

## LASAAC MINUTES

**[APPROVED by LASAAC on 7 Nov 2013]**

Meeting of 29 August 2013,

CIPFA Scotland, Beaverbank Business Park, 22 Logie Mill

Edinburgh EH7 4HG

Present: Derek Yule, Tom Simpson, Ian Lorimer, David Watt, Valerie Davidson, Majory Stewart (by phone), Ian Robbie (by phone items 33/13 to 39/13)

Apologies: Hazel Black, Derek Glover, Bruce West, Nick Bennett, Russell Frith, Fiona Kordiak, Hugh Dunn

In attendance: Gareth Davies

Minute Ref		Action
32/13	<b>Apologies</b>  Apologies from: Hazel Black, Derek Glover, Bruce West, Nick Bennett, Russell Frith, Fiona Kordiak, Hugh Dunn. Derek Glover provided information for the Scottish Government update.	
33/13	<b>Minutes of the meeting held 4 June 2013</b>  The minutes were approved.  <b>Action: Minutes of 4 June to be loaded to the website</b>  The action points were reviewed:  <u>Action C. Funding requests for 13/14 now issued</u> <ul style="list-style-type: none"><li>• Now issued</li></ul> <u>Action D. ACCA Liaison</u> <ul style="list-style-type: none"><li>• The secretary had met with Craig Vickery (ACCA funding contact) to discuss LASAAC work and representation</li></ul> <u>Action H. Integrated Reporting (CCAB / IR Framework)</u> <ul style="list-style-type: none"><li>• Ian Lorimer noted the CAAB event had been relevant with laudable goals, although unless the initiative was linked to Scottish Government reporting requirements concerns would remain at the potential for increasing reporting burdens. A further point was clarification of the assurance process. The LASAAC response submitted had reflected these views.</li></ul>	G Davies

	<p><u>Action I. Asset Decommissioning (e.g. Landfill sites)</u></p> <ul style="list-style-type: none"> <li>○ Derek Yule noted that following some further discussions e-mail notification had been issued (as Chair) to local authority Directors of Finance, and that while the accounting was relatively clear there was still some uncertainty over the impact on funding and capital controls.</li> <li>○ Valerie requested that the e-mail be made more widely available</li> <li>○ It was noted that Audit Scotland had raised the matter for appointed auditors to review in 12/13 statements.</li> <li>○ Ian Lorimer suggested that more work to establish the situation could follow 12/13 closure. The secretary noted that such areas may include the impact on the Capital Financing Requirement and IFRIC 1 application.</li> <li>○ David noted that a key issue was the determination of materiality in each case.</li> <li>○ Derek Yule noted that Audit Scotland may be able to provide feedback on 12/13 at the next meeting.</li> <li>● Valerie queried the East Ayrshire situation regarding the extent of the liability. The secretary noted that this was subject to court determination but the council's own report indicated a possible liability to secure and make safe, not necessarily to re-instate. Tom commented that funding capacity would present a practical limit to commitments.</li> <li>● <i>[NB More details on East Ayrshire, including the report to cabinet and a court of session judgement, are available from the council's website: <a href="http://www.east-ayrshire.gov.uk/CouncilAndGovernment/PoliticiansElectionsAndDemocracy/MinutesAgendasAndReports/ScottishCoalUpdate.aspx">http://www.east-ayrshire.gov.uk/CouncilAndGovernment/PoliticiansElectionsAndDemocracy/MinutesAgendasAndReports/ScottishCoalUpdate.aspx</a>. This reference to this website does not constitute a guarantee of the validity or accuracy of its contents].</i></li> <li>○ Valerie noted that other situations / assets were also affected e.g. lease dilapidations could require a provision. Derek Yule concurred noting this was especially relevant where estate rationalisation plans existed. David noted that action to ensure IFRS based requirements were being met would be required.</li> </ul> <p><b>Action: E-mail on asset decommissioning to DoFs to be copied to LASAAC website and e-mailed to Valerie</b></p> <p><b>Action: Asset Decommissioning to be reviewed as part of the 13/14 LASAAC work plan</b></p> <p><b>Action: Asset Decommissioning to be agenda item for next meeting</b></p> <p><u>Action J. Financial Guarantees (Local Authority Mortgage Scheme)</u></p> <ul style="list-style-type: none"> <li>● Derek Yule noted that Glasgow's scheme was being regarded as a template by the supporting bank and that no other schemes were likely to proceed until Glasgow was finalised. An issue had arisen regarding the intention to make the statutory 'monitoring officer' personally responsible for the guarantee. This may delay further roll-out.</li> </ul> <p>[Ian Robbie joined by phone]</p>	<p>G Davies</p> <p>G Davies</p> <p>G Davies</p>
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	<p><u>Action K. Local Authority Charities</u></p> <ul style="list-style-type: none"> <li>• Derek Yule referred to Russell’s e-mail and the Audit Scotland update, noting that appointed auditors would presumably be considering the resource and cost issues arising</li> <li>• Majory commented that the scale of additional requirements should not be massive given that the accounts were already covered as part of the existing audit. Therefore the additional costs would be only the incremental resources required.</li> <li>• The secretary queried the scale of additional costs for accounts preparation by councils.</li> <li>• David added that each separate trust would need its own statements, trustee report, and audit opinion.</li> <li>• Ian Robbie noted that a separate audit opinion resulted in specific additional costs arising from the additional risks, level of scrutiny required, administration and overheads.</li> <li>• Derek Yule suggested that auditors would be challenged on the level of additional costs. Ian Lorimer stated that the Directors of Finance had queried the fee setting framework for this work, noting that the costs of Independent Examination were known and that while a full audit would cost more any increase should be reasonably proportionate.</li> <li>• David noted that some audit fees would virtually eliminate balances in smaller charities but that charity combination could be undertaken. Authorities may opt not to charge charities for the full incremental costs. In response to queries he noted that sub-funds could be structured by a merged/combined charity to retain funds for specific purposes (e.g. by geographic area)</li> <li>• Marjory and Derek Yule noted that there were normally a minimal number of transactions in charity accounts suggesting a relatively small workload, with most effort focused on the actual production and review of the additional statements.</li> <li>• It was concluded that following earlier LASAAC agreement on the direction of travel for OSCR requirements to apply to local authority charities, there was no specific LASAAC role or action required on this item</li> </ul>	
<p><b>34/13</b></p>	<p><b>Membership and Attendance</b></p> <p><u>Membership</u></p> <p>The secretary noted that Ian Robbie had requested a correction to his contact details.</p> <p><u>Attendance</u></p> <p>Tom Simpson noted that the paper incorrectly indicated his presence at the June meeting.</p> <p><b>Action: Amendments to contact details and attendance records to be made</b></p>	<p>G Davies</p>
<p><b>35/13</b></p>	<p><b>Work Plan 2013/14</b></p> <p>Derek Yule reviewed the report with some comments arising:</p>	

	<p><u>Loans Fund Review</u></p> <p>The secretary noted some uncertainty as to the extent of work and timescales that may arise from the remit agreed between the Scottish Government and the Directors of Finance.</p> <p>Ian Lorimer indicated that standardisation and consistency within the existing framework was an area for review. Marjory concurred, based on previous discussions with a Scottish Government representative.</p> <p>Derek Yule noted that LASAAC Guidance Note No. 2 had not been updated, with changing circumstances and developments not incorporated. The mismatch between government loan support periods and advance repayment periods was noted. Ian Lorimer suggested this would diminish over time now that prospective loan charge support had been removed.</p> <p>It was agreed that LASAAC should maintain awareness of this item.</p>	
<p><b>36/13</b></p>	<p><b>CIPFA-LASAAC Code Board</b></p> <p>Derek Yule noted that the next CIPFA-LASAAC meeting would consider the Code Invitation To Comment responses. It was expected that Transport Infrastructure would be a key issue of debate.</p>	
<p><b>37/13</b></p>	<p><b>Simplification of the Accounts – Explanatory Foreword</b></p> <p>Explanatory Foreword Review</p> <p>Derek Yule noted that the future role and form of the explanatory foreword may be affected by the replacement of the 1985 regulations (see 38/13 below). Marjory noted that she had recently sought to decrease the length, and increase the usefulness, of the foreword for 2012/13.</p> <p>Ian Lorimer supported the report recommendation to provide examples, preferably succinct, based on real accounts. Derek Yule commented that some stakeholders, including the Scottish Government and Audit Scotland, may have specific requirements which could potentially limit the brevity that may be achievable.</p> <p>Valerie responded by stating that the role of the foreword was to explain the financial statements. It was not supposed to replicate or replace an annual report.</p> <p>Tom indicated there was a discrepancy between seeking more information in the foreword and seeking to provide clarity.</p> <p>Ian Lorimer suggested that sharing ideas and examples of potential good practice via the Directors of Finance Section would be a suitable approach. Marjory and Valerie supported this.</p> <p>The secretary noted that different organisations would have different cultures and needs, so a variety of alternative practices would presumably be requested. Valerie commented that this</p>	

<p>should be expected, and that consistency or standardisation was not an objective.</p> <p>Tom expressed some surprise that many forewords in the sample exceeded 10 pages, given that this would not support reader engagement, although noting that the number of pages was not the only indicator of accessibility (eg size of font, graphs etc could affect page length).</p> <p>Tom indicated the focus should be on maximising impact. Ian Lorimer concurred suggesting a return to 'first principles'. Marjory suggested that the financial statements were primarily retrospective. Ian Lorimer noted that extensive prospective information or commentary was largely optional.</p> <p>Derek Yule commented that the committee should be wary of over-prescribing or formally specifying the presentation options.</p> <p>David noted that private sector practice was now for the Director of Finance to sign the management commentary as providing a 'fair and balanced' view. This approach may, in time, be adopted in the FReM and the Code.</p> <p>Ian Lorimer queried whether the requirements of the replacement regulations would affect explanatory forewords for 13/14.</p> <p><b>Action: Good practice example of explanatory forewords should be shared amongst the Directors of Finance Section.</b></p> <p><u>Simplification of Code of Practice Requirements</u></p> <p>Valerie stated simplification was not only about the explanatory foreword. Attention should also be paid to the development of the Code. In particular every proposal in the ITC should be challenged or accompanied by the question: "Does it add value?". In particular practical experience indicated that some auditors, and practitioners, would assume that adherence was required to achieve 'code compliance'.</p> <p>The secretary noted that the Code did allow scope for the assessment of materiality and that perhaps more emphasis on this, and the underlying principles and objectives, could influence behaviour. David indicated that professional judgement should be expected to support this. Valerie suggested that this could be a basis for challenging the provision of apparently redundant comparatives for some items.</p> <p>David suggested that sometimes the Code specified items in too much detail. Derek Yule commented that there needed to be sufficiently rigorous challenge as to whether new IFRS standards were suitably adapted.</p> <p>Tom commented that the intention appeared to be to achieve comparability with the private sector, but that perhaps the focus should be on public sector reporting requirements.</p> <p>David suggested that the development cycle for the next Code of Practice should be focused on de-cluttering the accounts. Valerie agreed the objective was to make the accounts more relevant and</p>	<p>G Davies I Lorimer</p>
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	<p>useful.</p> <p><b>Action: Simplification of accounts project to consider other areas of the financial statements for action</b></p>	<p>G Davies, B West, F Kordiak, T Simpson</p>
<p><b>38/13</b></p>	<p><b>Local Authority Accounts (Scotland) Regulations 2013 (Consultation)</b></p> <p>Derek Yule noted that revision of the 1985 regulations had been planned for some time. Most organisations could be expected to respond individually. The debate should therefore largely focus on an appropriate LASAAC response.</p> <p><b>Action: LASAAC response on the proposed Local Authority Accounts (Scotland) Regulations 2013 to be drafted for review and consideration by members incorporating the following points:</b></p> <p><u>Status of LASAAC Guidance</u></p> <p>Ian Lorimer, David and Ian Robbie suggested that specific reference to LASAAC was unnecessary. Derek Yule commented that compliance with the Code would be generally sufficient. David and Ian Robbie both noted that LASAAC guidance would be covered by the Local Government in Scotland 2003 Act reference to "any generally recognised, published code or otherwise".</p> <p>Consultation approach agreed</p> <p><u>Responsibility for Internal Control</u>: agreed</p> <p><u>Annual Review of system of internal control</u>: agreed</p> <p><u>Authorisation of submitted accounts at 30 June</u></p> <p>The secretary noted that only the section 95 officer signature was required at this stage.</p> <p>Agreed.</p> <p><u>Submission of Unaudited Statements to Audit Scotland</u></p> <p>Ian Robbie expressed potential concern that para 8 (6) did not require submission to Audit Scotland / the Comptroller of Audit. David commented that submission to the appointed auditor was the priority. The secretary noted that para 8(7) required upload to a website on the same day, and that Audit Scotland might access from there.</p> <p><b>Action: LASAAC to request clarification of the intended process regarding submission to Audit Scotland.</b></p> <p><u>Public Inspection Process</u></p> <p>David Watt noted that the end date of 22 August did not leave sufficient time for making adjustments to the audit process and statements if necessary.</p>	<p>G Davies / Review by all Members</p>

Ian Robbie noted that the historic timing may have been linked to the 'trades fortnight' dates, which were less relevant now.

Ian Lorimer queried whether the requirement to request Audit Scotland approval before proceeding with the public inspection advert would still exist.

**Action: LASAAC to request earlier start and end dates for the public inspection process, and confirmation that there would be no need for approval or clearance prior to advertising the public inspection period.**

#### Audit Completion

Ian Lorimer commented that, from a LASAAC viewpoint, a set date of 30 September for approval of the statements would presumably be welcome. From a section 95 officer perspective however this would pose some practical issues regarding authority and auditor liaison and committee scheduling. Some councils are fast at closing however the requirements would probably represent a real pressure on the overall accounts process to effect audit adjustments and issue committee papers in time.

Valerie suggested that rather than specifying the 'approval date' the regulations could just specify the 'publication date', which would allow more committee scheduling flexibility.

Ian Robbie noted that under the current arrangements some audit committee cycles had resulted in more than two months delay. The proposed regulations would represent a significant shortening of practical deadlines and amendment to processes.

Ian Lorimer queried whether the IAS 260 report would need to be reported to committee *before* the approval of the statements. Ian Robbie noted that he had assumed this would be simultaneous, however the matter may be delegated, by the Audit Committee, to the audit committee chair.

Current practice on the presentation of the 'report to members' was also discussed. The secretary noted that authorities may often wish to submit a 'response' paper to the same committee.

It was suggested that clarification on which audit reports 11(c) was intended to cover could be requested. David suggested that the regulations could refer to 'any material' required to be submitted.

Ian queried whether two committee meetings were required:

- One for the IAS260 report
- One for the Audit Report & Statement of Accounts

Valerie noted that the regulations did not specify a particular committee, nor formally required an audit committee to be created.

David suggested that LASAAC could broadly welcome the proposals but indicate that there were practical issues to overcome. Consequently transition arrangements for the 2013/14

statements may be requested by relevant stakeholders.

Valerie noted that it was not just committee cycles that would be affected. Standing orders would also need amendment.

Derek queried whether this meant that the submission date for unaudited accounts might be brought forward from 30 June. Tom noted that some authorities closed earlier. David and Derek Yule indicated that more work could be undertaken pre-year end to alleviate pressures.

**Action: LASAAC to broadly welcome the 30 September approval date but to:**

- **Note that practical issues had to be overcome;**
- **Request clarification on the audit reports covered by 11(c)**
- **Request clarification on the anticipated committee approval process**

#### Five Year Retention on Website

Valerie queried the requirement for a 5 year website retention period. In discussion it was suggested that this may be intended to meet the needs of 'technical users' interested in trend analysis. Marjory noted that this may divert or forestall some FoI requests.

#### Section 95 Officer Role

Derek Yule posited a scenario where the s95 officer, in exercising sound professional judgement, did not amend the statements for a 'non-qualification' matter but the committee desired this to be done.

Ian Lorimer suggested the approach would be 'comply or explain'. Valerie suggested that reference to the CIPFA 'Role of the Chief Financial Officer' may be appropriate.

The potential resolution process was discussed. The secretary noted the historic Shetland 'charitable trust' issue as a possible example.

Following discussion Derek Yule suggested that the normal legislative escalation process would presumably apply, with the submission of a matter arising / special audit report to the Accounts Commission.

**Action: LASAAC response to note assumption that existing legislative escalation process applies where statements are not approved.**

#### External Auditor Role

David noted that external auditor responsibilities were adequately specified in legislation (e.g. the 1973 act) and that specific consideration of the regulations in this respect was not required.

#### Pension Cash Transfer Values

Valerie queried the value of providing this additional information. Marjory noted that it had previously been proposed and withdrawn. It was suggested that the information would primarily have more relevance for unfunded ('pay as you go') schemes where a transfer might have immediate budget implications for a public sector employer. The value however would have less relevance for LGPS pensions where the transfer value would partly already be supported by existing fund assets.

Valerie suggested that there already appeared to be sufficient information published on pension entitlements and that this proposal would add to the costs incurred. Seeking consistency with other government reporting, where schemes were unfunded, was not necessarily appropriate.

Derek Yule concurred that the Cash Transfer value does not indicate much about the employer's outstanding liability.

Ian Lorimer suggested that the disclosure could be challenged in respect of increasing complexity and costs.

**Action: LASAAC response to indicate concern that the proposed Cash Transfer Value disclosure adds additional costs but little value, since benefit entitlements are already disclosed.**

#### Management Commentary

David commented that the regulations required a definition of what was meant by 'management commentary'. This may not need to be detailed.

Ian Lorimer suggested that the definition could focus on the intended outcome, for example what the objective of the management commentary, in the regulations, was. Additional, potentially non-legislative, guidance would be essential. Clarity would be essential for practitioners, s95 officers and auditors.

Derek Yule suggested that simplification of the accounts should be one objective.

**Action: LASAAC response to request clarity on the intention, and a potential definition, of 'management commentary' in the regulations.**

#### Effective Date / Transition Arrangements

The potential application of the proposal to 2013/14 statements was queried.

Derek Yule suggested that there was an argument for implementing transition arrangements to assist in the management of:

- committee dates and cycles, especially since these are often set significantly in advance
- changes to working practices for both authorities and auditors

	<p><b>Action: LASAAC response to suggest that the case for transition arrangements should be considered based on the responses received from affected stakeholders.</b></p> <p><u>Disclosure of Land Disposals at Less than Best Value</u></p> <p>David queried the necessity for this in the regulations, particularly since it would obviate the normal 'materiality' tests i.e. by being in the regulations disclosure would be required even if the transaction was not material.</p> <p>Derek Yule and Valerie agreed.</p> <p><b>Action: LASAAC response to query the value and objective of requiring the disclosure of all land disposals at less than best value.</b></p> <p><u>Effective Internal Audit Function</u></p> <p>Valerie queried how the requirements of the regulations compared to the requirements of the "Public Sector Internal Audit Standards" (PSIAS).</p> <p>Ian Lorimer noted that PSIAS required internal assessments and that external assessments were undertaken at least every five years.</p> <p><u>Legal requirement for Audit Committee</u></p> <p>Ian Robbie queried whether LASAAC should support a legal requirement for an audit committee. The secretary noted that the working group had considered that audit committees (or equivalent) were largely already established as good practice.</p> <p>Ian Lorimer suggested that the Annual Governance Statement requirement would tend to support the creation of an equivalent committee.</p>	
<p><b>39/13</b></p>	<p><b>Integration of Adult Health &amp; Social Care</b></p> <p>Derek Yule commented on the paper noting that there was some concern at the potential for the 'body corporate' model to involve a potentially excessive financial reporting burden. Valerie suggested that the 'lead agency' model might be preferred.</p> <p>Ian Lorimer noted that any final amended bill would benefit from review, and that work on the financial reporting aspects could arise in 2014/15.</p> <p>It was agreed that LASAAC should maintain a watching brief.</p> <p>[Ian Robbie left the meeting]</p>	
<p><b>40/13</b></p>	<p><b>IASB Lease Accounting Proposals</b></p> <p>The secretary noted that any changes were potentially some years ahead, with the HM Treasury views of the impact on the existing</p>	

	<p>capital control regime being potentially a significant funding matter for the public sector.</p> <p>It was agreed that LASAAC should maintain a watching brief.</p>	
<b>41/13</b>	<p><b>Audit Scotland</b></p> <p><u>Charity Accounts &amp; Audit 2013/14</u></p> <p>Derek Yule summarised the paper, noting the comments on local authority audits (already discussed – see 33/13 above) and the housing report. It was noted that at the Directors of Finance meeting the two main audit issues for 2012/13 had been noted as landfill / asset decommissioning and Non Domestic Rates (BRIS).</p> <p>No BRIS targets for 12/13 are anticipated to be formally confirmed until after audit completion.</p>	
<b>42/13</b>	<p><b>Scottish Government Update</b></p> <p>The secretary noted that Derek Glover had provided some comments for the meeting:</p> <ul style="list-style-type: none"> <li>• <b>Whole of Government Accounts:</b> forms issued 14 August, returns due 30 August. Audited packs deadline set as 12 October (Audit Scotland agreement with NAO).</li> <li>• <b>Non Domestic Rates (BRIS):</b> No BRIS targets for 12/13 are anticipated to be formally confirmed by COSLA until after audit completion, possibly February 2014. Targets for 2013/14 may not be agreed until the 12/13 targets have been finalised.</li> <li>• <b>Tax Incremental Financing:</b> A Falkirk scheme has been approved. Argyll &amp; Bute and Fife are also progressing schemes for submission.</li> <li>• <b>Loans Fund Review:</b> no action at present pending Hazel's return.</li> </ul>	
<b>43/13</b>	<p><b>CIPFA LAAP Update</b></p> <ul style="list-style-type: none"> <li>• The situation regarding the Service Expenditure Analysis treatment of the social welfare fund was noted.</li> </ul>	
<b>44/13</b>	<p><b>Next Meeting</b></p> <p><b>Thursday 7 November (pm) – CIPFA Scotland</b></p>	

## ACTION POINTS FROM LASAAC MEETING OF 29 August 2013

	Minute Ref	Action	Action By	Status At 28 Oct 13
A	33/13	Minutes of 4 June to be loaded to the website	G Davies	Complete
B	33/13	E-mail on asset decommissioning to DoFs to be copied to LASAAC website and e-mailed to Valerie	G Davies	Complete
C	33/13	Asset Decommissioning to be reviewed as part of the 13/14 LASAAC work plan	G Davies	On agenda
D	33/13	Asset Decommissioning to be agenda item for next meeting	G Davies	Complete
E	34/13	Amendments to contact details and attendance records to be made	G Davies	Complete
F	37/13	Good practice example of explanatory forewords should be shared amongst the Directors of Finance Section	G Davies, I Lorimer	On agenda
G	37/13	Simplification of accounts project to consider other areas of the financial statements for action	G Davies, B West, F Kordiak, T Simpson	On agenda
H	38/13	<p>LASAAC response on the proposed Local Authority Accounts (Scotland) Regulations 2013 to be drafted for review and consideration by members incorporating the following points:</p> <ul style="list-style-type: none"> <li>• LASAAC to request clarification of the intended process regarding submission to Audit Scotland.</li> <li>• LASAAC to request earlier start and end dates for the public inspection process, and confirmation that there would be no need for approval or clearance prior to advertising the public inspection period.</li> <li>• LASAAC to broadly welcome the 30 September approval date but to: <ul style="list-style-type: none"> <li>○ Note that practical issues had to be overcome;</li> <li>○ Request clarification on the audit reports covered by 11(c)</li> <li>○ Request clarification on the anticipated committee approval process</li> </ul> </li> <li>• LASAAC response to note assumption that existing legislative escalation process applies where statements are not approved.</li> <li>• LASAAC response to indicate concern that the proposed Cash Transfer Value disclosure adds additional costs but little value, since benefit entitlements are already disclosed.</li> <li>• LASAAC response to request clarity on the intention, and a potential definition, of 'management commentary' in the</li> </ul>	G Davies, review by all members	Complete

		<p>regulations.</p> <ul style="list-style-type: none"><li>• LASAAC response to suggest that the case for transition arrangements should be considered based on the responses received from affected stakeholders.</li><li>• LASAAC response to query the value and objective of requiring the disclosure of all land disposals at less than best value.</li></ul>		
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