



# Technical bulletin 2014/1 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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# Contents

<b>Foreword</b> .....	<b>5</b>
<b>Headlines</b> .....	<b>6</b>
<b>Cross-sectoral chapter</b> .....	<b>12</b>
Introduction .....	12
Accounting developments .....	12
Auditing developments .....	15
Publications.....	18
Fraud cases .....	19
<b>Local authority chapter</b> .....	<b>20</b>
Introduction .....	20
TSU developments.....	20
Accounting developments .....	22
Corporate governance developments.....	24
Other developments .....	25
Legislation.....	30
Section 102 reports .....	31
Auditor action checklist.....	32
<b>Central government chapter</b> .....	<b>33</b>
Introduction .....	33
TSU developments.....	33
Accounting developments .....	34
Corporate governance developments.....	37
Other developments .....	37
Auditor action checklist.....	38
<b>Health chapter</b> .....	<b>39</b>
Introduction .....	39
TSU developments.....	39
Accounting developments .....	40
Governance developments.....	42
Other developments .....	44

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Legislation.....	45
Publications.....	46
Auditor action checklist.....	46
<b>Further education chapter.....</b>	<b>48</b>
Introduction .....	48
TSU developments.....	48
Accounting developments .....	49
Other developments .....	52
Legislation.....	53
Auditor action checklist.....	54
<b>Contact points.....</b>	<b>55</b>

# Foreword

## Informing judgement, Improving quality

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

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

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

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

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

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

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

# Headlines

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

Cross-sectoral chapter	Audit year	Paragraphs
<p>The International Accounting Standards Board has issued</p> <ul style="list-style-type: none"> <li>• amendments to international financial reporting standards</li> <li>• proposed amendments to international financial reporting standards.</li> </ul>	<ul style="list-style-type: none"> <li>• 2014/15 and 2015/16</li> <li>• 2016/17</li> </ul>	<ul style="list-style-type: none"> <li>• 1</li> <li>• 11</li> </ul>
<p>The Financial Reporting Council has issued</p> <ul style="list-style-type: none"> <li>• a bulletin on complexity in financial reporting</li> <li>• audit quality thematic reviews on materiality and fraud.</li> </ul>	<ul style="list-style-type: none"> <li>• 2013/14</li> <li>• 2013/14</li> </ul>	<ul style="list-style-type: none"> <li>• 14</li> <li>• 25</li> </ul>
<p>The International Public Sector Accounting Standards Board has issued a proposed practice guideline on reporting performance information.</p>	Not yet known	18
<p>The International Auditing and Assurance Standards Board has issued a</p> <ul style="list-style-type: none"> <li>• new audit quality framework</li> <li>• revised standard on assurance engagements</li> </ul>	<ul style="list-style-type: none"> <li>• 2013/14</li> <li>• 2013/14</li> </ul>	<ul style="list-style-type: none"> <li>• 22</li> <li>• 32</li> </ul>
<p>Audit Scotland has published a report on reshaping care for older people</p>	2013/14	36
<p>The TSU has provided a summary of some reported fraud cases.</p>	2013/14	37

Local authority chapter	Audit year	Paragraphs
<p>The TSU has published notes for guidance on</p> <ul style="list-style-type: none"> <li>• auditing 2013/14 local authority financial statements</li> <li>• auditing 2013/14 local authority pension fund financial statements</li> <li>• auditing 2013/14 local authority charities financial statements.</li> </ul> <p>The TSU has provided further guidance on the audit of charities from 2013/14.</p>	<ul style="list-style-type: none"> <li>• 2013/14</li> <li>• 2013/14</li> <li>• 2013/14</li> <li>• 2013/14</li> </ul>	<ul style="list-style-type: none"> <li>• 42</li> <li>• 45</li> <li>• 48</li> <li>• 51</li> </ul>
<p>The Chartered Institute of Public Finance and Accountancy has issued</p> <ul style="list-style-type: none"> <li>• the 2013/14 code guidance notes</li> <li>• a good practice guidance on the financial statements</li> <li>• a revised transport infrastructure assets code</li> <li>• the 2014/15 service reporting code</li> <li>• revised guidance on audit committees</li> <li>• a draft statement on the role of the chief financial officer in the local government pension scheme.</li> </ul>	<ul style="list-style-type: none"> <li>• 2013/14</li> <li>• 2013/14</li> <li>• 2013/14</li> <li>• 2014/15</li> <li>• 2013/14</li> <li>• Not yet known</li> </ul>	<ul style="list-style-type: none"> <li>• 52</li> <li>• 54</li> <li>• 57</li> <li>• 60</li> <li>• 64</li> <li>• 68</li> </ul>
<p>The Department for Work and Pensions has issued</p> <ul style="list-style-type: none"> <li>• guidance notes and letter on the 2013/14 subsidy claim</li> <li>• circulars on <ul style="list-style-type: none"> <li>– 2014/15 benefit uprating</li> <li>– the benefit cap</li> <li>– removal of the spare room subsidy</li> <li>– 2014/15 discretionary housing payments</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• 2013/14</li> <li>– 2014/15</li> <li>– 2013/14</li> <li>– 2013/14</li> <li>– 2014/15</li> </ul>	<ul style="list-style-type: none"> <li>• 71</li> <li>– 78</li> <li>– 80</li> <li>– 83</li> <li>– 87</li> </ul>

Local authority chapter	Audit year	Paragraphs
<ul style="list-style-type: none"> <li>– 2014/15 personal independence payments</li> <li>– the minimum earnings threshold</li> <li>– guidance on property adaptations for disabled claimants.</li> </ul>	<ul style="list-style-type: none"> <li>– 2014/15</li> <li>– 2013/14</li> <li>– 2013/14</li> </ul>	<ul style="list-style-type: none"> <li>– 89</li> <li>– 90</li> <li>– 92</li> </ul>
The Audit Commission has issued the 2013/14 HB COUNT modules.	2013/14	75
<p>The Scottish Government has issued</p> <ul style="list-style-type: none"> <li>• guidance on the housing revenue account</li> <li>• a finance circular on <i>The Local Government Finance (Scotland) Order 2014</i>.</li> </ul>	<ul style="list-style-type: none"> <li>• 2013/14</li> <li>• 2014/15</li> </ul>	<ul style="list-style-type: none"> <li>• 94</li> <li>• 97</li> </ul>
<p>Statutory instruments have been passed</p> <ul style="list-style-type: none"> <li>• to amend the principal members' remuneration regulations</li> <li>• on 2014/15 funding</li> <li>• to set the 2014/15 non-domestic rate</li> <li>• on levying 2014/15 non-domestic rates</li> <li>• to amend the principal non-domestic rate regulations in respect of unoccupied property</li> <li>• to uprate figures for council tax reduction purposes</li> <li>• to amend the principal local government pension scheme regulations</li> <li>• to amend benefits regulations</li> </ul>	<ul style="list-style-type: none"> <li>• 2014/15</li> <li>• 2014/15</li> <li>• 2014/15</li> <li>• 2014/15</li> <li>• 2014/15</li> <li>• 2013/14</li> <li>• 2014/15</li> <li>• 2014/15</li> </ul>	<ul style="list-style-type: none"> <li>• 98</li> <li>• 99</li> <li>• 100</li> <li>• 101</li> <li>• 102</li> <li>• 103</li> <li>• 104</li> <li>• 106</li> </ul>
The Controller of Audit has issued follow up statutory reports on Highland Council.	2013/14	108



Central government chapter	Audit year	Paragraph
<p>The TSU has</p> <ul style="list-style-type: none"> <li>• published notes for guidance on               <ul style="list-style-type: none"> <li>– auditing 2013/14 central government financial statements</li> <li>– auditing 2013/14 charitable NDPB financial statements.</li> </ul> </li> <li>• provided guidance on obtaining 2013/14 Government Banking Service account information.</li> </ul>	<ul style="list-style-type: none"> <li>• 2013/14</li> <li>• 2013/14</li> <li>• 2013/14</li> </ul>	<ul style="list-style-type: none"> <li>• 110</li> <li>• 110</li> <li>• 113</li> </ul>
<p>HM Treasury has issued</p> <ul style="list-style-type: none"> <li>• an amendment to the 2013/14 <i>Government financial reporting manual</i></li> <li>• a review of international financial reporting standards issued and effective for 2013/14</li> <li>• guidance on 2013/14 annual reports</li> <li>• the 2014/15 <i>Government financial reporting manual</i>.</li> </ul>	<ul style="list-style-type: none"> <li>• 2013/14</li> <li>• 2013/14</li> <li>• 2013/14</li> <li>• 2014/15</li> </ul>	<ul style="list-style-type: none"> <li>• 116</li> <li>• 123</li> <li>• 126</li> <li>• 128</li> </ul>
<p>The Scottish Government has issued a</p> <ul style="list-style-type: none"> <li>• revised code of conduct for members</li> <li>• amendments to the <i>Scottish public finance manual</i>.</li> </ul>	<ul style="list-style-type: none"> <li>• 2013/14</li> <li>• 2013/14</li> </ul>	<ul style="list-style-type: none"> <li>• 134</li> <li>• 137</li> </ul>

Health chapter	Audit year	Paragraph
The TSU has provided guidance on obtaining 2013/14 Government Banking Service account information.	2013/14	141
<p>The Scottish Government Health and Social Care Directorates have issued</p> <ul style="list-style-type: none"> <li>• the 2013/14 accounts manual</li> <li>• the 2013/14 capital accounting manual</li> <li>• guidance on the 2013/14 governance statement.</li> </ul>	<ul style="list-style-type: none"> <li>• 2013/14</li> <li>• 2013/14</li> <li>• 2013/14</li> </ul>	<ul style="list-style-type: none"> <li>• 144</li> <li>• 162</li> <li>• 164</li> </ul>
The Scottish Advisory Committee on Distinction Awards has issued the 2013 annual report on consultants distinction awards.	2013/14	171
NHSScotland has published the 2013 report on the NHS estate.	2013/14	183
<p>Other Scottish Government directorates have published</p> <ul style="list-style-type: none"> <li>• an updated joint appointments guide</li> <li>• a circular on financial entitlements for GPs for 2013/14</li> <li>• a revised PIN policy.</li> </ul>	<ul style="list-style-type: none"> <li>• 2013/14</li> <li>• 2013/14</li> <li>• 2013/14</li> </ul>	<ul style="list-style-type: none"> <li>• 175</li> <li>• 178</li> <li>• 180</li> </ul>
<p>Statutory instruments have been issued on</p> <ul style="list-style-type: none"> <li>• health board areas</li> <li>• health board membership.</li> </ul>	<ul style="list-style-type: none"> <li>• 2013/14</li> <li>• 2013/14</li> </ul>	<ul style="list-style-type: none"> <li>• 185</li> <li>• 186</li> </ul>
Audit Scotland has issued an update report on NHS waiting times.	2013/14	187

Further education chapter	Audit year	Paragraph
The TSU has provided guidance on reviewing severance arrangements.	2013/14	188
<p>The Scottish Funding Council has issued</p> <ul style="list-style-type: none"> <li>• communications and a checklist on the re-classification of colleges</li> <li>• the memorandum for the umbrella charitable trust</li> <li>• a letter on local charitable trusts</li> <li>• an announcement on 2014/15 funding</li> <li>• a circular on 2013/14 student support funds</li> </ul>	<ul style="list-style-type: none"> <li>• 2013/14 and 2014/15</li> <li>• 2014/15</li> <li>• 2013/14</li> <li>• 2014/15</li> <li>• 2013/14</li> </ul>	<ul style="list-style-type: none"> <li>• 191</li> <li>• 204</li> <li>• 207</li> <li>• 215</li> <li>• 217</li> </ul>
<p>Statutory instruments have been passed to</p> <ul style="list-style-type: none"> <li>• dissolve the boards of management of eight colleges</li> <li>• commence sections of the <i>Post 16 Education (Scotland) Act 2013</i></li> <li>• designate regional colleges.</li> </ul>	<ul style="list-style-type: none"> <li>• 2013/14</li> <li>• 2013/14</li> <li>• 2013/14</li> </ul>	<ul style="list-style-type: none"> <li>• 219 and 222</li> <li>• 218</li> <li>• 221</li> </ul>

# 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 guidance notes published by the TSU (i.e. notes for guidance, urgent issue notes and, for local authorities, grant notes).

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

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

### Amendments to IFRS

1. The [International Accounting Standards Board](#) (IASB) has issued the following two documents containing a collection of amendments to various international financial reporting standards (IFRS)
  - *Annual improvements to IFRSs 2010-2012.*
  - *Annual improvements to IFRSs 2011-2013.*
2. The main changes are to the following standards (with effective dates of periods beginning 1 January 2014 for the first three and 2015 for the others)
  - *IFRS 8 Operating segments*
  - *IAS 16 Property, plant and equipment*
  - *IAS 24 Related party disclosures*
  - *IFRS 3 Business combinations*
  - *IFRS 13 Fair value measurement*
  - *IAS 40 Investment property.*

**IFRS 8 Operating segments**

3. IFRS 8 has been amended to require bodies to disclose the judgements made by management when aggregating operating segments. In particular, the following should be disclosed
  - A brief description of the operating segments that have been aggregated.
  - The indicators that have been assessed in determining that the segments share similar economic characteristics.

**IAS 16 Property, plant and equipment**

4. 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.
5. 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.
6. Consequently, IAS 16 has been amended 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 revaluation of net carrying amount.

**IAS 24 Related party disclosures**

7. The definition of related parties in IAS 24 has been extended 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.

**IFRS 3 Business combinations**

8. IFRS 3 has been amended to clarify that the
  - formation of joint operations as defined in *IFRS 11 Joint arrangements* should be excluded from its scope, and not just joint ventures as it currently states
  - the scope exception only applies to the financial statements of the joint arrangement itself, i.e. it does not apply to the accounting by the parties to the joint arrangement for their interests in that arrangement.

**IFRS 13 Fair value measurement**

9. IFRS 13 has been amended 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

10. IAS 40 has been amended 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
  - this judgement is not based on IAS 40 but is instead based on the guidance in IFRS 3.

## Proposed amendments to IFRS

11. The IASB has also issued [ED/2013/11 Annual improvements to IFRSs 2012-2014 cycle](#) which contains a collection of proposed amendments to various IFRSs.
12. There are very minor changes proposed to the following standards
  - *IFRS 5 Non-current assets held for sale and discontinued operations*
  - *IFRS 7 Financial instruments: disclosure*
  - *IAS 19 Employee benefits*
  - *IAS 34 Interim financial reporting.*
13. Comments were required by 13 March 2014. The proposed effective date for the amendments is for periods beginning on or after 1 January 2016, with earlier application permitted.

## Bulletin on reducing complexity

14. The [Financial Reporting Council](#) (FRC) and other European national standard-setters have issued [Getting a better framework - complexity - bulletin](#) which discusses complexity in financial reporting. The bulletin defines complexity as referring primarily to the difficulty of
  - users to understand the economic substance of a transaction or event and the overall financial position and results of a body
  - preparers to properly apply generally accepted accounting
  - others to audit, analyse, and regulate a body's financial reporting.
15. Determining the best way to present complex transactions involves making difficult judgments, including weighing up the costs of preparing the information and the benefits of that information to different types of user. In making these judgments, the benefit of detailed complex information to some users of the financial statements needs to be balanced against its understandability by other users. The bulletin distinguishes between
  - unavoidable complexity, which arises because business transactions are increasingly sophisticated and difficult to understand
  - avoidable complexity, which potentially arises from poor standard-setting, regulation, education and information delivery.
16. Currently, the *Conceptual framework* notes that some phenomena are inherently complex and that, while excluding information about such phenomena might make the financial reports easier to understand, they would be incomplete and therefore potentially misleading. The bulletin suggests that it would be helpful for the framework to include additional discussions on

complexity that recommend that the presentation and disclosure of information should be as simple as possible to achieve a faithful representation of relevant information.

17. Comments should be sent to [commentletters@efrag.org](mailto:commentletters@efrag.org) by 30 April 2014.

## Proposed practice guideline on reporting performance information

18. The [International Public Sector Accounting Standards Board](#) (IPSASB) has issued [ED 54 Proposed recommended practice guideline Reporting service performance information](#) to set out good practice for reporting service performance information.
19. The proposed guidelines apply to information for users on a body's service performance objectives and its achievement of those objectives. It recommends that bodies should establish clear objectives before the start of the reporting period, and provide useful information at the end of the period on the extent to which those objectives were achieved.
20. The service performance information should be aimed at accountability and decision making, and enable users to assess the body's
  - service delivery activities and achievements during the reporting period
  - financial results in the context of its achievement of service delivery objectives
  - efficiency and effectiveness.
21. Comments are required by 31 May 2014 via the IPSASB website.

## Auditing developments

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

### New audit quality framework

22. The [International Auditing and Assurance Standards Board](#) (IAASB) has issued [A framework for audit quality](#) which sets out a framework that describes the elements that contribute to audit quality.
23. The framework states that a quality audit is likely to be achieved when the auditor's opinion on the financial statements is based on audit evidence obtained by an engagement team that
  - exhibited appropriate values, ethics and attitudes
  - was sufficiently knowledgeable and experienced and had sufficient time allocated to perform the audit work
  - applied a rigorous audit process and quality control procedures
  - provided useful and timely reports
  - interacted appropriately with a variety of different stakeholders.
24. The framework describes five elements of a quality audit (i.e. inputs, process, outputs, key interactions within the financial reporting supply chain, and contextual factors) and sets out a

number of quality attributes for each element. For example, quality attributes for the 'inputs' element include the following

- The engagement team exhibits objectivity and integrity, professional competence, due care, and professional scepticism.
- The firm emphasises the importance of providing partners and staff access to high-quality technical support, and promotes a culture of consultation on difficult issues.
- Partners and staff have the necessary competences, understand the entity's business, and make reasonable judgments.
- Staff who perform audit work have sufficient experience, their work is appropriately directed, supervised and reviewed, and there is a reasonable degree of staff continuity.
- The audit engagement partner and other experienced members of the audit team are accessible to management and those charged with governance.

### Audit quality reviews on materiality and fraud

25. The FRC has developed a new product called audit quality thematic reviews which are intended to supplement the annual programme of audit inspections of individual firms. The reviews consider firms' policies and procedures, and their application in practice, in respect of a specific aspect of auditing. The first two reviews are on
- materiality (see paragraph 26)
  - fraud risks and law and regulations (see paragraph 29).

#### Materiality

26. The report on [Materiality](#) identifies a requirement for greater focus by auditors on the needs and expectations of users of the financial statements in determining overall materiality levels. It states that qualitative factors relating to users should be the overriding consideration.
27. Other key messages indicate that auditors should
- ensure that adjustments to materiality benchmarks for 'one-off' items are appropriate, and that guidance assists audit teams in making these judgments
  - demonstrate the consideration of risk in setting performance materiality and avoid, as a default, simply setting this at the highest level allowed
  - improve the quality and accuracy of their reporting of materiality levels to audit committees and ensure that all uncorrected misstatements above the reporting threshold agreed are collated and reported
  - ensure that materiality is appropriately addressed when planning analytical procedures.
28. The report also identifies a requirement for audit committees to better understand the judgements made by auditors related to materiality levels. It also makes a number of recommendations to audit committees and encourages them to discuss with their auditors the basis for the materiality levels set, including how these reflect the needs and expectations of users of the body's financial statements.



## Fraud risks and law and regulations

29. The report on [Fraud risk and law and regulations](#) sets out the findings from a review into the auditor's consideration of fraud risks and non-compliance with laws and regulations. The review identified where auditors should improve the quality and effectiveness of the audit procedures performed in relation to these areas.
30. The consideration of fraud risks and relevant laws and regulations, and the performance of related audit procedures, tends to be viewed as a compliance exercise rather than as an important and integral part of the audit. There is a lack of focus on identifying the specific risks in relation to these areas, and there was also evidence of a presumption by audit teams that issues were unlikely to occur at the body they were auditing, which suggests a lack of appropriate professional scepticism.
31. In order to make the specific improvements required, auditors should
  - ensure that fraud risk discussions are focused on identifying fraud risk factors as well as the risks of material misstatement in the financial statements due to fraud
  - have discussions with management, including internal audit and those outside the finance function, that focus more on fraud risks rather than any frauds already identified
  - ensure that the assessment of fraud risks, and the audit procedures which are intended to address them, are more tailored to the audited body
  - improve their identification and assessment of the laws and regulations affecting the audited body, with a clearer identification of those that may have a direct or indirect impact on the financial statements
  - evaluate the design and implementation of the body's internal controls to detect and prevent fraud and to monitor compliance with laws and regulations
  - exercise greater professional scepticism in identifying and addressing the fraud risks that are specific to the audited body and in relation to possible breaches of laws and regulations
  - ensure that analytical review procedures are not limited to comparing line items in the current year to the prior year figures, as the use of other ratio analysis and inclusion of the cash flow statement in the analysis may improve the quality of the work
  - draw an overall conclusion relating to the risks of material misstatement due to fraud after considering all relevant audit evidence obtained during the audit.

## Revised standard on assurance engagements

32. The IAASB has issued [ISAE 3000 \(Revised\) Assurance engagements other than audits or reviews of historical financial information](#) which provides standards for conducting assurance engagements.
33. In an assurance engagement, a practitioner (i.e. the individual conducting the engagement) obtains evidence to express a conclusion on the outcome of the measurement or evaluation of an underlying subject matter against set criteria. The objectives of the practitioner are to

- obtain assurance about whether the subject matter information is free from material misstatement
  - express a conclusion in a written report and describe the basis for that conclusion.
34. Assurance engagements provide either
- reasonable assurance where the conclusion is expressed in a form that conveys an opinion on the outcome of the measurement or evaluation
  - limited assurance where the conclusion is expressed in a form that conveys whether, based on the evidence obtained, a matter has come to the practitioner's attention to cause them to believe the subject matter information is materially misstated.
35. The standard is effective for engagements where the assurance report is dated on or after 15 December 2015.

## Publications

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The following publication published since TB 2013/4 can be obtained by using the hyperlink.

### Audit Scotland

#### Reshaping care for older people

36. This report from [Audit Scotland Reshaping care for older people](#) reviews progress three years into the Scottish Government's ten year project to improve health and social services for people over 65. Key messages include the following
- There is little evidence of progress in moving money to community-based services, and NHS boards and councils need clear plans for how this will happen in practice.
  - Partners need to make better use of data, focus on reducing unnecessary variation and monitor and spread successful projects.
  - Initiatives are not always evidence-based or monitored on an ongoing basis and it is not clear how successful projects will be sustained and expanded.
  - National performance measures have not kept pace with policy changes, and a greater focus on outcomes is needed. There is no clear national monitoring to show whether the policy is being implemented successfully and what impact this is having on older people.

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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 2013/4.

### Payroll

#### Secondary employment

37. An employee defrauded a council of £8,000 in sick pay by providing medical certificates while working for a second employer. The fraud was discovered when Human Resources became suspicious of the patterns and frequency of the sickness absences and referred the case to the council's fraud team.
38. The employee has resigned and the case has been referred to the Procurator Fiscal. The council is pursuing recovery of the money.

### Benefits and tenancy

#### Tenancy and benefit fraud

39. A council house tenant defrauded £165,000 by claiming housing and council tax benefits from one council while resident in another council area.
40. The fraud was discovered following investigation of a *National fraud initiative* match which identified that the defaulter held a personal licence for alcohol in the second council area. An investigation revealed the defaulter was resident in that area and the property they had the tenancy for in the first council area was being occupied by relatives.
41. The tenancy has been terminated and the case referred to the Procurator Fiscal. The council is attempting to recover the overpaid benefits.

# 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 guidance notes published by the TSU (i.e. notes for guidance, urgent issue notes and grant notes).

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

## TSU developments

### Guidance notes

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The following guidance notes have been published by the TSU since TB 2013/4. They can be obtained by using the hyperlinks and are available to external auditors from Audit Scotland's *Technical reference library*.

#### **Note for guidance on auditing 2013/14 local authority financial statements**

42. The TSU has published [Note for guidance 2014/1\(LA\) Audit of 2013/14 local authority financial statements](#) to provide auditors with guidance on planning and performing the audit of the 2013/14 local authority financial statements.
43. The note for guidance provides guidance on the areas that the TSU considers represent a generic risk of material misstatement in the 2013/14 local authority financial statements and on auditors' responsibilities to
  - audit and express an opinion on elements of the remuneration report
  - express an opinion on the consistency of the explanatory foreword with the financial statements
  - report on other matters such as the annual governance statement.
44. Auditors should use this note for guidance when planning and performing the audit of the 2013/14 local authority financial statements.

**Note for guidance on auditing 2013/14 local authority pension fund financial statements**

45. The TSU has published [Note for guidance 2014/2\(LA\) Audit of 2013/14 local authority financial statements \(pension funds\)](#) to provide auditors with guidance on planning and performing the audit of the 2013/14 local authority pension fund financial statements.
46. The note for guidance provides guidance on the areas that the TSU considers represent a generic risk of material misstatement in the 2013/14 financial statements and on auditors' responsibilities to
  - express an opinion on the consistency of the explanatory foreword with the financial statements
  - report on other matters such as the governance compliance statement.
47. Auditors should use this note for guidance when planning and performing the audit of the 2013/14 local authority pension fund financial statements.

**Note for guidance on auditing 2013/14 local authority charity financial statements**

48. The TSU has published [Note for guidance 2014/3\(LA\) Audit of 2013/14 local authority financial statements \(s106 charitable funds\)](#) to provide auditors with guidance on planning and performing the audit of the 2013/14 the financial statements of registered charities where a local authority or some members are the sole trustees.
49. The note for guidance provides guidance on the areas that the TSU considers represent a generic risk of material misstatement in the 2013/14 financial statements and on auditors' responsibilities to express an opinion on the consistency of the trustees' annual report with the financial statements and report on other prescribed matters.
50. Auditors should use this note for guidance when planning and performing the audit of the 2013/14 local authority charity financial statements.

**Guidance on emerging issues****The following article provides guidance from the TSU on an emerging issue****Audit of charities from 2013/14**

51. A risk has been identified since the publication of the note for guidance on local authority charities referred to at paragraph 48. The TSU has been made aware that authorities may not be able to locate the governing documents (e.g. trust deed) for some of their charities, particularly the older ones. The implications of this include the following
  - The governing documents may require the accounts to be prepared on an accrued basis. If there is any reason to believe that may be the case (e.g. where the trust deeds for other similar charities contain such a requirement), the trustees may consider it prudent to prepare the accounts on an accrued basis.

- The unavailability of governing documents is likely to be reported to trustees under *ISA 260 Communication with those charged governance* as a significant difficulty encountered during the audit.
- The absence of governing documents is a matter that auditors may wish to report to the Office of the Scottish Charity Regulator if it is considered a significant risk to the proper application of charitable funds or, for example, there is uncertainty over the identity of the charity trustees.
- The governing documents may specify restrictions on how income or capital can be applied. If auditors are unable to obtain sufficient appropriate evidence on the existence of restricted funds by performing alternative procedures, they may judge that this constitutes a limitation on the scope of the audit and consider the impact on their opinion.

## Accounting 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*.

### 2013/14 code guidance notes

52. 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 - 2013/14 accounts* which are intended to assist in understanding the accounting requirements of the *2013/14 Code of practice on local authority accounting in the UK* (the Code).
53. The guidance notes provide background to the 2013/14 Code's requirements and include detailed illustrations, but they are not prescriptive. They have been updated to reflect the changes to the 2013/14 Code (see TB 2013/2 - paragraph 71) including
  - examples of new post-employment benefits disclosures
  - changes to guidance on service concession arrangements
  - accounting for business rates retention.

### New good practice guide on financial statements

54. CIPFA has issued *Financial statements - a good practice guide for local authorities* which is intended to help local authorities reduce the clutter in their financial statements.
55. Financial statements have dramatically increased in size and complexity over recent years, and this has led to calls for standard-setters to 'cut the clutter' in annual reports and financial statements. However, the publication states that cutting the clutter is not something that can only be achieved at standards level, and local authorities should review their financial statements and remove any unnecessary disclosures that make them difficult to use by
  - considering what information is material to the users of the accounts
  - improving the presentation of the accounts so that users can more easily identify key information.

56. This review entails the exercise of professional judgement in deciding the information that can be omitted or presented in a new manner. The publication is intended to support authorities in making these judgements by providing examples of good practice. It comprises the following two parts
- Part 1 considers general principles, such as identifying the users of the accounts, and how to apply the concept of materiality.
  - Part 2 discusses good practice in the production of each of the primary statements, the notes to the accounts, and the explanatory foreword, and considers how alternative presentation formats may help make information, particularly in the notes, more accessible.

### Revised transport infrastructure assets code

57. CIPFA has issued a revised *Code of practice on transport infrastructure assets* to provide guidance on the development and use of financial information to support asset management, financial management, and reporting of local transport infrastructure assets. It requires infrastructure assets to be measured at depreciated replacement cost, and is being used to provide information for the whole of government accounts.
58. The transport assets code uses a whole-life cost-based approach to highways maintenance underpinned by lifecycle planning. It
- helps authorities to model and understand the consequences of different maintenance strategies and standards of service
  - supports performance assessment, benchmarking and better procurement
  - provides detailed information on the cost of individual maintenance activities
  - provides a simplified approach to the calculation of gross asset value.
59. This second edition of the transport assets code has been reviewed in the light of experience of practitioners since the original publication in 2010, and to reinforce the links with the accounting Code and provide more clarity on financial reporting practicalities.

### 2014/15 SeRCOP

60. CIPFA has issued the *Service reporting code of practice for local authorities (SeRCOP)* which sets out proper accounting practice for financial reporting below the level of the financial statements in 2014/15.
61. SeRCOP provides guidance on financial reporting to stakeholders (e.g. performance indicators) in order to achieve data consistency and comparability. SeRCOP does not provide guidance on the financial statements but is consistent with the accounting Code.
62. The structure of SeRCOP is as follows
- Section 1 gives an overview of SeRCOP's framework and status.
  - Section 2 defines total cost, and includes best practice guidance to provide a commentary on the mandatory requirements.

- Section 3 sets out the required service expenditure analysis (SEA), which is required by the Code to be used in the comprehensive income and expenditure statement.
  - Section 4 provides a recommended standard subjective analysis.
63. This edition of SeRCOP contains only minor changes from 2013/14, e.g. additional guidance is provided in respect of allocating support services and other overheads to ensure their consistency with the requirements of the conceptual framework set out in the Code. There are no structural changes to the SEA.

## Corporate governance 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*.

### Revised guidance on audit committees

64. CIPFA has issued a revised edition of *Audit committees - Practical guidance for local authorities and police* which sets out revised guidance on the function and operation of audit committees in local authorities.
65. The guidance incorporates a revised position statement on audit committees. It emphasises the importance of them being in place in all principal local authorities and also recognises that they are a key component of governance. It states that the purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.
66. There have been a number of significant developments in governance and audit practice since the previous 2005 edition of the guidance which have required audit committees to adapt their remit, notably the introduction of annual governance statements. The aim of this publication is to reflect these changes and to support audit committees in performing effectively.
67. The core functions of an audit committee include
- being satisfied that the authority's annual governance statement properly reflects the risk environment and any actions required to improve it, and demonstrates how governance supports the achievements of the authority's objectives
  - considering the effectiveness of the authority's risk management arrangements and the control environment
  - considering the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control
  - reviewing the financial statements, external auditor's opinion and reports to members, and monitoring management action in response to the issues raised by external auditors.



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## 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 fund

#### Draft statement on role of CFO

68. CIPFA has issued [Role of the chief finance officer in local government: supplement - role of the CFO in LGPS - consultation draft](#) which is a draft statement on the role of the chief financial officer (CFO) in the local government pension scheme (LGPS).
69. The draft statement is a supplement to the *Statement on the role of the CFO in local government* which describes the role and responsibilities of local authority CFOs. The supplement aims to place the advice in the statement in the context of the financial administration of the LGPS.
70. Comments should be made by 9 May 2014 to [nigel.keogh@cipfa.org](mailto:nigel.keogh@cipfa.org).

### Benefits

#### 2013/14 subsidy claim

71. The [Department for Work and Pensions](#) (DWP) has issued *Notes on completion of form MPF720B - final subsidy claim 2013/14* and a letter relating to the completion of the benefits subsidy claim for 2013/14.
72. The deadline for receipt of the pre-certified claim to the DWP and external auditors is 30 April 2014. The deadline for receipt of the certified claim by the DWP is 30 November 2014.
73. Requests for extensions to these deadlines require to be made in writing, with reasons, by authorities. Extension requests from auditors will not be considered. Subsidy may be withheld if deadlines are missed.
74. The letter also shows the amounts paid for 2013/14 in respect of administration subsidy and interim benefit subsidy received.

#### 2013/14 HB COUNT modules

75. The [Audit Commission](#) has issued modules 2 and 3 of the 2013/14 HB COUNT approach to the certification of housing benefit (HB) subsidy claims. HB COUNT is set out in modules that are updated and agreed with the DWP each year. The HB COUNT approach for 2013/14 consists of six modules, and the following have been issued
  - Module 2 contains a checklist to help auditors ensure that the authority's system is using the correct benefit parameters to calculate benefit entitlement and for the authority to claim the correct amount of subsidy.

- Module 3 comprises workbooks to be completed for detailed testing, incorporating step-by-step guidance and a test result summary.
76. Module 1 has also been issued and provides an overview of the approach, but this is superseded in Scotland by guidance from the TSU. Module 4 is an analytical review tool and module 5 is a software diagnostic tool but these have not yet been issued. Module 6 relates only to England.
77. For 2013/14, the key changes to HB COUNT are to reflect changes to the regulations and subsidy order. The most significant of these are
- the abolition of council tax benefit (CTB) from 1 April 2013 following the introduction of the *Scottish council tax reduction scheme*. No subsidy is payable on residual payments of CTB under the scheme that operated to 31 March 2013; authorities should enter zero in the CTB cells of the 2013/14 subsidy claim
  - the introduction of the benefit cap for working age claimants
  - local housing allowance revisions and the removal of transitional protection
  - the introduction of the HB size criteria rules
  - the universal credit pilot and associated migration of some existing HB claims.

### 2014/15 benefit uprating

78. The DWP has issued [HB circular A24/2013 \(Revised\) Housing benefit: 2014/15 uprating](#) to advise of benefits rates applicable from April 2014.
79. The circular also contains specific advice for local authorities that apply percentage increases to uprate income from other social security benefits. As some of the rates have been uprated by different indices, authorities should consider whether applying standard percentages will result in correct determinations.

### Benefit cap

80. The DWP has issued [HB circular A23/2013 Benefit cap: dual cases in different local authorities](#) to advise of the process to be followed to cap claimants who have two current HB claims in different local authorities.
81. The DWP will contact the local authority responsible for the latest HB claim advising that the claimant is a potential dual claim and that a cap could apply. The contacted authority is required to
- contact the other authority to confirm the rate of HB in payment, and confirm if the accommodation is considered supported exempt accommodation
  - confirm to the DWP that the claimant is entitled to receive two HB payments, and advise the current rate of both HB payments and whether either claim relates to supported exempt accommodation.

82. If a cap is appropriate, the DWP will notify the authority responsible for the latest HB claim, who should agree with the other authority the reduction on each of the HB claims. The amount of reduction to be applied should be apportioned depending on the amount of HB in payment.

### Removal of the spare room subsidy

83. The DWP has issued [HB circular A1/2014](#) to provide details of [The Housing Benefit \(Transitional Provisions\) \(Amendment\) Regulations 2014](#). The amendment regulations remove from *The Housing Benefit and Council Tax benefit (Consequential Provisions) Regulations 2006* the transitional protection for tenants whose HB is paid in the form of rent rebates or whose landlord is a registered housing association.
84. [HB urgent bulletin U1/2014 Removal of the spare room subsidy](#) explained that the transitional protection was for those claimants that have been continuously entitled to HB since at least 1 January 1996 and occupied the same dwelling since that date, provided there was no break in entitlement of more than 4 weeks (or fifty two weeks if the claimant or their partner is a 'welfare to work' beneficiary).
85. The bulletin also advised authorities to remove the under-occupancy reduction for these claimants from 1 April 2013 and record details of affected cases so they can be reassessed to reapply the under-occupancy reduction when the regulations come into force (on 3 March 2014).
86. However, some transitional protection remains for those claimants who on or before 31 March 2013
- were over state pension age; or
  - had their eligible rent reduced in accordance with transitional provisions; or
  - had a determination that their dwelling was larger than reasonably required or that the rent was unreasonably high but the eligible rent was not reduced because regulations prevented the local authority from doing so.

### 2014/15 Discretionary housing payments

87. The DWP has issued [HB circular 1/2014 Details of the government contribution towards DHP for LAs in 2014/15](#) to provide details of each local authority's contribution and expenditure limit for discretionary housing payments for 2014/15.
88. Although the funding is allocated across four strands, it is for each local authority to apply discretion as to which claimants receive payments.

### 2014/15 personal independence payment

89. The DWP has issued [HB circular A2/2014](#) to provide details of [The Housing Benefit \(Miscellaneous Amendment\) Regulations 2014](#) which amend various HB regulations to make the following changes in respect of HB claimants who receive personal independence payment (PIP)

- For HB claimants transferring from disability living allowance (DLA) to PIP at the same time as the annual uprating of benefits, the transfer will take effect, for HB purposes, from 1 April if the rent is paid monthly or the first Monday in April if paid weekly.
- For HB claimants transferring from DLA to PIP at the same time as they notify a local authority of a change to their rent or any other change of circumstance, the change will take effect from the first day after entitlement to DLA ends.
- HB claimants are treated as continuing to receive PIP while they are in hospital where their PIP payment ceased because they had gone into hospital. However, this provision does not apply to people who claim PIP when in hospital.

### **New minimum earnings threshold**

90. The DWP has issued [HB circular A3/2014 Minimum earnings threshold](#) to provide guidance on determining whether the work of nationals of European Economic Area (EEA) countries is genuine and effective.
91. EEA nationals who are workers or self-employed do not have to be habitually resident in the UK to receive HB. In order to be a worker or self-employed, the person must be doing work which is genuine and effective. The following two tier process has been introduced to determine whether an EEA national's work can be treated as genuine and effective
- Tier 1 - If the claimant can prove that they have been earning at least the minimum earning threshold (set at the level at which national insurance is paid) for at least three months prior to making the HB claim, the work can be treated as genuine and effective.
  - Tier 2 - Where the claimant does not satisfy the minimum earnings threshold criteria, a further assessment will be undertaken against a set of secondary criteria (e.g. hours worked, pattern of work, and nature of employment contract).

### **Guidance on property adaptations for disabled claimants**

92. The DWP has issued [HB circular A4/2014](#) to provide guidance on property adaptations needed for claimants with disabilities. Regulations allow claimants to receive HB for a dwelling up to 4 weeks before they occupy it where a delay is caused by the need to make reasonable adaptations to meet their disablement needs. The Court of Appeal has ruled that adaptations could include, not only alterations to the fabric or structure of the dwelling, but also redecorating or carpeting.
93. Local authorities are required to consider on a case by case basis whether there is a clear connection between the work being carried and the disablement needs of the claimant (or any relevant family member who lives with them), and the completion of the work is reasonably required before the claimant can move in.

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## Housing

### New HRA guidance

94. The [Scottish Government](#) has issued [Guidance on the operation of local authority HRAs in Scotland](#) to provide consolidated information on the housing revenue account (HRA). The guidance supplements the statutory requirement for authorities to account for the costs associated with the HRA as set out in the *Housing (Scotland) Act 1987*. It explains the basis for each local authority landlord so they can operate to the same set of guidelines regarding what should be credited and debited to the HRA so that a consistent approach is taken across Scotland.
95. The guidance sets out the following features of how the HRA should operate
- It should be compliant with legislation, any statutory guidance in relation to local authority finance, and the accounting Code and SeRCOP.
  - HRA assets must be used to benefit current or prospective council tenants, either directly or as investment properties providing a financial return, or removal from the HRA should be considered.
  - There should be a robust, written methodology for calculating and allocating HRA costs, including internal costs charged to the HRA, in sufficient financial detail for tenants to understand why costs are being charged and who is benefiting from the services they relate to.
  - Local authorities must have clear, published mechanisms and procedures for consulting with council tenants and/or registered tenant representatives on any matters of financial transparency relating to the HRA.
  - Non-council tenants living in mixed tenure areas benefiting from HRA-provided services should be charged for goods and services.

## Finance

### 2014/15 funding

96. The Scottish Government has issued [Finance circular 1/2014 Local Government Finance \(Scotland\) Order 2014 etc](#) to provide a summary of the figures in [The Local Government Finance \(Scotland\) Order 2014](#).
97. The order determines the amount of the general revenue grant payable and non-domestic rate income distributed to each local authority for 2014/15, and redetermines the amount payable to each authority in respect of 2013/14.

## 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

#### Local government

98. [The Local Governance \(Scotland\) Act 2004 \(Remuneration\) Amendment Regulations 2013](#) (SSI 351) came into force on 18 February 2014 and amended the principal 2004 members' remuneration regulations by substituting increased amounts for different categories of local authority remuneration to their members.
99. [The Local Government Finance \(Scotland\) Order 2014](#) (SSI 36) came into force on 12 February 2014 (see paragraph 96).
100. [The Non-Domestic Rate \(Scotland\) Order 2014](#) (SSI 28) comes into force on 1 April 2014 and prescribes a rate of 47.1 pence in the pound as the non-domestic rate to be levied for 2014/15.
101. [The Non-Domestic Rates \(Levying\) \(Scotland\) Regulations 2014](#) (SSI 30) come into force on 1 April 2014 to provide
  - for the general reduction in rates for properties with a rateable value of £18,000 or less on a sliding scale of between 25% and 100%, except for property used for payday lending
  - a formula for the additional amount payable as rates for properties with a rateable value exceeding £35,000.
102. [The Non-Domestic Rating \(Unoccupied Property\)\(Scotland\) Amendment Regulations 2014](#) (SSI 31) come into force on 1 April 2014 and amend the principal 1994 non-domestic rating regulations in respect of unoccupied property. The regulations
  - provide a non-domestic rate relief for property that was last used as a hotel, public house or restaurant and has been unoccupied for at least a year before again becoming occupied. Such property will be deemed to be unoccupied for a period of up to one year, and therefore the rate payable will usually be 50% of the rate that would otherwise apply
  - apply this rate relief to premises that have not previously been occupied, where the first use is as a hotel, public house or restaurant
  - raise the rateable value threshold at which eligibility for the relief ceases to £65,000
  - provide that no rate relief is to be granted where payday lending is carried out on the property.
103. [The Council Tax Reduction \(Scotland\) Amendment Regulations 2014](#) (SSI 35) come into force on 1 April 2014 and amend the principal 2012 council tax reduction regulations to uprate figures that are used to calculate the amount of council tax reduction claimants are entitled to receive.

## Pensions

104. [The Local Government Pension Scheme \(Miscellaneous Amendments\) \(Scotland\) Regulations 2014](#) (SSI 23) came into force on 3 March 2014 and made various amendments to the principal 2008 local government pension scheme regulations.
105. The amendment regulations provide for the following
- Regulations 3 and 5 have effect from 1 February 2013 and make provision for the circumstances in which a person who is on a contract of less than 3 months, or who is not an active member, are to be enrolled in the scheme.
  - Regulation 4 allows a person who has paid additional voluntary contributions to transfer the accumulated value to an alternative pension scheme.
  - Regulation 6 provides that where an administering authority has not paid the full amount of a member's death grant within 2 years of the member's death, the authority must pay any shortfall to the member's executors.

## Housing benefit

106. [The Housing Benefit \(Transitional Provisions\) \(Amendment\) Regulations 2014](#) (SI 212) come into force on 3 March 2014 (see paragraph 83).
107. [The Housing Benefit \(Miscellaneous Amendment\) Regulations 2014](#) (SI 213) come into force on 31 March 2014 or 1 April 2014 with the remaining regulations coming into force on 7 April 2014 (see paragraph 89).

## 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 2013/4 and can be obtained by using the hyperlinks.**

### The Highland Council: Caithness heat and power: Follow-up statutory report

108. This [follow-up report](#) is in response to the Accounts Commission's request for a final report on losses incurred by The Highland Council in respect of the *Caithness Heat and Power* project (see TB 2011/1 - page 44).
109. In its response to the report, the Commission states that this case provides useful learning points for all councils, particularly the need for robust governance and accountability arrangements for an arms-length external organisation in which roles and responsibilities are clear. It also highlights the need to ensure
- sound risk management
  - a full assessment of the skills required
  - a rigorous option appraisal for initiatives that provide council services.

## Auditor action checklist

	Yes/No/N/A	Initials/date	W/P ref
1 Have you used the note for guidance referred to at paragraph 44 when planning the audit of the 2013/14 local authority financial statements?			
2 Have you used the note for guidance referred to at paragraph 47 when planning the audit of the 2013/14 local authority pension fund financial statements?			
3 Have you used the note for guidance referred to at paragraph 50 when planning the audit of the 2013/14 local authority charities financial statements?			



# 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 guidance notes published by the TSU (i.e. notes for guidance and urgent issue notes).

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

## TSU developments

### Guidance notes

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The following guidance notes have been published by the TSU since TB 2013/4. They can be obtained by using the hyperlinks and are available to external auditors from Audit Scotland's *Technical reference library*.

#### Notes for guidance on auditing 2013/14 central government financial statements

110. The TSU has published [Note for guidance 2014/4\(CG\) Audit of 2013/14 central government financial statements](#) and [Note for guidance 2014/5\(CG\) Audit of 2013/14 central government financial statements \(charitable NDPBs\)](#) to provide auditors with guidance on planning and performing the audit of the 2013/14 central government financial statements.
111. The notes for guidance provide guidance on the areas that the TSU considers represent a generic risk of material misstatement in the 2013/14 financial statements. The notes also provide guidance on auditors' responsibilities to
  - audit and express an opinion on the regularity of expenditure and income
  - audit and express an opinion on elements of the remuneration report
  - express an opinion on the consistency of the management commentary with the financial statements
  - report on other matters such as the governance statement.

112. Auditors should use the appropriate note for guidance when planning and performing the audit of the 2013/14 central government financial statements.

## Guidance on emerging issues

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

### 2013/14 Government Banking Service account information

113. The TSU will obtain information on account balances at 31 March 2014 for central government bodies from the Government Banking Service (GBS) and distribute them to relevant auditors. The GBS operates accounts with the Royal Bank of Scotland and Citibank.
114. The GBS has confirmed that the arrangements for 2013/14 are unchanged, and therefore they will require bodies to submit an *Auditor authorisation form* to allow disclosure of account balances to auditors.
115. Auditors should confirm the account details at their bodies have not changed from 2012/13 and 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 external auditors from Audit Scotland's *Technical reference library*.

### Amendments to the 2013/14 FReM

116. [HM Treasury](#) has issued amendments to chapter 5 of the [2013/14 Government financial reporting manual](#) (the FReM) to include a new requirement for a strategic report. The amendments reflect changes to the *Companies Act 2006* which came into effect in respect of financial years ending on or after 30 September 2013. The FReM now requires a strategic report to form part of the management commentary along with the directors' report.
117. The strategic report is required to disclose information required by section 414C of the *Companies Act 2006* as interpreted by FReM paragraph 5.2.6. This includes disclosing the following information that was previously included in the directors' report
- a fair review of the body's business, and a description of the principal risks and uncertainties facing the body. While the report should be self-standing and comprehensive, it is permitted to provide a summary with adequate cross-references to other documents where they provide the full information required
  - an analysis using financial and other key performance indicators
  - the main trends and factors likely to affect the future development, performance and position of the body's business
  - information about environmental matters
  - additional explanations of amounts included in the body's annual accounts.

118. New disclosures include the following
- information on social, community and human rights issues, including information about any policies of the body in relation to those matters and the effectiveness of those policies
  - a description of the body's strategy and business model
  - a breakdown showing at the end of the financial year the number of persons of each gender who were directors, senior managers and employees of the body. The FReM interprets 'senior manager' as being any member of staff at senior civil service level or equivalent.
119. In addition, FReM paragraph 5.2.8 sets out further disclosures for the strategic report that were previously in the directors' report including
- a note that the accounts have been prepared under an accounts direction
  - a brief history of the body and its statutory background
  - an explanation of the going concern basis.
120. Section 414D of the Act regarding approving and signing the statutory report does not apply to central government bodies. Instead, the FReM requires it to be signed and dated by the Accountable Officer or Chief Executive.
121. The amendments to the FReM also include a number of changes to disclosure requirements in the remuneration report arising from an amendment to *The Large and Medium-sized Companies and Groups (Accounts and Reports)(Amendment) Regulations 2013*. Although the FReM disapplies most of the additional disclosures, the requirements regarding the single total remuneration figure do apply. This requires the following disclosures in a table for each director (as interpreted by FReM paragraph 5.2.13) during the year
- the total amount of salary and fees
  - taxable benefits
  - money or other assets receivable for achieving performance targets
  - pension related benefits
  - the total of the above.
122. Auditors should confirm that audited bodies are aware of the changes to the 2013/14 FReM and are taking the necessary steps to comply.

### Review of IFRS issued 2013/14

123. Treasury has issued a [review of new IFRS](#) issued and/or effective during 2013/14. The guide lists the standards that have been issued but are not yet effective and therefore require disclosure in 2013/14 in accordance with *IAS 8 Accounting policies, changes in accounting estimates and errors*.
124. The new group accounting standards have been applied to the 2014/15 FReM (see paragraph 129) and IFRS 13 will be applied in 2015/16 (see paragraph 130).

125. Auditors should confirm that their audited bodies are making appropriate disclosures under IAS 8 for standards issued but not yet effective.

### Guidance on 2013/14 annual report

126. Treasury has issued [PES 2014/2 Guidance on the preparation of 2013/14 annual report and accounts](#) to provide guidance on the annual report component of the 2013/14 annual report and accounts.
127. The guidance applies to all UK Government departments, who may choose to direct agencies and non-departmental public bodies to follow it. The guidance sets out the core content for the annual report, and requires it to present a clear picture of the body's aims, activities, functions and performance linked to expenditure. However, it encourages bodies to remove unnecessary and immaterial information.

### 2014/15 FReM

128. Treasury has issued the [2014/15 FReM](#). Changes from 2013/14 that auditors' attention is particularly drawn to are discussed in the following paragraphs.
129. The main new standards adopted in 2014/15 are
- *IFRS 10 Consolidated financial statements*
  - *IFRS 11 Joint arrangements*
  - *IFRS 12 Disclosures of interests in other entities.*
130. The standards should be applied in full, except for certain continuing adaptations, e.g. in respect of the departmental boundary. *IFRS 13 Fair value measurement* does not apply as the Financial Reporting Advisory Board decided to defer its adoption to 2015/16. Early adoption is not permitted.
131. There have also been changes to the format of the 2014/15 FReM to make it easier to identify the standards that have been adopted as well as the adaptations and interpretations that apply. A list of adopted standards is provided at table 6.1, together with a record of whether they have been adapted or interpreted for the public sector, while table 6.2 provides details of the adaptations and interpretations.
132. Other changes include the following
- An additional reference to clarify that accounting policies need not be developed, or disclosures provided, where they do not apply to a body's circumstances or are immaterial.
  - Improvements to the guidance on budgetary controls to identify areas of potential misalignment with accounts, including a new Annex 3 to identify the main differences between budgets and accounting treatment, e.g. capital grants are included in capital budgets but are accounted for as revenue.

133. Auditors should confirm that audited bodies are aware that the 2014/15 FReM has been issued and are taking the necessary steps to comply.

## 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*.

### Revised model code of conduct for members

134. The Scottish Government has issued a revised [Model code of conduct for members of devolved public bodies](#) to set out key principles of conduct for members of public bodies and provide additional information on how the principles should be interpreted and applied in practice.
135. It is the responsibility of the individual member to make sure that they are familiar with, and comply with, the provisions of the code.
136. The revisions to this edition of the code are to make it consistent with the relevant parts of the code of conduct for councillors that was revised in 2010. The majority of the changes are therefore in section 5 on declaration of interests, e.g. a monetary ceiling of £50 has been introduced above which gifts must be declared.

## Other developments

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

### Finance guidance notes

#### Amendments to SPFM

137. The Scottish Government has issued [Finance guidance note \(FGN\) 2014/01](#) to advise of the amendments to the [Scottish public finance manual](#) (SPFM), including those summarised in the following paragraphs.
138. The [internal control checklist](#) relating to the assurance framework and the signing of the governance statements has been reviewed and guidance notes have been further developed.
139. The [housing revenue account \(HRA\) annex](#) in the local government finance section has been updated to provide additional detail on the general principals underlying the keeping of a HRA in Scotland. The update provides clarification on the Scottish Ministers involvement in the operation of HRAs and details the procedures which local authorities should follow when applying to the Scottish Ministers for consent to dispose of HRA assets.
140. The FGN also announced an amendment to [FGN 2009/1](#) which provides guidance on financial memoranda that accompany Scottish Government bills. The amendment is to clarify

what financial memorandums may need to cover, including reduced costs, additional income and/or increased returns. All references to savings have been changed to benefits.

### Auditor action checklist

	Yes/No/N/A	Initials/date	W/P ref
1 Have you used the appropriate note for guidance referred to at paragraph 112 when planning the audit of the 2013/14 central government financial statements?			
2 Have you carried out the actions requested at paragraph 115 in respect of the GBS account information?			
3 Have you carried out the action recommended at paragraph 122 in respect of the 2013/14 FReM?			
4 Have you carried out the action recommended at paragraph 125 in respect of standards issued but not yet effective?			
5 Have you carried out the action recommended at paragraph 133 in respect of the 2014/15 FReM?			

# 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 guidance notes published by the TSU (i.e. notes for guidance and urgent issue notes).

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

## TSU developments

### Guidance on emerging issues

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

#### **2013/14 Government Banking Service account information**

141. The TSU will obtain information on account balances at 31 March 2014 for health bodies from the Government Banking Service (GBS) and distribute them to relevant auditors. The GBS operates accounts with the Royal Bank of Scotland and Citibank.
142. The GBS has confirmed that the arrangements for 2013/14 are unchanged, and therefore they will require bodies to submit an *Auditor authorisation form* to allow disclosure of account balances to auditors.
143. Auditors should confirm the account details at their bodies have not changed from 2012/13 and 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 are available to external auditors from Audit Scotland's *Technical reference library*.

### 2013/14 accounts manual

144. The [Scottish Government Health and Social Care Directorates](#) (SGHSCD) has issued the *2013/14 NHS board accounts manual for the directors' report and accounts* (the accounts manual). The accounts manual interprets the accounting guidance contained in the FReM for the NHS in Scotland for 2013/14.
145. The main changes to the accounts manual from 2012/13 are summarised in the following paragraphs.

### Consolidation of NHS endowment funds

146. The 2013/14 accounts manual has been amended throughout to reflect that host NHS boards are required to consolidate endowment funds, where material, into their accounts in accordance with *IAS 27 Consolidated and separate financial statements*.
147. The primary statements have been amended to include 'Consolidated' in the title and a note added to each primary statement page to say that consolidated financial statements are required.
148. The balance sheet, with relevant comparatives, is now presented in columnar form to include both a consolidated balance sheet incorporating endowment assets and liabilities and a board balance sheet. Endowment funds are now recognised in the taxpayers' equity section of the consolidated balance sheet.
149. Page 32 provides guidance for a line added to the statement of resource outturn to facilitate the removal of the endowment fund net operating cost included in core expenditure from the saving/excess reported against the revenue resource limit.
150. The statement of changes in taxpayers' equity includes disclosure of the movements within the board's endowment funds in the year. For 2013/14, a line has been included to record prior year adjustments.
151. The guidance on the cash flow statement on page 39 states that memorandum lines should be included within the reconciliation of net cash flow section, splitting the net cash (debt) at the end of the year between board and endowment balances.
152. The accounting policy disclosure on page 46 includes suggested wording, including cases where the endowment funds are not consolidated. Where consolidation is not required, this requires to be disclosed and the endowment funds should be disclosed in note 29 as related party transactions. Guidance on the related party disclosure is included in note 32 on page 124.



153. The preparation of consolidated accounts for those boards where the endowment fund balances are considered material means that a prior year adjustment is required. Note 25 should record the required adjustments for the consolidation of the endowment funds. The restated primary statements are to be shown at note 26.
154. The primary financial statements have been amended for various additional disclosures required for the consolidated entity. Consolidation adjustments are included in Note 33.

### Administration costs

155. The guidance on page 72 regarding the disclosure of board members remuneration has been updated to reflect the approach adopted by the SGHSCD in 2012/13. The executive directors to be included in the note 6 should only include the five voting directors. The amount disclosed for the employee director should be the costs associated with their board duties, with their total remuneration shown in the remuneration report.

### Intangible assets

156. The guidance on note 10 intangible assets has been updated to refer to the carbon reduction commitment (CRC) scheme and remove references to the EU emissions cap and trade scheme. It explains that participation in the CRC scheme gives rise to a liability related to emissions made.
157. Purchased allowances give rise to an asset which is classified as either a current or non-current intangible asset or, if held for the purpose of trading, as a current asset. The asset should be measured initially at cost and revalued at fair value where there is evidence of an active market.

### Provisions

158. Page 103 has been updated to reflect that the discount rate for post-employment benefits will change from 2.35% real to 1.80% real with effect from 31 March 2014.
159. The accounts manual also refers to PES(2013)7 (see TB 2013/4 - paragraph 108) which sets out the discount rates for general provisions from 2013/14. They are as follows
- The short term rate (for cash-flows up to 5 years from the statement of financial position date) is minus 1.90%.
  - The medium term rate (between 5 and 10 years) is minus 0.65%.
  - The long term rate (more than 10 years) is unchanged at 2.20%.

### Directors' report

160. The guidance on the preparation of the directors' report has been amended to remove the Research Ethics and Discipline Committee from the list of standing committees of the board. This is consistent with the current guidance around the committees boards are required to operate. Boards may want to continue to disclose their arrangements in these areas.

161. Auditors should confirm that their boards are aware that the accounts manual has been issued and consider the implications for the audit of the 2013/14 financial statements.

### 2013/14 capital accounting manual

162. The SGHSCD have issued the *2013/14 NHS capital accounting manual* to interpret the accounting guidance contained in the 2013/14 FReM on capital accounting issues in the NHS. The main changes from the previous version are as follows
- Chapter 6 has been updated to reflect the availability of non-cash departmental expenditure limit (DEL) funding that could be used for DEL funded impairments.
  - Chapter 10 highlights that boards should review their accounting policies for consolidating endowment funds to ensure that items are treated in a similar manner on consolidation. For example, property, plant and equipment at boards is valued at current replacement cost but historical cost may have been used for endowment fund assets. Boards should consider if a change in policy or valuation of endowment assets will be required to prepare their consolidated balance sheet.
163. 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 2013/14 financial statements.

## Governance 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*.

### Corporate governance

#### 2013/14 guidance on governance statements

164. The SGHSCD have issued guidance on the preparation of governance statements for inclusion with the 2013/14 financial statements. The guidance is intended to assist boards identify sources of assurance and evidence of compliance to be considered when preparing the governance statement. The format of the governance statement and the extant guidance on governance issues are set out in annexes to the letter.
165. It is for the Accountable Officer to decide how to organise the governance statement but the guidance sets out the essential features. It states that the governance statement should provide an overview of
- the governance framework, including information on the board's committee structure. While a summary of the work of the audit committee is mandatory, disclosure on the work of other committees should only be included if they have had a significant governance issue
  - an assessment of the effectiveness of board's performance
  - an assessment of the board's compliance with the SPFM, with explanations for any departures. This is a change from 2013/14 as the previous requirement related to the *UK*

*Corporate governance code.* Auditors should note that this means that changes to international standards on auditing that relate to entities reporting compliance with that code (see TB 2013/2 - paragraph 20) do not apply to health boards

- information about the quality of data used by the board, and why the board finds it acceptable
- risk management, including the board's risk profile. While avoiding lengthy descriptions of process, the statement should comment on the effectiveness of risk management and internal control
- any significant control weaknesses for significant risks that have materialised or are anticipated. The guidance sets out factors to be considered when assessing significance.

**166.** 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. Boards may include a link to an online copy of their diagnostic self-assessment, rather than providing the full detail within the statement.
- sources of assurance, including the work of internal and external audit
- the role of the audit committee for reviewing the disclosures included in the governance statement. The audit committee should receive the information provided to the chief executive in support of the governance statement and should also consider in advance the other information it wishes to receive. It may wish to receive from external auditors a description of their processes and judgements in the review of the reliance that can be placed on the work of internal audit.

**167.** The governance statement is required to be approved by each board's chief executive, and endorsed by its audit committee along with the financial statements.

**168.** The guidance highlights that boards should have in place a framework that provides overt assurance on best value for 2013/14.

**169.** 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.

**170.** Auditors should confirm that their boards are aware of this guidance, and they are taken the necessary steps to comply. Guidance for auditors on reviewing the governance statement will be provided in due course.

## 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*.

### Pay and workforce planning

#### 2013 consultants distinction awards

171. The Scottish Advisory Committee on Distinction Awards (SACDA) has published its [Annual report 2013](#) which sets out the results of the 2013 awards round for distinction awards to consultants in NHS Scotland.
172. The awards budget for 2013 was frozen and no new awards were made in the year. SACDA instead reviewed existing awards in line with the five yearly review procedures, and recommended the continuation of all 102 awards.
173. The report includes a list of all distinction award holders as at 30 September 2013. There were a total of 399 consultants holding distinction awards, which is 8% of all consultants. Retirals among consultants during the year have resulted in a reduction of 41 in the number of awards held.
174. The rates for distinction awards remain those set out in PCS(DD)2010/5.

#### Updated joint appointments guide

175. The Scottish Government has issued a [Joint appointments guide](#) to provide updated guidance on joint appointments between health organisations and local government in Scotland.
176. A joint appointment relates to separate organisations developing shared staffing arrangements to recruit someone to work for all the organisations. Specifically in the social care and health sectors, joint appointments help deliver partnership working, integrated management and planning, and service integration.
177. The guide provides guidance on setting up, maintaining and reviewing joint appointments. It has been updated to reflect the current policy context regarding health and social care integration, but remains largely unchanged from the previous 2004 version.

#### 2013/14 statement of financial entitlements for GPs

178. The Scottish Government has issued [PCA\(M\)\(2014\)1](#) to advise of a change to the statement of financial entitlements (SFE) for GP contractors for 2013/14. The SFE relates to payments to be made by health boards to a contractor under a general medical services (GMS) contract.
179. The previous version has been amended to increase the global sum from £408.9 million to £409.3 million to take account of the transfer of the organisational core standard payment.

## Revised PIN policy

180. The Scottish Government has issued [CEL\(2013\)31](#) to advise boards of the publication of a revised partnership information network (PIN) policy on equality, diversity and human rights in NHSScotland.
181. 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.
182. The staff governance standard requires implementation of PIN policies. Boards will be expected to provide evidence of adherence to the policies as part of the annual staff governance monitoring return and annual review process.

## Capital

### 2013 report on the NHS estate

183. NHSScotland has published the [Annual state of the NHSScotland assets and facilities report](#) for 2013 to highlight best practice and areas for improvement in the management of the NHS estate.
184. This third annual report reviews asset and facilities management performance and covers all NHSScotland owned and leased physical assets (i.e. property, vehicles, medical equipment, and technology). Key points include the following
  - NHSScotland owns physical assets valued at £5 billion, most of which relates to land and buildings. Leased assets, including public private partnership projects, amount to a further £1.5 billion.
  - There is a backlog maintenance expenditure requirement of £858 million, which is a reduction of £90m since 2012. However, investment in new facilities, disposals and planned maintenance expenditure is intended to reduce this backlog significantly.
  - Property maintenance accounts for 18% and PFI facilities management 16% of the annual property and facilities service costs.

## 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

185. [The Health Boards \(Membership and Elections\) \(Scotland\) Order 2013](#) (SSI 364) came into force on 31 December 2013 to end the pilot schemes for health board elections in Fife and Dumfries and Galloway Health Boards.

186. [The National Health Service \(Variation of Areas of Health Boards\) \(Scotland\) Order 2013](#) (SSI 347) aligns health board areas with the combined area of each local authority set out in a Schedule. The order comes into force on 1 April 2014, except for provisions relating to transfers between NHS Greater Glasgow and Clyde and NHS Lanarkshire which came into effect on 1 February 2014. The order also provides for those two boards to make consequential transfers of property, rights and liabilities, and adjustment of the lists of health professionals.

## Publications

The following publication published since TB 2013/4 can be obtained by using the hyperlink.

### Audit Scotland

#### Management of patients on NHS waiting time lists update

187. This update from Audit Scotland [Management of patients on NHS waiting time lists update](#) focuses on the progress by the NHS in managing waiting lists. Key messages include the following
- Boards are putting in place better controls and audit trails in the systems they use to manage, monitor and report on waiting lists. In particular, there is a stronger focus on how boards record and monitor the reasons for patient unavailability.
  - The percentage of people waiting over 12 weeks for an outpatient appointment has increased from 3% to 5%. The guarantee that all eligible people receive inpatient treatment within 12 weeks is challenging, and only three boards have achieved this each month since the guarantee was introduced.
  - The use of unavailability codes continues to reduce. The introduction of new guidance and specific unavailability codes has assisted boards, but it is taking time for the IT systems to be updated.

## Auditor action checklist

	Yes/No/N/A	Initials/date	W/P ref
1 Have you carried out the actions requested at paragraph 143 in respect of the GBS account information?			
2 Have you carried out the actions requested at paragraph 161 in respect of the 2013/14 accounts manual?			

	Yes/No/N/A	Initials/date	W/P ref
3 Have you carried out the actions requested at paragraph 163 in respect of the 2013/14 capital accounting manual?			
4 Have you carried out the actions requested at paragraph 170 in respect of the guidance on the governance statement?			

# 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 guidance notes published by the TSU (i.e. notes for guidance and urgent issue notes).

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

## TSU developments

### Guidance on emerging issues

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

#### Severance arrangements for senior staff

188. Auditors will be aware that many colleges are running voluntary severance schemes as a result of the structural changes in the sector. Audit Scotland has therefore asked auditors to ensure that severance arrangements, particularly those in respect of senior staff, are being given sufficient attention.
189. The [Scottish Funding Council](#) (SFC) [Guidance on severance arrangements](#) sets out requirements and best practice in this area. It includes the following key requirements
- Colleges should have a clear policy on severance, which complements their current contract terms, and should obtain appropriate legal advice when drafting it.
  - Responsibility should be clearly allocated to individuals and committees.
  - The task of agreeing individual cases should be delegated to the remuneration committee.
  - Severance arrangements, including notice periods, should be determined based on the terms of an employee's contract of employment. Where an exceptional arrangement is being considered, documentation is required to demonstrate how this provides value for money.



- Senior staff should be expected to work their contracted period of notice unless other agreed terms are mutually agreed.
- Colleges should not agree to confidentiality clauses unless it is necessary to protect commercially sensitive information.

190. Auditors should confirm that severance arrangements at their colleges are in accordance with the SFC's guidance.

## 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*.

### Reclassification of incorporated colleges

191. The SFC has published further communications on issues resulting from the Office of National Statistics' reclassification of colleges as central government bodies for budgeting and accounting purposes from 1 April 2014.

### Compliance with the FReM

192. [Communication number 10](#) provides details of the disclosures required in colleges' financial statements to comply with the FReM.

193. A pilot exercise has been undertaken to identify the impact of the FReM which involved restating the 2011/12 financial statements of Aberdeen College to provide a worked example of how the additional disclosures and restatements may work in practice. A report on the results of the exercise prepared by Henderson Loggie is provided as an appendix to the communication.

194. While colleges will be required to comply with the FReM, the *Statement of recommended practice: accounting for further and higher education* (the SORP) will take precedence. The report therefore concludes that

- there is no requirement to change the accounting treatment of any items with the possible exception of assets held at historical cost
- the primary accounting statements remain the same
- some additional disclosure is required, including a remuneration report and an estates strategy to be included in the operating and financial review
- there will be some areas where colleges will be required to consult with the SFC as the relevant authority, e.g. prior year adjustments, and change to useful lives, asset categories, capitalisation thresholds, and methods of calculating a provision.

195. The new IFRS-based SORP will become effective in 2015/16, and further guidance will be provided then.

## Management of cash-flow and grant in aid

196. [Communication number 11](#) provides guidance on the management of cash-flow and the payment of SFC grant in aid for colleges, specifically the completion of the following

- An annual proforma to advise the SFC of the college's projected grant in aid requirement and the projected cash-flow.
- A monthly pro-forma stating colleges' cash requirements for that month and their projected future cash requirement to ensure SFC do not make payment ahead of need.

## Completion of resource returns

197. [Communication number 12](#) provides guidance on the completion of annual resource budget and capital resource budget returns. Colleges will be required to submit annual proformas covering

- the annual resource budget to present summarised budget information
- the total SFC funding recognised in the financial year reconciled to the annual cash figure contained in the annual resource budget pro-forma
- the capital resource budget requirement which should indicate the proposed capital expenditure for the year with sources of funding
- an expenditure to resource reconciliation with income and operating expenditure calculated in line with the SORP and resource calculated in line with Treasury guidance.

## Accounting year end

198. [Communication number 13](#) advises that the constituent colleges of the University of the Highlands and Islands (UHI) may potentially retain the 31 July as their accounting year end date.

199. The concession is intended to prevent the UHI colleges from having to move to a different reporting and accounting timetable than UHI itself (i.e. 31 July). However, the colleges will still move to a 31 March year-end for budgetary and cash control purposes, and discussions are ongoing to determine the information that Treasury will require at 31 March. If the information requirements are considered onerous, colleges will retain the option to move to a 31 March accounting year-end. Colleges should therefore ensure that reliable financial information is collated at 31 March 2014 to allow for that option.

200. If the information requirements are not considered too onerous, non-UHI colleges may also be able to retain the 31 July accounting year end. However, the communication recommends that they continue to plan for the production of accounts to 31 March 2014.

201. The other changes associated with reclassification as central government bodies are not influenced by the year end issue and therefore continue as planned:

202. Auditors should confirm that their colleges are aware of this guidance and are continuing to prepare for a 31 March 2014 accounting year end.

## Implementation checklist

203. The SFC has issued a [checklist](#) which sets out a timetable for the changes arising from reclassification. The checklist sets out a framework for implementing the changes and includes the following items
- An annual exercise to capture *Annually managed expenditure* which is likely to take place each autumn.
  - The *Financial forecast return* which will be retained to provide the SFC with an overview of colleges' financial sustainability. It will normally be required in February but, as a transitional measure, the return for 2013/14 will be required in June 2014.
  - The deadline for the submission of the 2015/16 *Whole of government accounts* return which is August 2016.

## Memorandum for umbrella charitable foundation

204. The SFC has published the *Memorandum of association of the Scottish Colleges Foundation* which sets out the objects and powers of the umbrella charitable foundation, which is named The Scottish Colleges Foundation. Its objects are to advance and promote further and higher education in Scotland by the support of colleges, and promote similar charitable purposes as the trustees think fit. The income and property of the foundation is to be applied solely towards the promotion of its objects.
205. A sub-fund will be established for each college. The trustees will produce annual accounts showing each sub-fund as a restricted fund within the foundation for use only for the benefit of the respective college.
206. An advisory group, made up of representatives appointed by the college boards of management, will be established for each college sub-fund to provide information and advice to the trustees regarding the intended projects and spending of the college. The trustees must have regard to the information given to them by the advisory group but will continue to have sole responsibility for determining how the funds will be applied.

## Letter on non-consolidation of local charitable foundations

207. The SFC has issued a letter to colleges asking them to establish whether external auditors are satisfied that their local charitable foundations do not require to be consolidated in the college's financial statements.
208. Colleges were asked to confirm that their auditor has examined the documentation for their local charitable foundation and confirmed that it does not require to be consolidated. The letter also asks for information on any concerns raised by auditors and the mitigating actions that are being taken.
209. *FRS 2 (revised) Accounting for subsidiary undertakings* sets out the conditions under which a college is a parent undertaking which should prepare consolidated financial statements. As well as direct control through voting rights, the conditions include the exercise of dominant influence.

210. Paragraph 209 of the SORP states that dominant influence may arise where the objects of another entity are substantially or exclusively confined to the benefit of the college. This may be the case, for example, where the objects of a charitable foundation are set so narrowly that the benefits cannot be applied to any party other than the college.
211. Auditors should examine the documentation for their college's local charitable foundation and assess whether it requires to be consolidated either due to direct control or the exercise of dominant influence.
212. The letter also highlighted that the majority of trustees are required to be independent (i.e. no present links to the college) including the chair by 31 March 2014. Colleges were asked to confirm that this will be the case.
213. Colleges were advised that the deadline for notifying the SFC if they wish to join the umbrella foundation was 28 February 2014.

## 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*.

### SFC communications

214. The SFC has replaced the umbrella term 'circulars' with six new categories of communications from 1 January 2014. The new categories include
- announcements
  - consultations
  - guidance.

### Finance

#### 2014/15 funding

215. The SFC has issued [SFC/AN/01/2014](#) to provide colleges with initial decisions on funding outcome agreements for academic year 2014/15. Funding is moving towards a needs-based system of allocation subject to negotiation based on an agreed evidence base rather than formula. The letter sets out the following specific funding arrangements
- The financial year budget is £521.7 million, with academic year allocations of £526.3 million
  - Capital funding of £26.6 million has been allocated in the same manner as in financial year 2013/14
  - Other funds include the student support bursary, a strategic fund for existing projects and wider support for the sector, the employability fund, and European funding.

216. The allocations, and a timetable for payments, are set out in appendices to the announcement.

### 2013/14 student support funds

217. The SFC has issued [SFC/04/2013](#) which provides information on the outcome of the in-year redistribution of student support funds for academic year 2013/14. The circular details the amounts of student support funding
- relinquished by colleges in 2013/14
  - clawed-back from colleges from 2011/12
  - re-distributed to colleges in 2013/14.

## Legislation

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

218. [The Post-16 Education \(Scotland\) Act 2013 \(Commencement No 2\) Order 2013](#) (SSI 348) came into force on 13 January 2014 and brings into force provisions of the Act relating to the functions of regional colleges and other minor modifications.
219. [The Colleges of Further Education \(Transfer and Closure\) \(Scotland\) Order 2013](#) (SSI 354) came into force on the 22 February 2014 and transferred on 22 February 2014 the whole property, rights, liabilities and obligations from the following seven colleges to the new colleges' boards of management
- Central College Glasgow, Glasgow College of Building and Printing, Glasgow College of Food Technology and Glasgow College of Nautical Studies to the City of Glasgow College.
  - Clackmannan College of Further Education to the Forth Valley College.
  - Fife College of Further and Higher Education and Glenrothes College to the Fife College.
220. [The Post-16 Education \(Scotland\) Act 2013 \(Commencement No 3 and Transitory and Savings Provisions\) Order 2014](#) (SSI 21) brings into force certain provisions of the Act on 3 March 2014. The order makes transitory modifications and saving provisions
- concerning regional strategic bodies which are not yet in force
  - in relation to equal opportunities
  - so that the provisions of the 1992 Act continue to apply in relation to boards of management.
221. [The Designation of Regional Colleges \(Scotland\) Order 2014](#) (SSI 22) came into force on 3 March 2014 and designates each of the ten listed colleges as a regional college.
222. [The Coatbridge College \(Transfer and Closure\) \(Scotland\) Order 2014](#) (SSI 52) comes into force on 1 April 2014 to transfer the whole property, rights, liabilities and obligations of the

college to the New College Lanarkshire board of management, and provides for staff to transfer without a break in employment.

### Auditor action checklist

		Yes/No/N/A	Initials/date	W/P ref
1	Have you carried out the actions requested at paragraph 190 in respect of severance arrangements?			
2	Have you carried out the actions requested at paragraph 202 in respect of the accounting year end.			
3	Have you carried out the actions requested at paragraph 207 in respect of the consolidation of local charitable foundations?			

# Contact points

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

Contact	Chapter
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