

Remuneration Report

Good Practice Note on enhancing the quality of
financial reporting



 AUDIT SCOTLAND

Prepared for public bodies in all sectors and appointed auditors

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Introduction

Purpose

1. Audit Scotland promotes high-quality financial reporting in Scottish public bodies. Audit Scotland's Professional Support carries out reviews of the annual accounts of public bodies to identify and share examples of good practice reporting and highlight areas where enhancements can be made.
2. This Good Practice Note shares the findings from a review of the Remuneration Reports within the 2021/22 annual accounts of a sample of 32 Scottish public bodies across all sectors. It is intended to act as a catalyst for public bodies to assess and enhance their own disclosures going forward.

Context

3. The Remuneration Report was chosen for a good practice review because of the high-profile nature of the information, along with indications that the quality of the disclosures was variable.
4. The good practice review was carried out by a team in Professional Support with knowledge of the relevant financial reporting framework. However, the team does not have a detailed understanding of each body's particular circumstances or the specific underlying transactions.

Disclosure requirements

5. The disclosure requirements for public bodies in Scotland are set out as follows:
 - Local authorities are required to produce a Remuneration Report as part of their annual accounts in accordance with the [Local Authority Accounts \(Scotland\) Regulations 2014](#) (accounts regulations)
 - Section 6.5 of the [Government Financial Reporting Manual](#) (FReM) sets out the requirement for a Remuneration and Staff Report* for central government bodies, health boards and colleges.

*This Good Practice Note uses the term "Remuneration Report" for ease of reference. All such references should be read as including the Remuneration and Staff Report except where stated otherwise.

Contact points

6. The contact points in Professional Support for this Good Practice Note are:

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Key Messages

- 1 Public bodies should clearly identify the parts of the Remuneration Report that are subject to audit.
- 2 Bodies should consider carefully how to present the required information and support significant messages with relevant context.
- 3 Important information should be highlighted and not obscured by immaterial detail that causes clutter. To avoid clutter:
 - tables (or columns or rows) which do not contain entries should be removed
 - signposting can be used effectively to provide complementary information.
- 4 The language used in the Remuneration Report should be clear and precise.

1: Identifying audited information

Public bodies should clearly identify the parts of the Remuneration Report that are subject to audit

7. Some parts of the Remuneration Report are audited and are covered by a specific opinion from the external auditor. Other parts are read and considered by auditors but not formally audited (i.e. additional audit evidence is not obtained for those parts). It is important that the audited parts are correctly and clearly identified.

8. For local government bodies:

- the items set out at paragraphs 4 to 12 of [the Schedule to the accounts regulations](#) are audited
- the narrative information on remuneration arrangements required by paragraphs 2 and 3 are not audited.

9. In addition, [The Trade Union \(Facility Time Publication Requirements\) Regulations 2017](#) require employers to publish information in relation to trade union facility time. Guidance from the Cabinet Office indicates that disclosure should be in the Remuneration Report. This information is not subject to audit.

10. [The Code of Practice for Local Authority Accounting in the UK](#) (accounting code) requires local authorities to disclose members' salaries, allowances and expenses. Some authorities choose to make the disclosure in the Remuneration Report while others include it as a note to the financial statements. Regardless of where it is disclosed, the information requires to be audited.

11. [Finance Circular 8/2011](#) (paragraph 5) requires local authorities to clearly identify those parts of the Remuneration Report that are subject to audit, and provides illustrative wording. It should be noted that the wording:

- used in the unaudited financial statements should state that the information 'will be audited' but the tense should be updated to 'has been audited' in the audited financial statements
- needs to reflect that any disclosure of members' salaries, allowances and expenses requires to be audited.

12. For bodies covered by the [FReM](#):

- information subject to audit is set out at paragraphs 6.5.8 to 6.5.30, and 6.5.31 b) and l). The FReM requires bodies to clearly identify the information as audited.

- The items required by FReM paragraph 6.5.7 and the other elements of paragraph 6.5.31 are not audited.

13. Exhibit 1 briefly summarises the disclosure requirements in each sector and indicates whether the disclosure is subject to audit.

Exhibit 1

Audited

Disclosure	LG	CG	NHS
Remuneration in specified categories	√	√	√
Pension benefits	√	√	√
Analysis by pay bands	√	√	√
Exit packages	√	√	√
Payment for loss of office	√	√	√
Members' salaries, allowances and expenses	√	X	X
Fair pay disclosures	X	√	√

Unaudited

Disclosure	LG	CG	NHS
Remuneration policy	√	√	√
Trade Union facility time	√	√	√
Analysis of staff by gender	X	√	√
Sickness absence data	X	√	√
Policies on diversity issues and disabled persons	X	√	√

Source: Audit Scotland

14. In June 2022, Professional Support examined the 2020/21 Remuneration Reports of councils to evaluate whether they correctly and clearly identified the parts of the Remuneration Report that are audited. The review found that 16 councils identified which disclosures had been audited. [Technical Bulletin 2022/2](#) (paragraph 9) drew attention to this issue. As the FReM contains a similar requirement, the guidance in the bulletin was aimed at all public bodies.

15. Our review of the 2021/22 Remuneration Reports found that most of the central government bodies and councils in the sample clearly identified the parts of the Remuneration Report that were subject to audit. However, that was the case for only 10% of the health boards in the sample. Professional Support has worked with the NHS Technical Accounting Group to amend the 2022/23 accounting manual for health boards to include suggested wording to address this issue.

16. The bodies that identified the audited parts did so in a variety of ways. Good practice disclosures provided an explanation at the beginning of the Remuneration Report, as shown in Exhibit 2, along with an indication in the title of the table or disclosure that the information is audited.

Exhibit 2:

b) REMUNERATION AND STAFF REPORT

The tables on pages 70 - 72 in the Remuneration and Staff Report and the tables notes 2, 4 and 10 on pages 77, 78 and 80 have been subject to audit by the Board's External Auditor. The other sections in the Remuneration and Staff Report are reviewed by the External Auditor to ensure they are consistent with the financial statements.

17. However, our review identified areas for improvement in some of the descriptions of the audited parts. These included the following:

- 18 bodies (56% of the sample) failed to identify all the disclosures subject to audit, for example the information on exit packages.
- Some unaudited parts were described as audited. For example, two councils stated that all tables in the Remuneration Report were subject to audit but the tables included the facility time disclosure which is not audited.
- Six councils stated that the information "will be" subject to audit. It appears that this narrative in the unaudited accounts had not been updated in the published audited accounts.

2: Presenting information

Bodies should consider carefully how to present information and support important messages with relevant context

Context

18. When considering how best to present information, it is important to provide adequate context to help users gain a full understanding.

19. It is good practice to provide an explanation of the measurement basis used, particularly where there is more than one option for the same item of information. For example, it is helpful to state whether staff numbers are on a full-time equivalent basis or headcount basis.

Footnotes

20. It is good practice to provide appropriate explanation of details included in remuneration tables, such as new appointments made during the year.

21. Footnotes can be used to provide points of detail. However, some bodies used a significant number of footnotes which may have made it more difficult for users to identify what each related to. Some disclosures would have been enhanced if items disclosed as footnotes had been presented in the body of the narrative. Exhibit 3 provides an example of full year salary and starting and leaving dates being disclosed in the remuneration table.

Exhibit 3

Post held	2021/22		
	Annual Salary £	Election Allowances £	Total Remuneration £
Chief Executive until 15 December 2021 <i>(full year equivalent £151,238)</i>	107,317	13,613	120,930
Director of Finance and Resources until 15 December 2021; Chief Executive from 16 December 2021; <i>(full year equivalent : £151,328)</i>	131,520	5,445	136,965

Comparatives

22. The disclosure of prior year comparative amounts highlights movements between years. It is good practice to explain any significant change.

23. Presenting current and prior year figures in the same table can streamline disclosures while making comparisons easier. A simple example of how this can be presented is shown in Exhibit 4.

Exhibit 4

Salary £000		Benefits in kind £		Pension Benefits £000		Total £000	
2020/21	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22

Remuneration policy

24. Bodies are required to disclose details of their remuneration policy. Good practice disclosures:

- identified the committee responsible for setting remuneration policy
- highlighted whether the full council/board or a specific committee is responsible for setting the remuneration policy
- provided links to meeting papers and relevant pay circulars.

Compensation for loss of office

25. Disclosures on compensation for loss of office are required for those senior officers included in the Remuneration Report. They are also presented in the central government disclosure of total staff costs.

26. Where additional compensation payments are disclosed which have been paid to staff not in the remuneration table, it is good practice to clearly explain the difference between the figures.

Bonuses

27. Disclosures on the remuneration policy frequently highlighted that senior managers are subject to performance appraisal arrangements which can result in them receiving additional remuneration.

28. However, in some cases there were no amounts disclosed in the bonuses component of remuneration. It would have been helpful to users of the accounts to explain why that was the case.

Benefits in kind

29. Bodies are required to explain what types of benefits in kind are included in remuneration. However, in many cases the explanations were very limited.

30. Exhibit 5 provides an example of a helpful and brief explanation that the benefits in kind related to leased cars:

Exhibit 5

100-105	0.2	100-105	50	150-155	Benefit in kind for lease car of £0.2k which ceased on 5 August 2021
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Sickness absence data

31. The review identified some good practice in relation to sickness absence data where disclosures included:

- the body's targets
- details of trends or factors influencing their performance.

Subsidiaries

32. Information on employees of council subsidiaries requires to be presented in a separate table.

33. However, the review found that four councils had incorporated the details into the bottom of the council senior office remuneration table.

Members' salaries, allowances and expenses

34. It is good practice to present members' salaries, allowances and expenses in a separate table. Exhibit 6 provides an example of a clear presentation:

Exhibit 6

Total Remuneration paid to Councillors
The Comhairle paid the following salaries, allowances and expenses to all Councillors (including those included above) during the year:

Type of Remuneration	2021/22 £	2020/21 £
Salaries	602,773	581,301
Allowances	5,599	970
Expenses	27,449	15,092
Total	635,821	597,363

Full details of Councillors' salaries and expenses for 2021/22 are included in Note 30 of the Annual Accounts and can also be viewed on the Comhairle website at <https://cne-siar.gov.uk/your-council/wards-and-councillors/council-members/>

35. While most councils disclosed a separate table, one council in the sample incorporated the disclosure as an extra row in the table for senior councillors' remuneration. Users may have found that difficult to follow.

Fair pay disclosures

36. The fair pay disclosure requirements in the FReM are intended to explain the relationship between the remuneration of the highest paid director and the body's employees. Narrative disclosure should be used to assist users understand the calculations, the body's scope for controlling pay policy arrangements and changes between years.

37. It is helpful to users if the disclosures (which contain the highest paid director's remuneration, the staff average remuneration, and the median, upper and lower percentile remunerations) follow a logical flow. Exhibit 7 provides an illustrative disclosure that could be used.

Exhibit 7

	2022	2021	change
Range of staff remuneration			
Staff average (salary & allowances)			
Highest earning director's total remuneration			
Explanation of change			
Median (total pay & benefits)			
Median (salary only)			
Ratio between highest earning director's total remuneration and the median			
Explanation of change			
25 th percentile (total pay & benefits)			
25 th percentile (salary only)			
Ratio between highest earning director's total remuneration and the 25 th percentile			
Explanation of change			
75 th percentile (total pay & benefits)			
75 th percentile (salary only)			
Ratio between highest earning director's total remuneration and the 75 th percentile			
Explanation of change			

38. The FReM requires disclosure of the reasons for any change in the current year's pay ratios when compared to the previous year. It is helpful if explanations cover:

- whether the movement in the ratios is attributable to a change in the highest paid director's remuneration or the employees, or a change in the body's employment models
- trends in the ratios between highest paid director and employees
- whether the body believes that the ratios reflect the pay, rewards and progression policy for employees as a whole.

39. Around half the bodies in the sample disclosed an appropriate explanation for the movement in the ratios. For example, some explained that a senior member of staff joined or left the organisation causing the pay ratios to change. In Exhibit 8, the body explained that the change was due to their priority of reducing pay inequality.

Exhibit 8

Fair Pay Disclosures

Reporting bodies are required to disclose the relationship between the banded remuneration of the highest paid director in their organisation and the lower quartile, median, and upper quartile remuneration of the organisation's workforce. Banded remuneration for this purpose is the sum of salaries & fees, taxable benefits, and excludes pension benefits and cash equivalent transfer values. The banded remuneration of the highest paid director in Skills Development Scotland for the year to 31 March 2022 was £150,000 to £155,000 (2021: £145,000 to £150,000).

	2021-22			2020-21		
	25 th Percentile	Median	75 th Percentile	25 th Percentile	Median	75 th Percentile
Pay ratio	4.2 : 1	3.7 : 1	3.3 : 1	4.3 : 1	3.7 : 1	3.4 : 1
Remuneration (Salary)	£36,120 (£35,960)	£40,735 (£40,735)	£45,898 (£44,290)	£33,935 (£33,935)	£39,643 (£39,643)	£43,555 (£43,555)

For the year to 31 March 2022, the remuneration of the highest paid director increased by 0.6% (2021: 0.0%) while the average remuneration for the organisation as a whole increased by 3.9% (2021: 3.6%). All employees have their salary reviewed annually at 1 April. All pay awards are equality impact assessed, supported by an equal pay audit every two years, and aligned with Scottish Government public sector pay policy. The increase of 2.8% (2021: 3.0%) in the median pay ratio reflects a continuation of our programme of prioritising investment to areas of pay inequality.

The minimum full-time equivalent salary on the organisation's Pay and Grading Framework for the year to 31 March 2022 was £20,275 (2021: £19,175).

40. It may be necessary to explain that another employee is paid more than the highest paid director. Additional disclosure of non-director level employees with remuneration in excess of the highest paid director is good practice and should be provided as part of the narrative accompanying the range of remuneration.

41. Two health boards disclosed that another employee was the highest paid. An example is shown in Exhibit 9.

Exhibit 9

In 2021/2022, 3 (2020/2021, 1) employees received remuneration in excess of the highest paid director. Remuneration ranged from £8,930 to £346,423 (2020/2021 £8,842 to £247,913).

42. The range of staff remuneration together with prior year comparatives requires to be disclosed, with the amounts rounded to the nearest pound. Exhibit 10 sets out an example.

Exhibit 10

	2022	2021	%Change
Range of Staff Remuneration	8,930-346,423	8,842-247,913	1.0% - 39.7%

43. Only two bodies, both health boards, disclosed the range of remuneration for 2021/22 and 2020/21 rounded to the nearest pound. The other bodies in our sample disclosed the range of remuneration to the nearest thousand or five thousand pounds. This should be addressed in 2022/23.

3: Cutting clutter

Important information should be highlighted and not obscured by immaterial detail that causes clutter. To avoid clutter:

- tables (or columns or rows within tables) which do not contain entries should be removed
- signposting can be used effectively to provide complementary information.

44. Local circumstances may mean that a particular disclosure requirement is only partially applicable to a body, or perhaps not applicable at all. Disclosures should be appropriately tailored where that is the case. For example, it is good practice to remove any blank columns or rows from tables. An example is shown in Exhibit 11.

Exhibit 11

Taxable Salary (bands of £5,000)	Pension Benefits £'000	Total Remuneration (bands of £5,000)
180 - 185	-	180 - 185
180 - 185	6	185 - 190
10 - 15	22	35 - 40
185 - 190	39	225 - 230
155 - 160	-	155 - 160
20 - 25	17	40 - 45
145 - 150	76	220 - 225

45. It may be helpful to explain why the columns have been removed, such as in Exhibit 12.

Exhibit 12

The only benefits received by employees are: salary; employer contributions to the pension fund; and where applicable, payment for election duties. There were no bonuses, compensation for loss of office or other benefits paid to senior employees during the year. The remuneration details for senior employees are noted in Table 2:

46. It is also good practice to explain when a required disclosure has not been made owing to it not being relevant to the body's circumstances. For example, a council provided the concise explanation in Exhibit 13 as to why it had not disclosed remuneration for subsidiary employees.

Exhibit 13

Subsidiary Entities

None of our subsidiaries have remunerated employees.

47. When cutting clutter, it is important that bodies:

- take care to ensure that they do not streamline to such an extent that minimum requirements are no longer met. For example, two central government bodies included the components of remuneration but did not provide a total remuneration figure
- consider the accessibility and understandability of the Remuneration Report. For example, one body combined the remuneration and pensions disclosures and associated footnotes on one page. This involved the use of a significantly smaller font size which made it difficult for users to read.

48. Information that is not required to meet a specific disclosure requirement, but which provides additional detail, can be provided by 'signposting'. This is a means by which attention can be drawn to complementary information. When using signposting, bodies should bear the following points in mind:

- The Remuneration Report must meet disclosure requirements without users having to refer to signposted information
- Signposts should make clear that the complementary information does not form part of the Remuneration Report
- Signposted information may be located either within the annual accounts (e.g. an appendix) or separately (e.g. a link to a website document or page)
- Where a hyperlink is provided, it is helpful if it takes the user directly to the relevant information rather than a website homepage

49. Exhibit 14 provides an example of where a health board used signposting by including hyperlinks to more detailed information on performance.

Exhibit 14

NHS Grampian fully complies with the requirements of the Equality Act (Specific Duties) (Scotland) Regulations 2012. More information, including the key reports listed below, can be accessed at the following link <https://www.nhsgrampian.org/about-us/equality-and-diversity/>

- NHS Grampian Equalities Outcomes 2021-2025, update report;
- Making equality duty an integral part of the way NHS Grampian functions - progress Report for the period April 2019 to March 2021;
- An NHS Grampian Equal Pay Monitoring Report, June 2021; and
- An NHS Grampian Equality and Diversity Workforce Monitoring Report 2020/21.

4: Clarity

The language used in the Remuneration Report should be clear and precise

Plain language

50. The Remuneration Report should be written in plain language that users can easily understand; jargon should be avoided.

51. Where the use of technical terms is necessary, they should be clearly defined and used consistently.

Tailored wording

52. Boiler-plate wording refers to generic disclosure which could apply to any body that gives no additional useful information to users of the accounts; it should be avoided. However, the review identified boiler-plate wording across all sectors.

53. While taking standard wording from another source can be of assistance as a starting point, care should be taken to suitably tailor the information appropriately to ensure it is relevant to each body's circumstances.

Precise terms

54. The terminology used should be precise and unambiguous. It is good practice to simply use the terms specified in the accounts regulations or FreM, and most bodies in the sample did so. However, some bodies used their own terms which users may have found more difficult to understand or compare.

55. Expense allowances chargeable to income tax are a component of remuneration. Around half of the bodies making that disclosure were clear that it related to taxable expenses. The other bodies used more imprecise terms, such as 'expenses'.

56. Exhibit 15 shows a council remuneration table that is clear that only taxable expenses are included:

Exhibit 15

	Salary, Fees and Allowances	Taxable Expenses	Non-Cash Expenses / Benefits- -in-kind	Total Remun. 2021/22	Total Remun. 2020/21
Council's Leader, Civic Head and Senior					

Remuneration Report

Good Practice Note on enhancing the quality of financial reporting

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