Technical Bulletin 2024/3

Technical developments and emerging risks from July to September 2024

Audit Scotland

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

30 September 2024

Contents

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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.

<table>
<tr><th>Section</th><th>Summary of proposed revision</th></tr>
<tr><td>ISA(UK) 600</td><td>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</td></tr>
<tr><td>Part 2 Regularity</td><td>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.</td></tr>
</table>

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.

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