Technical Bulletin 2019/3

Technical developments and emerging risks from July to September 2019

Prepared for appointed auditors and audited bodies in all sectors

10 September 2019

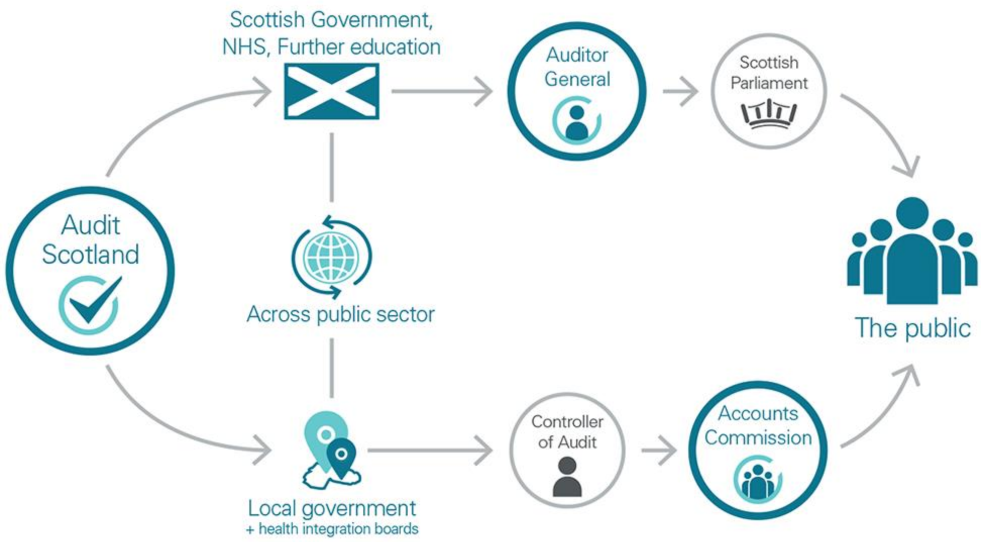
Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.

- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.

- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money

- reporting our findings and conclusions in public

- identifying risks, making clear and relevant recommendations.

Contents

Introduction

Purpose

1. The purpose of Technical Bulletins from Audit Scotland's Professional Support is to provide auditors appointed by the Auditor General and Accounts Commission with:

- information on the main technical developments in each sector and on professional matters during the quarter
- guidance on any emerging risks identified in the quarter.

Technical Bulletins provide information on developments and guidance on emerging risks

2. The information on technical developments is aimed at highlighting the key points that Professional Support considers appointed auditors require to be aware of. It may still be necessary for auditors to read the source material if greater detail is required. These can be accessed by using the hyperlinks, where provided. They are also available to appointed auditors from the Technical Reference Library maintained by Professional Support.

3. The actions by auditors recommended by Professional Support in respect of each item are highlighted in red and are also summarised at the end of each section.

4. Technical Bulletins are also published on the Audit Scotland website and therefore are available to audited bodies and other stakeholders.

Highlights summary

5. Particular attention is drawn to nine items in this Technical Bulletin in the following table:

Highlights summary		
Professional Support has provided advice to auditors on matters arising from the audit of 2018/19 local government Annual Accounts [see paragraph 7]	CIPFA/LASAAC has issued a consultation paper on the 2020/21 accounting code [see paragraph 9]	Professional Support has published guidance on auditing the 2018/19 Annual Report and Accounts of colleges [see paragraph 24]
Professional Support has published model 2018/19 Independent Auditor's Report for colleges [see paragraph 27]	The SFC has issued the 2018/19 Accounts Direction for colleges [see paragraph 32]	The SFC has issued guidance on colleges' 2018/19 financial statement [see paragraph 37]
Professional Support has published guidance on reviewing 2018/19 WGA returns [see paragraph 43]	The FRC has issued proposed revisions to auditing standards [see paragraph 46]	The IASB has issued proposed amendments in respect of accounting policies [see paragraph 56]

Contact point

Feedback on this technical bulletin is welcome

6. The main contact point for this technical bulletin is Paul O'Brien, Senior Manager (Professional Support) – pobrien@audit-scotland.gov.uk.

Section 1

Local government sector

Advice provided to auditors on 2018/19 Annual Accounts

Auditor action

Auditors should consider the application of this advice to their own audits

7. The following table summarises a selection of requests for technical advice recently made by auditors to Professional Support in respect of the audit of the 2018/19 Annual Accounts, along with the advice offered.

Property, plant and equipment

Question from auditor	Advice from Professional Support
There is a substantial increase in the value of school property following the five-yearly revaluation. This is partially due to the council changing to an internal valuer who has adopted a different valuation method in respect of obsolescence. How should this increase be treated?	The council should be able to demonstrate that the new valuation method is more appropriate. If it can do so, it is a case of adequately disclosing that judgement and the nature of the change. If the council cannot demonstrate that the change results in a more accurate estimate, auditors should consider whether the change is arbitrary. ISA (UK) 540 states that arbitrary changes result in inconsistent financial statements over time and may give rise to a misstatement or be an indicator of possible management bias. Given the magnitude of the increase, it would be reasonable to expect the council to appoint an external valuer to review the revaluation on a sample basis. If there is still a substantial increase from the previous year not explained by the change in methodology, this would indicate that the five year interval between valuations is too long. Paragraph 4.1.2.37 of the Code of Practice on Local Authority Accounting in the UK (the accounting code) requires revaluation to be made with sufficient regularity to ensure that the carrying amount does not differ materially from the current value at the year end. Five years is the maximum interval but assets must be revalued more regularly where that interval does not keep pace with material changes in asset value. The failure to revalue at a more appropriate interval may indicate that the carrying amount in previous years was understated and an element of the increase should be treated as correcting that understatement (by adjusting the opening balance and comparatives) rather than treating it all as an increase since last year.
The council has made a capital contribution to the construction of a trunk road. Part of the contribution was funded from borrowing. The council has benefitted from enhancements to its own local roads, and has treated the whole contribution as an asset under construction. Is that treatment correct?	The substance of the transaction is that the council has made a contribution towards the cost of a third party asset. The full amount should have been accounted for as revenue expenditure in the Comprehensive Income and Expenditure Statement (CIES) as incurred with the element funded by borrowing transferred from the Capital Adjustment Account in the Movement in Reserves Statement (MiRS). The acquisition of enhanced roads etc was ancillary to the money spent and should be accounted for as a donated asset. Donated assets should be recognised in the CIES at fair value, with a transfer to the Capital Adjustment Account in the MIRS. Assets under construction is therefore not an appropriate treatment for any element of the contribution.

Question from auditor	Advice from Professional Support
The council has changed from expensing to capitalising borrowing costs incurred while assets are under construction. Is this permissible and should it be treated as a change in accounting policy?	The accounting code allows bodies to select an accounting policy of capitalising borrowing costs on an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. This is an accounting policy choice and moving from expensing to capitalising borrowing costs is a change in accounting policy. As with all changes in accounting policy, unless required to do so by the accounting code, the council can change policy only if it will result in more relevant or reliable information. The change in policy will require to be applied retrospectively and therefore borrowing costs on completed projects will require to be capitalised where material. Under the accounting code, borrowing costs can be capitalised only if they are directly attributable to the construction of an asset. The borrowing does not have to be specifically for the asset construction; the costs of general borrowing used to construct an asset can also be capitalised. If the council has not used borrowing to fund the construction of the asset in the period, there are clearly no borrowing costs that are directly attributable, and therefore a policy of capitalisation would not be appropriate. If the council does change its policy, and it is appropriate to do so,it will need to make the disclosures required by the code for accounting policy changes (paragraph 3.3.4.2), and for capitalised borrowing costs (paragraph 4.8.4.2).

Retirement benefits

Question from auditor	Advice from Professional Support
What is the impact of the Supreme Court ruling on how councils should account for the impact of the McCloud Judgement?	Paragraph 62 of Technical Bulletin 2019/2 advised that actuaries were not proposing to make any allowance for the McCloud Judgements because of uncertainty around an appeal by the UK Government. The expected treatment was the disclosure of a contingent liability The Supreme Court ruling that the UK Government had no grounds to appeal the McCloud Judgement removes that uncertainty, and therefore a liability should be recognised for the requirement to compensate certain members for any discrimination suffered as a result of the transitional protections. The nature of the remedy is not yet known. However, the Government Actuary Department's (GAD) report referred to at paragraph 63 of Technical Bulletin 2019/2 has been issued following its review of the Local Government Pension Scheme (LGPS) in England and Wales which provides an assessment of the potential financial impact. For example, based on an earnings increase of CPI (2.3%) plus 1.5%, the report estimates a potential impact of 3.2% of active scheme liabilities. Actuaries are using this report to re-calculate pension liabilities at an employer level.
Where the actuary can provide an estimate of the Guaranteed Minimum Pension (GMP) liability, should this be recognised?	Paragraphs 57 to 60 of Technical Bulletin 2019/2 provided an update on GMP. The Government's 'interim solution' for funding inflationary increases for GMP applies for schemes members retiring between 6 April 2016 and 6 April 2021. Where an actuary has provided a council with liability information that reflects GMP, auditors should expect the council to recognise that liability. The estimated impact of the 'interim solution' is 0.1.% of liabilities. Where the actuary has not provided the information, auditors should compare the expected impact with their own materiality levels. There remains uncertainty around the long term solution for members reaching pension age after 6 April 2021, and therefore actuaries are generally not making any allowance in their figures for this aspect. Due to the level of uncertainty, and the consequent difficulties in arriving at a reliable estimate, it is expected that the disclosure of a contingent liability would be the appropriate treatment.

Financial instruments

Question from auditor	Advice from Professional Support
Should a loan to a registered social landlord (RSL) at a prescribed rate lower than the market rate be accounted for as a soft loan?	Soft loans are lending made at below prevailing market rates. The fair value of a soft loan does not equal the consideration given as it needs to reflect that the contractual interest rate is lower than the market rate. The consent for lending to RSLs does not prescribe an interest rate for the loans. It sets out cases where the rate must be equal to or higher than the rate set by the EU to ensure the loan does not provide state aid. That minimum does not apply where the lending supports innovative investment models. Where the interest rate on a loan to an RSL is below the prevailing market rates (as defined in the accounting code), it should be accounted for as a soft loan.
In previous years, the council has had specific bad debt provisions and a general bad debt provision. It no longer has a general bad debt provision in 2018/19 – should it?	The previous terminology of 'bad debt provisions' was replaced with 'impairment of financial assets' when IAS 39 was implemented in 2007/08. IFRS 9 replaces IAS 39 from 2018/19 and introduces a new 'expected credit loss' model for the recognition of impairment losses. This represents a change from the previous IAS 39 'incurred loss' model. IFRS 9 allows a collective assessment of credit risks for groups of financial assets where reasonable and supportable information is not available for individual assets without undue cost or effort, provided the grouped assets share similar characteristics. IFRS 9 allows practical expedients to be used when measuring losses. The example given in the standard is the use of a matrix for trade receivables which calculates a fixed rate based on the number of days that a receivable is past due, assessed on the basis of historical experience adjusted (if necessary) to reflect current conditions and forecasts of future conditions.
The council is unsure whether it has any 'modified loans' but has not had any loan restructuring since 1 April 2007. Does the new treatment of modified loans under IFRS 9 apply to loan exchanges prior to 1 April 2007?	IFRS 9 requires the carrying amount of modified loans to be recalculated by discounting the modified contractual cash flows by the original effective interest rate. The issue is relevant for any council that accounted for a loan exchange by modifying the existing loan (as opposed to extinguishing the existing loan and recognising the replacement loan). The main impact is that any premium is recognised as expenditure immediately for an extinguished loan, whereas for a modified loan the expenditure is spread over the remaining life of the loan. The change for 2018/19 is that IFRS 9 requires the carrying amount of the modified loan to be recalculated. This relates to any modified loan still in the balance sheet at 1 April 2018 (regardless of whether the loan exchange took place before 1 April 2007). The 1 April 2007 date is only relevant in so far as that is the date that financial instrument standards were first implemented. As part of the transitional arrangements, there was no need to reconsider recognition and derecognition decisions made before 1 April 2006. That continues to apply under IFRS 9. The date is also relevant because there is a difference in the calculation of the annual charge of premiums to the General Fund between those held at 31 March 2007 and those arising from 1 April 2007. Most councils in Scotland did not go through the process of identifying whether the criteria for treating loans as being modified were met at 31 March 2007 as the effect of the statutory guidance on extinguished loans meant there was no difference as far as the impact on the General Fund is concerned (i.e. the charge to the General Fund is spread under both treatments).

Question from auditor	Advice from Professional Support
The council recognises the amortisation of premiums as a charge each year in the CIES. They do not want to charge the amortisation directly to the General Fund as direct reserve accounting is not allowed. Is this correct?	The annual amortisation for the premium should result in a debit to the General Fund and a credit to the Financial Instruments Adjustment Account (FIAA). This spreads the charge that should have been made to the FIAA in the year the premium was originally incurred. The premium should have been recognised as expenditure in the CIES in that year; there should therefore not be an annual charge to the CIES. Direct reserve accounting is not permitted. However, direct reserve accounting means charging expenditure directly to a reserve (e.g. debiting the Renewals and Repair Fund with expenditure on repairs, rather than charging it to the CIES and transferring an equivalent amount from the renewals and repairs fund to the General Fund in the MiRS). The entry for premiums is not direct reserve accounting as the expenditure was previously correctly charged to the CIES. These entries are reserve transfers/statutory adjustments to spread the cost to the General Fund.

Internal transactions

Question from auditor	Advice from Professional Support
As transactions between segments are no longer permitted in the CIES, does that mean that all internally provided services should be removed from the CIES and the Expenditure and Funding Analysis (EFA)?	The requirement that was implemented in 2016/17 for the CIES to meet IFRS 8 segmental reporting requirements has been removed from 2018/19. This included reporting the impact of internal trading whereby one segment charged another segment (with the charge including a 'profit' element) for the provision of a service in the CIES; the provider segment recognised the income and the other segment recognised the expenditure. The removal of the requirement means that any such transactions between segments are no longer permissible in the CIES, i.e. they should not be included in income and expenditure in service segments. As explained at para 15 of Technical Bulletin 2019/2, the change does not preclude bodies from recording inter-segment transactions for internal management purposes. The transactions should be included in column 1 of the EFA to meet IFRS 8 requirements, but be removed in column 2 so that they are not included in column 3 (i.e. the CIES amounts). It is important to note that the internal transactions outlined above are distinct from the re-allocation of underlying expenditure from one segment to another which continues to be allowed and should be reflected in the CIES. This should be accounted for as an increase in the expenditure of the segment that consumed the resources and the reduction in the expenditure (rather than increase in income) of the segment which initially procured the resources.
The council presented a separate line in CIES to eliminate segmental transactions in 2017/18. For 2018/19, the line has been removed from the CIES. Do they need to show a prior year adjustment for this?	Retrospective application of the above change is required. Councils should therefore restate 2017/18 comparatives to remove segmental transactions from income and expenditure. The 'elimination line' is therefore not needed in 2018/19 and should also be removed from the 2017/18 comparatives.

Grant income

Question from auditor	Advice from Professional Support
The council do not want to carry forward unspent Pupil Equity Funding (PEF) grant at the year end because there is a condition in the offer letter which requires repayment and also because the council does not control the expenditure. What is the appropriate treatment?	In normal circumstances, a condition that unspent grant requires to be repaid would result in the unspent element being recognised as a creditor at the year end. However, in this case the operational guidance for PEF states that unspent grant can be carried forward. This would suggest that the repayment condition will not be enforced in practice. Unless there is evidence that the Scottish Government will require repayment (e.g. they did so last year), it would be reasonable to recognise the unspent element as income in 2018/19. Although responsibility for spending the grant has been delegated to head teachers, schools are not third parties, and it is still part of the council's education income and expenditure. However, as there are restrictions on the use of the PEF grant, the unspent element should be treated as an earmarked part of the General Fund.
The council has recognised a debtor and accrued income for European Social Fund (ESF) grant from Scottish Government. However, it has also disclosed the ESF grant as a contingent asset. Is this correct?	Debtors are assets which should be recognised when the recognition criteria have been met. A contingent asset is a possible asset the existence of which will be confirmed by a future event. Contingent assets are disclosed in the notes but not recognised in the balance sheet. It is therefore not possible for the same item to be both a debtor and a contingent asset. The council need to consider whether receipt of the funding is expected (and recognise a debtor) or whether it is uncertain (derecognise the debtor and income, and disclose the contingent assets instead).
The body receives capital grant from a third party. Although the conditions require repayment of unspent grant, the paying body has waived that requirement in previous years. However, the paying body advised after 31 March 2019 that unspent grant is to be repaid. Is this an adjusting event after the reporting period?	Paragraph 82 of the Overview Module of Technical Guidance Note 2018/10(LG) includes in the list of examples of adjusting events changes in grant entitlement other than those caused by a change in grant conditions after the year-end. In this case, the grant conditions require repayment of unspent grant but in previous years this has not been enforced. However, the paying agency has decided to enforce that condition for 2018/19. This does not therefore represent a change in conditions. The notification after 31 March 2019 from the paying body of the requirement to repay provides evidence of conditions that existed at that date and is therefore an adjusting event. Any reliable, available information that is not adjusted for represents a misstatement. The body should therefore recognise a creditor at 31 March 2019 for the unspent grant.
How should an unspent contribution from a developer be treated at the year end?	If there are conditions that could lead to the contribution being returned that are not yet satisfied it should be recognised in the Grants Received in Advance Account. If there are no such unsatisfied conditions, the contribution should be recognised as income, and credited to the Comprehensive Income and Expenditure Statements (included in the Taxation and Non-Specific Grant Income line). As the contribution was unspent at the year end, there should be a statutory adjustment that debits the General Fund and credits the Capital Grants and Receipts Unapplied Account.

Statutory trading operations

Question from auditor	Advice from Professional Support
How should income and expenditure of a trading operation be reflected in the CIES?	Where a trading account is maintained for a trading operation, they are essentially memorandum accounts. Income and expenditure relating to the delivery of local government services requires to be included in the cost of that service in the CIES in the normal way.

Question from auditor	Advice from Professional Support
Are statutory services or services provided internally subject to the prescribed financial objective to break even over 3 years?	No. Only discretionary activities provided to external customers are subject to the prescribed financial objective and therefore require, where significant, a trading account to be maintained.
Can a body choose to maintain and disclose a trading account even if not required?	There is nothing to prevent a body from voluntarily maintaining a trading account. However, if included in the accounts, it is recommended that they be disclosed separately from the trading accounts to which the prescribed financial objective applies.

Housing Revenue Account

Question from auditor	Advice from Professional Support
The council has netted off the void rent loss against the dwelling rent income figure in the Housing Revenue Account (HRA). Is this netting off correct and if not where should they include this figure?	Schedule 15 of the Housing (Scotland) Act 1987 sets out the statutory debits and credits for the HRA. It requires the HRA to be credited with the income from standard rents and debited with any income receivable from any houses during any period for which they were not let (i.e. void rents). These two amounts should be shown gross as there is no general right to net off items. Any income lost to voids should be treated as expenditure rather than being netted off income.
The council is using income from council tax on second homes to fund new build affordable housing. In previous years, it has treated this as a reserve transfer to the HRA. This year it is treating it as income in the HRA. Which treatment is better?	Statutory credits to the HRA include any income receivable for that year, relating to expenditure debited to the HRA. Expenditure that can be debited to the HRA is also set out in the 1987 Act and includes loans charges, repairs and maintenance, rent arrears etc. Guidance from the Scottish Government on the use of council tax on second homes does not appear to allow the council tax income to be spent on these areas so that does not apply. Crediting the HRA with a contribution from the General Fund is explicitly not allowed by the 1987 Act, without consent from the Scottish Ministers. Provided consent has been obtained, the previous treatment of treating the contribution as a reserve movement from the General Fund to the HRA would appear to be the most appropriate.

Disclosures

Question from auditor	Advice from Professional Support
What information should be disclosed to meet the new disclosure requirements in respect of debtors for local taxation?	The accounting code was amended to require the following information to be disclosed in respect of council tax: a) An analysis of the age of the assets that are past due at the year end but not impaired. b) An analysis of the assets that are individually determined to be impaired at the year end, including the factors the body considered in determining that they are impaired. Page 462 of the guidance notes to the accounting code provides an example of disclosure a). CIPFA bulletin 3 suggests that clarification be added that the disclosure applies to balances where no impairment is required. There is no specific guidance on disclosure b) and therefore, if applicable, the information disclosed will depend on each body’s judgment.

Question from auditor	Advice from Professional Support
What is meant by paragraph 3.4.2.101 of the accounting code which requires the disclosure of a segmental analysis of items that are included in column 1a) of the EFA.	Paragraph 3.4.2.101 requires a segmental analysis to be disclosed in the financial statements for any items listed at that paragraph that are reported internally to management (and therefore included in column 1a of the EFA). For the majority of local government bodies, the most likely item that this will be relevant to is revenues from external customers. This is reflected in the example financial statements on page 422 of the guidance notes to the accounting code. There is also an example in the good practice note on the EFA analysis from Professional Support at Exhibit 12. It is unlikely that the requirement will apply to many of the other items, but where they are reported internally the relevant disclosure would need to be made.
What should be included in a council's disclosures around judgements and estimates?	Paragraph 3.4.2.88 of the accounting code requires disclosure of the judgements made in applying the accounting policies that have the most significant effect on the amounts recognised in the financial statements. The aim of the disclosure is to highlight significant areas where others may have formed different judgements and provide justification for the view taken. Examples of such judgements include whether an item should be recognised as a provision or disclosed as a contingent liability, and judgments on appropriate valuation techniques. Paragraph 3.4.2.90 of the accounting code requires the disclosure of assumptions, and other major sources of estimation uncertainty, that have a significant risk of resulting in a material adjustment within the next financial year. Estimation uncertainty disclosures deal with situations where a body has incomplete or imperfect information which will only be enhanced as a result of future events. The disclosure should focus on assets and liabilities whose carrying amount relies on estimates where there is a risk that correction or re-estimation may be required in 2019/20. The disclosure should explain where the body's view sits within a range of outcomes to enable users to evaluate the possible effects of estimates on future accounts. For 2018/19 such disclosures could reasonably be expected in respect of the McCloud Judgement and GMP issues. These disclosures are not required for assets and liabilities measured at fair value based on a quoted price in an active market. Although these fair values might change materially within the next financial year they would not arise from assumptions or other sources of estimation uncertainty.
Is the level of external borrowing directly related to the Capital Financing Requirement (CFR)?	The CFR is a concept under the Prudential Code for Capital Finance in Local Authorities. It is basically the underlying need to finance capital expenditure (by borrowing or other means) in the future. It is used to ensure that debt will only be for a capital purpose so the council should ensure that gross external debt does not exceed the CFR. The construction of CFR is set out in the prudential code but in summary it is calculated by taking the figures from the Balance Sheet for: • Capital expenditure (property, plant and equipment; investment properties; intangible assets etc) • Less the balance on the revaluation reserve (as it is only the cost of the assets that require to be financed not the value) • Less the balance on the Capital Adjustment Account (as that equates to the capital expenditure that has already been financed) External borrowing is therefore not directly connected to the CFR. For example, using capital reserves or capital grants during the year to finance capital expenditure will reduce the CFR but will not have any impact on borrowing levels.

Question from auditor	Advice from Professional Support
Are councils required to disclose the salaries, allowances and expenses of members in the Remuneration Report?	Paragraph 3.4.4.1 of the accounting code requires the information on members' salaries, allowances and expenses to be disclosed as a note to the accounts. Some councils choose to instead make the disclosure in the Remuneration Report rather than a note. In Professional Support's view, this meets the requirement of the accounting code and should be permitted. Where the disclosure is included within the Remuneration Report, it is covered by the opinion on the Remuneration Report and should therefore be in the audited part.
Is the analysis of debtors and creditors over public sector bodies required in 2018/19?	The requirement to disclose debtors and creditors analysed over public sector bodies has been removed from 2018/19. Instead, paragraph 3.4.2.63 of the accounting code requires bodies to either present on the face of the Balance Sheet or disclose in the notes, sub-classifications of debtors and creditors, e.g. for creditors this could be amounts payable to trade suppliers, related parties, and other amounts.

Remuneration report

Question from auditor	Advice from Professional Support
Where a council employee receives an exit package in excess of £150,000, should they be named in the Remuneration Report where there is a confidentiality agreement in place?	There is a requirement to disclose the number and cost of all exit packages. Individuals are not named. However, there is also a requirement to disclose the remuneration of a 'relevant person' as defined by The Local Authority Accounts (Scotland) Regulations 2014 (the accounts regulations), and those individuals do require to be named. The definition of 'relevant persons' includes an individual whose annual remuneration is in excess of £150,000. An element of that annual remuneration is compensation for loss of office. An individual with an exit package greater than £150,000 would require therefore to be named. The existence of a confidentiality agreement does not impact on the disclosure requirement. Finance circular 8/2011 explains that where a contractual confidentiality agreement existed which was agreed prior to 7 February 2011, no information in respect of that person required to be provided for 2010/11. However, the disclosure requirements apply from 2011/12 regardless of any agreement.
Should the disclosure of remuneration analysed by pay band include any taxable expenses?	The accounts regulations provide a definition of remuneration which includes not only salary but also sums paid by way of taxable expenses allowance. This definition applies to the remuneration tables for 'relevant persons' as well as to the pay band disclosure.

Management Commentary

Question from auditor	Advice from Professional Support
The council's CIES shows a deficit, but the reference to financial performance in the Management Commentary reports a surplus. Does this represent a misstatement?	If the reference in the Management Commentary is intended to refer to the CIES performance, this inconsistency means there is a misstatement. However, councils often focus in the Management Commentary on the movement in the General Fund which could legitimately show a surplus while there is a deficit in the CIES due to the impact of statutory adjustments. In that case, the Management Commentary should explicitly state that, to avoid misleading users. Auditors should consider whether the misstatement is material (e.g. would users be influenced by its effects?), and if so request that it be corrected (e.g. by adding a clear explanation). Uncorrected material misstatements should result in a qualified opinion on the Management Commentary and be reported in the Independent Auditor's Report.

Question from auditor	Advice from Professional Support
The council's Management Commentary does not include financial key performance indicators. There is a hyperlink to a document containing all the performance indicators. Is that acceptable?	Appendix 2 in Module 10 of Technical Guidance Note 2018/10(LG) provides a checklist of all the items that the statutory guidance requires to be included in the Management Commentary. Any omission of an item on the checklist is non-compliance with the statutory guidance which represents a misstatement. Required items include a review of the body's business including an analysis using financial key performance indicators. A hyperlink to another document is not sufficient to meet this requirement. Where judged to be material, if uncorrected, this misstatement should result in a qualified opinion on the Management Commentary and be reported in the Independent Auditor's Report.
The council have not included a reference in the Management Commentary to the Annual Strategy and Annual Report on treasury management because this is not a requirement of the statutory guidance in Finance Circular 5/2015. Is this acceptable?	Statutory guidance for the Management Commentary is in the main set out in Finance Circular 5/2015 but there is also one requirement in Finance Circular 7/2016. The latter circular requires at paragraph 69 that the Management Commentary should refer to the Annual Strategy and Annual Report which provides detailed information, and narrative, on the council's capital investment plans, treasury management (borrowing and investments), prudential indicators and loans fund liabilities. The failure to include the required reference is a misstatement. If considered material, this should be reported in the Independent Auditor's Report and result in a qualified opinion on the Management Commentary.

Miscellaneous

Question from auditor	Advice from Professional Support
The Leader of the Council will be absent when the accounts are due to be signed. What should the council do?	Regulation 10(3) of the accounts regulations requires the Leader of the Council to sign the Management Commentary, Statement of Responsibilities, Annual Governance Statement and Remuneration Report. The accounts regulations allow another person to be nominated to sign where a body does not have a Leader of the Council. They also allow another officer to be nominated when the section 95 officer is unable to sign. However, there are no explicit provisions if the Leader of the Council is simply not available to sign, and the council is responsible for ensuring it can meet this statutory responsibility. If the Leader's absence is unavoidable, it may acceptable on the grounds of pragmatism for the council to nominate another person to sign the accounts. However, auditors should report this failure to comply with the accounts regulations in the Annual Audit Report.
The council describe the 'bottom line' on the CIES as 'Total Comprehensive Income and Expenditure' which means it is not clear whether there is a net income or net expenditure overall. What terminology should they use?	The accounting code requires the CIES to total to Total Comprehensive Income and Expenditure so the terminology used by the council is correct. It should be clear from the signage (brackets) and narrative used elsewhere whether that represents a net income or net expenditure position. The bracket in the line narrative should be consistent with the presentation of the figures in the CIES.
Should the unaudited Annual Accounts be removed from the website at the end of the inspection period?	Regulation 8(8) of the accounts regulations requires the unaudited Annual Accounts to remain on the website until the audited versions are published. Auditors should report any non-compliance with this requirement in the Annual Audit Report.

Question from auditor	Advice from Professional Support
Should the council recognise an impairment for 'expected loss' due to successful non-domestic rates (NDR) appeals prior to the date the accounts are authorised for issue?	An allowance for impairment should be recognised in the Non-Domestic Rate Income Account. NDR debtors are not subject to the new 'expected loss' model for impairment introduced by IFRS 9, and impairment should continue to be recognised on the same basis as previous years. However, finding out about the outcome of appeals before the authorised for issue date provides information in respect of NDR debtors that will be uncollectable. Uncollectable debt written off should also be recognised in the Non-Domestic Rate Income Account. The information on the outcome of appeals should be treated as an adjusting event after the year end that requires to be reflected in the amount recognised for uncollectable debt written off.
The integration joint board (IJB) has two segments presented in the CIES, i.e. health services and social care services. Does this level of analysis satisfy the reporting requirements?	The analysis of service segments in the CIES should follow the segmental structure used in the EFA. The service segments in the EFA should be based on the organisational structure used by the IJB for reporting performance internally to the board for it to consider the allocation of financial resources. Consequently, the number of segments presented in the CIES are determined based on each IJB's arrangements. However, it would seem unlikely that the board is not provided with a more detailed analysis than two high level segments. It may be that the IJB has aggregated a number of segments. This is permitted where segments are similar in terms of economic characteristics, nature and type of service recipient. However, the IJB should consider whether aggregating the number of segments down to two provides users of the accounts with sufficient information to meet their needs.

8. Auditors should send any further enquiries to TechnicalQueries-LocalGovernment@audit-scotland.gov.uk.

Financial statements developments

Consultation on 2020/21 accounting code

9. The CIPFA/LASAAC Local Authority Code Board has issued a consultation paper on proposed changes to the accounting code for 2020/21. The main proposals in this consultation arise from:

- Definition of Material: Amendments to IAS 1 and IAS 8
- the Government Financial Reporting Review
- the CIPFA/LASAAC review for improving clarity and streamlining disclosures
- the new 2018 Pensions SORP.

Auditor action
Auditors should note the proposed changes to the accounting code from 2020/21

10. Responses should be sent to cipfalasaac@cipfa.org by 27 September 2019.

11. IFRS 16 Leases will apply from 2020/21 but as implementation of that standard was subject to consultation with the 2019/20 accounting code, it is not included in this consultation. However, the text of the accounting code is provided at Appendix B in order to encourage preparation work.

Definition of material

12. The consultation proposes amendments to paragraph 2.1.2.14 to implement the revised definition of material in Definition of Material: Amendments to IAS 1 and IAS 8, as set out in the following table:

Proposed revised definition of material

Current definition	Proposed revised definition
Information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting authority	Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that users of general purpose financial statements make on the basis of those financial statements about a specific reporting entity

13. It is also proposed to provide the following examples of practices which may obscure material information:

- Vague or unclear language.
- Information is scattered throughout the financial statements.
- Dissimilar items are inappropriately aggregated, or similar items inappropriately disaggregated.
- Information regarding a material item is hidden by immaterial information.

14. A requirement to disclose the basis on which materiality has been assessed, such as the benchmarks applied, and the users considered in doing so, is also proposed.

15. The consultation also invites suggestions to support bodies in making appropriate materiality decisions. Aspects of materiality which respondents are particularly asked to consider are summarised in the following table:

Area	Explanation
Overall materiality	The assessment of overall materiality, including the identification of, or suggestions concerning, overall materiality and the benchmark used to determine this.
Lower specific materiality	Items for which particular materiality levels, below the overall materiality figure, may be considered appropriate.
Cumulative errors	The treatment of cumulative (prior period) errors which may have been immaterial in preceding years but are material for the current period.
Group materiality	The determination of materiality for group accounts application.
Qualitive materiality	Qualities or characteristics which are particularly important in local government in assessing the qualitative materiality of an item.

Government Financial Reporting Review

16. The Government Financial Reporting Review from HM Treasury (covered at paragraphs 110 to 113 of Technical Bulletin 2019/2) indicates that the Government Financial Reporting Manual (FReM) will include a number of questions to be used by a central government body in determining whether to add new disclosures to the Annual Report and Accounts. The consultation proposes adding to the accounting code the same questions which are set out in the following table:

Main question	Prompt
Should the information be published?	• Is the information required by statute? • Is there a user need, and who is the user? • Is the information accurate and reliable? • Do the benefits of disclosure outweigh the costs and give value for money?
How should the information be published?	• Are the Annual Accounts the right place for it? • Is this information already available elsewhere, or could it be? • How will the new disclosure affect the overall balance of the Annual Accounts?

17. The consultation asks for specific views regarding the extent of disclosures which is relevant for group accounts.

Proposal to summarise prior period information

18. There is also a proposal to add a paragraph stating that, in accordance with the IFRS Practice Statement 2: Making Materiality Judgements, bodies may summarise prior-period information, subject to the need to retain the information necessary for users to understand the current-period financial statements.

Review for improving clarity and streamlining disclosures

Feedback requested on strategic review of accounting code

19. CIPFA/LASAAC is undertaking a review to inform the strategic direction and development of the accounting code. The review is focusing on identifying the principal users of the accounts and the information they need; improving clarity by removing unnecessary detail; and conveying key messages which enables users to better understand the financial position and performance.

20. Specific areas where feedback is requested in this consultation are: capital, pensions, financial instruments, and cashflow. The consultation poses the following questions in respect of these areas:

- Do the current disclosures appropriately meet user needs?
- What are the resource implications of the current disclosure requirements, and where should attention be focused on ensuring appropriate cost-benefit balance?
- Are there grounds to further adapt or interpret the disclosure requirements for local government circumstances?

Pension SORP

21. There are a few proposed changes to align with the 2018 Pension SORP including:

- revising the analysis of pooled investment vehicles
- removing the requirement to analyse investment assets between UK and overseas and between quoted and unquoted.

Grant claims developments

Housing benefits

22. The Department for Work and Pensions has revised HB Circular A9/2019 to provide clarification on changes to housing benefit policy for mixed age couples.

Summary of auditor actions in this section

Paragraphs	Auditor actions
7	Consider the application to other audits of the advice provided by Professional Support on matters arising from 2018/19 audits
9-21	Note the proposed changes to the accounting code from 2020/21

Contact points for this section

23. The contact points for this section of the Technical Bulletin are:

- Paul O'Brien, Senior Manager (Professional Support) - pobrien@audit-scotland.gov.uk
- Anne Cairns, Manager (Professional Support) – acairns@audit-scotland.gov.uk (grant claims items only).

Section 2

College sector

Auditing developments

Technical Guidance Notes

Audit of 2018/19 Annual Report and Accounts

24. Professional Support has published Audit of 2018/19 Annual Report and Accounts (Colleges) - Technical Guidance Note 2019/7(C) to provide guidance to appointed external auditors on performing the audit of colleges' 2018/19 Annual Report and Accounts.

25. The Technical Guidance Note highlights risks of misstatement in the financial statements, Performance Report and Accountability Report, and sets out actions for auditors to address each risk.

26. In response to feedback, a new approach has been adopted this year. Instead of replicating the risks that are common to central government bodies, this Technical Guidance Note provides only supplementary guidance on the risks of misstatements that are specific to colleges. It will therefore have to be read in conjunction with technical guidance note 2019/1(CG).

Auditor action

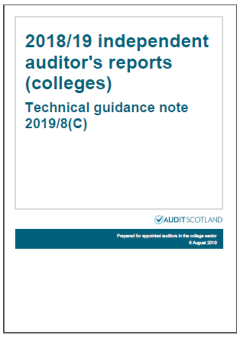
Auditors should use this Technical Guidance Note when planning and performing the audit of the 2018/19 Annual Report and Accounts

2018/19 model Independent Auditor's Reports

27. Professional Support has published 2018/19 Independent Auditor's Report (Colleges) -Technical Guidance Note 2019/8(C) to provide auditors with the model Independent Auditor's Reports which should be used for the 2018/19 Annual Report and Accounts. The Technical Guidance Note also provides application guidance on their use.

28. In the interests of consistency, auditors are required to use the relevant model report in appendices 1 to 2 of the Technical Guidance Note as a condition of their audit appointment. The only exception to using the wording in each model is to tailor the terminology to reflect local circumstances.

29. The changes to the model Independent Auditor's Reports for 2018/19 are summarised in the following table:

 2018/19 independent auditor's reports (colleges) Technical guidance note 2019/8(C) AUDIT SCOTLAND	• Additional wording has been added to reflect the requirements in ISA (UK) 700 requires for Public Interest Entities • A reference has been added to highlight that risks of material misstatement are reported in the Annual Audit Report • A similar reference has been added to highlight that conclusions on wider scope responsibilities are reported in the Annual Audit Report • The 'Bannerman' paragraph has been moved from the beginning of the model reports to the end

30. Any proposed modifications to any audit opinion or conclusion, or the inclusion of 'emphasis of matter' or 'other matter' paragraphs, should be discussed with Professional Support in advance of finalising the report.

31. Auditors should use this Technical Guidance Note when reporting on 2018/19 audits. They should complete for each report the checklist at Appendix 3 which provides a list of the key auditor actions.

Auditor action
Auditors should use this Technical Guidance Note when reporting the audit of the 2018/19 Annual Report and Accounts and complete the relevant checklists

Annual report and accounts overall

2018/19 Accounts direction

32. The Scottish Funding Council (SFC) has issued their Accounts Direction for colleges for 2018/19. The direction requires colleges to:

- comply with the 2015 Statement of Recommended Practice: Accounting for Further and Higher Education (the 2015 SORP) in preparing their financial statements. However, the 2018/19 direction notes that early adoption of the 2019 SORP is permitted
- include a Performance Report and Accountability Report in their annual report and accounts in accordance with the 2018/19 Government Financial Reporting Manual.

33. Specific mandatory disclosure requirements for colleges are set out at Appendix 2. The main changes in the 2018/19 Accounts Direction are summarised in the following table:

34. Paragraph 15 has been added to require colleges to submit the calculation of their Adjusted Operating Position (AOP) to SFC for review prior to the accounts being signed off.

AOP calculations require to be submitted to the SFC

35. The following requirements of the previous direction have been dropped:

- Details of the resource outturn for the financial year (i.e. to 31 March) are no longer required in the performance report.
- Details of the estates strategy is no longer required to be included in the Governance Statement.

36. Paragraphs 37 and 38 continue to require the remuneration of the Principal and banded remuneration of higher paid staff to be disclosed in the notes. However, in order to avoid duplication, paragraph 39 has been added to allow this information to be disclosed in the Remuneration and Staff Report and cross referred to the note.

Financial statements developments

Guidance on 2018/19 financial statements

37. The SFC has issued Detailed Notes for Guidance on Completion of the 2018/19 Financial Statements which are designed to supplement the Accounts Direction for 2018/19. The guidance covers key disclosures in the financial statements, including model disclosure notes set out at Annexes A to F. The main changes in the guidance notes from 2017/18 are summarised in the following paragraphs.

38. Paragraph 25 has been extended to emphasise that adjustments made in arriving at the AOP should only include figures which are separately disclosed elsewhere in the accounts. Colleges are required to provide a short explanation of the adjusting items and cross references to the figures in the Statement of Comprehensive Income or notes.

39. Paragraph 19 has been added to advise that harmonisation costs for support staff and middle management will not be known until after the national job evaluation exercise is complete. The paragraph requires colleges to base their estimates on Colleges Scotland's calculations in February 2019.

Harmonisation costs should be based on College Scotland calculations

Guidance for early retirement provision

40. The SFC issued Guidance for early retirement provision spreadsheet completion to advise that the suggested net interest rate for early retirement pension calculations in 2018/19 has been changed to 0.00%. for CPI indexed schemes. The rate for schemes using RPI is -1.00%.

41. 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.

Auditor action
Auditors should carry out the action set out at paragraph 41

Summary of auditor actions in this section

Paragraphs	Auditor action
24 - 26	Use Technical Guidance Note 2019/7(C) when planning and performing the audit of the 2018/19 Annual Report and Accounts
27 - 31	Use Technical Guidance Note 2019/8(C) when reporting the audit of the 2018/19 Annual Report and Accounts and complete the relevant checklists
40 - 41	Carry out the action set out at paragraph 41

Contact point for this section

42. The main contact point for this section of the Technical Bulletin is Helen Cobb, Senior Adviser (Professional Support) – Hcobb@audit-scotland.gov.uk.

Section 3
All sectors

Whole of Government Accounts developments

Technical Guidance Note

43. Professional Support has published Technical Guidance Note 2019/6 to provide guidance for auditors on reviewing and reporting on the 2018/19 Whole of Government Accounts (WGA) returns of public bodies. The approach set out in the technical guidance note has been agreed with the National Audit Office.

44. The changes in the content of the Technical Guidance Note compared with 2017/18 are as follows:

- The calculation of gross assets for the purposes of the auditor assurance threshold has been revised.
- There are new elements to fieldwork test 1.
- The threshold for reporting financial statement errors separately has been increased.
- The Assurance Statement has been significantly restructured.
- The requirement to submit the ISA (UK) 260 report has been reintroduced.

Auditor action

Auditors should use this Technical Guidance Note when planning and performing the review of 2018/19 WGA returns

Summary of auditor actions in this section

Paragraphs	Auditor action
43 - 44	Use Technical Guidance Note 2019/6 when planning and performing the review of 2018/19 WGA returns

Section 4
Professional matters

Auditing developments

Consultation on revisions to auditing standards

46. The Financial Reporting Council (FRC) has issued a consultation paper on proposed revisions to the auditing and ethical standards.

47. Comments on the proposals should be sent to AAT@frc.org.uk by 27 September 2019. The intention is for the revised standards to apply to financial periods commencing on or after 15 December 2019.

Ethical standard

48. There are a number of proposed revisions to the Ethical Standard to strengthen auditor independence including those set out in the following table:

Element	Proposed change
Objective, reasonable and informed third party test	Strengthening the 'objective, reasonable and informed third party' test by replacing the extant definition with one which has greater focus on the perspective of stakeholders who are the ultimate beneficiaries of assurance, and also to provide more application guidance that firms should use when making an assessment
Ethics Partner	Enhancing the authority of the Ethics Partner function, in order to ensure firm-wide focus on ethical matters and the public interest, and to require reporting to those charged with governance, where an audit firm does not follow the Ethical Partner's advice
Public Interest Entity requirements	Extending the application of the more stringent requirements that apply to Public Interest Entities (PIEs) to additional entities which are of significant public interest, e.g. larger privately-owned companies
Prohibited services	Moving from a list of prohibited services to a shorter list of permitted non-audit services

ISA (UK) 700

49. It is proposed to extend the existing ISA (UK) 700 requirement for auditors of PIEs to explain the extent to which their audits are considered capable of detecting irregularities, including fraud, to all audits. This would bring the standard into line with existing Audit Scotland requirements.

Explanation of ability to detect irregularities to apply to all audits

50. Further application guidance will be added that the explanation should:

- enable a user to understand their significance in the context of the audit of financial statements as a whole
- relate the matters directly to the specific circumstances of the entity and are not therefore, generic or abstract matters expressed in standardised or boilerplate language.
- explain how the auditor obtained an understanding of the legal and regulatory framework and how the entity is complying with that framework
- set out the laws and regulations that the auditor identified as being of significance in the context of the entity

- include the auditor's assessment of the susceptibility of the financial statements to material misstatement, including how fraud might occur.

ISA (UK) 701

Performance materiality to be specified in IAR

51. It is proposed that performance materiality in addition to materiality should be specified in the Independent Auditor's Report, and that an explanation of the significant judgements made in determining these amounts should be provided.

ISA (UK) 720

Description of responsibilities for other statutory information

52. There are proposed revisions to ISA (UK) 720 to make it easier to apply, for example by moving material relating to the UK-specific requirements for statutory other information to application guidance, and enhancing the guidance relating to work effort.

53. There is also a proposed new requirement to include a description of the auditor's responsibilities relating to statutory other information.

Intial consultation arising from market study on audit services

54. The Department for Business, Energy and Industrial Strategy of the UK Government has issued an initial consultation on the recommendations from the Competition and Markets Authority (CMA) in their market study into statutory audit services (set out at paragraph 147 of Technical Bulletin 2019/2). In summary, the recommendations are to:

- enhance regulatory oversight of audit committees
- mandate joint audits of FTSE 350 companies
- give the regulator powers to design an operational split between the audit practices and non-audit practices of the 'Big Four' firms
- require a five-year review of progress by the new regulator.

55. The UK Government is committed to acting on the recommendations to create a regulatory regime that delivers a competitive and resilient audit market. The consultation requests views on implementing the recommendations, as well as proposals on what could be done to address the CMA's concerns on a voluntary basis prior to legislation. A full set of proposals for reform taking account of both the recommendations from the CMA and the outcome of Sir John Kingman's Review of the Financial Reporting Council will then be produced.

Accounting developments

Proposed change to disclosure of accounting policies

56. The International Accounting Standards Board has issued Exposure Draft 2019/6 which proposes amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements to help entities provide accounting policy disclosures that are more useful.

Proposal to disclose 'material' accounting policies

57. The exposure draft proposes amending IAS 1 to require entities to disclose 'material' rather 'significant' accounting policies.

58. In addition, there are proposed amendments to IAS 1 and the practice statement to help entities apply the concept of materiality in making decisions about accounting policy disclosures. It is proposed to amend IAS 1 to state that:

- information about an accounting policy is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions of primary users of the financial statements
- accounting policies that relate to immaterial items need not be disclosed

- not all accounting policies relating to material items are themselves material.

Not all policies relating to material items are material

59. For example, an accounting policy is likely to be considered material if it relates to material items and:

- was changed during the year and this resulted in a material change to the amounts in the financial statements
- was chosen from a number of alternatives
- was developed in accordance with IAS 8 in the absence of a standard that specifically applies
- relates to an area for which an entity is required to make significant judgements or assumptions in applying an accounting policy
- applies the requirements of a standard in a way that reflects the entity’s specific circumstances.

60. Information about accounting policies that focuses on how an entity has applied the requirements in a standard to its own circumstances is more useful than standardised descriptions or information that only duplicates the requirements of the standard.

Disclosures should apply to an entity’s own circumstances

61. To support the proposed amendments to IAS 1, the exposure draft also proposes amending the practice statement to illustrate how an entity could judge whether information about an accounting policy is material to its financial statements. In particular, there are proposals to add guidance and examples to help entities by:

- clarifying that an accounting policy may be material by nature, even if related amounts in the financial statements are not material by size
- linking the application of materiality to accounting policy disclosures with the four-step materiality process described in the practice statement
- highlighting the need to focus on useful information for users of financial statements.

62. Comments should be sent to commentletters@ifrs.org by 29 November 2019.

Contact point for this section

63. The contact point for this section of the Technical Bulletin is Paul O'Brien, Senior Manager (Professional Support) - pobrien@audit-scotland.gov.uk.

Section 5
Fraud and irregularities

Auditor action
Auditors should consider whether weaknesses in internal control which facilitated each fraud may exist in their bodies and take the appropriate action

64. This chapter contains a summary of fraud cases and other irregularities facilitated by weaknesses in internal control at audited bodies that have recently been reported by auditors to Professional Support.

Income

Council tax income

65. Three separate council tax payers defrauded over £30,000 of council tax.

Key features

The perpetrators failed to declare that their properties were unoccupied long term and consequently avoided paying the double council tax for which they were liable.

Two of the frauds were identified after neighbours contacted the council to complain about the poor state of repair of the properties. Subsequent investigations by the councils identified that:

- a company purchased the first house in 2012. A visit to the property confirmed it was clearly uninhabited.
- the other house had been in receipt of a second home discount since 2013. However, investigations of utility supplies and a visit identified that the property was clearly not a second home.

In the third case, the fraud was identified after a housing association approached the council for information on the property. Investigations identified that the property had previously been subject to an empty property exemption due to the previous occupant being deceased. However, the deceased’s nephew failed to notify the council that he had inherited the property in 2016.

The frauds were possible as the councils did not have adequate arrangements in place to identify long term empty properties or second homes.

Council tax bills have been raised based on the double council tax charge. The debt has been passed to Sheriff Officers for collection in two cases and the council tax payer has paid the debt in the third case.

Housing rent

66. A former tenant defrauded a council of an estimated £93,000.

Key features

The genuine tenant moved out of the property but did not advise the council. A family member then moved in.

The fraud was not identified until a Housing Officer reported their suspicion that the tenant had moved out of the property. Investigations identified that the original tenant had moved out three years ago. The property was recovered and reallocated.

This case is being used in training for Housing Officers to help raise awareness and enable other issues to be identified and addressed more quickly in future.

Payroll

Redundancy payment

67. A council paid out a redundancy payment to a former employee that was £18,000 overstated.

Key features
An error was made in the calculation of the redundancy payment. However, there were no controls in place to check that the figure was correct. The incorrect figure was therefore input to the payroll system, and the payment was made. The error was not identified immediately after payment was made despite the former employee querying the value. It was eventually identified almost a year later by Internal Audit during routine monitoring of payroll. A process is now in place to ensure that two members of staff are involved in the payment of any employee redundancies. One team member processes the payment and a second more senior team member checks and authorises the payment. The former employee is repaying the overpayment.

Private funds

Social work client

68. A senior social work practitioner defrauded over £6,500 from clients.

Key features
The perpetrator claimed money on behalf of clients and provided signed forms requesting the sums to the council. The forms had been prepared and countersigned by the perpetrator but not the claimant. The money was then retained by the perpetrator. The fraud was identified after a social work manager reported a financial irregularity in relation to a client's cash account. A subsequent internal audit investigation into the system for making payments identified that the fraud was possible as: • the social work system records were not kept up to date • there was a lack of documented procedures in place • payments were made by both direct debit and cash, resulting in double counting • there was a lack of receipts on file. All recommendations for addressing the above have now been implemented. The employee was dismissed and taken to court where they received a community payback order. To date, £1,800 has been repaid by the employee.

Summary of auditor actions in this section

Paragraphs	Auditor action
65 - 68	Consider whether weaknesses in internal control which facilitated each fraud may exist in other bodies and take the appropriate action

Contact point

69. The contact point for this section of the Technical Bulletin is Anne Cairns, Manager (Professional Support) – acairns@audit-scotland.gov.uk.

Technical bulletin 2019/3

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