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

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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 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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