupying') will have a percentage deduction applied to their eligible rent of
- 14% for under-occupation by one bedroom
  - 25% for under-occupation by two bedrooms or more.
59. The change will apply to all existing and new claimants from 1 April 2013, with certain limited exceptions, e.g. shared ownership cases and temporary accommodation. Before this date, authorities are required to
- contact all registered providers and local authority landlords asking for information on accommodation size and identify those under-occupying
  - inform affected claimants of the potential reduction in benefits and asking them to confirm the information held
  - Identify for landlords potentially affected tenants.

## Publications

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The following publication can be obtained by using the hyperlink

### Audit Scotland

#### Best Value in fire and rescue services in Scotland - Overview report

60. This report from Audit Scotland [Best Value in fire and rescue services in Scotland - Overview report](#) draws on the findings of the best value audits of fire and rescue services and focuses

on the opportunities and challenges of moving towards a single national service. Key messages include the following

- There are marked differences in how the existing eight services manage their resources and deliver fire and rescue services.
- Progress has been made in establishing integrated risk management planning providing each service with a structured approach to prioritising their use of resources.
- Five of the Scottish services are among the six most expensive in the UK, but the reasons for this are not sufficiently well understood. They need to do more to improve how they use public money and assess the impact of their work.
- Councillors on fire and rescue boards have not provided strong strategic leadership, particularly in the use of resources. To some extent, this reflects the lack of training, policy analysis and administrative support provided for them
- The relationship between services tends to be one of friendly competition rather than active collaboration, with very few examples of shared support services.

# Central government chapter

## Introduction

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

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

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note that the following article in this chapter relates to 2011/12 audits

- Note for guidance on certifying 2011/12 whole of government accounts returns.
- WGA matches report.

## TSU developments

### Publications

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The following note has been published by the TSU since TB 2012/2. It can be obtained by using the hyperlink, and is available to external auditors from Audit Scotland's *Technical reference library*.

#### **Note for guidance on certifying 2011/12 whole of government accounts returns**

61. The TSU published [Note for guidance 2012/4\(CG\) 2011/12 whole of government accounts](#) to provide auditors with guidance on certifying the 2011/12 whole of government accounts (WGA) returns for central government bodies.
62. Auditors should have used this guidance when reviewing and reporting on central government bodies 2011/12 WGA returns.



## Accounting developments

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

### Proposed amendments to 2012/13 FReM

63. [HM Treasury](#) has issued [Exposure draft \(12\)01 Interpretation of merger accounting for the public sector context](#) which proposes changes to the *Government financial reporting manual* (the FReM) from 2012/13 in respect of business combinations under common control.
64. Common control is deemed to exist across the public sector as overall government control does not change when a function is transferred from one public sector body to another. Group reconstructions under common control are outside the scope of *IFRS 3 Business combinations*, and there is no other IFRS that applies.
65. The FReM therefore currently applies merger accounting based on the principles in *FRS 6 Acquisitions and mergers*. This requirement applies to the combination of two or more public sector bodies into one new body, or the transfer of functions from the responsibility of one part of the public sector to another.
66. The only prescribed alternative accounting treatment in IFRS (for transactions within the scope of IFRS 3) is acquisition accounting which would require the consolidation in the balance sheet at fair value at the date of acquisition in the receiving body's financial statements and the recognition of surpluses or deficits representing the goodwill of the acquisition. However, this treatment is considered inappropriate in the public sector.
67. The FReM's current application of merger accounting requires the restating of the financial performance in the financial statements of the bodies involved so as to present it as if the service or function performed had always taken place in the receiving body. This presentation does not require fair value adjustment; results and cash flow are brought in at the beginning of the financial period, with comparative restatement; and uniform accounting policies are applied.
68. However, a number of problems have arisen in applying merger accounting in practice, e.g. where a function is transferred, there is no record of the performance of that function in the transferor's financial statements.
69. The exposure draft contains a proposal to amend the FReM to clarify the appropriate treatment of business combinations under common control, based on prioritising accountability to the users of the financial statements and practicability. It proposes the application of merger accounting should continue at the highest level of consolidation (i.e. transfers between departmental groups) and that an 'absorption' accounting approach should be adopted for all other transfers of functions within the public sector, including transfers within a departmental boundary; all transfers reported by NDPBs, other arm's length bodies within central government and trading funds; transfers outwith central government; and between the UK Government and the Scottish Government



70. Absorption accounting has the following features

- The recorded amounts of net assets are brought into the financial statements of the transferee from the date of transfer, with the double entry to the general fund (or equivalent) reserve. This transfer passes through other comprehensive expenditure, with the transferor recording symmetrical entries.
- Transferred assets and liabilities are derecognised at carrying value resulting in a nil-balance closing financial position, and an additional statement of financial position explains the transfer.
- There is no restatement of comparatives in the financial statements.
- Where a body closes during the financial year, closing financial statements are required disclosing performance up to the date of transfer.

71. Comments were required by 10 September 2012.

### Proposed amendments to 2013/14 FReM

72. Treasury has issued three exposure drafts which contain proposed changes to the FReM from 2013/14 in respect of

- service concession arrangements (see paragraph 73)
- fair value measurement (see paragraph 79)
- other comprehensive income (see paragraph 84).

### Service concession arrangements

73. [Exposure draft \(12\)02 Proposals to update the accounting for service concession arrangements](#) proposes amendments to update the requirements in the FReM in two areas to reflect the guidance in *IPSAS 32 Service concession arrangements: Grantor*.

74. The FReM currently suggests that grantors (i.e. public sector bodies) should not recognise assets being constructed by operators for use in service concession arrangements until they come into use. The exposure draft proposes removing that suggestion, and replacing it with a statement that asset recognition criteria, together with the specific terms and conditions of the arrangement, should be considered in determining whether to recognise the service concession asset during the period in which the asset is constructed or developed.

75. The FReM does not currently cover those service concession arrangements where the operator is compensated by the grant of a right to charge users of the asset, rather than by a unitary payment. IPSAS 32 requires that such arrangements be accounted for as exchange transactions whereby the grantor recognises the asset (i.e. the 'revenue') and a liability for the portion of that revenue that is not yet earned (as the grantor is required to provide the operator with the right to charge users of the asset over the life of the arrangement), and the operator recognises an intangible asset (i.e. a 'licence' to charge users a fee).

76. The FReM will require the grantor to recognise

- the asset in full

- revenue each year over the period of the arrangement
  - a liability that will initially match the value of the asset, but which will reduce by an amount equivalent to the revenue recognised each year.
77. In the event of a hybrid arrangement, whereby the operator is compensated partly by a series of payments and partly by the right to charge users, it will be necessary to divide the arrangement.
78. Comments should be sent to [FReM.consultation@hmtreasury.gov.uk](mailto:FReM.consultation@hmtreasury.gov.uk) by 26 September 2012.

### Fair value measurement

79. Treasury has issued [Exposure draft \(12\)03 Proposals to adapt IFRS 13 Fair value measurement for the public sector](#) which proposes amendments to the FReM in respect of *IFRS 13 Fair value measurement*.
80. IFRS 13 sets out the measurement and disclosure requirements where an asset or liability is permitted to be measured at fair value. It defines fair value as the 'exit price' for an asset or liability, based on the concept that assets are held to generate future inflows of economic benefit, and liabilities represent a future outflow of cash. Where bodies judge that it is appropriate that assets and liabilities are valued at exit price, the exposure draft proposes that IFRS 13 should apply in full.
81. However, the IFRS 13 definition of fair value is not necessarily appropriate for those assets which are held to deliver public services (e.g. property, plant and equipment and intangible assets). The exposure draft therefore proposes an adaptation of IFRS 13 to take these classes of asset and liability outside the scope of the measurement requirements of IFRS 13. The FReM currently provides guidance on valuation techniques that might be used to calculate an alternative valuation (e.g. based on the service potential of an asset), and the exposure draft proposes 'alternative valuation' as a different measurement basis from fair value, and that the existing guidance on measuring an alternative valuation should be retained.
82. It proposes, however, that the disclosure requirements of IFRS 13 should apply to all classes of assets and liabilities measured at either fair value or alternative valuation. Bodies would also be required to disclose whether classes of asset and liability are measured at fair value or at 'alternative valuation', and the reasons for this.
83. Comments should be sent to [FReM.consultation@hmtreasury.gov.uk](mailto:FReM.consultation@hmtreasury.gov.uk) by 16 October 2012.

### Other comprehensive expenditure

84. Treasury has issued [Exposure draft \(12\)04 Application of amendments to IAS 1 for the public sector context](#) which proposes amendments to the FReM in respect of amendments to *IAS 1 Presentation of financial statements*.

85. In line with a recent amendment to IAS 1, it is proposed that items in other comprehensive net expenditure should be grouped on the basis of whether they might at some point be reclassified from the other comprehensive net expenditure to net operating costs.
86. The exposure draft also proposes that the option to report operating costs in a separate statement from other comprehensive expenditure be available, with agreement of the Scottish Government, where there is evidence that this is required to improve understanding of the bodies' financial performance.
87. Comments should be sent to [FReM.consultation@hmtreasury.gsi.gov.uk](mailto:FReM.consultation@hmtreasury.gsi.gov.uk) by 2 November 2012.

## Other developments

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

### Whole of government accounts

#### Matches reports

88. Treasury has issued the WGA matches reports for 2010/11 and 2011/12, which identify mismatches in the counterparty data of WGA bodies. They flag instances where matches input into COINS for 2010/11 are outwith tolerance levels or where one party has reported an amount and the other party has not.
89. WGA bodies are expected to have reviewed these reports and investigated any underlying reasons for significant differences. Auditors should have reviewed the reports, and the work undertaken by the WGA bodies, and considered whether they have addressed any identified 'no matches' or 'matches out of tolerance'.

### Finance guidance notes

#### Amendments to SPFM

90. The Scottish Government has issued [Finance guidance note 2012/04](#) to advise of amendments to the *Scottish public finance manual* (SPFM).
91. The [fraud](#) section has been amended to include the Scottish Government's counter fraud strategy along with an updated version of the counter fraud policy and fraud response plan. The new strategy, along with the updated policy and plan, outline an approach to counter fraud which aims to ensure a 'zero tolerance' culture is maintained, and that fraud is effectively managed at all levels of public service delivery.
92. The [tax planning and avoidance](#) section now requires all individuals, including chairs and board members, who qualify as employees for tax purposes, to be paid through the payroll with tax deducted at source. There is a presumption against payment arrangements that could be perceived as seeking to minimise the tax liability of either the individual or the paying

organisation concerned. Such arrangements can only be justified in the most exceptional circumstances, and with the agreement of the Scottish Ministers.

93. Auditors should confirm that audited bodies are aware of the requirement for all employees to be paid through the payroll and are taking steps to comply.

## Publications

The following publication can be obtained by using the hyperlink.

### Managing ICT contracts An audit of three public sector programmes

94. This report from Audit Scotland [Managing ICT contracts An audit of three public sector programmes](#) examines the management of three information and communications technology projects. Key messages include

- Business cases for the programmes were of variable quality, the appraisal of options was mixed and the benefits planned from the programmes were not always clearly defined.
- The roles and responsibilities of respective partners were not clear, and procedures to raise significant issues with high-level boards were not always followed.
- There were failings in financial control and progress reporting, with programme managers providing insufficient detail to boards to support decision-making.
- The public sector bodies lacked specialist skills and experience, which contributed to an insufficient understanding of the complexity of the programmes and an over-reliance on the supplier for key decisions.

## Auditor action

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

Section and paragraph	Action
Other developments - paragraph 93	Auditors should confirm that audited bodies are aware of the requirement for all employees to be paid through the payroll and are taking steps to comply.

# Health chapter

## Introduction

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

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

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note that the following articles in this chapter relate to 2012/13 audits

- Revised mobile data protection standard.
- Revised staff governance standard.
- Revised partnership information network policies.
- Guidance on waiting time standards.
- Progress report on reducing management posts.

## Governance developments

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

### Information governance

#### Revised mobile data protection standard

95. The [Scottish Government Health and Social Care Directorates](#) (SGHSCD) has issued a revised mobile data protection standard with [CEL\(2012\)25](#) which sets out the minimum technical measures required where personal and sensitive data are stored on portable devices.

96. The standard has been revised to reflect the adoption of new types of devices, such as tablets and smart phones. It primarily applies to new or replacement portable devices, and boards are not expected to change anything in place to meet the earlier standard.
97. The standard sets out the minimum level of technical security required for devices which hold each of the following categories of information
  - Highly sensitive information which if lost could directly lead to harm, substantial distress or constitute a substantial breach in privacy. This includes information relating to vulnerable persons or governed by legislation that requires additional security.
  - Protected information which constitutes sensitive personal data as defined by the *Data Protection Act*.
  - Unclassified information which is unlikely to cause distress to individuals, breach confidence or cause any financial or other harm to the organisation.

## Staff governance

### Revised staff governance standard

98. The Scottish Government has issued a revised edition of the [NHS staff governance standard](#) to set out what employers must achieve to continuously improve in the management of staff.
99. Staff governance is defined in the standard as a system of corporate responsibility for the fair and effective management of staff. The standard sets out the strategic framework surrounding staff governance, the roles and responsibilities of all those involved and the monitoring arrangements that will apply. It applies to all staff and officials employed by the boards, but should also be reflected in the arrangements with private and independent contractors and partner agencies.
100. This edition was developed to take into account changes within NHSScotland, including the implementation of the *Healthcare quality strategy for Scotland*, the three *Quality ambitions and quality outcomes* and the *20:20 Vision for healthcare*. It introduces, for the first time, staff responsibilities in relation to their colleagues, managers, staff for whom they have responsibility, the organisation, patients, their carers and the public.
101. Boards are required to demonstrate that staff are: well informed; appropriately trained and developed; involved in decisions; treated fairly and consistently in an environment where diversity is valued; and provided with a continuously improving and safe working environment.
102. Each element of the framework will be assessed through nationally agreed staff experience and governance monitoring arrangements. Local health systems will have flexibility to agree and set their own priorities. The organisational performance against the framework will be reviewed by the Scottish Workforce and Staff Governance Committee.

## Other developments

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

### National agenda/direction

#### Revised guidance on managed clinical networks

103. The SGHSCD has issued [CEL\(2012\)29](#) to provide revised guidance on managed clinical networks (MCNs). The guidance previously set out in HDL(2007)21 has been revised to reflect that MCNs are integral to achieving the three quality ambitions set out within the *Healthcare quality strategy for Scotland*.
104. The core principles have had some minor modifications to reflect practical experience, but there are no significant changes to the guidance.

#### Guidance on waiting times standards

105. The SGHSCD has issued two letters relating to the delivery of waiting times standards and the impact of the treatment time guarantee.
106. [CEL\(2012\)32](#) provides guidance on the treatment time guarantee established by *Patient Rights (Scotland) Act 2011* which comes into force on 1 October 2012. The Act establishes a 12 weeks maximum waiting time for all eligible patients due to receive inpatient or day case treatment. Patients will generally agree their treatment at an outpatient consultation and the relevant board will be required to ensure that the treatment starts within 12 weeks.
107. The 12 week period will not begin where a patient is unavailable for treatment. Where the patient becomes indefinitely unavailable during the 12 week period, the guarantee will cease to apply.
108. Boards are required to advise treatment time guarantee patients in writing when they are eligible or have been deemed ineligible for treatment or their status has changed for specified reasons. Where a board breaches the treatment time guarantee they are required to provide the patient with an explanation of why this has happened.
109. Further guidance to assist boards in delivering the national waiting times standards has been provided in [CEL\(2012\)33](#). The guidance sets out the high level principles to ensure that patients waiting for appointments are managed fairly and consistently. In addition to the treatment time guarantee, the current waiting times standards are
  - 18 weeks referral to treatment for 90% of patients
  - 12 weeks for new outpatient appointments
  - 6 weeks for the eight key diagnostic tests and investigations..
110. Boards are required to ensure that
  - staff are trained to ensure that they fully understand the guidance



- the local policy on waiting times reflects the requirements set out
- a local access policy is developed to support these principles and is made widely available.

## Pay and workforce planning

### Revised partnership information network policies

111. The SGHSCD has issued two revised partnership information network (PIN) policies with [CEL\(2012\)28](#), which the staff governance standard requires to be implemented. The two revised policies are
- Management of employee capability
  - Management of employee conduct.
112. The PIN policies aim to achieve a consistent approach in the way NHSScotland deals with its employees. They provide up to date guidance on people management issues and are intended as a foundation for local strategies. Where local adaptations are agreed, these should meet the minimum standards set out in the nationally agreed policies. Boards are expected to provide evidence of adherence to the PIN policies.

### Guidance on medical revalidation

113. The SGHSCD has advised of revised appraisal guidance on complying with the General Medical Council (GMC) requirements for medical revalidation of GPs in [CEL\(2012\)31](#).
114. Medical revalidation requires doctors to demonstrate to the GMC that they continue to be fit to practise, through participating in an annual appraisal process, over a 5 yearly cycle. This revised and updated guidance and documentation is designed to achieve a consistent approach to the collection and presentation of information for appraisal.
115. Medical revalidation is a reserved matter and is scheduled to commence across the UK from the end of this year, with the first group of doctors requiring to be revalidated from April 2013. Boards are required to ensure local systems and processes are in place locally to deliver appraisals.

### Progress report on reducing management posts

116. The SGHSCD has published [25% reduction in senior management posts target - National progress towards 25% reduction as at 31 March 2012](#) which highlights the progress towards reducing the number of senior managers by 25% by 1 April 2015.
117. The overall reduction in senior management for
- the year to 31 March 2012 was 105.1 whole time equivalent (WTE) posts (8.7%). This represented a reduction of 8% in territorial boards and 12% in special boards.
  - for the two years to 31 March 2012 was 212.4 WTE (16.1%).



### 2012/13 workforce forecasts

118. The Scottish Government has published [NHS board projected staff in post changes in 2012](#) which highlights the potential effect on each board's workforce based on their local delivery plans for 2012/13.
119. For 2012/13, there is a projected overall increase of 113.6 WTE (0.1%). The largest estimated reduction is in administrative posts (1.7%), including a reduction in management posts of 4.6%.
120. Personal and social care posts show a projected increase of 89.2%, mainly due to the transfer of staff between health and local authorities.

# Further education chapter

## Introduction

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

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

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note that the following articles in this chapter relates to 2011/12 audits

- Note for guidance on auditing the 2011/12 financial statements.
- Accounts direction from 2011/12.
- Guidance on 2011/12 financial statements.
- 2011/12 early retirement provision discount factor.
- Guide for college members.

## TSU developments

### Publications

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The following note has been published by the TSU since TB 2012/02. It can be obtained by using the hyperlink and is available to external auditors from Audit Scotland's *Technical reference library*.

#### Note for guidance on auditing the 2011/12 financial statements

121. The TSU has published [Note for guidance 2012/6\(FE\) Audit of 2011/12 further education financial statements](#) to provide auditors with guidance on planning and performing the audit of the 2011/12 further education financial statements.
122. *ISA 315 Identifying and assessing the risks of material misstatement through understanding the entity and its environment* requires auditors to identify and assess the risks of material

misstatement in the financial statements. The TSU has published this note for guidance to assist auditors in meeting that requirement by highlighting the areas that the TSU considers represent a generic risk of material misstatement in the 2011/12 financial statements. It also provides guidance on other required opinions and related responsibilities.

123. The note also provides a revised model auditor's report at Appendix 2 which supersedes the model included in note for guidance 2012/2.
124. Auditors should use this note for guidance when planning, performing and reporting the audit of the 2011/12 further education financial statements.

## Accounting developments

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

### Accounts direction from 2011/12

125. The [Scottish Funding Council](#) (SFC) has issued their [Accounts direction from 2011/12](#). The direction requires colleges to comply with the *Statement of recommended practice: Accounting for further and higher education* in preparing their financial statements.
126. Specific mandatory disclosure requirements are set out in Appendix 1 to the direction. The direction requires colleges to include a statement covering the responsibilities of their governing body in relation to corporate governance, and Appendix 2 sets out required corporate governance disclosures.
127. The only minor change from the previous direction is an updated reference to revised *Guide for college members* (see paragraph 139) in Appendix 2.
128. Auditors should confirm that colleges have complied with the accounts direction when auditing the 2011/12 financial statements.

### Guidance on 2011/12 financial statements

129. The SFC has issued [Detailed notes for guidance on completion of 2011/12 financial statements](#) to supplement the accounts direction for 2011/12. The guidance covers key disclosures in the financial statements, including model disclosure notes. In certain cases, the additional disclosures are required to reflect the situation in Scotland.
130. The guidance notes remain largely the same as in 2010/11, but the main changes are as follows
  - In previous years, the guidance notes have included an annex providing an FRS 17 status report for each of the local government pension scheme funds. This annex has now been removed due to the increasing standardisation of treatment in the sector.

- The section on international financial reporting standards has been updated to reflect the Financial Reporting Council's revised proposals for the future of financial reporting in the UK from 2015/16.

131. Auditors may wish to refer to the guidance notes when auditing the 2011/12 financial statements.

### 2011/12 early retirement provision discount factor

132. The SFC has advised that its suggested [net interest rate](#) for early retirement pension provision calculations in 2011/12 is 1.5% (2% in 2010/11).

133. Auditors should confirm their colleges have used an appropriate discount rate when calculating their early retirement provision, and have paid due regard to the rate suggested by the SFC.

## Corporate governance

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

### Governance review

134. The Scottish Government has issued its [response](#) to the review of further education governance in Scotland. Under the new structure from academic year 2013/14, there will be one single body in each of the thirteen college regions that will

- enter into regional outcome agreements with the SFC, and be held to account for delivering the agreements
- decide how funding is distributed
- plan college provision strategically across the region
- provide a focal point for engagement with regional partners.

135. In single-college regions, the college will be the regional body. In multi-college regions, it will be a new statutory regional board which will also

- determine with colleges their respective contributions
- hold colleges to account for their contribution to delivering the regional outcome agreement.

136. Existing colleges will be reformed into the following two types

- Regional colleges (in single-college regions) which will have new duties to plan, collaborate and consult, and will therefore have larger boards.
- Local colleges (in multi-college regions) which will have smaller boards which focus on the day-to-day management of the college, working under the strategic direction of their regional board.

137. New Chairs and board members of the regional bodies will initially be appointed by Scottish Ministers. The boards of local colleges will be chaired by the principal.
138. Regional bodies will be audited to ensure that they are fulfilling their agreed outcomes. Audit Scotland, Education Scotland and the SFC are to clarify in one document their different roles and responsibilities.

### Guide for board members

139. [Scottish Colleges](#) has issued [Guide for college members 2012](#) to provide guidance on governance matters to college board members in Scotland. The guide explains that the board is responsible for the overall functioning and strategic direction of a college, and for ensuring its effective management. It has ultimate responsibility for all the affairs of the college, and is publicly accountable for the stewardship of public funds, although the day to day operation and management will generally be delegated to the Principal.
140. The guide recommends that each board of management should adopt a governance handbook to clarify the primary purpose and role of the board and include matters such as the board constitution, statements on board responsibilities for the supervision and accountability of the college, the scheme of delegation, and register of interests of board members.
141. The board is responsible for a college's systems of internal control and for reviewing its effectiveness. The board has a responsibility to
- ensure that the college has complied with the principles set out in the *UK Corporate governance code*
  - review, at least annually, the effectiveness of all controls, including financial, operational and compliance controls
  - ensure that there is a formal on-going process in place for identifying, evaluating and managing the college's significant risks, and should review the key risks, together with the controls that have been implemented to mitigate those risks.
142. A college's audit committee is required to provide a report to the board annually on risk management, internal controls and governance in advance of the board approving the audited financial statements.
143. A statement covering the responsibilities of the board in relation to corporate governance should be included with the financial statements and should indicate how the college has complied with good practice in this area and in particular in relation to effective risk management.

## Auditor action

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

Section and paragraph	Action
TSU developments - Paragraph 124	Auditors should use this note for guidance when planning, performing and reporting the audit of the 2011/12 further education financial statements.
Accounting developments - Paragraph 128	Auditors should confirm that colleges have complied with the accounts direction when auditing the 2011/12 financial statements.
Accounting developments - Paragraph 131	Auditors may wish to refer to the guidance notes when auditing the 2011/12 financial statements.
Accounting developments - Paragraph 133	Auditors should confirm their colleges have used an appropriate discount rate when calculating their early retirement provision, and have paid due regard to the rate suggested by the SFC.

# 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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Tim Bridle, Technical Adviser (Local Government) 0131 625 1793 <a href="mailto:tbridle@audit-scotland.gov.uk">tbridle@audit-scotland.gov.uk</a>	Local authority (Non-benefits developments)
Anne Cairns, Manager – Benefits (Technical) 0131 625 1926 <a href="mailto:acairns@audit-scotland.gov.uk">acairns@audit-scotland.gov.uk</a>	Local authority (Benefits developments only)
Alison MacDonald, Technical Adviser (Central Government & Further Education) 0131 625 1759 <a href="mailto:almacdonald@audit-scotland.gov.uk">almacdonald@audit-scotland.gov.uk</a>	Central government and Further education
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19 September 2012



# Technical bulletin

## 2012/4

### October to December



Prepared by the Technical Services Unit  
12 December 2012



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

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# Foreword

## Informing judgement, Improving quality

Audit Scotland's Technical Services Unit (TSU) provides authoritative guidance and practical assistance to external auditors appointed by the Accounts Commission and Auditor General to support them in carrying out their responsibilities under the *Code of audit practice* to

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

Authoritative guidance includes technical bulletins (TBs) prepared by the TSU at quarterly intervals, which are approved by the Assistant Auditor General for Scotland. They are available to external auditors from Audit Scotland's *Technical reference library* and published on the Audit Scotland website. TBs provide a composite of technical developments in the quarter that are relevant to external auditors' responsibilities referred to above, and provide auditors with guidance on any emerging issues. The overall purpose of TBs is to inform auditors' professional judgment in making informed decisions about the courses of action that are appropriate in the circumstances of the audit appointment.

TBs contain information which is of importance to the conduct of audits and frequently recommend that auditors take certain actions, and a summary of these actions is provided at the end of each chapter. It is important that a mechanism is in place for senior audit staff to review the TB promptly and to ensure that steps are taken to consider such recommendations.

While auditors act independently, and are responsible for their own conclusions and opinions, consistency in similar circumstances is important and **the *Code of audit practice* therefore states that auditors should normally follow all such guidance. Auditors should advise the TSU promptly if they intend not to follow, any guidance on an important issue** (e.g. a matter that requires consideration to be given to modifying the audit opinion on the financial statements of a number of audited bodies).

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

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

# Headlines

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

Cross-sectoral chapter	Reference
<p>The International Accounting Standards Board has issued</p> <ul style="list-style-type: none"> <li>• an amendment to consolidation requirements in respect of investment entities</li> <li>• proposed amendments to various standards</li> <li>• proposed amendment to <i>IAS 28 Investments in associates and joint ventures</i></li> <li>• proposed amendment to <i>IFRS 9 Financial instruments</i></li> <li>• proposed amendments to <i>IAS 16 Property, plant and equipment</i> and <i>IAS 38 Intangible assets</i>.</li> </ul>	<p>Paragraph 1</p> <p>Paragraph 5</p> <p>Paragraph 8</p> <p>Paragraph 11</p> <p>Paragraph 15</p>
<p>The Institute of Chartered Accountants of Scotland has issued a professional judgement framework for financial reporting.</p>	<p>Paragraph 18</p>
<p>The Financial Reporting Council has issued</p> <ul style="list-style-type: none"> <li>• a discussion paper on improving the quality of disclosures</li> <li>• a revised <i>ISA (UK and Ireland) 260 Communication with those charged with governance</i></li> <li>• a revised <i>ISA (UK and Ireland) 700 The auditor's report on financial statements</i></li> <li>• a revised <i>ISA (UK and Ireland) 720 Section A The auditor's responsibilities relating to other information in documents containing audited financial statements</i></li> </ul>	<p>Paragraph 22</p> <p>Paragraph 25</p> <p>Paragraph 28</p> <p>Paragraph 33</p>

Cross-sectoral chapter	Reference
<ul style="list-style-type: none"> <li>• proposed updated practice note on auditing financial instruments</li> <li>• a revised corporate governance code</li> <li>• revised guidance on audit committees.</li> </ul>	<p>Paragraph 35</p> <p>Paragraph 41</p> <p>Paragraph 47</p>
<p>The TSU has provided a summary of some reported fraud cases.</p>	<p>Paragraph 49</p>

Local authority chapter	Reference
<p>The TSU has provided guidance on</p> <ul style="list-style-type: none"> <li>• audit of charities 2012/13 financial statements</li> <li>• transfer of police and fire functions</li> <li>• revenue recognition</li> <li>• sale and leaseback transactions</li> <li>• principal and agent arrangements.</li> </ul> <p>The TSU has also issued the 2011/12 audited analytical review database.</p>	<p>Paragraph 58</p> <p>Paragraph 62</p> <p>Paragraph 68</p> <p>Paragraph 74</p> <p>Paragraph 77</p> <p>Paragraph 82</p>
<p>The Chartered Institute of Public Finance and Accountancy has issued</p> <ul style="list-style-type: none"> <li>• the <i>Code of practice on local authority accounting in the UK - guidance notes for practitioners - 2012/13 accounts</i></li> <li>• the <i>Code of practice for local authority accounting in the UK - disclosure checklist for 2012/13</i></li> <li>• the <i>Service reporting code of practice for local authorities 2013/14</i></li> <li>• 2013/14 capital interest rates.</li> </ul>	<p>Paragraph 86</p> <p>Paragraph 91</p> <p>Paragraph 94</p> <p>Paragraph 107</p>

Local authority chapter	Reference
The CIPFA/SOLACE Joint Working Group has issued an updated annual governance statement.	Paragraph 98
<p>The Scottish Government has issued</p> <ul style="list-style-type: none"> <li>• guidance on the disposal and transfer of HRA assets</li> <li>• a revised management statement for community justice authorities</li> <li>• provisional 2013/14 funding allocations.</li> </ul>	<p>Paragraph 100</p> <p>Paragraph 104</p> <p>Paragraph 122</p>
<p>The Department for Works and Pensions has issued circulars on</p> <ul style="list-style-type: none"> <li>• 2013/14 local housing allowance</li> <li>• 2013/14 administration subsidy</li> <li>• abolition of council tax benefit from 2013/14.</li> </ul>	<p>Paragraph 111</p> <p>Paragraph 114</p> <p>Paragraph 116</p>
<p>Statutory instruments have been passed</p> <ul style="list-style-type: none"> <li>• on police and fire reform</li> <li>• the <i>Scottish council tax reduction scheme</i></li> <li>• abolition of council tax benefit from 2013/14.</li> </ul>	<p>Paragraph 124</p> <p>Paragraph 125</p> <p>Paragraph 126</p>
<p>The Controller of Audit has issued statutory reports on</p> <ul style="list-style-type: none"> <li>• the performance audit of Aberdeenshire Council's benefits service</li> <li>• the retirement of Strathclyde Fire and Rescue Joint Board's Chief Officer.</li> </ul>	<p>Paragraph 127</p> <p>Paragraph 129</p>
<p>Audit Scotland has issued reports on</p> <ul style="list-style-type: none"> <li>• managing performance</li> <li>• an overview of police authorities.</li> </ul>	<p>Paragraph 132</p> <p>Paragraph 133</p>

Central government chapter	Reference
<p>Treasury has issued exposure drafts of proposed amendments to the</p> <ul style="list-style-type: none"> <li>• 2012/13 <i>Government financial reporting manual</i> in respect of accounting for the carbon reduction commitment energy efficiency scheme</li> <li>• 2013/14 <i>Government financial reporting manual</i> in respect of accounting for pensions</li> <li>• 2013/14 <i>Government financial reporting manual</i> in respect of improving relevance and clarity in central government reporting.</li> </ul>	<p>Paragraph 134</p> <p>Paragraph 141</p> <p>Paragraph 148</p>
<p>Audit Scotland has issued a report on reducing reoffending.</p>	<p>Paragraph 152</p>

Health chapter	Reference
<p>The TSU has issued the 2011/12 audited analytical review database.</p>	<p>Paragraph 153</p>
<p>The Scottish Government Health and Social Care Directorates has issued</p> <ul style="list-style-type: none"> <li>• a charter of patients' rights and responsibilities</li> <li>• 2012/13 statement of financial entitlements</li> <li>• NHS Chief Executives annual report 2011/12</li> </ul>	<p>Paragraph 156</p> <p>Paragraph 157</p> <p>Paragraph 159</p>
<p>Audit Scotland has issued a report on NHS financial performance in 2011/12.</p>	<p>Paragraph 161</p>



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Further education chapter	Reference
The TSU has provided guidance on colleges' financial year.	Paragraph 162
Audit Scotland has issued an overview report on colleges.	Paragraph 164

# Cross-sectoral chapter

## Introduction

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

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

The TSU encourages feedback on this TB. Comments should be sent to [alewis@audit-scotland.gov.uk](mailto:alewis@audit-scotland.gov.uk)

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note that there are no articles in this chapter that relate to 2012/13 audits.

## Accounting developments

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

### Amendment to standards for investment entities

1. The [International Accounting Standards Board](#) (IASB) has issued *Investment entities (Amendments to IFRS 10, IFRS 12 and IAS 27)* which amends the consolidation requirements of *IFRS 10 Consolidated financial statements* and related standards in respect of a particular class of business that qualify as investment entities.
2. Investment entities are defined as those with a business purpose to invest funds solely for returns from capital appreciation, investment income or both, and which evaluates the performance of its investments on a fair value basis, e.g. pension funds.

3. The amendment provides an exception to the requirement to consolidate all subsidiaries, and instead requires investment entities to measure particular subsidiaries at fair value through profit or loss. The amendment also sets out disclosure requirements for investment entities.
4. The amendments are effective in the private sector from 1 January 2014 with early adoption permitted. Application to the public sector has not yet been determined. The amendment is available to purchase from the IASB website.

### Proposed amendments to various IFRSs

5. The IASB has issued [Exposure draft ED/2012/2 Annual improvements to IFRSs 2011 - 2013 cycle](#) which proposes amendments to various international financial reporting standards as part of its annual improvements cycle.
6. The proposals include amendments to the following standards
  - *IFRS 3 Business combinations* to clarify that the formation of all types of joint arrangements as defined in *IFRS 11 Joint arrangements* (i.e. joint ventures and joint operations) should be excluded from its scope, and not just joint ventures as it currently states. It should also be amended to clarify that the scope exception only applies to the financial statements of the joint venture or the joint operation itself, i.e. it does not apply to the accounting by the parties to the joint arrangement for their interests in the joint arrangement.
  - *IFRS 13 Fair value measurement* to clarify that the portfolio exception (i.e. the option to measure the fair value of a group of financial assets and financial liabilities on a net basis) applies to all contracts within the scope of *IAS 39 Financial instruments: recognition and measurement* or *IFRS 9 Financial instruments*, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in *IAS 32 Financial instruments: presentation*.
  - *IAS 40 Investment property* to clarify that judgement is required to determine whether the acquisition of investment property is the acquisition of an asset or a business combination in the scope of IFRS 3; and that this judgement is not based on IAS 40 but is instead based on the guidance in IFRS 3.
7. Comments are required via the IASB website by 18 February 2012. The proposed amendments are effective in the private sector from 1 January 2014 with early adoption permitted. It is proposed that the amendments to IAS 40 should be applied prospectively. Application to the public sector has not yet been determined.

### Proposed amendment to IAS 28

8. The IASB has issued [Exposure draft ED/2012/3 Equity method share of other net asset changes](#) which proposes amendments to *IAS 28 Investments in associates and joint ventures*. IAS 28 defines the equity method to be a method of accounting whereby an investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets.

9. However, IAS 28 does not currently state where the investor should account for its share of the changes in the net assets of the investee that are not recognised in profit or loss or other comprehensive income of the investee, and that are not distributions received (referred to as 'other net asset changes'). The proposed amendment is to specify that an investor should recognise these 'other net asset changes' in the investor's equity.
10. Comments are required via the IASB website by 22 March 2013.

### Proposed amendment to IFRS 9

11. The IASB has issued [Exposure draft ED/2012/4 Classification and measurement: limited amendments to IFRS 9](#) which proposes limited amendments to IFRS 9. The exposure draft proposes the introduction of a measurement category for financial assets held within a business model in which assets are managed both in order to collect contractual cash flows and for sale, to be known as a fair value through other comprehensive income.
12. Under the proposals, interest revenue, credit impairment and any gain or loss on derecognition would be recognised in profit or loss; all other gains or losses (i.e. the difference between these items and the total change in fair value) would be recognised in other comprehensive income.
13. Interest income and credit impairment would be computed and recognised in the same manner as for financial assets measured at amortised cost. The cumulative gain or loss recognised in other comprehensive income would be reclassified to profit or loss when the financial asset is derecognised. That would result in amortised cost information being provided in profit or loss and fair value information being provided in the statement of financial position.
14. Comments are required via the IASB website by 28 March 2013.

### Proposed amendments to IAS 16 and IAS 38

15. The IASB has issued [Exposure draft ED/2012/5 Clarification of acceptable methods of depreciation and amortisation](#) which proposes amendments to *IAS 16 Property, plant and equipment* and *IAS 38 Intangible assets*. These standards establish the principle that the method used for recognising depreciation or amortisation should reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. A variety of methods can be used in applying that principle.
16. This amendment proposes to clarify that a revenue-based method should not be used to calculate the charge, as that would reflect a pattern of economic benefits being generated from the asset, rather than the expected pattern of consumption of the future economic benefits embodied in the asset.
17. Comments are required via the IASB website by 2 April 2013.

## New framework for professional judgement

18. The [Institute of Chartered Accountants of Scotland](#) has issued [A professional judgement framework for financial reporting](#) to set out a principles-based framework for making and auditing key judgements. The professional judgement framework is intended to assist in determining the appropriate accounting treatment for a particular transaction where there is no specific standard covering the transaction or there is no detailed provision of how to deal with a standard's implementation in practice.
19. The framework sets out a structured process by which an opinion can be formed on an accounting matter based on the relevant facts and circumstances within the context provided by applicable accounting standards. It sets out a series of principles for preparers making and documenting the judgements, and auditors and regulators challenging the judgements. The framework also includes illustrative lists of actions which might be undertaken to apply the principles.
20. Auditors are the first line of challenge for the judgements of preparers of financial statements, and are required to apply professional scepticism when evaluating them; the judgement framework is intended to assist auditors in this regard. For example, the principles for auditors are that a professional auditing judgement can only be made
  - once all relevant information has been collected and analysed
  - in the context of the applicable financial reporting framework, and other literature where relevant, as well as the appropriate auditing standards and guidance
  - after undertaking appropriate due process to assess and challenge the preparer's judgement.
21. The framework is recommended to be used for significant judgements or those which would have a material effect on the financial statements. Although the focus of the framework is on making a judgement on an accounting treatment for a particular transaction, it can be adapted for other judgements, for example, on materiality, disclosure in financial statements or narrative reports, or in relation to accounting estimates where there is a degree of uncertainty.

## Discussion paper on disclosures

22. The [Financial Reporting Council](#) (FRC) has issued [Thinking about disclosures in a broader context - discussion paper](#) aimed at improving the quality of financial reporting disclosures. The objective is to draw together all the strands of financial reporting that relate to disclosures to create a coherent framework within which standard setters and other regulators can set disclosure requirements.
23. The benefits of a disclosure framework includes more consistent setting of disclosure requirements across standards, empowering preparers to apply materiality more robustly, and eliminating boilerplate disclosures. The aims of the framework are to
  - ensure that disclosures are relevant and targeted to meet the needs of users

- set criteria to provide a structure for the financial report so that disclosures are organised in a way that is more informative to the reader and can be consistently applied
- reduce the disclosure burden through the application of the concepts of proportionality and materiality
- develop a set of principles for good communication that will assist in improving the quality of disclosures.

24. Comments should be sent to [disclosure@frc.org.uk](mailto:disclosure@frc.org.uk) by 31 January 2013.

## Auditing developments

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

### Amended standard on communicating with those charged with governance

25. The FRC has issued a revised [ISA \(UK and Ireland\) 260 Communication with those charged with governance](#) that applies to reporting periods beginning on or after 1 October 2012. The standard has been amended, in respect of entities that report on how they have applied the *UK Corporate governance code*, to require auditors to communicate to the audit committee the information that the auditor believes will be relevant to the board and, where relevant, the audit committee in carrying out new responsibilities under the code.
26. As discussed more fully at paragraph 45, the new responsibilities are to require boards to state that they consider that the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy. The audit committee is required, where requested by the board, to provide advice in relation to that statement.
27. In addition, auditors are also required to communicate to the audit committee information relevant to it understanding the rationale and the supporting evidence the auditor has relied on when making significant professional judgments in the course of the audit and in reaching an opinion on the financial statements. The information communicated should include the auditor's views on
- business risks relevant to financial reporting objectives, the application of materiality and the implications of their judgments in relation to these for the overall audit strategy, the audit plan, and the evaluation of misstatements identified
  - the significant accounting policies, and management's valuations of the entity's material assets and liabilities and the related disclosures
  - the effectiveness of the entity's system of internal control relevant to risks that may affect financial reporting (without expressing an opinion on the effectiveness of the system of internal control as a whole)
  - other risks arising from the entity's business model and the effectiveness of related internal controls to the extent the auditor has obtained an understanding of these matters.

## Amended standard on auditor's report on financial statements

28. The FRC has issued a revised [ISA \(UK and Ireland\) 700 The auditor's report on financial statements](#) that applies to reporting periods beginning on or after 1 October 2012. There is a new requirement in respect of the audit of entities that report on how they have applied the *UK Corporate governance code*. Auditors are required to report by exception if, when reading the other financial and non-financial information included in the annual report, they identify information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by the auditor in the course of performing the audit, or is otherwise misleading.
29. Matters that the auditor will report on by exception include circumstances where the annual report includes
- a statement given by the directors on the annual report and accounts referred to at paragraph 26 (i.e. that they consider that taken as a whole it is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy) that is inconsistent with the knowledge acquired by the auditor in the course of performing the audit
  - a section describing the work of the audit committee that does not appropriately address matters communicated by the auditor to the audit committee
  - an explanation as to why the annual report does not include such a statement or section that is materially inconsistent with the knowledge acquired by the auditor in the course of performing the audit
  - other information that, in the auditor's judgment, contains a material inconsistency or a material misstatement of fact.
30. Auditors are required to include a suitable conclusion on these matters in the auditor's report and, if applicable, describe why they believe that any such statement, section, explanation or other information is materially inconsistent or misstated.
31. If a section of the annual report describing the work of the audit committee does not appropriately disclose any matters communicated by the auditor to the audit committee that in the auditor's judgment should have been disclosed, or if the annual report does not contain such a section, the auditor's report should also include any such information.
32. In addition, the requirement to report if any information is inconsistent with the financial statements has now been made explicit in this standard.

## Amended standard on other information in the annual report

33. The FRC has issued a revised [ISA \(UK and Ireland\) 720 Section A The auditor's responsibilities relating to other information in documents containing audited financial statements](#) to reflect the new requirement in ISA 700 (referred to at paragraph 28) for auditors to identify any information in the annual report that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by the auditor in the course of performing the audit.



34. The amended standard also applies to reporting periods beginning on or after 1 October 2012.

### Proposed revision of practice note on auditing financial instruments

35. The FRC has issued [Proposed revision of practice note 23\(Revised\) Special considerations in auditing financial instruments](#) which contains a proposed update on the guidance on auditing financial instruments. The purpose of the practice note is to provide background information and discussion of audit considerations relating to financial instruments.
36. Auditing financial instruments is particularly challenging as it may be difficult to understand the nature of financial instruments, what they are used for, and the risks to which the entity is exposed. The proposed guidance highlights that professional scepticism is necessary to the critical assessment of audit evidence and assists the auditor in remaining alert for possible indications of management bias.
37. The guidance states that auditors' focus in planning the audit of financial instruments should particularly be on understanding
- the accounting and disclosure requirements
  - the financial instruments to which the entity is exposed, and their purpose and risks
  - management's process for valuing financial instruments.
38. The guidance highlights that once the detailed evidence has been gathered and valuations have been made on an instrument by instrument basis, it is important to review the overall result and consider whether there are residual uncertainties not taken into account by the valuation process that require further adjustment.
39. Financial reporting frameworks require disclosures in the financial statements to enable users to make assessments of the effects of the entity's financial instrument activities, including the risks and uncertainties associated with these financial instruments. The proposed guidance clarifies that note disclosures are not less significant than items on the face of the primary statements.
40. Comments should be sent to [k.billing@frc.org.uk](mailto:k.billing@frc.org.uk) by 4 January 2013.

## Corporate governance developments

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

### Revised corporate governance code

41. The FRC has issued an updated edition of the [UK Corporate governance code](#) to apply to reporting periods beginning on or after 1 October 2012. The code is a guide to the key components of effective board practice in respect of corporate governance.
42. It consists of principles, which require to be complied with, and provisions. An alternative to following a provision may be justified in particular circumstances if good governance can be



achieved by other means. A condition of doing so is that the reasons for it should be explained clearly and carefully to shareholders.

43. The revised code now sets out the characteristics of an informative explanation to help bodies understand what is expected of them when they choose to deviate from the provisions of the code, and to provide shareholders with a benchmark against which to judge explanations. It requires the explanation to
  - set out the background
  - provide a clear rationale for the action being taken
  - describe any mitigating actions taken to address any additional risk and maintain conformity with the relevant principle.
44. Where deviation from a particular provision is intended to be limited in time, the explanation should indicate when the body expects to conform with the provision.
45. As stated at paragraph 26, the updated code requires that boards should confirm that they consider the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy. It also requires that boards should establish arrangements that will enable it to make this assessment. It will be left to boards to decide what role the audit committee should play in these arrangements.
46. This edition of the code also incorporates additional wording on diversity. Boards should disclose their policy on boardroom diversity, any measurable objectives that have been set for implementing the policy, and progress on achieving the objectives. In addition, the code states that entities should consider the balance of skills, experience, independence and knowledge of the board, and other factors relevant to its effectiveness.

### Revised guidance on audit committees

47. The FRC has issued an updated edition of the [Guidance on audit committees](#) to apply to reporting periods beginning on or after 1 October 2012. This guidance is designed to assist boards in making suitable arrangements for their audit committees, and to assist directors serving on audit committees in carrying out their role.
48. This edition has been updated to reflect the changes to the *UK Corporate governance code* described at paragraph 45. The guidance now states that, where requested by the board, the audit committee should review the content of the annual report and accounts and advise the board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy.

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## Fraud cases

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**External auditors are required to submit to the TSU information on cases of reportable fraud that arise at audited bodies. The following is a summary of fraud cases that have been reported by auditors to the TSU since TB 2012/3.**

### Expenditure

#### Payments to supplier in liquidation

49. A council made payments to a supplier of over £23,000 after being notified that the supplier had gone into liquidation. When the payments were initially rejected in the banking system (because the business bank account had been 'frozen' by the liquidator), the council's creditors section contacted the supplier to request revised bank account details. Revised details were provided but were in respect of the supplier's personal bank account.
50. The fraud was possible as the income and recovery section of the council, who receive notification of the liquidation, did not notify the creditors section. The fraud was discovered when the liquidator contacted the council to request payment for remittance advice notes.
51. The police have been notified and the supplier has been invoiced for the sum involved. New processes have been introduced to timeously identify all suppliers who go into liquidation and to ensure the creditors section are notified. The creditors section is undertaking additional checks where existing suppliers change bank details.

### Income

#### Failure to bank cash

52. A senior library assistant defrauded a council of £10,000 by not banking cash income. The fraud was possible due to control weaknesses in the collection and banking of income including delays in income monitoring, no review of the bank pay-in sequential numbering, and no record of which employee took the income for banking.
53. The fraud was identified by officers once the reconciliation of bank lodgements in the financial ledger to the bank account was eventually carried out.
54. The council has issued revised instructions requiring staff to sign for income when taking it to be banked.

#### 'Cold calling' scam

55. In addition to frauds reported by auditors, the TSU has been made aware by the Scottish Public Pensions Agency (SPPA) of a scam aimed at members and pensioners.
56. The scam takes the form of a recorded phone message from an organisation describing itself as 'the pensions helpline or 'your pension provider' that suggests to recipients that a bonus is

due or there is risk of losing partial pension entitlement. Recipients are then invited to press a number to continue the call.

57. The SPPA has confirmed that it does not 'cold call' in this manner and never requests bank details over the phone.

# Local authority chapter

## Introduction

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

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

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note that the following article in this chapter relates to 2012/13 audits

- TSU guidance on: audit of charities 2012/13 financial statements; transfer of police and fire functions; revenue recognition; sale and leaseback transactions; and principal and agent arrangements.
- 2011/12 audited analytical review database.
- 2012/13 code guidance notes.
- 2012/13 disclosure checklist.
- Updated example annual governance statement.
- Guidance on disposal or transfer of HRA assets.
- Revised management statement for community justice authorities.

## TSU developments

### Guidance

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The following articles provide authoritative guidance from the TSU

#### Audit of charities 2012/13 financial statements

58. *The Charities Accounts (Scotland) Regulations 2006* require an audit of a registered charity's financial statements where it has income of £500,000 or above or gross assets of £3,260,000 or above, or where an audit is required by any other enactment. The Regulations require the

auditor to prepare a report on the financial statements for the charity trustees. An independent examination is required for the financial statements of charities where an audit is not required.

59. As section 106 of the 1973 Act requires an audit of local authority trust funds, a separate audit and auditor's report is required for these trust funds under the Regulations where they are registered as charities with the Office of the Scottish Charity Regulator (OSCR). However, OSCR has indicated that they will not 'fail' a charity's financial statement if they include a report from an independent examiner (unless over the threshold amounts) until 2013/14.
60. It is likely that appointed auditors will be approached by councils with a request to audit their set of charities financial statements in 2012/13 where they contain a charity which breaches the threshold. It is also possible that authorities may wish to have an audit carried out even where the threshold is not breached.
61. Auditors are encouraged to accept any such request and treat this as additional audit work. Further guidance on the audit of charities financial statements will be provided by the TSU in due course.

### **Transfer of police and fire functions**

62. Auditors will be aware that the *Police and Fire Reform (Scotland) Act 2012* provides for the transfer of police and fire functions from the local authority sector to the central government sector from 1 April 2013.
63. The transfer of functions involves the dissolution of the existing police and fire joint boards. The *Code of practice on local authority accounting in the UK* (the Code) requires authorities to prepare their financial statements on a going concern basis, unless there is an intention by government that the services provided by the authority will no longer be provided. However, the transfer of services within the public sector does not negate the presumption that an authority is a going concern. A going concern basis therefore continues to be appropriate for joint boards in 2012/13.
64. The Code requires the separate presentation of discontinued operations on the face of the comprehensive income and expenditure statement. As with going concern, for an operation to be discontinued, it should have ceased completely. Police and fire services should therefore not be treated as discontinued operations in 2012/13.
65. However, in light of the transfer of staff to the new bodies from 1 April, the demitting joint boards should ensure there are arrangements in place for the proper preparation of the 2012/13 financial statements.
66. Joint boards and the two councils with police and fire services should disclose information on the transfer in the 2012/13 financial statements. It is likely that the other 30 councils will also consider an explanatory disclosure necessary arising from the impact on their group financial statements from 2013/14.
67. The Scottish Government has indicated that they require the accumulated balance on the usable reserves of the joint boards at 31 March 2013 to be returned to constituent authorities.

It is likely that this may involve the requisitions from constituent authorities for 2012/13 being reduced to a level that fully diminishes reserve balances. Further guidance will be provided in this regard once the mechanism has been agreed.

## Responses to enquiries

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**The TSU provides auditors with practical assistance to support its authoritative guidance. Practical assistance includes providing individual auditors with responses to technical enquiries. Selected responses include the following since the publication of TB 2012/3.**

### **When should an authority recognise revenue in a transaction?**

68. Revenue is defined in the Code as the gross inflow of economic benefits or service potential that result in an increase in an authority's net worth. The criteria for the recognition of revenue depends on the nature of the transaction
- Exchange transactions are those in which an authority receives assets or services, and directly gives approximately equal value, usually in cash, to another body in exchange.
  - In a non-exchange transaction, an authority receives value without directly giving approximately equal value in exchange (e.g. council tax).
69. The following recognition criteria are common to both types of transaction
- It is probable that the economic benefits or service potential associated with the transaction will flow to the authority.
  - The amount of the revenue can be measured reliably.
70. However, additionally, in an exchange transaction for the sale of goods, the following conditions also require to be satisfied
- The authority has transferred to the purchaser the significant risks and rewards of ownership of the goods.
  - The authority retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
  - The costs incurred or to be incurred in respect of the transaction can be measured reliably.
71. When the transaction involves the rendering of services, revenue associated with the transaction should be recognised by reference to the percentage of completion method at the reporting date.
72. In the event that revenue meets the recognition criteria, but the consideration has not been received, authorities should recognise a debtor at the fair value of the consideration receivable. If the consideration is received but the revenue does not meet the recognition criteria, authorities should recognise a creditor (i.e. receipt in advance).
73. Auditors should confirm that authorities are recognising revenue in accordance with the criteria set out in the Code.

### **How should a gain on disposal be recognised in a sale and leaseback transaction?**

74. The gain from derecognition of an asset is the difference between the net disposal proceeds and the carrying amount of the asset. The gain should normally be included in the surplus or deficit on the provision of services when the item is derecognised. However, where the asset is leased back under a finance lease, the Code requires any gain to be amortised over the lease term.
75. Where an asset is leased back under an operating lease, and the sale and the lease are at fair value, any gain or loss on disposal should be recognised immediately. However, the Code requires that
- if the sale price is below fair value, and the loss is compensated for by future lease payments below market price, the loss should be amortised in proportion to the lease payments
  - if the sale price is above fair value, the excess over fair value should be amortised over the period for which the asset is expected to be used.
76. Auditors should confirm that authorities are recognising a gain or loss from the derecognition of an asset in a sale leaseback transaction in accordance with the Code.

### **In what circumstances do authorities act as an agent rather than principal?**

77. An authority is an agent when it is acting as an intermediary, and is a principal when it is acting on its own behalf. An authority 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. One feature indicating that an authority is acting as an agent is when the amount earned is predetermined.
78. The Code gives the normal collection of non-domestic rates as an example of when an authority acts as agent, but there may be other cases. For example, where an authority is the distribution point for grant to other bodies and bears no significant risk in the transaction, the authority is likely to be acting as agent.
79. However, an authority administering housing benefit payments would probably be able to conclude that it was a principal on the basis that
- the authority has some discretion in the award of benefits and their amount
  - when overpayments are made, the authority bears some risk in terms of potential non-recovery
  - subsidy for the housing benefits paid is not fixed but has incentive elements based on the authority's effectiveness in administering the system.
80. The Code requires the accounting treatment of transactions to reflect whether an authority is acting as an agent or principal. Where an authority is acting as an agent, transactions should not be reflected in an authority's comprehensive income and expenditure statement. Authorities acting as an agent should account for the arrangement as follows

- In respect of cash collected or expenditure incurred on behalf of the principal, the balance sheet should reflect the debtor or creditor position, and the net cash position should be included in the financing activities in the cash flow statement.
- Where the authority receives payment, any amount of commission received or receivable for acting as an agent should be recognised as income in the authority's financial statements.

81. Auditors should confirm that authorities are identifying transactions where they act as agent and are accounting for them in accordance with the Code.

## Analytical review databases

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**Practical assistance also includes the production of analytical review databases. The following database has been published by the TSU since TB 2012/3. It is available to external auditors from Audit Scotland's *Technical reference library*.**

### 2011/12 analytical review database

82. The TSU has co-ordinated the production of a database of audited local authority financial information for 2011/12. This is the first year that a database of audited information has been prepared. The database is intended to inform local and national overview reporting and to assist auditors with analytical review procedures when planning the 2012/13 audits.
83. The analytical review database is based on information in the 2011/12 audited financial statements of Scotland's councils, and has been compiled by updating the unaudited database published in July 2012 with adjustments arising from the audit process. Additional information, including population figures, numbers of households, band D council tax amounts, and grant-aided expenditure is also included.
84. The TSU has provided guidance on the use of the database, and has prepared some illustrative graphs drawn from the audited 2011/12 database that auditors may find useful.
85. Auditors should use this database when planning the audit of the 2012/13 financial statements.

## Accounting developments

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

### 2012/13 code guidance notes

86. The [Chartered Institute of Public Finance and Accountancy](#) (CIPFA) has issued the *Code of practice on local authority accounting in the UK - guidance notes for practitioners - 2012/13 accounts* which are intended to assist in understanding how to apply the accounting requirements of the 2012/13 Code.



87. The guidance notes provide background to the Code's requirements and include detailed illustrations, but are not prescriptive. They have been updated to reflect the changes to the 2012/13 Code and to clarify other matters.
88. For example, the notes explain the 2012/13 Code's adoption of the first phase of the IASB's *Conceptual framework for financial reporting*. This includes changes to the qualitative characteristics of financial statements, which are the attributes that make financial information useful. The previous four principal characteristics (i.e. understandability, relevance, reliability and comparability) have been replaced with
- two fundamental characteristics (i.e. relevance and faithful representation); and
  - four enhancement characteristics which complement the fundamental characteristics (i.e. comparable, verifiable, timely and understandable) and which are considered to be highly desirable rather than essential.
89. Faithful representation is a new concept and has three characteristics
- completeness, i.e. the financial statements should include all information necessary for a user to understand them, including all necessary descriptions and explanations
  - neutrality, i.e. the financial statements should be without bias in the selection or presentation of financial information. Information should not be prejudiced in the authority's favour (or to its detriment). Bias can be introduced inadvertently by ineffective decisions about how to present financial information (such that particular items are given undue prominence) or which facts need to be disclosed about a transaction.
  - free from error, i.e. there should be no errors or omissions in descriptions, or in the selection or application of the process used to produce the reported information. For example, a representation of an estimate is faithful if the amount is clearly described as being an estimate, the nature and limitations of the estimating process are explained, and no errors have been made in selecting and applying an appropriate process for developing the estimate.
90. Auditors may wish to have regard to these guidance notes when auditing the 2012/13 financial statements.

### 2012/13 disclosure checklist

91. CIPFA has published the *Code of practice for local authority accounting in the UK - Disclosure checklist for 2012/13 accounts* which reflects the disclosure requirements of the 2012/13 Code. The checklist is intended to be an aide-memoire for local authorities and auditors to ensure the Code's disclosure requirements are met.
92. If the answer to a question in the checklist is 'no', a justification for departing from the Code requires to be given by the authority and, where the impact is material, disclosed in the financial statements.

93. The checklist may be ordered from the CIPFA shop. However, auditors may find it helpful to obtain and review a completed checklist as part of their testing of an authority's compliance with the Code's disclosure requirements when auditing the 2012/13 financial statements.

## 2013/14 SeRCOP

94. CIPFA has issued the *Service reporting code of practice for local authorities 2013/14* (SeRCOP), which sets out proper accounting practice for financial reporting below the level of the financial statements in 2013/14. SeRCOP is prepared in accordance with the requirements of the Code.
95. The principal change that applies to Scottish authorities arises from changes in the 2013/14 Code arising from amendments to *IAS 19 Employment benefits*. The 2013/14 Code will require that post-employment benefit service cost should comprise current service cost, past service cost (which now includes curtailments), and any gain or loss on settlement, and that it should be recognised in the surplus or deficit on the provision of services.
96. SeRCOP has been amended to require that current service cost should be included in the total cost of services, while past service costs and gains and losses on settlements should be included in non-distributed costs.
97. There have also been the following changes to the service expenditure analysis
- The police and fire service analyses have been removed arising from the transfer of these services to central government.
  - The reconciliation items previously shown in the housing revenue account (HRA) analysis to link the cost of the service to the statutory movement on the HRA balance has been removed.
  - The item 'Other operating income and expenditure' within central services has been replaced with 'Items excluded from the cost of services'.

## Corporate governance developments

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

### Updated example annual governance statement

98. The CIPFA/SOLACE Joint Working Group has issued an [addendum](#) to *Delivering good governance in local government: framework*. The principles and standards set out in the framework are aimed at helping local authorities to develop and maintain their own codes of governance and discharge their accountability for the proper conduct of business. The addendum has been issued following a review of the framework.
99. The addendum includes an updated example annual governance statement, which replaces the statement included in the *Application note to delivering good governance in local*

*government*. The example has been updated to give an increased emphasis to a strategic approach, and other changes to reflect amended regulations in England.

## Other developments

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

### Housing

#### New guidance on disposal or transfer of HRA assets

100. The [Scottish Government](#) has issued *Guidance on disposal of HRA assets and the transfer of assets between the HRA and general fund* to set out a new process for authorities requesting consent to dispose of, or transfer, an asset from or to the HRA.
101. The *Housing (Scotland) Act 1987* requires local authorities to seek Ministerial consent before any HRA assets is disposed of, or transferred to or from, the general fund. Under a new process, authorities are required to make a request for consent using a standard application form. Authorities are required to clearly indicate in the form the appropriate legislation under which they are making the application.
102. It is a requirement of the process that the HRA be fully and appropriately compensated for the loss of any assets, and the asset should be disposed of at its market value unless there is an overwhelmingly strong case for not doing so. A valuation report prepared by a suitably qualified and experienced valuer stating the asset's market value requires to be attached to the application.
103. Councils are required to provide a clear statement of the financial impact of the disposal on the HRA, including detail of the appropriate accounting treatment.

### Community justice authorities

#### Revised management statement

104. The Scottish Government has issued a revised *Management statement/Financial memorandum* for community justice authorities (CJAs) which sets out the management and financial procedures to be followed. The guidance given is intended to assist the CJAs in carrying out their functions under the *Management of Offenders etc (Scotland) Act 2005* and associated Orders.
105. The revised version of the guidance states that, although there is no requirement to prepare a remuneration report, it would be helpful to include one within the annual accounts for transparency purposes. Remuneration reports should be prepared in accordance with the regulations and guidance applicable to councils.
106. The guidance also requires an annual report of each CJA's performance and activities to be submitted to the Scottish Government, which should include

- qualitative and quantitative information on progress against actions, outputs and outcomes as set out in the area plan and action plan
- summary of how resources were allocated in that year to support key activities
- a narrative account on performance against CJA functions and key activities.

## Significant trading operations

### 2013/14 capital interest rates

107. CIPFA has issued [LAAP bulletin 94 Capital interest rates 2013/14](#) to specify the notional interest rate to be applied in calculating the capital financing charge in 2013/14.
108. Although the Code no longer has a requirement to make a capital financing charge to services, authorities may need to continue to include such a charge in the measurement of cost for some purposes, or may wish to do so for management accounting purpose. The main application of these rates in Scotland is in respect of charges to the accounts of significant trading operations.
109. 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 4.21%.
110. Auditors should confirm that a capital financing charge is being made to trading accounts.

## Benefits

### 2013/14 local housing allowance uprating

111. The [Department for Work and Pensions](#) (DWP) has issued [HB/CTB circular A8/2012 Changes to HB regulations to support local housing allowance consumer price index \(CPI\) uprating from January 2013](#) to announce the introduction of the use of the consumer price index (CPI) to uprate local housing allowance (LHA) rates annually from April 2013.
112. In line with Regulations issued under the *Welfare Reform Act 2012*, instead of being set monthly in line with local rental growth, the uprating of LHA rates will be set annually at the lower of
- the previous LHA rate uprated by the previous September's CPI; or
  - the 30th percentile of local market rents in the previous September.
113. LHA cases will, however, be reviewed where there has been a change in rent since the annual review. The change means that the current provision for reviewing LHA at the anniversary date of the benefit claim is no longer required and will be abolished from January 2013.

### **2013/14 administration subsidy**

114. The DWP has issued [HB/CTB circular S5/2012 HB main subsidy arrangements and additional subsidy 2013/14: Details of the administration subsidy distribution](#) to provide details of the housing benefit (HB) administration subsidy for 2013/14.
115. The appendix to the circular shows the individual allocations of the £38.9m main administration subsidy to each Scottish authority. An additional £1.9m of funding is being provided to help authorities during the economic downturn.

### **Abolition of council tax benefit from 2013/14**

116. [The Council Tax Reduction \(Scotland\) Regulations 2012](#) have been passed to provide for the new *Scottish council tax reduction scheme* from 2013/14. The regulations provide for a reduction in liability for council tax for persons who have not reached the qualifying age for state pension credit, or who have reached that age and receive certain income-based benefits.
117. Applications require to be made to the relevant local authority, and claimants are required to provide evidence in support of their claim. Weekly applicable amounts for each claimant require to be calculated by the authority, which is a sum representing the needs of the applicant and their family. For claimants receiving universal credit, the applicable amount will require to be adjusted for the housing cost element.
118. The applicable amount is compared with a claimant's income. The Regulations set out how income should be calculated, and a formula for calculating the maximum amount of council tax reduction to which a person is entitled. No council tax reduction will be awarded if a person has capital exceeding £16,000.
119. Entitlement to the reduction commences from the Monday following the date on which an application is made. Changes of circumstances normally take effect from the day when the change occurs.
120. The *Scottish council tax reduction scheme* replaces council tax benefit (CTB) from 1 April 2013, and the DWP has issued [HB/CTB circular S6/2012 Changes to council tax benefit \(CTB\) subsidy from 2013/14](#) to provide details of the abolition of CTB.
121. There will be no overlap between entitlement to CTB and council tax reductions. Any prior year adjustments, such as overpayments and backdates, identified from 1 April 2013 will therefore no longer be reported on subsidy claims. Local authorities are required to enter zero in all CTB cells in the 2013/14 subsidy claim forms, and these cells will be removed from forms from 2014/15.

## **Finance**

### **Provisional 2013/14 funding allocations**

122. The Scottish Government has issued [Finance circular 5/2012 Local government finance settlement 2013/14](#) to provide details of the provisional total revenue and capital funding

allocations for 2013/14. The provisional allocations form the basis of the annual consultation between the Scottish Government and CoSLA.

123. The circular provides details of the
- non domestic rate distributable amount for 2013/14
  - the latest information on current known redeterminations for 2012/13.

## Legislation

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

### Police and fire and rescue services

124. [The Police and Fire Reform \(Scotland\) Act 2012 \(Commencement No 1 etc\) Order 2012, SSI 253](#) brought into force some provisions of the *Police and Fire Reform (Scotland) Act 2012* from 1 October 2012.

### Council tax

125. [The Council Tax Reduction \(Scotland\) Regulations 2012, SSI 303](#) come into force on 28 January 2013. See paragraph 116.

### Police

126. [The Police Grant \(Variation\) \(Scotland\) Order 2012, SSI 316](#) comes into force on 1 January 2013 and varies the original police grant order for 2012/13. Due to police reform, the 2.5% grant retention that would normally be included in the 2013/14 grant order is being paid this year.

## Section 102 reports

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Under section 102(1) of the *Local Government (Scotland) Act 1973*, the **Controller of Audit may report to the Accounts Commission on the accounts of local authorities or any matters arising from the accounts. The following reports have been prepared since TB 2012/3 and can be obtained by using the hyperlinks.**

### Aberdeenshire Council performance audit of housing and council tax benefits - progress report

127. This is a [progress report](#) on the findings of a previous Controller of Audit report on the performance of Aberdeenshire Council's HB/CTB service. The report noted that remedial action has been taken for 20 of the 21 risks previously identified, and some progress has been made on the remaining risk.
128. Scrutiny of performance has improved over the last year as reports are presented to each scrutiny and audit committee where managers are questioned on performance. The quality of

information provided to elected members has significantly improved allowing members to focus their questioning on the appropriate areas and make well informed decisions.

### **Strathclyde Fire and Rescue Joint Board statutory report on the retirement and re-employment of the Chief Officer**

129. This [report](#) provides the Commission with the details of the retirement and re-employment of the Chief Officer of Strathclyde Fire and Rescue Joint Board. It states that there were weaknesses in the governance and management arrangements impacting on the robustness of the decision-making processes.
130. The clarity and quality of reporting to the board was unsatisfactory, with consequences for the transparency of the process, the standard of scrutiny by members and the robustness of the decision-making processes.
131. The report also states that the support and guidance from advisory officers to the board from the host authority was not effective.

## **Publications**

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**The following publications published since TB 2012/3 can be obtained by using the hyperlinks**

### **Audit Scotland**

#### **Managing performance: are you getting it right?**

132. This report from Audit Scotland [Managing performance: are you getting it right?](#) is on managing performance and improvement. Key messages include
- Councillors need good-quality performance information to make well-informed decisions, scrutinise performance and identify areas for improvement. Performance measures must reflect a council's priorities so it can assure itself that its objectives are being met, and performance information must be acted on to improve outcomes.
  - Managing performance is important for governance and accountability, and an effective performance management culture, led by both officers and councillors, is essential.
  - Self-evaluation and review activity form an important part of continuous improvement.
  - Councillors and officers need to ensure that the principles of effectively managing performance apply equally when working with partners.

#### **Best value in police authorities and police forces in Scotland - overview report**

133. This report [Best value in police authorities and police forces in Scotland - overview report](#) summarises audit findings from local reports and supplements them with commentary on other policing issues at a national level. Overall conclusions include
- There are notable differences in the cost of policing across Scotland's eight forces, but average costs are below comparable policing costs in the rest of the UK. Police forces



have sound systems of budget control, but lack an effective means of analysing the cost of their activities more clearly to inform resource prioritisation.

- The management of police assets has been relatively underdeveloped with forces only recently developing asset management strategies. Some forces share buildings with partners to generate efficiencies but there has been limited progress in sharing services and other resources across forces.
- Police forces have been improving the way they manage performance but need to identify more clearly costs and value for money. The performance information they provide to police authorities typically lacks the necessary information to fully support effective scrutiny.
- Members of police authorities need to have a better understanding of their roles, as they have generally not provided appropriate leadership or carried out their role to best effect. Under the new policing arrangements from April 2013, it is critical that policing services are managed in accordance with well-established principles of good governance and accountability.

## Auditor action

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

Section and paragraph	Action
TSU developments - Guidance - paragraph 61	Auditors are encouraged to accept a request for a separate audit of 2012/13 charities' financial statements, and treat this as additional audit work.
TSU developments - Responses to enquiries - paragraph 73	Auditors should confirm that authorities are recognising revenue in accordance with the criteria set out in the Code.
TSU developments - Responses to enquiries - paragraph 76	Auditors should confirm that authorities are recognising a gain or loss from the derecognition of an asset in a sale leaseback transaction in accordance with the Code.
TSU developments - Responses to enquiries - paragraph 81	Auditors should confirm that authorities are identifying transactions where they act as agent and are accounting for them in accordance with the Code.



Section and paragraph	Action
TSU developments - Analytical review databases - paragraph 85	Auditors should use the audited 2011/12 analytical review database when planning the audit of the 2012/13 financial statements.
Accounting developments - paragraph 90	Auditors may wish to have regard to the Code guidance notes when auditing the 2012/13 financial statements.
Accounting developments - paragraph 93	Auditors may find it helpful to obtain and review a completed disclosure checklist when auditing the 2012/13 financial statements.
Other developments - Significant trading operations - paragraph 110	Auditors should confirm that a capital financing charge is being made to trading accounts

# Central government chapter

## Introduction

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

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

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note that the following article in this chapter relates to 2012/13 audits

- proposed amendments to the 2012/13 FReM

## Accounting developments

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

### Proposed amendments to 2012/13 FReM

134. [HM Treasury](#) has issued [Exposure draft \(12\)07 Accounting for the carbon reduction commitment \(CRC\) energy efficiency scheme](#) which proposes changes to the *Government financial reporting manual* (the FReM) from 2012/13 in respect of accounting for the carbon reduction commitment (CRC) energy efficiency scheme.
135. The CRC became operational in 2011/12 and is a mandatory emissions trading scheme that aims to reduce carbon dioxide emissions through energy efficiency. The production of emissions by participating bodies gives rise to a liability, and the bodies are required to surrender purchased allowances in relation to emissions. For 2012/13, the CRC scheme is still in its introductory phase, but it appears that the opportunity might exist for participating bodies to purchase allowances prospectively.

136. The proposed amendments to the 2012/13 FReM are to recognise
- an intangible asset for any allowances held (or current asset if held for trading)
  - a liability for the surrender of allowances to the CRC Registry.
137. The asset should be measured initially at cost. Allowances issued for less than their fair value, should be measured on recognition at fair value, with the excess over purchase price recognised as income.
138. Where an active market exists, allowances should be measured at fair value. Where no active market exists, allowances should be measured at cost, as a proxy for fair value.
139. Comments were required by 26 November 2012.

### Proposed amendments to 2013/14 FReM

140. Treasury has issued two exposure drafts which contain proposed changes to the FReM from 2013/14 in respect of
- proposals to update the accounting for pensions (see paragraph 141)
  - improving the relevance and clarity in central government financial reporting (see paragraph 148).

### Proposals to update the accounting for pensions

141. [Exposure draft \(12\)05 Proposals to update the accounting for pensions](#) proposes amendments to update the requirements in the FReM in respect of pensions. The FReM requires the application of *IAS 19 Employee benefits* as adapted for the public sector. This exposure draft proposes amendments to the FReM arising from a recently issued amended version of IAS 19.
142. The amended IAS 19 requires no changes to accounting for defined contribution plans so employer financial statements will be mostly unaffected by the amendments, as the FReM requires the main public service unfunded pension schemes to be accounted for on a defined contribution basis.
143. The amendments will affect employers with employees in defined benefit schemes. Bodies will be required to recognise service cost and net interest in profit and loss, and remeasurements in other comprehensive income
- Service cost is the additional liability that arises from employees providing service during the period
  - Net interest is the interest expenses on the net defined benefit liability or interest income on the net defined benefit asset
  - Remeasurements are other changes in the value of the defined benefit obligation, such as changes in estimates and other changes in the value of plan assets.

144. The amendments to IAS 19 also eliminate the corridor approach, which allowed bodies to defer the recognition of some gains and losses on defined benefit plans. The interpretation in the FReM that does not allow the corridor approach can therefore be dropped.
145. The amended IAS 19 requires termination benefits to be recognised at the earlier of the date the offer cannot be withdrawn or when the related restructuring costs are recognised (rather than when the body is demonstrably committed to providing those benefits). This does not require any FReM amendment, but the exposure draft states that bodies are required to ensure that they review their termination benefits to ensure that they are correctly accounted for under the revised standard.
146. The amended IAS 19 contains increased disclosure requirements, including an explanation of the characteristics of the defined benefit plans and risks associated. The FReM does not require to be amended for the new disclosure requirements, but all bodies will be required to comply with them. The magenta proforma has been updated for the proposed additional disclosures that will be required for pension schemes.
147. Comments were required by 26 November 2012.

### Improving the relevance and clarity in central government finance

148. [Exposure draft \(12\)06 Improving relevance and clarity in central government financial reporting - phase 1](#) is the first in a series of exposure drafts to improve relevance and clarity in central government financial reporting.
149. The paper states that excessive disclosure in financial reporting can lead to loss of clarity, as important information is lost in the detail. The FReM already highlights the importance of materiality in determining levels of disclosure, e.g. it states that a specific disclosure requirement need not be satisfied if the information is not material.
150. The exposure draft seeks views as to whether there is sufficient prominence to materiality and, if not, to identify where prominence could be increased.
151. Comments were required by 26 November 2012.

## Publications

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The following publication can be obtained by using the hyperlink.

### Audit Scotland

#### Reducing reoffending in Scotland

152. This report from Audit Scotland [Reducing reoffending in Scotland](#) looks at the efficiency and effectiveness of approaches taken to reduce reoffending. Key messages include the following
  - More detailed information on the unit costs and quality of the range of services delivered to reduce reoffending is needed to make an overall assessment on how efficiently the money spent is being used.

- There is a strong body of evidence on what is effective in reducing reoffending, but there is a mismatch between what is currently being delivered and what is known to be effective.
- Many bodies are involved in reducing reoffending, but they have different governance and accountability arrangements and different geographic boundaries. The way community justice authorities have been set up, and their inflexible funding, has significantly limited their effectiveness.
- There needs to be stronger leadership at national, regional and local levels if reoffending is to be tackled effectively.

# Health chapter

## Introduction

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

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

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note that the following articles in this chapter relate to 2012/13 audits

- 2011/12 audited analytical review database.
- Charter of patients' rights and responsibilities.
- 2012/13 statement of financial entitlements.

## TSU developments

### Analytical review databases

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The TSU provides auditors with practical assistance to support its authoritative guidance. Practical assistance includes the production of analytical review databases. The following database has been published by the TSU since TB 2012/3. It is available to external auditors from Audit Scotland's *Technical reference library*.

#### 2011/12 analytical review database

153. The TSU has co-ordinated the production of a database of audited health financial information for 2011/12. This is the first year that a database of information has been prepared for health boards. The database is intended to inform local and national overview reporting and to assist auditors with analytical review procedures when planning the 2012/13 audits.
154. The TSU has provided guidance on the use of the database, and has prepared some illustrative graphs drawn from the audited 2011/12 database that auditors may find useful.

155. Auditors should use this database when planning the audit of the 2012/13 financial statements.

## Other developments

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

### National agenda/direction

#### Charter of patients' rights and responsibilities

156. The Scottish Government has published [Your health, your rights](#) as a charter summarising patients' rights and responsibilities when using NHS health services. The charter is a requirement of the *Patient Rights (Scotland) Act 2011*, and provides information on rights

- to be informed, and involved in decisions about, health care
- for personal health information to be kept secure and confidential
- to be treated with dignity and respect
- to safe and effective care
- to have any concerns an complaints dealt with.

### Pay and workforce planning

#### 2012/13 statement of financial entitlements

157. The Scottish Government has issued [PCA\(2012\)\(M\)13](#) to advise of changes to the statement of financial entitlements (SFE) for GP contractors for 2012/13. The SFE relates to payments to be made by health boards to a contractor under a general medical services contract.

158. The amendments compared with the previous version include the following

- The global sum amount has been increased to £389.7 million to reflect the increase in the population registered with a GP. The contractor population index has also been adjusted to reflect the increased population.
- The arrangements around the monthly correction factor have been amended to reflect the 0% uplift to be applied in 2012/13. For future years, any increase will be linked to the global sum increase.
- Two new clinical areas have been added and a number of the indicators amended in the quality outcomes framework.
- The amount used for the calculation of aspiration and achievement payments has increased from £130.38 to £133.47.

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## Planning and performance management

### NHS Chief Executives annual report 2011/12

159. The [NHS Chief Executive's annual report 2011/12](#) highlights the progress made in 2011/12 towards delivering the strategic vision set out within the *Quality strategy*. The *Quality strategy* sets the direction for the way the NHS in Scotland works to ensure a patient centred approach. The HEAT targets demonstrate the performance against the ambitions identified within the strategy.
160. The progress highlighted in the report includes the following
- Significant reductions in the level of healthcare associated infections.
  - Achieving financial balance and delivering over £1 billion of efficiency savings between 2008/09 and 2011/12.
  - delivery of the 18 week referral to treatment waiting times target.

## Publications

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The document referred to in the following article can be obtained by using the hyperlink.

### Audit Scotland

#### NHS financial performance

161. This report [NHS financial performance](#) considers the financial performance of the NHS in 2011/12 and comments on financial sustainability. Key messages include the following
- Spending on health amounted to around £11.7 billion in 2011/12. The NHS continues to face significant cost pressures including the need to invest in the maintenance and repair of the NHS estate and the volume and cost of drugs being prescribed.
  - All boards met their financial targets, however this was achieved through in-year movements in funding across the NHS. Boards should enhance the disclosure of financial support received and disclose actions to bring the board to long term financial balance where relevant.
  - Boards are forecasting significant recurring savings for 2012/13, however it may become more difficult to identify and achieve recurring savings.
  - The capital budget continues to fall, limiting the opportunity for boards to invest in ways of delivering better and more efficient services. The requirement to break even each year encourages a short term focus. The Scottish Government should consider whether other options are available to encourage long term planning and investment in new ways of working.



# Further education chapter

## Introduction

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

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

In order to help auditors distinguish items of immediate significance from those that are of longer-term relevance, auditors may wish to note that the following articles in this chapter relates to 2011/12 audits

- Guidance on colleges' financial year.

## TSU developments

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### Guidance

The following article provides authoritative guidance from the TSU.

### Financial year

162. Auditors will be aware of an issue in respect of the financial year covered by colleges' financial statements. Section 18(3) of the *Further and Higher Education (Scotland) Act 1992* (the 1992 Act) specifies that the financial year of colleges is from 1 April to 31 March. However, in accordance with directions issued by the Scottish Funding Council (SFC), colleges prepare their financial statements using the financial year from 1 August to 31 July.
163. Section 18(4) of the 1992 Act gives Scottish Ministers the power to provide by order that colleges should have a different financial year to that specified at section 18(3). As at the date of preparing this TB, it is not yet known whether such an order will be prepared. Further guidance will be provided by the TSU in due course.

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## Publications

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The following publication published since TB 2012/3 can be obtained by using the hyperlink.

### Audit Scotland

#### Scotland's colleges - current finances, future challenges

164. This report from Audit Scotland [Scotland's colleges current finances, future challenges](#) identifies the financial standing of the college sector immediately before structural reforms and planned public sector spending reduction take effect. Key messages include the following
- The overall financial standing of the college sector in 2010/11 was generally sound, although the financial standing of individual colleges varies.
  - Scotland's colleges face considerable challenges in the years ahead, as Scottish Government revenue grant support to colleges is likely to fall by 24% in real terms between 2011/12 and 2014/15.
  - The number of Scotland's colleges is expected to drop from 37 to no more than 23 through planned structural reforms, but further work is required to identify and articulate the costs and benefits of the reform.
  - Colleges will need to work closely with the SFC and the planned Further Education Strategic Forum to deliver the efficiency savings needed to ensure the continued financial sustainability of the sector.

# 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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