Technical Bulletin 2024/1

Technical developments and emerging risks from January to March 2024

Prepared by Audit Scotland for appointed auditors and audited bodies in all sectors

3 April 2024

Contents

1: Introduction

Purpose

The purpose of Technical Bulletins from Audit Scotland's Innovation and Quality (I&Q) business group is to provide auditors appointed by the Auditor General for Scotland and Accounts Commission for Scotland with:

- information on the main technical developments in each sector during the quarter
- information on professional matters during the quarter that are expected to have applicability to the public sector
- summaries of responses to any requests from auditors for technical consultations with I&Q.

Appointed auditors are required by the Code of Audit Practice to pay due regard to Technical Bulletins. The information on technical developments is aimed at highlighting the key points that I&Q considers auditors in the Scottish public sector require generally to be aware of. It may still be necessary for auditors to read the source material if greater detail is required in the circumstances of a specific audited body. Source material can be accessed by using the hyperlinks.

Any specific actions that I&Q recommends that auditors take are highlighted in green.

Technical Bulletins are also published on the Audit Scotland website and therefore are available for audited bodies and other stakeholders to access. However, hyperlinks to source material indicated with an asterisk (*) link to files on Audit Scotland's SharePoint* and are only accessible by auditors.

Highlighted items

I&Q highlights in the following table a selection of the items in this Technical Bulletin that are of particular importance:

Highlighted items		
I&Q has published guidance on reporting on summary financial information in 2023/24 **[paragraph 1]**	The Scottish Government has issued revised statutory guidance on accounting for service concession arrangements **[paragraph 4]**	CIPFA has published guidance notes on the 2023/24 accounting code **[paragraph 14]**
CIPFA has issued a disclosure checklist for 2023/24 **[paragraph 17]**	I&Q has published two auditor assurance protocols **[paragraph 21]**	The Accounts Commission has published a financial bulletin on 2022/23 [**paragraph 24**]
I&Q has published a briefing on section 106 charities [**paragraph 27**]	I&Q has published guidance on risks of misstatement in 2023/24 annual report and accounts **[paragraph 40 and 69]**	I&Q has published model forms of IARs for 2023/24 **[paragraph 44]**
Treasury has re-issued the 2023/24 FREM and issued the 2024/25 FReM **[paragraph 49 and 58]**	The Scottish Government has issued the NHS accounts manual and CAM for 2023/24 **[paragraph 72 and 80]**	The FRC has issued a revised Ethical Standard **[paragraph 83]**

Consulting with I&Q

Auditors should consult with I&Q by sending an email to TechnicalQueries@audit-scotland.gov.uk.

2: All sectors

TGN on reporting on summary financial information in 2023/24

1. I&Q has issued a Technical Guidance Note (TGN) TGN/SFI/24 to provide auditors with guidance on examining and reporting on summary financial information for 2023/24. The TGN is available to auditors on SharePoint* and is also freely available from the Audit Scotland website.

2. Summary financial information refers to a structured representation of financial information that is derived from, but contains less detail than, a full set of financial statements. In some cases, an audited body may be required by its sponsoring body to produce a separate annual report that includes summary financial information. In other cases, a body may choose to produce a report or other document that contains summary financial information as defined above.

3. In either event, auditors should express an opinion on the summary financial information's consistency with the audited financial statements. TGN/SFI/24:

- provides guidance for auditors on the examination of the summary financial information
- sets out and explains the testing and reporting procedures that auditors should carry out (all summarised in the checklist at Appendix 1)
- provides a model form of report at Appendix 2.

3: Local government sector

Revised guidance on accounting for service concession arrangements

4. The Scottish Government has published Finance Circular 7/2023 to provide revised statutory guidance on accounting for service concession arrangements, leases and similar arrangements. The revised statutory guidance replaces Finance Circular 10/2022 from 1 April 2024.

5. Finance Circular 10/2022 temporarily permitted a local authority to recognise the principal repayments for a service concession arrangement over the asset life rather than contractual term. This temporary flexibility is not reflected in the new statutory guidance.

6. With the exception of those service concession arrangements to which the flexibility was applied in either 2022/23 or 2023/24, from 1 April 2024 the annual statutory charge to the General Fund for all existing and new service concession arrangements, leases and similar arrangements will be required to:

- reflect the principal element of the contractual repayments
- be charged to the General Fund over the term of the contract.

7. Finance Circular 10/2022 will continue to apply where the temporary flexibility was exercised.

8. The proposed amendment explained in Technical Bulletin 2023/4 (paragraph 33) relating to leases reclassified on transition to IFRS 16 has not been progressed.

Proposed amendments to loans fund repayments - update

9. The Scottish Government has issued a response* to the comments received on its consultation on amending requirements for calculating repayments to loans fund advances (explained in Technical Bulletin 2023/4 (paragraph 23). The consultation proposed amendments to:

- The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 (the 2016 Regulations) which set out the statutory requirements for loans fund accounting
- Finance Circular 7/2016 (the statutory guidance) which sets out proper accounting practices for loans fund accounting.

10. The original proposed amendments to the 2016 regulations and any revisions to the actual amendments (which will come into force on 1 April 2024 rather than the proposed 1 April 2023) as a result of the consultation are summarised in the following table:

Original proposal	Revised requirement
A variation to a loans fund repayment must not extend the repayment period beyond the earlier of the end of the asset's useful life or 50 years after advance was made.	The revised requirement is that a varied repayment period must not exceed the useful life of the asset. Where a useful asset life cannot reasonably be determined, the repayment period may not exceed 50 years. Scottish Ministers may permit a longer repayment period where there is a compelling reason to do so.
Variation to a loans fund repayment must be applied prospectively and can never give rise to a nil or negative repayment.	No change
A loans fund repayment may not be varied where Scottish Ministers have consented to that borrowing	No change
Any decision to make a variation must be made by the whole council and may not be delegated.	Proposal withdrawn

11. The 2016 regulations apply to loans fund advances made prior to 1 April 2023 and have been amended by The Local Authority (Capital Finance and Accounting) (Scotland) Amendment Regulations 2024 to give effect to the above revisions. Equivalent amendments will be made to the statutory guidance which applies to advances made after 1 April 2023.

12. The following additional amendments to statutory guidance were deferred for further consideration:

- A requirement to categorise each loans fund advance against a specific element of capital expenditure.
- A restriction or removal of the use of the annuity method of establishing the loans fund repayment profile for new capital investment projects from 1 April 2023.
- An amendment to advise that the use of capital receipts to meet loans fund repayments does not reflect prudent provision and the Scottish Government has a longer-term aim to restrict the use of capital receipts for loans fund repayments.

- From 1 April 2023, all loans fund advances that relate to new capital investment projects which have not been approved prior to 1 April 2023 must be repaid in full on derecognition of an asset.

13. The above amendments, if applied, would not be introduced before 1 April 2027.

Guidance on 2023/24 accounting code

14. The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance notes* to support the Code of Practice on Local Authority Accounting in the UK 2023/24 (2023/24 accounting code).

15. The overall aim of the guidance notes is to explain and illustrate how to apply the accounting requirements of the accounting code, provide background to the requirements, and illustrate how they might be applied in practical situations. The guidance is not mandatory.

16. This edition of the guidance notes has been updated to reflect changes to the 2023/24 accounting code (explained in Technical Bulletin 2023/2 – paragraph 44). The most significant changes relate to accounting policies as a result of amendments to IAS 1 including the following:

- Guidance has been added to pages 31 and 32 on the application of amendments related to the selection and presentation of accounting policies. The guidance highlights that there is:
  - greater care to be taken to avoid ‘boilerplate’ text, especially where it is not tailored to the authority or simply repeats accounting code requirements
  - greater emphasis on the effectiveness of the judgements made in deciding what is material
  - a focus on organising and presenting material accounting policy information clearly and concisely.
- Further guidance has been added to paragraphs 32 to 34 on making judgements on materiality, highlighting the process to identify information that might influence the assessment, classification and presentation of material information clearly and concisely.
- Guidance has been added on pages 193 to 199 which clarifies the distinction between changes in estimates, changes in accounting policies, and correction of errors.

2023/24 disclosure checklist

17. CIPFA has issued a disclosure checklist* for the 2023/24 financial statements. It is intended for use as an aide-memoire to assist in meeting the requirements of the accounting code.

18. The checklist is in the form of a series of questions and the implications of the answers are set out in the following table:

Answer	Implication
Yes	The accounting code is being complied with.
No	A justification for departing from the accounting code should be given. For example, a legitimate justification may be that the information resulting from a particular disclosure is not material.

19. When evaluating whether the accounting code's disclosure requirements have been met, auditors should:

- request that the body completes the 2023/24 disclosure checklist
- investigate the reasons for any non-compliance that the checklist highlights
- evaluate whether the body's responses in the checklist are consistent with auditor's knowledge.

20. Where the body declines to complete the checklist, auditors should:

- establish the alternative arrangements by which it satisfies itself regarding the completeness of disclosures
- evaluate the adequacy of the arrangements
- consider completing the checklist as part of their audit procedures, where the body's arrangements are judged not to be adequate.

Auditor assurance protocols for 2023/24

21. I&Q has published two protocols to provide agreed frameworks for auditors to seek and provide certain assurances from auditors of other public bodies (assurance protocols). The assurance protocols are summarised in the following table:

Protocol subject	Nature of audit assurances
Local Government Pension Scheme (LGPS)	LGPS pension fund auditors request assurances from employer body auditors in respect of pension contributions payable by the employer body to the pension fund. Employer body auditors request assurances from pension fund auditors in respect of information provided by the pension fund to the actuary in relation to their reports on employer bodies.

Protocol subject	Nature of audit assurances
Integration joint boards (IJBs)	IJB auditors request assurances from the auditors of the constituent authorities regarding information not held by the IJB.

22. The assurance protocols set out the potential range of assurances but do not compel any specific assurances to be sought. It is not expected that any assurances outwith the specified range will generally be requested but that will be a matter for local agreement in 2023/24.

23. Auditors should:

- judge whether it is necessary to request any assurances from other auditors in 2023/24
- follow the agreed frameworks in each protocol when requesting or providing assurances.

2022/23 financial bulletin

24. The Accounts Commission has published its annual financial bulletin of Scottish local authorities. The bulletin provides a high-level independent analysis of the financial performance of local authorities during 2022/23 and their financial position at 31 March 2023. Some key messages include the following:

- There is pressure on capital budgets, presenting risks to the viability of local government capital programmes, Capital funding from the Scottish Government rose in 2022/23 but remains lower than before the pandemic and has been volatile over the past decade.
- An increasing proportion of local government funding is now either formally ring-fenced or provided with the expectation it will be spent on specific services.
- Councils anticipate budget gaps of over £476 million for the year, higher than the previous year. Councils are increasingly having to rely on savings and reserves to balance budgets. Half of councils increased their usable reserves in 2022/23, and overall usable reserves grew to £4.45 billion.

2024/25 finance settlement

25. The Scottish Government has published Finance Circular 8/2023 announcing the local government finance settlement for 2024/25 and revised funding for 2023/24.

26. The circular provides details of:

- the provisional total revenue and capital funding allocations for 2024/25
- the latest information on redeterminations for 2023/24

- a range of non-domestic rates measures, including the proposed poundage for 2024/25 and changes to certain reliefs.

Section 106 charities accounts

27. I&Q has issued a briefing to encourage a reduction in the number of sets of accounts of registered charities that fall within the scope of section 106 of the Local Government (Scotland) Act 1973 (section 106 charities). The briefing provides information on:

- the number of section 106 charities administered by each local authority in 2022/23
- the number of related sets of accounts.

28. Local authorities continued to administer a total of 165 charities in 2022/23 (a small reduction of five from 2021/22). In order to reduce the number of section 106 charities in 2023/24, auditors should strongly encourage authorities with multiple charities to:

- reorganise their charities through merging or winding them up, particularly when they appear to be failing to meet their charitable aims (e.g. by not disbursing funds)
- consider appointing an external trustee as this would remove the charity from the scope of section 106.

29. In the meantime, there is scope under the charity regulations for connected charities to prepare a single set of accounts. In I&Q's view, the definition of connected charities is met for section 106 charities administered by the same local authority even where trustees differ as they meet the condition for 'unity of administration'. However, in 2022/23:

- four authorities made only partial use of the connected charities provisions and produced 18 sets of accounts between them
- four authorities made no use of the provisions and produced 16 sets of accounts.

30. Auditors should strongly encourage local authorities to make full use of the connected charities provisions in 2023/24.

Consultation on measures to aid local audit in England

31. The CIPFA/LASAAC Board has issued a consultation on measures to aid the recovery of local audit in England. The proposals are set out in an update to the accounting code that would apply to local authorities in England only and would apply to 2023/24 and 2024/25. Although intended for England, Scottish stakeholders may be interested in the nature of the proposals.

32. The main proposal relates to an option to use specified indexation to remeasure operational property, plant and equipment instead of using professional valuations. This would involve the following:

- Asset values in 2023/24 and then 2024/25 would be based on the information in the 2022/23 financial statements updated by a standard index.
- The index would be centrally determined and be adjusted to reflect different regions in England.
- The consultation asks which party would be appropriate to determine the index to be applied.
- The asset values would still need to reflect current value subject to considerations of materiality. Local authorities will therefore still need to ensure that asset carrying amounts are supported by a sufficiently current evidence base.

33. There is also a proposal to reduce disclosures for pensions reporting. The proposal is to align disclosure requirements for pensions with FRS 102. The reduced requirements would therefore be for a local authority to disclose information that:

- explains the characteristics of its defined benefit plans and risks associated with them
- identifies and explains the amounts in its financial statements arising from its defined benefit plans
- describes how its defined benefit plans may affect the amount and timing of the authority's future cash flows.

34. Responses to the consultation were required by 28 March 2024.

Availability of 2023 triennial valuation reports

35. Technical Bulletin 2023/4 (paragraph 41) provided a view from I&Q on whether pension amounts in the balance sheet should be adjusted to reflect the 31 March 2023 triennial valuation. I&Q is aware that some pension funds have received triennial valuation reports from their actuaries and the following paragraphs provide updated guidance.

36. The triennial valuation sets the employer contribution rate for the next three years. It involves a more detailed estimate of a local authority's obligations than is required by the accounting code for IAS 19 reporting. However, the accounting code establishes the triennial valuation as the starting point for IAS 19 reporting, though it does not anticipate that it is directly used in the financial statements. A separate report for IAS 19 purposes is therefore required to be prepared by an actuary. The 31 March 2023 valuation reports will then be the starting point for the IAS 19-based amount in the balance sheet at 31 March 2024.

37. However, where the 2023 valuation reports become available before the 2022/23 audits are complete, local authorities need to consider the impact on the pension amounts in the balance sheet. CIPFA issued a bulletin to support this consideration (initially for English local authorities in 2021/22 but which is equally applicable to Scottish authorities in 2022/23). The bulletin advises authorities to review the triennial valuation with the actuary to determine whether it includes information which may provide evidence of an adjusting or non-adjusting event. Paragraph 11 of the bulletin provides helpful examples to aid this determination (e.g. changes in membership data or demographic assumptions that the actuary should have taken into account in the IAS 19 report).

38. The bulletin also highlights the importance of judgements on materiality in terms of whether any differences could reasonably be expected to influence users' decisions or conclusions. This is important when determining whether:

- the triennial valuation provides sufficiently different information to justify asking actuaries to revisit the IAS 19 information

- if IAS 19 information is revisited, the figures are sufficiently different from those in the unaudited accounts to require amendment.

39. Auditors should check that affected local authorities have discussed the impact of triennial reports with their actuaries and use that information to inform their own judgements on the likelihood of material adjustments being necessary. Where a material difference is considered likely, auditors should consider requesting that the local authority obtained a revised IAS 19 report from the actuary.

4: Central government sector

TGN on risks of misstatement in 2023/24

40. I&Q has published TGN 2024/1 to provide auditors with guidance on risks of misstatement in the 2023/24 annual report and accounts of central government bodies. The TGN and supporting material is accessible by auditors on SharePoint* and is also freely available to download from the Audit Scotland website.

41. The TGN is intended to inform auditors' judgement when identifying and assessing the risks of material misstatement. The TGN supplements the Code of Audit Practice and auditors are expected to pay it due regard and use it as a primary reference source when performing 2023/24 audits. Auditors should advise I&Q of any intended departures from the guidance.

42. The TGN comprises a number of modules as summarised in the following table:

Module	Risks of misstatement area	Purpose
Overview	Areas that are pervasive to the financial statements as a whole	Explains the appropriate related accounting treatment and sets out the action auditors should undertake to evaluate whether the body has followed the required treatment
1 - 8	Specific classes of transactions, balances and disclosures in the financial statements	
9	Irregular transactions	Explains the requirements and sets out the action auditors should undertake
10	Audited part of the Remuneration and Staff Report	
11	Statutory Other Information (e.g. Performance Report and Governance Statement)	Sets out the procedures for considering Statutory Other Information
12	Charitable NDPBs	Provides guidance on the application of the above modules to charitable NDPBs
13	Health boards	See chapter 5

43. The risks of misstatement for 2023/24 have been updated to reflect new requirements and risks which emerged during the 2022/23 audits that remain applicable. A separate note* summarises the main changes from 2022/23.

Independent auditor's reports for 2023/24

44. I&Q has published TGN 2024/2(CG) to provide auditors with model forms of Independent Auditor's Reports (IAR) which should be used for the 2023/24 annual accounts of central government bodies.

45. Auditors are required by the Code of Audit Practice to prepare their IARs in accordance with these TGNs. The TGNs are available with supporting material to auditors on SharePoint* and are also freely available from the Audit Scotland website.

46. The model forms of IARs set out in the appendices of the TGN have been tailored to reflect relevant public sector legislation and augmented by the reporting requirements of the Auditor General.

47. The main change to the model IARs for 2023/24 is to reflect the requirement for bodies to disclose material accounting policy information rather than significant accounting policies.

48. For the 2023/24 audits of central government bodies, auditors should:

- use the relevant model form of IAR for each audited body
- follow the specified wording other than where tailoring adjustments are set out in the application guidance in the TGN
- consult with I&Q on any modified opinion or conclusion
- complete an Auditor Action Checklist for each IAR prepared.

Revised 2023/24 FReM

49. HM Treasury has issued a revised version of the 2023/24 Government Financial Reporting Manual (the FReM). The main changes are explained in the following paragraphs.

Service concession arrangements

50. The FReM includes guidance on a revised treatment of indexation linked payments in liabilities for service concession arrangements at paragraphs 10.1.63 to10.1.65. It requires the liability to be remeasured if there is a change in future lease payments resulting from a change in an index/rate used to determine those payments.

51. Bodies will need to consider the initial remeasurement and subsequent remeasurement of the liability as summarised in the following table:

Measurement	Adjustment
At 1 April 2023	An opening balance adjustment at 1 April 2023 to account for cumulative indexation changes since the service concession arrangement commenced.
Subsequent	A subsequent remeasurement of the liability will be required when there is a change in cash flows as a result of an indexation-linked change (i.e. when the adjustment to lease payments take affect).

Sustainability reporting

52. Paragraph 5.4.9 has been added to require UK departments and large central government bodies to comply with the Task Force on Climate-related Financial Disclosures (TCFD)-Aligned Disclosure Application Guidance Phase 1.

53. The TCFD-aligned disclosures are being adopted on a phased basis with Phase 1 being applied in 2023/24. Relevant bodies are required to include a TCFD compliance statement, governance disclosures and metrics and targets in the Performance Report.

54. Paragraph 5.4.15 of the FReM explains that Scottish bodies should report in accordance with guidance from the Scottish Government who have clarified that the TCFD disclosure requirements do not apply in Scotland in 2023/24. However, bodies may make TCFD-aligned disclosure on a voluntary basis.

Other changes

55. The other changes applicable to Scottish bodies are summarised in the following table:

Area	Paragraphs	Amendment
Performance Report	5.4.6 (b)	Bodies have the option to signpost from the Performance Report to information published elsewhere on how they have promoted equality of delivery of services to different groups.
Material remote contingent liabilities	6.7.1 (b)	Clarification has been added that the disclosure in the Accountability Report of material remote contingent liabilities applies to contingent liabilities within the scope of IAS 37 that are not required by that standard to be disclosed because the likelihood of a transfer of economic benefits is considered too remote.
IFRS 9 Financial instruments	8.2.1	An adaption has been added where a body issues a financial instrument (other than a financial guarantee) at an amount that is different to fair value.

Area	Paragraphs	Amendment
		Where recognising at fair value would not result in a gain or profit and where no active market or observable equivalent exists, the adaptation requires bodies to measure the instrument on initial recognition at fair value.
Carbon reduction commitment scheme	10.3	References to the Carbon Reduction Commitment Scheme have been removed and replaced with guidance on the Climate Change Levy which is the successor scheme. The guidance explains that bodies subject to payment of the levy will see an outflow of assets when cash is paid over under the terms of the levy. The levy should be treated as an expense.

2023/24 GBS account information

56. I&Q will obtain information on account balances at 31 March 2024 for central government bodies from the Government Banking Service (GBS) and distribute them to relevant auditors.

57. The GBS has confirmed that the arrangements for obtaining 2023/24 account balances are unchanged.

2024/25 FReM

58. Treasury has issued the 2024/25 FReM. There are, however, no changes from the 2023/24 edition.

Consultation on valuation of non-investment assets

59. HM Treasury has issued an exposure draft on the valuation of non-investment assets. The proposed changes flow from Treasury's thematic review of non-investment asset valuations and a previous consultation paper referred to in Technical Bulletin 2023/1 (paragraph 9). The exposure draft covers the whole UK public sector in principle but is mainly focussed on central government.

60. Treasury is recommending that current valuation still be used for operational assets but is proposing changes to the measurement basis to address the disproportionality in cost associated with the current requirements.

61. The main proposed changes are summarised in the following table:

Area	Proposals
New class for operational assets	References to 'assets held for their service potential' to be replaced with 'assets held for their operational capacity'.

Area	Proposals
	'Assets held for their operational capacity' to be a new asset class that replaces networked assets, specialised assets and 'non-specialised assets. The current split between specialised/ non-specialised assets is therefore to be removed.
Change to Depreciated Replacement Cost (DRC) calculation	The option to consider alternative locations when valuing an asset using DRC to be removed, i.e. assets should be valued based on their existing location.
Revaluation frequency of property	A quinquennial frequency for full professional revaluations of property to be prescribed. Indexation to be required for the intervening years. Treasury will provide examples of common indices, but will not prescribe particular indices, for bodies to use. The requirement for full revaluations more frequently than five years to be withdrawn (unless there are observable indicators of impairment). The requirement to revalue an asset when its current value differs materially from its carrying value to be withdrawn.
Measurement basis for intangible assets	The measurement basis for intangible assets to change from market value in existing use to historical cost. The carrying amount of intangible assets at the date of transition will be deemed to be the asset's cost, with historical cost accounting applied thereafter.
Transitional arrangements	The implementation date for the changes to be 1 April 2025 (i.e. effective from 2025/26 financial statements). The changes to apply prospectively from that date (i.e. prior year comparatives will not be restated).

62. Comments were required by 16 February 2024.

Phase 2 guidance on TCFD

63. HM Treasury issued Phase 2 application guidance for TCFD- aligned disclosures. The additional disclosure requirements for phase 2 which applies in 2024/25 are set out in the following table:

Area	Proposed disclosures
Risk management	A description of the body's processes for: • identifying and assessing climate-related risks • managing climate-related risks

	• identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management arrangements.
Metrics and targets	The metrics used by the body to assess climate-related risks and opportunities in line with its strategy and risk management process. Greenhouse gas (GHG) emissions, and the related risks. The targets used by the body to manage climate-related risks and opportunities and performance against those targets.

64. Bodies are required to report at a group level and apply a "comply or explain" basis for the proposed disclosures.

65. The Scottish Government have not yet advised on the applicability of the requirements to Scottish bodies.

Amendments to SPFM

66. The Scottish Government has issued two Finance Guidance Notes which announce amendments to the Certificates of Assurance and the Settlement, Severance, Early Retirement and Redundancy sections of the Scottish Public Finance Manual (SPFM)

67. Finance Guidance Note 2024/1 amends the questions in a number of sections of the Certificates of Assurance internal control checklist. The main changes are summarised in the following table:

Area	Amendment
Risk management	Guidance has been updated on disaster recovery responsibilities and the use of business impact assessments.
Major investment	Guidance has been updated to require IT and digital projects to comply with the Digital Scotland Service Standard.
Procurement	Guidance has been updated to highlight the importance of engaging with Scottish Procurement and Property Directorate and involving them in the drafting of Strategic Outline Cases for major projects.

68. Finance Guidance Note 2024/2 amends the chapter on settlement agreements, severance, early retirement and redundancy terms. The amendments arise from recommendations from a recent evaluation of the severance policy. The main changes:

- are revised templates for business cases
- reinforce the need for a business case for all Settlement Agreements.

5: Health

TGN on risks of misstatement in 2023/24

69. I&Q will shortly publish Module 13 of TGN 2024/1 to provide:

- guidance on applying the other modules to the audit of the 2023/24 annual report and accounts of health boards
- supplementary guidance on the risks of misstatements in areas specific to health boards.

70. The module will be available with the rest of the TGN and supporting material to auditors on SharePoint* and will also be freely available to download from the Audit Scotland website.

71. Auditors are expected to pay due regard to Module 13 and use it as a primary reference source when performing 2023/24 audits of health boards. Auditors should advise I&Q of any intended departures from the guidance.

2023/24 accounts manual

72. The Scottish Government has issued the 2023/24 Manual for the Annual Report and Accounts of NHS Boards* (accounts manual). The accounts manual complements the guidance contained in the 2023/24 FReM but contains some additional or specific requirements.

73. The main changes are set out in the following paragraphs.

IFRS 16 application to service concession arrangements

74. Changes resulting from the application of IFRS 16 to service concession and similar arrangements (explained in the previous article on the 2023/24 FReM) should be disclosed in the Note 1 accounting policies and the Note 18 Commitments Under PFI/PPP Contracts.

Income from service level agreements

75. Page 93 clarifies the accounting treatment for inter-board service level agreements (SLAs), setting out that health boards should follow IFRS 15. Where compliance remains problematic, health boards can either:

- agree a contract amendment in accordance with IFRS 15 (paragraphs 18-21); or
- agree to a Scottish Government top slice equivalent to the SLA income/expenditure.

Repairs and maintenance expenditure

76. Page 126 clarifies that a provision should not be recognised for repairs and maintenance expenditure on a board's own assets as the board does not have an obligation to a third party.

Performance Report

77. Page 10 and 11 have been updated to reflect that formal three-year financial planning has resumed from 2023/24.

Governance Statement

78. A paragraph has been added to page 19 to clarify that the Governance Statement should clearly explain the relationship between health boards and their IJBs and how boards maintain governance oversight and receive assurances on the development and delivery of strategy.

79. Guidance has also been added to reflect the need for health boards to consider their compliance with the NHS Scotland – blueprint for good governance: second edition.

2023/24 CAM

80. The Scottish Government has issued the NHS Scotland Capital Accounting Manual 2023/24* (CAM) to interpret the accounting guidance contained in the 2023/24 FReM on capital accounting issues in the health sector.

81. The main changes for 2023/24 are to chapters 8 and 11 due to the application of IFRS 16 to service concession arrangements,

82. The Scottish Government has provided a 'Lease Helper' spreadsheet to assist health boards with their accounting entries.

5: Professional matters

Revised Ethical Standard

83. The Financial Reporting Council (FRC) has published a revised Ethical Standard to:

- take account of changes to the International Ethics Standards Board for Accountants Code of Ethics
- simplify the existing ethical standard and provide clarity in a limited number of areas
- add a new targeted restriction on fees from entities related by a single controlling party.

84. The key changes are summarised in the following table:

Area	Para	Revision
Breaches	1.22	When there has been a breach of the standard the engagement partner and ethics partner must consider the situation and actions required from the perspective of an objective, reasonable and informed third party.
	1.24	Firms are required to report to the FRC about individual breaches outside of the biannual timetable where the FRC would reasonably expect notice. This may be due to the nature or seriousness of the breach, including for example where the firm may need to consider resigning from an engagement.
	1.25	The revised standard clarifies that in deciding whether a breach is inadvertent is a matter of professional judgement based on an objective assessment of the evidence. A requirement has been added that the engagement partner is required to report the details and significance of any breaches to those charged with governance of each entity.
Financial relationships	2.3 and 2.4	These paragraphs have been completely revised to clarify requirements set by the standard, and those set by statute regarding personal financial independence for engagement teams and other staff.
	2.6 and 2.10	These paragraphs have been amended to provide further guidance on financial interests.

Area	Para	Revision
Long association with engagements	3.10 and 3.14	Clarification has been provided to explain that: • once an engagement partner has completed the maximum allowed period, the engagement partner cannot act as engagement quality reviewer for the engagement for another five years. • where an engagement partner rotates off an engagement after five years, then the option to extend for an additional two years is no longer available.
	3.22	A table setting out the rotation periods for key audit partners has been added.
	3.23	This paragraph has been added to provide guidance on cases where there are significant gaps in service (e.g. caused by a period of maternity or paternity leave, a sabbatical or long-term sickness absence) and the role is temporarily taken on by another person: • The firm should exclude this period for the purposes of calculating applicable rotation periods (unless the person in substance retains their role). • Any periods excluded should be long-term in nature and should not comprise multiple smaller blocks of time.
Fees	4.5, 4.6, 4.21 to 4.29	These paragraphs have been revised to enhance the prohibitions in relation to fees. Calculations used to determine whether an audit firm is over reliant on fees from entities have been amended to include fees from entities that are connected in substance.
Non-audit/additional services	5.7	Guidance has been added that non-audit services may comprise any engagement in which a firm provides professional services to another entity where the subject matter of the engagement includes the audited entity. Consideration may be given to the nature of the service, the ultimate beneficiary, the fee and the perspective of an objective, reasonable and informed third party.
	5.33	Documentation requirements in respect to the provision of non-audit/additional services have been enhanced to require inclusion of significant judgements concerning the potential threats and proposed safeguards and how the objective and reasonable third-party test has been applied
	5.46	The range of ‘internal audit services’ is wide and they may not be termed as such by the audited entity. The following engagements would fall within the term: ‘: • outsourcing the audited entity’s entire internal audit function

Area	Para	Revision
		• supplementing the function in specific areas • providing occasional internal audit services on an ad hoc basis.
	5.53 and 5.54	Examples of IT services which create threats include: • acting as the only access to financial or non-financial information systems • storing the entity's data or records • providing electronic security or back-up services • operating, maintaining, or monitoring the entity's IT systems, network or website. However, the routine collection, transmission and retention of data to enable the provision of a permissible service does not create threats.
	5.89	References to recruitment services includes: • searching for or seeking out candidates; • undertaking reference checks of prospective candidates; • acting as a negotiator on the entity's behalf; • recommending the person to be appointed.

85. The revised standard applies to financial periods commencing on or after 15 December 2024 (i.e. 2025/26).

6: Fraud and irregularities

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

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

Expenditure

Invalid supplier

86. An unknown individual compromised a supplier's email account and committed bank mandate fraud. The public body paid £5,000 to the fraudulent bank account.

Key features
The public body received a request by email to amend a supplier's bank account details. The public body sent an amendment form by email to the supplier for completion. The amendment form was completed and returned by email. The supplier's email address had been intercepted by a fraudster who requested the change. The fraud was possible as the public body did not telephone the supplier to verify the change of bank details. The issue was identified when the payment was reported as suspicious by the public body's bank. The public body has reported the case to the police and has since provided counter-fraud training to their finance team.

Council tax

87.A council employee and their partner committed council tax fraud totalling £17,000 by submitting fictitious details online.

Key features
The employee and their partner were jointly liable for council tax at their home from 2015. No payment was made towards the council tax liability from April 2015. From October 2018 onwards, three online forms were submitted by the employee and their partner to the council to change the names of those liable for council tax to the names of fictious individuals.

Key features

During sequestration action to recover the outstanding council tax liability carried out by Sheriff Officers in March 2023, concerns came to light that the council employee was deliberately misrepresenting their identity to avoid paying council tax arrears dating back to 2015. A Counter Fraud Team investigation confirmed that the council employee and partner were the only residents at the property from April 2015 and that the three online change requests were fraudulent.

The fraud was possible as the process to change council tax liability did not require verification checks to be carried out.

Controls have since been improved with increased scrutiny and checking of changes to council tax liability, data matching and fraud awareness briefings for staff.

Technical Bulletin 2024/1

Technical developments and emerging risks from January 2024 to March 2024

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AUDIT SCOTLAND

Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: **info@audit-scotland.gov.uk**
www.audit-scotland.gov.uk

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Technical Bulletin 2024/2

Technical developments and emerging risks from April to June 2024

Prepared by Audit Scotland for appointed auditors and audited bodies in all sectors

30 June 2024

Contents

1: Introduction

Purpose

The purpose of Technical Bulletins from Audit Scotland's Innovation and Quality (I&Q) business group is to provide auditors appointed by the Auditor General for Scotland and Accounts Commission for Scotland with:

- information on the main technical developments in each sector during the quarter
- information on professional matters during the quarter that are expected to have applicability to the public sector
- summaries of responses to any requests from auditors for technical consultations with I&Q.

Appointed auditors are required by the Code of Audit Practice to pay due regard to Technical Bulletins. The information on technical developments is aimed at highlighting the key points that I&Q considers auditors in the Scottish public sector require generally to be aware of. It may still be necessary for auditors to read the source material if greater detail is required in the circumstances of a specific audited body. Source material can be accessed by using the hyperlinks.

Any specific actions that I&Q recommends that auditors take are highlighted in green.

Technical Bulletins are also published on the Audit Scotland website and therefore are available for audited bodies and other stakeholders to access. However, hyperlinks to source material indicated with an asterisk (*) link to files on Audit Scotland's SharePoint* and are only accessible by auditors.

Highlighted items

I&Q highlights in the following table a selection of the items in this Technical Bulletin that are of particular importance:

Highlighted items		
I&Q has published guidance on independent auditor's reports [**paragraph 2**]	CIPFA has issued guidance on closing the 2023/24 financial statements of local authorities **[paragraph 7]**	PWC has provided a report to support auditors when assessing information produced by actuaries in respect of the LGPS **[paragraph 11]**
CIPFA/LASAAC has issued the 2024/25 accounting code for local government **[paragraph 25]**	The Scottish Government has issued revised loans fund guidance **[paragraph 28]**	I&Q has published guidance on objections to 2023/24 local government accounts [**paragraph 34**]
I&Q has issued guidance for auditors on certifying the 2023/24 HB subsidy claim **[paragraph 37]**	Treasury has issued an amendment to the 2023/24 FreM **[paragraph 44]**	The Cabinet Office has issued guidance on Remuneration and Staff Reports **[paragraph 49]**
I&Q has issued a report to auditors following an examination of the CNORIS **[paragraph 58]**	I&Q has issued a review of land and building valuations for health boards **[paragraph 60]**	The Scottish Government has issued an IFRS 16 lease model and guidance **[paragraph 63]**

Consulting with I&Q

Auditors should consult with I&Q by completing an enquiry form and submitting it to TechnicalQueries@audit-scotland.gov.uk.

2: All sectors

Independent auditor's reports for accounts in 2023/24

1. I&Q has published the following Technical Guidance Notes (TGN) to provide auditors with model forms of Independent Auditor's Reports (IAR) which should be used for the 2023/24 annual accounts of the following public bodies:

- TGN 2024/3(H) for health boards
- TGN 2024/4(LG) for local government bodies.

2. Auditors are required by the Code of Audit Practice to prepare their IARs in accordance with the TGN. The TGN is available with supporting material to auditors on SharePoint* and is also freely available from the Audit Scotland website.

3. The model forms of IARs set out in the appendices of the TGNs have been tailored to reflect relevant legislation and augmented by the reporting requirements of the Auditor General and Accounts Commission.

4. The main change to the previous guidance and model IARs is to reflect the requirement for bodies to disclose material accounting policy information rather than significant accounting policies.

5. For the 2023/24 audits of public bodies, auditors should:

- use the relevant model form of IAR for each audited body
- follow the specified wording other than where tailoring adjustments are set out in the application guidance in the TGN
- consult with I&Q on any modified opinion or conclusion
- complete an Auditor Action Checklist for each IAR prepared.

Technical consultations with auditors

I&Q responses to requests from auditors for technical consultations

6. The following table summarises a request from auditors for a technical consultation with I&Q in respect of an issue arising from the audit of the 2023/24 annual accounts, along with the advice offered:

Should financing costs be included in valuations of buildings under the depreciated replacement cost (DRC) methodology?

There is an important distinction between what the valuer includes in their valuation and what a body can or must capitalise under accounting rules.

Under the DRC methodology, a valuer is required to adopt an instant build approach. Guidance issued by the Royal Institution of Chartered Surveyors (RICS) highlights that borrowing costs (which the valuer calls finance costs) should not be included in the valuation of the property where the instant build approach is adopted.

However, for accounting purposes, borrowing costs can be capitalised (regardless of DRC being used). IAS 23 Borrowing Costs requires borrowing costs that are directly attributable to the asset to be capitalised. The Government Financial Reporting Manual (FReM) adopts IAS 23 and therefore bodies covered by the FReM are required to capitalise borrowing costs. However, most central government bodies and health boards are not permitted to borrow to fund capital expenditure and therefore this is unlikely to arise in practice. The Code of Practice on Local Authority Accounting in the UK (the accounting code) adapts IAS 23 to allow local government bodies the option whether to expense or capitalise borrowing costs. Colleges follow FRS 102 which also allows the option to capitalise borrowing costs.

If a valuer were to incorrectly include finance costs in the DRC valuation and the body had capitalised borrowing costs, those costs would be double-counted.

3: Local government sector

Guidance on the 2023/24 financial statements

7. The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued Bulletin 17 Closure of the 2023/24 Financial Statements to provide guidance on closing the 2023/24 financial statements. The guidance is intended to be best practice, but it does not have the formal status of the accounting code.

8. The following items in the guidance are highlighted for Scottish local government bodies:

- Reinforced autoclaved aerated concrete (RAAC).
- Accounting standards that have been issued but not yet adopted.

RAAC

9. Section 4 addresses the issues around RAAC. Some key points are summarised in the following table:

Area	Summary of guidance
Subsequent measurement	Consideration needs to be given to whether any additional revaluations are required outwith the usual cycle due to an Office of Government Property safety briefing notice considering RAAC as "life-expired". Adjustments may be needed due to: • the ability to deliver services as intended for assets based on existing use value • assets valued at fair value being viewed less favourably on the open market • structural and safety issues for assets valued at DRC.
Depreciation & impairment	The useful life of assets, residual value, and previous depreciation calculations may need to be revisited. Consideration should be given to whether assets should be componentised differently. Local authorities should assess whether the presence of RAAC constitutes an indication of impairment.
Assets held for sale	When classifying an asset as held for sale, authorities should consider whether: • remedial work is required prior to a sale

Area	Summary of guidance
	• the presence of RAAC is likely to adversely impact on the probability of the asset being sold.
Associated revenue costs	One potential impact on revenue is the rental of alternative accommodation, such as classrooms.

Accounting standards that have been issued but not yet adopted

10. Section 10 lists the accounting standards introduced by the 2024/25 accounting code (discussed later in this chapter) which require to be disclosed as ‘standards issued but not yet adopted’ in 2023/24. They include IFRS 16 Leases for those local authorities that have not implemented the standard in 2023/24

2023/24 report on actuarial information

11. I&Q has arranged for PWC to provide a report* to support auditors when assessing the competence and objectivity of, and assumptions and approach adopted by, actuaries producing information required by IAS 19 figures in respect of the Local Government Pension scheme (LGPS) as at 31 March 2024. Auditors should refer to paragraphs 16 to 25 in Module 4 of TGN 2023/8(LG) for guidance on using the report and further information.

12. PWC have confirmed the competence and objectivity of the actuaries involved in valuations for the LGPS in Scotland. They are also comfortable that in aggregate the assumptions adopted by all actuaries will lead to liabilities falling within their expected ranges for a typical employer at 31 March 2024.

13. However, the report advises auditors to consider whether:

- local issues have been adequately covered in instructions issued by employers to actuaries (page 3)
- to subject the source data provided to the actuaries by employers to further audit procedures as discussed in section 5 of the report
- to establish actual asset returns and compare them with expected returns arrived at using market indices (see page 15).

14. Page 17 of the report addresses accounting for plan amendments, curtailments, and settlements (special events) under IAS 19. Auditors need to understand whether any significant special events have occurred, and whether profit and loss items have been remeasured from the date of the event for the remainder of the accounting period. This entails remeasuring both the assets and liabilities using assumptions set at this date. The report confirms that all actuaries are aware of the IAS 19 requirement.

15. Page 20 of the report provides an update on the following matters:

- All actuaries are following an approach in 2023/24 for Guaranteed Minimum Pension (GMP) indexation and equalisation that is consistent with 2022/23.

- In relation to the McCloud judgement, most actuaries are following an approach in 2023/24 consistent with prior years. The exception is Barnett Waddingham who are using a more accurate approach as they now have 2022/23 membership data.

- The Government Actuary Department is currently reviewing any implications of a High Court legal ruling on a recent Virgin Media case. No actuaries made specific allowance for this judgement as at 31 March 2024 as the applicability to LGPS is currently too uncertain.

- Actuaries do not intend making any specific allowance for the Goodwin, O'Brien or similar cases, unless requested to do so.

16. Pages 18 to 21 of the report provide an update and guidance on IFRIC 14 and the pension asset ceiling. As actuaries do not have a standard approach, auditors may need to clarify the approach used at each body.

17. For areas not covered by the CIPFA guidance on IFRIC 14 (referred to in TB 2023/4 paragraph 19), page 19 sets out:

Assumptions related to contributions

18. Actuaries had little previous experience of calculating an asset ceiling before last year and therefore adopted a number of different methodologies for the calculation at 31 March 2023. It is expected that those methodologies will be further developed for calculating the asset ceiling at 31 March 2024. The expectation is that:

- future service contributions will be assumed to continue into perpetuity

- positive or negative past service contributions will be assumed to continue over the period they were originally calculated on

19. A change in a methodology, e.g. a change in annuity rate or future working life applied, is expected to be treated as a change in accounting estimate and therefore recognised prospectively (i.e. from the date of change). However, if last year's methodology was unsatisfactory or incorrectly applied or otherwise resulted in an error, the change in methodology may require to be applied retrospectively.

20. Page 20 confirms that all actuaries, unless otherwise requested, will assume that the future service contribution rates will remain constant even for periods beyond the current triennial valuation period.

The approach to unfunded benefits

21. Provisions for discretionary enhancements to retirement benefits (e.g. payments for early retirement) are referred to as unfunded liabilities as they are paid by the body rather than the pension fund. The unfunded liability should be presented separately from the net defined benefit asset at 31 March 2024.

Actuaries should not include the unfunded payments in future employer contributions when calculating the asset ceiling.

22. There may be cases where unfunded payments were included in the asset ceiling calculations as at 31 March 2023. This may have impacted on the net defined benefit asset recognised on the Balance Sheet at that date. Bodies may need to request a recalculation of the asset ceiling at 31 March 2023 to determine the impact of the unfunded payments. Consequently, auditors should consider whether the comparative figures in the 2023/24 financial statements may require to be adjusted.

Presentation of interest

23. Page 21 confirms the requirements in relation to interest where an IFRIC 14 asset restriction occurred in 2022/23. The net interest income recognised in 2023/24 will be reduced due to an asset restriction in 2022/23. Auditors will need to clarify if actuaries' calculations have taken into account any restrictions applied in 2022/23. Any change in the size of the restriction over the year should be recognised through Other Comprehensive Income.

24. Appendix E to the report provides additional guidance on the application of IFRIC 14 addressing the extent to which an IAS 19 surplus can be recognised on the balance sheet and whether any additional liabilities are required in respect of onerous funding commitments.

2024/25 accounting code

25. CIPFA/LASAAC has issued the accounting code* to set out local government accounting requirements for 2024/25. The financial reporting framework is based on International Financial Reporting Standards (IFRS) as adopted by the UK, adapted for the local government context where necessary.

26. The most significant changes to the 2024/25 accounting code relate to the mandatory adoption of IFRS 16 from 2024/25. Guidance included as an appendix to the 2022/23 and 2023/24 accounting codes (as explained in Technical Bulletin 2022/3 paragraph 18) is now included in section 4.2 of the 2024/25 code.

27. The 2024/25 accounting code also include additional requirements on the application of IFRS 16 including in section 4.3 on service concession arrangements:

- Where indexation or changes in a rate affect future payments, the lease liability should be remeasured. The remeasurement reflects only indexation or rate changes which have already occurred and result in a change to the payment amount.
- On transition, the lease liability should be adjusted to reflect the liability which would have been calculated in the previous year, based on the index or rate applied to variable payments in the previous reporting year.

Revised loans fund statutory guidance

28. The Scottish Government has issued Finance Circular 7/2024 to provide revised statutory guidance on loans fund accounting to replace from 2024/25 the guidance in Finance Circular 7/2016.

29. The statutory guidance is consistent with recent amendments to The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 which apply to loans fund advances made before 1 April 2023 (Technical Bulletin 2023/4 paragraph 23). The revised statutory guidance will apply to advances made on or after that date.

30. The main revisions are included at paragraphs 56 to 62 of the statutory guidance (i.e. part 2 of the circular) and are as follows:

- Where a loans fund advance relates to an asset, the prudent repayment period should align to:
  - the asset life as determined for calculating depreciation; or
  - where an asset life cannot be established, the period over which benefit of the expenditure will be provided to the community (subject to a maximum of 50 years unless Scottish Ministers give consent to a longer period)
  - the period over which a local authority will receive a related income stream.
- There is no requirement to revisit decisions regarding the repayment period taken prior to 1 April 2024.
- Any variation to loans fund repayments may only be calculated on the balance of the loans fund advance outstanding in the financial year of variation and may only be applied prospectively. A variation may not result in either a nil or negative charge.
- The asset life is based on the depreciation term of the asset in the year of the loans fund advance. Loans fund repayments may only be varied where this aligns with a variation to the depreciation term of an asset, as determined in accordance with proper accounting practice.
- Loans fund advances where Scottish Ministers have consented to that borrowing may not be varied.

31. In addition, paragraph 16 of the guidance sets out the general principle that loans fund repayments should be made from revenue and therefore the use of capital receipts should be minimised.

Council tax on second and unoccupied homes

32. The Council Tax (Variation for Unoccupied Dwellings) (Scotland) Amendment Regulations 2023 have been issued to amend the requirements for council tax on second homes and unoccupied properties from 2024/25. These include the:

- power for local authorities to increase the amount of council tax payable on second homes by up to 100%
- ability to impose an increase of up to 100% for properties which have:
  - been empty for at least 12 months
  - been purchased by a new owner within the past six months
  - repairs or renovations being undertaken.

33. The Scottish Government has issued Finance circular 6/2024 to provide guidance on the amended regulations. This includes advising that income:

- generated using existing powers to reduce the discount on long-term empty homes and second homes between 10% to 50% continues to be ring-fenced for affordable housing and empty homes services
- is not ring-fenced where the discount is under 10% or a council tax increase of up to 100% is applied.

Guidance on objections to 2023/24 annual accounts

34. I&Q has published TGN 2024/5(LG) to provide auditors with guidance on the right of an interested person under section 101 of the Local Government (Scotland) Act 1973 to:

- inspect the unaudited 2023/24 annual accounts of a local government body
- object to those accounts.

35. The TGN is available with supporting material to auditors on SharePoint* and is also freely available from the Audit Scotland website.

36. Auditors should:

- evaluate whether the public inspection notice for 2023/24 is in accordance with applicable legislation
- carry out the actions set out in the TGN for any objections received.

2023/24 housing benefit subsidy claims

Technical Guidance Note for auditors

37. I&Q has published TGN/HBS/24 on certifying the 2023/24 housing benefit (HB) subsidy claim. The TGN is provided with supporting material to auditors on SharePoint and is also available from the Audit Scotland website. The TGN:

- provides guidance for auditors on the examination of the HB subsidy claim, including highlighting the main risk areas
- sets out and explains an overview of the certification approach, the preliminary procedures (at section 1), testing procedures (at section 2), procedures for evaluating results and agreeing amendments (section 3) completion procedures (at section 4) and post-certification procedures (at section 5) that auditors should carry out (all summarised in the checklist at Appendix 1)
- provides examples of reporting errors and observations in a letter to the Department for Work and Pensions (DWP) at Appendix 3
- provides examples of reporting the results of any post-certification procedures at Appendix 4.

38. The TGN reflects changes following a review carried out by I&Q of the certification approach adopted in Scotland in 2021/22 and 2022/23. Changes include the following:

- The DWP has set 30 November 2024 as the submission deadline for the 2023/24 subsidy claims. The DWP require the local authority to inform them where that date will not be met.
- The initial samples selected for testing should contain cases with income calculations or overpayments (not both)
- Where a local authority places all homeless claimants on either rent rebate or rent allowance, auditors should amend the composition of their initial sample in accordance with the guidance provided. Auditors should include confirmation in their letter to DWP of their consideration of the risk of error in their initial sample

39. Auditors should certify 2023/24 HB subsidy claims in accordance with TGN/HBS/24.

DWP guidance and tools

40. The following modules of the HB subsidy certification approach have been issued by the DWP. Auditors should refer to these modules when certifying the 2023/24 subsidy claims:

- The uprating 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.
- The workbooks* to be completed for detailed testing.
- The software diagnostic tool* to ensure the subsidy claim has been completed using the recognised software for claim completion and reconciles "benefit granted" to "benefit paid" in accordance with the software suppliers' instructions.

2023/24 NDR return and guidance

41. The Scottish Government has issued the 2023/24 Non-domestic rates (NDR) notified return and guidance. The most significant changes from 2022/23 are:

- The rateable value threshold for higher properties and Fresh Start relief has increased from £95,000 to £100,000.
- The Small Business Bonus Scheme calculations have been amended
- The Non-Domestic Rates Incentivisation Scheme has been reinstated.

42. I&Q will publish TGN/NDR/24 on certifying the 2023/24 return shortly, which auditors should use to certify 2023/24 NDR returns.

Technical consultations with auditors

43. The following table summarises a request from auditors for a technical consultation with I&Q in respect of an issue arising from the audit of the 2023/24 annual accounts of local government bodies, along with the advice offered:

Integration joint boards

Should the commissioning expenditure of an integration joint board (IJB) be adjusted for an underspend or overspend incurred by constituent authorities when delivering the commissioned services?
The accounting for an over/under spend by a constituent authority on the delivery of services commissioned by the IJB should be in accordance with its integration scheme: • Where the integration scheme provides that an under/overspend is retained by the constituent authority, the commissioning expenditure provided by the IJB should not be adjusted. • Where the integration scheme requires any under/overspend to be returned to or borne by the IJB, the commissioning expenditure should be adjusted accordingly. This means that in effect the IJB commissioning expenditure reflects the underlying cost of delivering the commissioned services. There should be no adjustment to the IJB commissioning expenditure unless required by the integration scheme. Auditors should therefore assess whether the treatment of under/overspends on the delivery of commissioned services is in accordance with the integration scheme.

4: Central government sector

Amended 2023/24 FreM

44. HM Treasury has issued an amended 2023/24 Government Financial Reporting Manual (FReM) in respect of pension benefit disclosures. The FReM for 2023/24 was originally issued in December 2022, and subsequently revised in December 2023 (explained in Technical Bulletin 2024/1 paragraph 49).

45. The latest revision disapplies the requirement at paragraphs 6.5.8 d) and 6.5.15 to disclose pension benefit information for directors where it is not available and waiting could delay laying the accounts. Where that is the case, paragraph 6.5.15 sets out the required explanatory disclosure.

46. In I&Q's view, the FReM amendment applies to the administrative dates set for Scottish bodies. A modified opinion on the Remuneration and Staff report is therefore not necessary due to the non-disclosure of the relevant pension benefit information provided the specific explanation for non-disclosure has been properly disclosed.

47. The FReM amendment is intended to apply only in circumstances where the required pension information has not been made available, and there is no other way for the body to calculate the required amounts. Where bodies have received information but are required to adjust the figures (for example, as explained in the following article, cases where employee contributions require to be removed from CETV calculations), the body should be able to make the necessary adjustment. It would therefore be inappropriate to apply the FReM amendment to these circumstances.

2023/24 guidance on Remuneration Report disclosures

48. The Cabinet Office has issued an Employers Pension Notice(EPN) 710 on the preparation of the pay, pension and compensation disclosures for the Remuneration and Staff Report for 2023/24.

49. The EPN has been updated to reflect the requirements of the 2023/24 FReM issued in June 2024 (as explained at paragraph 44). An example of the disclosures is provided at Annex 13C.

50. The EPN sets out that the real increase in CETV is the element of the increase funded by the employer, excluding contributions paid by the employee.

51. The Scottish Public Pension Agency (SPPA) provide CETV information to a number of public bodies in Scotland, including health boards. The SPPA have clarified that they do not make any adjustment for employee contributions. For the Remuneration Report disclosure, bodies are therefore required to remove the employee contributions from the CETV figure provided by the SPPA.

52. EPN 710 also explains that the real increase in CETV should exclude the effect of inflation. It advises that the CPI increase for September 2023 was 6.7%. The SPPA has confirmed that 6.7% has been used when calculating the real increase during 2023/24.

53. Auditors should refer to this guidance when auditing the 2023/24 Remuneration Report.

Disclosure guide for 2023/24 financial statements

54. The National Audit Office has published a disclosure guide on the 2023/24 financial Statements for bodies covered by the Government Financial Reporting Manual (FReM).

55. The guide is designed to ensure that bodies covered by the FReM have prepared their 2023/24 financial statements in the appropriate form and have complied with all disclosure requirements. The guide is cross-referenced to the 2023/24 FReM, individual financial reporting standards, and the Companies Act 2006. A tailored checklist can be generated by selecting the criteria that are material to the body.

56. When checking that the FReM's disclosure requirements have been met, auditors should in accordance with the Overview Module of TGN 2024/1:

- consider requesting that the body completes the disclosure checklist
- investigate the reasons for any non-compliance that the guide highlights
- evaluate whether the body's responses in the checklist are consistent with auditor's knowledge.

5: Health sector

Assurance report on 2023/24 clinical negligence claims

57. I&Q has issued a report* to auditors following an examination of the Clinical Negligence and Other Risks Indemnity Scheme (CNORIS). The purpose of the report is to:

- provide assurance on the methodology used by the Scottish Government in the calculation of the CNORIS national obligation at 31 March 2024
- inform auditors' evaluation of the role of the NHS Central Legal Office as a management expert.

58. Auditors should refer to this report when auditing the 2023/24 provisions for CNORIS.

Review of 2023/24 land and building valuations

59. I&Q has issued a report* to auditors following a review of the use of indices in health boards 2023/24 valuation programmes for land and buildings.

60. The review identified which health boards utilised indices for land and buildings valuations and analysed the indices used to help inform auditors judgement.

61. Auditors should consider this report when auditing the 2023/24 land and building valuations.

IFRS 16 lease model

62. The Scottish Government has issued a model* and guidance notes* to assist health boards account for leases and service concession arrangements in accordance with IFRS 16.

63. The model calculates projected liability balances for leases. The guidance recognises that the model may result in a different opening liability as at 1 April 2023 compared to the liability at 31 March 2023 due to assumptions made in the model, for example, the timing of repayments. Where the model has recognised a different opening liability, boards should investigate the difference.

64. Auditors should evaluate the board's explanation of any difference between the liability identified as at 31 March 2023 and the liability calculated using the model at 1 April 2023.

Framework document

65. The Scottish Government has issued a framework agreement for boards setting out:

- the responsibilities of the Portfolio Accountable Officer and the Accountable Officers at each territorial health board
- the relationship between the Scottish Ministers, Scottish Government and health boards.

66. The framework is intended to support clear communication, the alignment of Scottish Government's priorities with NHS board planning processes and the involvement in policy and decision-making.

6. Fraud and irregularities

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

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

Payroll expenditure

67. An employee failed to notify the body of £20,000 of income received when they were not working.

Key features
During Covid restrictions, an employee was required to start shielding. The body agreed to the employee being absent from work while shielding requirements were necessary. However, the employee did not return to work after shielding was no longer required, but continued to be paid. The fraud was identified when the employee failed to complete mandatory training. The fraud was possible due to a failure to perform a back to work interview at the end of the shielding requirements. The employee has agreed to repay the overpayment.

Technical Bulletin 2024/2

Technical developments and emerging risks from April to June 2024

Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: **info@audit-scotland.gov.uk**
www.audit-scotland.gov.uk

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Technical Bulletin 2024/3

Technical developments and emerging risks from July to September 2024

Prepared by Audit Scotland for appointed auditors and audited bodies in all sectors

30 September 2024

Contents

Accessibility

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1: Introduction

Purpose

The purpose of Technical Bulletins from Audit Scotland's Innovation and Quality (I&Q) business group is to provide auditors appointed by the Auditor General for Scotland and Accounts Commission for Scotland with:

- information on the main technical developments in each sector during the quarter
- information on professional matters during the quarter that are expected to have applicability to the public sector
- summaries of responses to any requests from auditors for technical consultations with I&Q.

Appointed auditors are required by the Code of Audit Practice to pay due regard to Technical Bulletins. The information on technical developments is aimed at highlighting the key points that I&Q considers auditors in the Scottish public sector require generally to be aware of. It may still be necessary for auditors to read the source material if greater detail is required in the circumstances of a specific audited body. Source material can be accessed by using the hyperlinks.

Any specific actions that I&Q recommends that auditors take are highlighted in **bold**.

Technical Bulletins are also published on the Audit Scotland website and therefore are available for audited bodies and other stakeholders to access. However, hyperlinks to source material indicated with an asterisk (*) link to files on Audit Scotland's SharePoint* and are only accessible by auditors.

Highlighted items

I&Q highlights in the following table a selection of the items in this Technical Bulletin that are of particular importance:

Highlighted items		
I&Q has published guidance for auditors on 2023/24 WGA **[paragraph 1]**	LASAAC has issued guidance on the disclosure of Low Emission Zones **[paragraph 10]**	The Scottish Government has extended the statutory overrides in respect of accounting for infrastructure assets in local government **[paragraph 15]**
I&Q has published guidance for auditors on the certification of NDR income returns **[paragraph 20**]	The Scottish Government has issued guidance on climate related disclosures **[paragraph 23]**	Treasury has issued a consultation on phase 3 of climate related financial disclosures **[paragraph 28]**
I&Q has issued two technical guidance notes related to the audit of the college sector **[paragraph 36 and 39]**	The SFC has issued an accounts direction and guidance notes for colleges in 2023/24 **[paragraph 43]**	The PAF has issued proposed revisions to PN10 **[paragraph 47]**

Consulting with I&Q

Auditors should consult with I&Q by completing an enquiry form and submitting it to TechnicalQueries@audit-scotland.gov.uk.

2: All sectors

Guidance on 2023/24 WGA returns

1. HM Treasury has issued guidance on preparing the 2023/24 Whole of Government Accounts (WGA) returns for local government and for central government bodies. WGA is prepared by Treasury and consolidates the audited accounts of bodies in the UK that exercise functions of a public nature or are funded from public money. The process has been running significantly behind schedule over the last few years, but the timescales for 2023/24 returns are earlier than in previous years.

2. The National Audit Office (NAO) are the group auditor for WGA. Procedures that auditors are required to undertake in respect of providing assurance to the NAO are included in a Technical Guidance Note (TGN) issued by I&Q. TGN/WGA/24 on 2023/24 returns has been published and is available with supporting material to auditors on SharePoint* and also on the Audit Scotland website. The procedures in the TGN are consistent with the NAO's Group Audit Instructions but tailored to Scottish bodies. Reporting procedures include the submission of an Assurance Statement in a form prescribed by NAO.

3. Paragraph 1.7.1 of the Treasury guidance sets out the key dates for 2023/24 WGA:

Cycle	Return	Submission date
1	Unaudited	16 August 2024
2	Audited	13 September 2024

4. Auditors are not expected by I&Q to have met the 13 September submission date if doing so would have compromised audit quality. Auditors should instead make the submission as soon as reasonably practicable.

5. Data is collected for the 2023/24 WGA by bodies inputting information directly to the Online System for Central Accounting and Reporting (OSCAR II). 'Minor' Bodies are exempt from the WGA process if their gross expenditure, gross income, gross assets, and gross liabilities are below £30 million for both 2022/23 and 2023/24.

6. A diagram at paragraph 4.2.2 of the guidance sets out the steps involved in the WGA submission process. The steps depend on whether the body is above the audit threshold. Section 1.7. advises that the threshold for audit is breached if any of total assets (excluding property, plant and equipment), total liabilities (less pension liabilities), total income or total expenditure is above £2 billion. No examination is required for bodies below the threshold, although auditors are required to complete the first eight sections of the Assurance Statement (except for minor bodies) and submit it to the NAO.

7. Annex A of the Treasury guidance provides a summary of the proforma tabs used to input data. Chapter 7 provides more detailed guidance on inputting data into the tabs. Section 7.2. advises that the Audit Report is a view of all data submitted which can be shared with auditors. It may be appropriate to download the individual tabs instead, and also run the new primary financial statements report.

8. A key part of the WGA process is the elimination of transactions and balances between WGA bodies. Recording complete and accurate counter-party identifier (CPID) information is the only way in which transactions and balances between WGA bodies can be identified and eliminated. Paragraph 6.3.4 of the Treasury guidance explains how bodies can run a Matches Analysis Tool which allows them to see 'live' published data from other bodies. Central government bodies are required to formally agree transaction streams and balances that are above £5 million with central government counterparties.

9. Auditors should examine and report on the 2023/24 WGA returns of public bodies in Scotland in accordance with the TGN, and make the required submissions as soon as reasonably practicable.

3: Local Government Sector

Guidance on LEZ disclosures from 2023/24

10. The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) has issued guidance on disclosure related to the operation of Low Emission Zone (LEZ) schemes, currently applicable in Glasgow, Edinburgh, Aberdeen, and Dundee. The guidance is voluntary for 2023/24, but is expected to be mandatory from 2024/25.

11. Local authorities operating a LEZ are required by regulations to prepare and publish a statement of account in both their annual accounts and a separate annual report on the operation and effectiveness of the scheme.

Annual accounts

12. The guidance considers that a proportionate approach is for the statement of account to be a disclosure note. A summary of the content is provided in the following table:

Disclosure	Content
Administering costs	Costs incurred in proposing, making and operating the scheme the scheme. Set up costs incurred between 1 April 2023 and 31 March 2024. Costs incurred before 1 April 2023 disclosed in a prior year comparative column.
Revenue from fines and charges	For authorities that did not commence charging until 1 June 2024, an explanation should be provided for why there is no revenue to be disclosed in the 2023/24 financial statements.
Narrative	An explanation of the income generated and running costs of the scheme. An overview of the legislative requirements for the scheme, including the revenues raised and how they are utilised.

13. As this is a statutory requirement, authorities are required to make the disclosure regardless of whether amounts are considered material.

Annual report

14. Disclosures in the separate annual report should be identical to the disclosure in the notes to the financial statements.

Extension of statutory override for infrastructure assets:

15. The Scottish Government has issued Finance Circular 8/2024 to extend the period of statutory overrides for infrastructure originally set out in Finance Circular 9/2022.

16. The same overrides available in 2022/23 and 2023/24 now also apply for 2024/25.

Draft guidance on use of capital grant

17. The Scottish Government has issued a draft circular* containing a temporary amendment to the statutory guidance in Finance Circular 3/2018 on accounting for capital grant. The proposed temporary amendment applies to the specific elements of the 2024/25 General Capital Grant set out at paragraph 1 of the draft circular. It is proposed that local authorities may apply the elements of the capital grant to fund the principal element of both General Fund and Housing Revenue Account (HRA) loan repayments which will allow revenue reserves held for capital investment to fund the 2024/25 local government pay award.

18. The proposed statutory guidance will also provide the consent of Scottish Ministers to use the capital grant to fund HRA capital expenditure.

19. The proposed temporary amendments to the accounting requirements for capital grant are summarised in the following table

Use of capital grant	Proposals
Repayment of loan principal	Where the capital grant is transferred to the Capital Fund, the statutory adjustments in Part 2 of Finance Circular 3/2018 are not required. The statutory repayment of debt must still be charged to the General Fund (debit General Fund, credit Capital Adjustment Account). When the capital grant is applied, a separate transaction is required to transfer the capital grant from the Capital Fund (debit) to the General Fund or HRA (credit).
HRA	When the capital grant is utilised, it is transferred to the Capital Adjustment Account (debit General Fund, credit Capital Adjustment Account)
Other purposes	Accounted for in accordance with Finance Circular 3/2018.

2023/24 Non-domestic rates income returns

20. I&Q has published TGN/NDR/24 on certifying non-domestic rates (NDR) income returns. The TGN provides guidance for auditors on the examination of the NDR income return, including highlighting the main risk areas. The TGN is provided to auditors on SharePoint* and also on the Audit Scotland website.

21. **Auditors should certify 2023/24 NDR income returns in accordance with TGN/NDR/24**.

Technical consultations with auditors

22. The following table summarises a request from auditors for a technical consultation with I&Q in respect of an issue arising from the audit of the 2023/24 annual accounts of local government bodies, along with the advice offered:

Employee benefits

Should an additional liability be recognised where a body participating in a local government pension scheme is required to make secondary contributions to fund an existing deficit?
Secondary contributions are used in a local government pension scheme to address an existing deficit or surplus in the fund. Positive contributions increase the overall contribution to the fund and therefore help to reduce an existing deficit. Where a participating body makes positive secondary contributions these are referred to as past service contributions. IFRIC 14 requires that where past service contributions are not available in the form of a refund or reduction in future contributions, an additional liability should be recognised when the obligation arises. This liability should reduce the net defined benefit asset or increase the net liability. Auditors should determine whether the body has accounted for positive secondary contributions in 2022/23 and 2023/24 in accordance with IFRIC 14. Where positive contributions made in either year have not been accounted for correctly, bodies may need to request a calculation from their actuary to determine whether the present value of agreed past service contributions was material at 31 March 2023 and 2024. Where positive secondary contributions made in 2022/23 have not been accounted for correctly, auditors should consider whether a retrospective restatement in 2023/24 is required. This may also require an IFRIC 14 assessment to be carried out for 2021/22 to ensure the opening position is correct in 2022/23.

4: Central Government Sector

Sustainability disclosures

Guidance for 2023/24

23. The Scottish Government has issued application guidance* on sustainability disclosures for annual accounts from 2023/24 of Scottish bodies that follow the Government Financial Reporting Manual (FReM).

24. The 2023/24 FReM requires compliance with the Task Force on Climate Related Financial Disclosures (TCFD) aligned disclosures (explained in Technical Bulletin 2024/1 paragraph 53). This guidance recommends that relevant Scottish public bodies comply with the FReM requirements. This supersedes the guidance at paragraph 54 of Technical Bulletin 2024/1 which reflected advice from the Scottish Government that the disclosure requirements would not apply in 2023/24.

25. The sustainability disclosures may be implemented using the phased approach allowed by the TCFD guidance, but public bodies may report disclosures earlier. The phases are summarised in the following table:

Phase	Year	Required disclosure
1	2023/24	Governance arrangements
2	2024/25	Risk assessment, key metrics and targets
3	2025/26	Strategy

26. The TCFD-aligned disclosures should be included in the Performance Report either within the performance overview/analysis section, incorporated into the sustainability reporting section, or as a new section.

27. The guidance recommends that the annual returns which most public bodies are required to submit to the Sustainable Scotland Network should be used to meet the disclosure requirements. The guidance permits signposting in 2023/24, but from 2024/25 the information should be incorporated within the annual accounts.

28. This guidance impacts on the disclosure requirements for Performance Reports set out in Module 11 of TGN 2024/1. The checklist setting out the content of the Performance Report has been updated accordingly.

29. Technical Bulletin 2024/1 advised that Treasury had issued application guidance on phases 1 and 2. Treasury have subsequently issued a consultation draft on application guidance on phase 3.

30. The proposed disclosures for the Strategy pillar under phase 3 are set out in Chapter 3 of the application guidance and include:

Area	Proposed disclosures
Principal, New, and Emerging Risks	Identification and disclosure of principal climate-related risks. Consideration of new and emerging risks that could impact the organization. A description of the relevant short, medium, and long-term time horizons that could have a material financial impact
Climate Scenario Analysis	Climate scenario analysis using common anchor points (or reference periods or points) Analysis should cover different time horizons and consider various climate scenarios, including a 2°C or lower scenario Scenario analysis should be conducted every 3 to 5 years, or more frequently where the assumptions used no longer apply

31. The consultation period ended on 26 September.

2023/24 remuneration report disclosure calculator

32. Deloitte have issued a report* on MyCSP's Cash Equivalent Transfer Value (CETV) Calculator tool used to calculate disclosure information included in 2023/24 Remuneration Reports. MyCSP administer the Civil Service pension arrangements on behalf of the Cabinet Office and provide disclosure information to a number of Scottish public bodies.

33. The report assesses the processes and controls in place as ‘Satisfactory’ which means they are considered adequate in the circumstances.

34. Auditors should refer to this report when auditing CETV values in 2023/24.

5: College Sector

TGN on risks of material misstatement in 2023/24

35. I&Q has published Module 14 of the TGN 2024/1. The TGN is intended to inform auditors' judgement when identifying and assessing the risks of material misstatement in the 2023/24 annual report and accounts of central government bodies generally. Module 14 provides:

- guidance on applying the other modules to the audit of the 2023/24 annual report and accounts of colleges
- supplementary guidance on the risks of misstatements in areas specific to colleges.

36. Module 14 is available with the rest of the TGN and supporting material to auditors on SharePoint* and is also freely available to download from the Audit Scotland website.

37. Auditors are expected to pay due regard to Module 14 and use it as a primary reference source when performing 2023/24 audits of colleges. Auditors should advise I&Q of any intended departures from the guidance

Independent auditor's reports for college accounts in 2023/24

38. I&Q has published TGN 2024/6(C) to provide auditors with model forms of Independent Auditor's Reports (IAR) which should be used for the 2023/24 annual accounts of colleges in Scotland.

39. Auditors are required by the Code of Audit Practice to prepare their IARs in accordance with the TGN. The TGN is available with supporting material to auditors on SharePoint* and is also freely available from the Audit Scotland website.

40. The model forms of IARs set out in the appendices of the TGNs have been tailored to reflect relevant legislation and augmented by the reporting requirements of the Auditor General.

41. There are no significant changes to the previous guidance and model IARs.

2023/24 accounts direction and guidance

42. The Scottish Funding Council (SFC) has issued their Accounts Direction for Scotland's Colleges 2023/24 and guidance notes on completion of the 2023/24 financial statements. The direction requires colleges to:

- comply with the SORP in preparing their financial statements
- include a Performance Report and Accountability Report in their annual report and accounts in accordance with the FReM.

43. Specific mandatory disclosure requirements for colleges are set out in Appendix 2 to the direction. The main changes are as follows:

- Colleges are no longer required to provide in the Performance Report a breakdown of the Cash Budget for Priorities.
- A change in the accounting for the funding and costs of the support staff and middle management job evaluation exercise. The direction indicates that a contingent liability, rather than a provision, is the appropriate accounting treatment from 2023/24.

44. The guidance notes are designed to supplement the accounts direction and cover key disclosures in the financial statements, including model disclosure notes set out at Annexes A to F.

45. There are no significant changes to the guidance notes from 2022/23

6: Professional matters

Proposed revisions to Practice Note 10

46. The Public Audit Forum has issued a consultation draft of Practice Note 10.

47. Part 1 of PN 10 sets out how auditors of public sector bodies apply auditing standards to their work on financial statements. The aim is to support consistency in the application of auditing standards while also recognising the specific legislative and regulatory frameworks that apply to the audits of public sector bodies. Part 2 provides guidance on the approach to the audit of regularity.

48. PN 10 is updated regularly to take account of changes to standards and other developments in the auditing profession. The main proposed changes are summarised in the following table:

Section	Summary of proposed revision
ISA(UK) 570	Paragraph 1-181 has been added to provide guidance that if the auditor disclaims their opinion on the financial statements, they do not report on whether the use of going concern basis is appropriate.

Section	Summary of proposed revision
ISA(UK) 600	The section has been updated to reflect the objectives of the auditor in the revised standard. Paragraph 1-188 from the previous version has been deleted. It provided guidance on the group auditor's use of the work of component auditors and component materiality (which is no longer a concept in the revised standard). Paragraphs 1-191 to 1-195 have been amended to provide guidance on combined financial statements which include a large number of components whose financial information is individually immaterial, but is material in aggregate to the group financial statements. The amendments include: • clarifying that such financial statements are group financial statements within the scope of the revised standard • deleting references to component auditors facilitating access to the auditor of the combined financial statements, since these are considered group financial statements • amending the guidance where combined financial statements consistent entirely of a large number of non-significant components (since there is no longer a concept of non-significant components in the revised standard). Guidance is now provided where combined financial statements consist entirely of a large number of small components with disaggregated transactions, balances and disclosures which are material in aggregate to the group financial statements
Part 2 Regularity	Paragraph 2-86A has been added to provide guidance where an auditor disclaims their opinion on the financial statements. It advises that the auditor should also disclaim their opinion of regularity because they do not have sufficient assurance over the nature of the transactions entered into by the audited body.

49. The consultation period ended on 20 September 2024.

7: Fraud and irregularities

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

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

Payroll expenditure

50. An employee authorised their own shift work to the value of £15,000.

Key features
The employee booked and authorised 49 shifts for themself through the bank staff system. It is uncertain whether the employee worked all shifts as records show login activity for only six shifts. The manager identified the fraud when reviewing actual expenditure against budgeted expenditure. The fraud was possible as the authorisation process allowed employees to book and authorise their own shifts. The authorisation process has subsequently been strengthened to require manager authorisation of all bank shifts. The employee has been suspended and the public body is seeking to recover the funds.

Technical Bulletin 2024/3

Technical developments and emerging risks from July to September 2024

Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 **Email: info@audit.scot**
www.audit.scot

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Technical Bulletin 2024/4

Technical developments and emerging risks from October to December 2024

AUDIT SCOTLAND

Prepared by Audit Scotland for appointed auditors and audited bodies in all sectors

18 December 2024

Contents

Accessibility

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Highlighted items

I&Q highlights in the following table a selection of the items in this Technical Bulletin that are of particular importance:

Highlighted items		
I&Q has issued guidance on planning the 2024/25 audits **[paragraph 1]**	I&Q has issued a good practice note on climate change related disclosures **[paragraph 6]**	I&Q will soon publish a TGN on the potential misstatements in the 2024/25 accounts of local government bodies **[paragraph 11]**
The Scottish Government has issued revised guidance on the use of capital grants in 2024/25 **[paragraph 15**]	CIPFA has issued guidance on the 2024/25 accounting code **[paragraph 20]**	CIPFA/LASAAC has issued a consultation on the 2025/26 accounting code **[paragraph 24]**
Treasury has issued a PES paper on 2024/25 discount rates **[paragraph 35]**	The SFC has issued an amendment to the accounts direction for colleges in 2023/24 **[paragraph 40]**	The PAF has issued a revised Practice Note 10 **[paragraph 45]**

Consulting with I&Q

Auditors should consult with I&Q by completing an enquiry form and submitting it to TechnicalQueries@audit-scotland.gov.uk.

2: All sectors

Guidance on planning 2024/25 annual audits

1. I&Q has issued guidance to assist all appointed auditors in planning their 2024/25 annual audits of public bodies. The guidance supplements the Code of Audit Practice and sets out the range of core annual audit activity and related outputs required for 2024/25, and the timescales for completing the audit in each sector.

2. Auditors should comply with the guidance when planning, performing and reporting their 2024/25 audits. The guidance is accessible by auditors with other supporting materials on SharePoint* but it is also freely available from the Audit Scotland website.

3. The largest component of core annual audit activity is the audit of a public body's annual accounts. However, the audit of the annual accounts has a wider scope than the private sector, and includes:

- conclusions on aspects of public bodies' arrangements and performance
- in local government, public audit includes considering arrangements to secure Best Value and community planning and publishing performance information.

4. Auditors also provide important intelligence to the Auditor General, Accounts Commission, the Controller of Audit, and Audit Scotland in subject areas where they are best placed to do so.

5. The following table provides a summary of the key changes from last year, along with the paragraphs of the guidance in which further information is provided:

Nature of change	Paragraph
An increase to the fee level below which auditors may negotiate an increase to the audit fee by up to 20% of auditor remuneration.	10
The production of one combined cross-sector guidance on risks of misstatement instead of separate guidance for each sector.	18 to 19
Updated guidance on group audits as a result of revisions to ISA (UK) 600.	28 to 32

Nature of change	Paragraph
Changes to procedures for the service auditor report on the primary care payments system.	35
Changes to the assurance provided on the Scottish Government general ledger system.	40
Updated guidance for considering climate change arrangements.	69 to 71
Updated Best Value thematic review subject area for councils.	88
Clarified guidance on the application of Best Value to pension funds.	99 to 101
Revised process for Current Issues Returns.	127 to 128 and 135 to 136
Additional guidance on public inspection process in local government.	158 to 159
Changed arrangements for sharing intelligence on health and social care.	174 to 178

Review of climate related arrangements and disclosures

6. Innovation and Quality (I&Q) has published a Good Practice Note (GPN) following a review of the Climate Change related financial disclosures in the 2022/23 and 2023/24 annual accounts of a sample of public bodies in Scotland. The GPN is available to auditors on SharePoint* and is also freely available from the Audit Scotland website.

7. Climate-related disclosures were chosen for a good practice review due to the impact of climate change and the action required to address it. Good practice is illustrated, where possible, using examples taken from the annual accounts of the bodies in the sample.

8. The review was carried out by a team in I&Q 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. The review identified the following key messages:

- All bodies included some climate-related disclosure in their annual accounts. However, the completeness, conciseness and clarity of disclosures varied.
- 86% of bodies in the sample identified climate change as a strategic priority and highlighted supporting plans, including carbon and/or financial budgets.

- Half of the bodies reviewed disclosed climate change as a strategic risk. The better disclosures explained the likelihood of the risk materialising, the potential impact on the body and the mitigating actions adopted to manage the risk.

- It is important to consider the presentation of performance information in such a complex area, as it can be difficult to interpret. Consideration should be given to the level of dis-aggregation that is most appropriate.

- The review identified only limited disclosures within the financial statements and accompanying notes regarding the impact of climate-related issues.

9. Auditors are requested to encourage their audited bodies to use the GPN to assess and enhance their own disclosures in 2024/25.

10. Audit Scotland also prepared a report* summarising the findings from an analysis of the information provided by auditors on climate change arrangements at audited bodies as part of the 2022/23 audit. It provides an overview across the public sector and a breakdown by specific sector, where appropriate. The report is intended to provide background information to help auditors:

- inform discussions on climate change with their audited bodies

- informally benchmark their audited body in the relevant sector

- identify where the audited body may be doing more than other bodies or where there is room for improvement.

3: Local Government Sector

TGN on potential misstatements in 2024/25 annual accounts

11. I&Q will soon publish Technical Guidance Note (TGN) 2024/8(LG) to provide auditors with guidance on potential misstatements in the 2024/25 annual accounts of local government bodies. The TGN will be accessible by auditors on SharePoint*, along with supporting material, and will also available from the Audit Scotland website.

12. The TGN is intended to inform auditors' professional judgement and promote the exercise of professional scepticism. The TGN supplements the Code of Audit Practice and auditors are expected to pay it due regard and use it as a primary reference source when performing 2024/25 audits. Auditors should advise I&Q of any intended departures from the guidance.

13. The TGN comprises a number of modules as summarised in the following table:

Module	Potential misstatement area	Purpose
Overview	Areas that are pervasive to the financial statements as a whole	Concisely explains the appropriate accounting treatment related to each potential misstatement
1-9	Specific classes of transactions, balances and disclosures in the financial statements.	
10	Audited part of Remuneration Report	Explains the requirements and provides guidance on the potential misstatements in the audited part of the Remuneration Report
11	Statutory Other Information (e.g. Management Commentary and Annual Governance Statement)	Sets out the procedures for considering the Statutory Other Information
12	Integration joint boards	Provides guidance on the application of the above modules to these specific bodies
13	Pension fund accounts	
14	Section 106 charities	

14. The guidance on potential misstatements reflects areas of complexity, subjectivity and uncertainty. They have been updated to reflect new requirements which emerged during the 2023/24 audits that remain applicable. A separate note summarises the main changes from 2023/24.

Revised guidance on use of capital grant in 2024/25

15. The Scottish Government has issued Finance Circular 2024/9 containing a temporary amendment to the statutory guidance in Finance Circular 3/2018 on accounting for capital grant.

16. The temporary amendment applies to the £53 million of 2024/25 General Capital Grant set out at paragraph 1 of the circular. Local authorities may apply the elements of the capital grant to fund the principal element of both General Fund and Housing Revenue Account (HRA) loan repayments which will allow revenue reserves held for capital investment to fund the 2024/25 local government pay award.

17. The statutory guidance provides the consent of the Scottish Ministers required for the HRA loan repayments.

18. Once the capital grant held in the Capital Fund is utilised to fund the principal element of loan repayments, it must be transferred to the General Fund or HRA as a transfer from other statutory reserves in the Movement in Reserves Statement.

19. The capital grant must be utilised in 2024/25 and therefore may not be transferred to the Capital Grants (and Receipts) Unapplied Account

Guidance on 2024/25 accounting code

20. The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance notes* to support the Code of Practice on Local Authority Accounting in the UK 2024/25 (2024/25 accounting code).

21. The overall aim of the guidance notes is to explain and illustrate how to apply the accounting requirements of the accounting code, provide background to the requirements, and illustrate how they might be applied in practical situations. The guidance is not mandatory.

22. This edition of the guidance notes has been updated to reflect changes to the 2024/25 accounting code (explained in Technical Bulletin 2024/2 – paragraph 25). The most significant changes relate to the mandatory adoption of IFRS16 Leases in 2024/25:

- The guidance has been significantly amended for lease and lease-type arrangements on pages 557 to 632, setting out the requirements of IFRS 16 and the accounting code’s adaptations and interpretations for the public sector context. This includes additional guidance on the accounting for sale and leaseback transactions, on pages 613 to 615.

23. Further guidance has been added to pages 652 to 664 setting out the accounting treatment for service concession arrangements where indexation or changes in a rate affect future payments. The guidance provides:

- illustrative examples for simple arrangements which bodies may find useful
- the detailed accounting entries required for the remeasurement of the liability and how this affects the lease asset.

Consultation on the 2025/26 accounting code

24. CIPFA/LASAAC Local Authority Code Board has issued an exposure draft of the accounting code for 2025/26. The main items in the Invitation to Comment (ITC):

- set out proposed revisions to the 2025/26 accounting code in respect of the measurement of non-investment assets
- seek views on accounting for infrastructure assets.

25. Responses to the consultation should be submitted via the online survey by 14 February 2025.

Proposed revisions to the 2025/26 accounting code in respect of measuring non-investment assets

26. The proposed revisions to the 2025/26 accounting code include implementing the changes from the HM Treasury thematic review of measurement requirements for non-investment assets (see Technical Bulletin 2024/1 – paragraph 59).

27. The main proposed changes relate to the frequency of valuations and the use of indices. More information is provided in the following table:

Area	Proposals
Frequency of valuations	It is proposed to withdraw the current requirement that revaluations must be made with sufficient regularity to ensure that the carrying amount of the non-investment asset does not differ materially from its current value. Instead, quinquennial revaluations will be the default requirement (with the option of a rolling programme over that period) assuming there are appropriate indices for the intervening years. Revaluation outside the five-yearly cycle will only be required where there are indicators of impairment. If there are no indices available for a particular asset, it will be revalued every three years.

Area	Proposals
Indexation	There is a proposed requirement for indexation to be applied to asset values in the intervening years between the quinquennial revaluations. Indices should be relevant to the type of asset using industry standards. CIPFA will issue guidance on the indices to be used ,and local authorities will be required to pay due regard to that guidance. The purpose of indexation is to keep the value of an asset materially up to date for movements in variables, e.g. build costs, rental income etc, but absolute precision will not be required.
Social housing	There are no proposed changes to the valuation frequency for social housing assets and no proposal for indexation to be used.
Transitional arrangements	The transitional period will be from 1 April 2025 to the date the next revaluation is due for an asset. For the transition period, changes to the valuation will be applied prospectively, with no restatement of prior year figures. Revaluations carried out prior to 2025/26 remain valid throughout the transition period During the transition period, the maximum period between revaluations must not exceed five years when supplemented by annual indexation, or three years when no index is available.

28. There is also a proposal to withdraw the option to measure intangible assets using the revaluation model. The carrying values at the transition date of 1 April 2025 will be considered historical cost.

29. Although not impacting on the 2025/26 accounting code, the ITC asks for views on longer-term changes to the Depreciated Replacement Cost measurement technique. Consultees are asked whether they would support:

- a move to value non-investment assets based on their current site only, and not consider alternative sites
- the option to use an identical replacement for the asset as well as the modern equivalent approach.

Infrastructure assets

30. The ITC provides an update on the temporary and longer-term solution for accounting for infrastructure assets.

31. CIPFA/LASAAC has previously agreed that the longer term solution should be based on moving to a Depreciated Replacement Cost (DRC) measurement basis for infrastructure assets. However, most respondents in a survey of stakeholders were critical of DRC or were of the view that it was not practically achievable by the proposed date of 1 April 2025.

32. The temporary solution set out in Finance Circular 8/2024 (see Technical Bulletin 2024/3 - paragraph 15), and equivalent regulations in the rest of the UK, is in place until 31 March 2025. The ITC asks for views on whether the timeframe for the temporary solution should be extended until the longer term solution is in place.

33. The ITC also notes that the information deficits for many local authorities mean that, to comply with IAS 16, a one-off revaluation exercise (at DRC) is required to arrive at a deemed cost on the transition date to a permanent solution. It is possible that thereafter continuing with a DRC measurement basis is as cost effective as a move to (deemed) historical cost. This will need to be investigated in more detail.

34. Until a longer-term solution is in place, it is essential that local authorities consider the information systems and inventories of infrastructure assets and what potential improvements can be made to ensure that asset information is complete.

4: Central Government Sector

2024/25 discount rates

35. HM Treasury has issued PES (2024)9* to announce changes in the discount rates for general provisions, post-employment benefit liabilities, leases, and financial instruments as at 31 March 2025.

General provisions

36. The nominal discount rates to be applied as at 31 March 2025 for discounting general provisions recognised under IAS 37 are set out in the following table:

Category	Period	Percentage
Short term	Within 5 years	4.03%
Medium term	Between 5 and 10 years	4.07%
Long term	Between 10 and 40 years	4.81%
Very long term	More than 40 years	4.55%

37. As nominal rates do not take inflation into account, cash flows require to be inflated separately. There is a rebuttable assumption that the inflation rates specified in the paper will be used (unless other rates are clearly more applicable). The specified rates are:

- 2.60% for up to one year from the end
- 2.30% between one and two years
- 2.00% for after two years

Post-employment benefits

38. The discount rates for post-employment benefits are set out in the following table:

Use	Rate from 31 March 2025
Real rate used for valuing unfunded pension scheme liabilities and early departure provisions	2.40%

Use	Rate from 31 March 2025
Nominal rate for unwinding discount on liabilities (interest)	5.15%
Rate used for funded pension schemes	Based on returns from AA corporate bonds at 31 March

Financial instruments

The financial instrument discount rates to be applied at 31 March 2025 are set out in the following table:

Use		Rate from 31 March 2025
Nominal rate when financial instrument is not linked to an inflationary index		2.15%
Real rate when financial instrument indexed to RPI	In excess of RPI:	
	Until February 2030	(0.85%)
	From February 2030	0.05%

Leases

39. Where a body cannot determine the interest rate implicit in the lease, they are required to use a nominal lease discount rate of 4.81%. This is relevant for transition to IFRS 16 and for new leases that commence or are remeasured between 1 January 2025 and 31 December 2025

5: College Sector

Amendment to 2023/24 accounts direction

40. The Scottish Funding Council (SFC) has issued an amended Accounts Direction for Scotland's Colleges 2023/24.

41. Paragraphs 7 to10 of the amended accounts direction replace paragraphs 21 to 23 of Appendix 1 of the published accounts direction (see Technical Bulletin 2024/3 - paragraph 43) They relate to the accounting treatment for the middle management/support staff job evaluation exercise.

42. The amendment explains that the grant funding previously held by the SFC to fund the job evaluation exercise has been returned to the Scottish Government. This impacts colleges' ability to accrue income previously notified through funding allocation letters.

43. There are two amendments as follows:

- The estimated settlement cost of the job evaluation exercise should be recognised as a provision rather than disclosed as a contingent liability. Any accrued income previously recognised to fund the exercise should be derecognised.

- Colleges should include the provision in the adjusted operating position (AOP) disclosure. A revised model AOP disclosure is included with the amendment

44. The amendment highlights that a prior period adjustment may be required as the change to funding arrangements occurred in 2022/23. In I&Q's view

- where a college was aware of the change in funding arrangements prior to signing the 2022/23 annual accounts, this would require to be corrected as a prior year adjustment in the 2023/24 accounts of affected colleges

- where a college was not aware of the change in funding arrangements or the error in the allocation letters prior to signing the 2022/23 accounts, it would be reasonable for the college to account for this change prospectively in the 2023/24 accounts (i.e. a prior year adjustment would not be required).

6: Professional matters

Practice Note 10

45. The Public Audit Forum has issued revised Practice Note 10.

46. Part 1 of PN 10 sets out how auditors of public sector bodies apply auditing standards to their work on financial statements. The aim is to support consistency in the application of auditing standards while also recognising the specific legislative and regulatory frameworks that apply to the audits of public sector bodies. Part 2 provides guidance on the approach to the audit of regularity.

47. PN 10 is updated regularly to take account of changes to standards and other developments in the auditing profession. The main changes are summarised in the following table:

Section	Summary of change
ISA(UK) 570	Paragraph 1-181 has been added to provide guidance that if the auditor disclaims their opinion on the financial statements, they do not report on whether the use of going concern basis is appropriate.
A(UK) 600	The section has been updated to reflect the objectives of the auditor in the revised standard. Paragraph 1-188 from the previous version has been deleted. It provided guidance on the group auditor's use of the work of component auditors and component materiality (which is no longer a concept in the revised standard). Paragraphs 1-191 to 1-195 have been amended to provide guidance on combined financial statements which include a large number of components whose financial information is individually immaterial, but is material in aggregate to the group financial statements. The amendments include: • clarifying that such financial statements are group financial statements within the scope of the revised standard • deleting references to component auditors facilitating access to the auditor of the combined financial statements, since these are considered group financial statements • amending the guidance where combined financial statements consistent entirely of a large number of non-significant components (since there is no longer a concept of non-significant components in the revised standard). Guidance is

Section	Summary of change
	now provided where combined financial statements consist entirely of a large number of small components with disaggregated transactions, balances and disclosures which are material in aggregate to the group financial statements
Part 2 Regularity	Paragraph 2-86A has been added to provide guidance where an auditor disclaims their opinion on the financial statements. It advises that the auditor should also disclaim their opinion of regularity because they do not have sufficient assurance over the nature of the transactions entered into by the audited body.

7: Fraud and irregularities

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

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

Payroll expenditure

48. An employee received £8,500 of salary when they were not entitled.

Key features
An employee continued to receive their full salary while on maternity leave because their manager did not report the leave to payroll. There were no follow-up checks to ensure the necessary paperwork was completed. The overpayment was identified when payroll processed a payment for a "keeping in touch day" during the employee's maternity leave. The service has reminded all staff and managers about the correct process for payroll amendments and terminations. The employee is now repaying the overpaid amount.

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Technical developments and emerging risks from October to December 2024

Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 **Email: info@audit.scot**
www.audit.scot

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