

Technical Bulletin

2025/4

Technical developments and emerging risks from
October to December 2025



 AUDIT SCOTLAND

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

1: Introduction	3
2: All sectors	5
3: Local Government Sector	7
4: Central Government Sector	12
5: College Sector	15

Accessibility

Auditors can find out more and read this bulletin using assistive technology on the Audit Scotland website www.audit.scot/accessibility.

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 2025/26 audits	CIPFA has issued guidance notes on the 2025/26 accounting code	CIPFA has published a bulletin on the use of indexation in local government
[paragraph 1]	[paragraph 6]	[paragraph 10]
The Scottish Government has issued two pieces of statutory guidance on extending the flexibility on equal pay and accounting for financial instruments	Treasury has issued a PES paper on 2025/26 discount rates	The FEHE SORP Board has published a revised SORP for colleges
[paragraph 14]	[paragraph 32]	[paragraph 39]

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 2025/26 annual audits

1. I&Q has issued guidance to assist all appointed auditors in planning their 2025/26 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 2025/26, and the timescales for completing the audit in each sector.

2. Auditors should comply with the guidance when planning, performing and reporting their 2025/26 audits. The guidance is accessible by auditors with other supporting materials on [SharePoint*](#) and 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	Chapter
An increase to the fee level below which auditors may negotiate an increase to the audit fee by up to 20% of auditor remuneration.	Introduction
A new requirement for Annual Audit Plans of councils to reflect meetings of the Local Area Network.	1
Information on a change in financial reporting requirements in respect of asset valuations.	2
Information on assurance around the Scottish Government general ledger system.	2
A new requirement, where an auditor does not expect to meet the target audit completion date in 2025/26, to report on the joint plans to return to target dates in their Annual Audit Report.	2

Nature of change	Chapter
The production of one combined cross-sector technical guidance note on model Independent Auditor's Reports instead of separate guidance for each sector.	2
Enhanced guidance on reporting good practice.	3
Updated guidance on the new SPI Direction and performance reporting requirements for councils.	4
Updated Best Value thematic review subject area for councils.	4
Updated councils for Controller of Audit Best Value reports.	4
A new requirement to ensure bodies submit WGA returns.	5

3: Local Government Sector

Guidance on 2025/26 accounting code

6. [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 2025/26 (2025/26 accounting code).

7. The 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.

8. This edition of the guidance notes has been updated to reflect the 2025/26 accounting code (explained in [Technical Bulletin 2025/2](#) – paragraph 45). The most substantial changes are to Module 4 on the measurement of non-investment assets, including:

- accounting for indexation on pages 519–520 and consequential amendments throughout the module (see paragraph 10 for further explanation).
- measurement after recognition for intangible assets on page 673. The option to measure intangibles using the revaluation model has been withdrawn.

9. Minor updates have also been made to Module 3 to reflect the change in content of the annual governance statement following the publication of [Delivering Good Governance in Local Government: Framework – Addendum](#), which was published in May 2025 (see [Technical Bulletin 2025/2](#) paragraph 51).

Indexation application guidance

10. CIPFA has also published [Bulletin 22](#) to provide application guidance on the use of indexation in local government.

11. Local authorities are required to revalue each class of property, plant and equipment using:

- A quinquennial revaluation supplemented by annual indexation in intervening years.
- A rolling programme of revaluations over a five-year cycle, with annual indexation applied to assets during the intervening four years.
- For non-property assets only, appropriate indices.

12. Where an index is not available, authorities shall revalue the given asset using a quinquennial revaluation supplemented by a desktop revaluation in year three.

13. The bulletin provides additional guidance for practitioners. The key points are summarised in the table below:

Area	Description
Scope	<p>The guidance applies to:</p> <ul style="list-style-type: none"> • Other land and buildings. • Vehicles, plant, furniture and equipment. • Surplus assets • Right-of-use assets measured at current value.
Indices	<p>Indices should be based on actual market evidence and authorities should exercise judgement to determine suitable indices. The bulletin highlights a number of examples that may be appropriate.</p> <p>Authorities are strongly encouraged not to produce their own indices.</p>
Transitional arrangements	<p>The transitional period will be from 1 April 2025 to the date the next revaluation is due for an asset.</p> <p>The value of assets as at 31 March 2025 can be considered materially up to date</p> <p>Changes to the valuation will be applied prospectively, with no restatement of prior year figures.</p>
Indexation movements	<p>A change in the value of an asset due to indexation should be accounted for in the same manner as a revaluation.</p> <p>Where it is not considered material, indexation may be deferred. However, authorities must evaluate the cumulative impact in subsequent years to ensure this judgement remains appropriate.</p>
Accumulated depreciation	<p>Authorities may adopt either of the following accounting treatments:</p> <ul style="list-style-type: none"> • The elimination method where accumulated depreciation is eliminated against the gross carrying amount of the asset. • The proportionate method where the gross carrying amount is adjusted in a manner consistent with the adjustment to the carrying amount of the asset.
Disclosures	<p>Example disclosures are provided to explain:</p> <ul style="list-style-type: none"> • the change in valuation regime • the indices used and the calculations applied.
Audit considerations	<p>The bulletin provides examples of evidence that auditors may expect to support:</p> <ul style="list-style-type: none"> • Materiality assessments • Use of experts • Selection of indices • Application of indices.

2025/26 disclosure checklist

14. CIPFA has also issued a [disclosure checklist*](#), intended for use as an aide-memoire to assist in meeting the requirements of the Code of Practice on Local Authority Accounting in the UK (the accounting code).

15. The checklist is in the form of a series of questions to assist local authorities satisfies themselves regarding the completeness of disclosures. The implications of the answers are set out in the following table:

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

Statutory guidance on accounting for equal pay

16. The [Scottish Government](#) has issued two circulars providing statutory guidance on equal pay and accounting for financial instruments.

17. [Finance Circular 7/2025](#) extends the financial flexibility allowing local authorities to delay the financial impact of providing for equal pay costs until the payment has been made until 2027/28.

18. [Finance Circular 8/2025](#) permits a variation to [Finance Circular 7/2018](#) which required local authorities to defer any gain arising on the refinancing of loans in the Financial Instrument Adjustment Account (FIAA), and to make an annual transfer from the FIAA to the General Fund.

19. Authorities can now recognise the gain immediately as income through the General Fund, as long as:

- the replacement loan repayment period does not exceed the remaining repayment period of the original loan at the time of refinancing
- the discount is used solely to fund equal pay costs.

Extension of statutory override for infrastructure assets

20. The Scottish Government has issued [Finance Circular 6/2025](#) to extend the period of statutory overrides for infrastructure originally set out in [Finance Circular 9/2022](#).

21. The same overrides available in 2022/23 to 2024/25 now also apply until 31 March 2027 in Scotland.

Section 106 charities accounts

22. Audit Scotland and the [Scottish Charity Regulator \(OSCR\)](#) have issued a joint 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 is accessible by auditors with other supporting materials on [SharePoint*](#) and is also freely available from the Audit Scotland [website](#). It provides information on:

- the number of section 106 charities administered by each local authority in 2024/25
- the number of related sets of accounts.

23. OSCR offers guidance to councils seeking to reorganise their section 106 charities and has a regulatory interest in charities that are inactive in terms of not providing public benefit and that may fail to meet the charity test.

24. Following amendment of the Charities and Trustee Investment (Scotland) Act 2005, OSCR commenced registration of all charity trustees on 30 June 2025. Charities are encouraged to comply by registering trustee details through the OSCR Online digital portal.

25. Local authorities continued to administer a total of 141 charities in 2024/25 (a reduction of 8 from 2023/24). In order to reduce the number of section 106 charities further in 2024/25, **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.**

26. In the meantime, there is scope under the charity regulations for connected charities to prepare a single set of accounts. 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 2024/25:

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

27. Auditors should strongly encourage local authorities to make full use of the connected charities provisions in 2025/26.

External quality assessments of internal audit

28. CIPFA has published [Bulletin 21](#) which addresses the requirement for external quality assessments (EQAs) of internal audit in local government.

29. All UK local authorities operating under [the Global Internal Audit Standards \(GIAS\)](#), and the associated GIAS application note: [Global internal audit standards in the UK public sector](#), are required to undertake an EQA at least once every 5 years.

Changes to the Housing Benefit subsidy calculation

30. The [Department for Work & Pensions](#) (DWP) has issued [HB Circular S5/2025](#) to provide guidance on the treatment of prior year overpayments of housing benefit, applicable from 1 April 2024.

31. A calculator has been provided to help local authorities determine the correct values.

4: Central Government Sector

2025/26 discount rates

32. [HM Treasury](#) has issued [PES\(2025\)9*](#) to announce changes in the discount rates for general provisions, post-employment benefit liabilities, leases, and financial instruments as at 31 March 2026.

General provisions

33. The nominal discount rates to be applied as at 31 March 2026 for discounting general provisions recognised under IAS 37 are set out in the following table:

Category	Period	Percentage
Short term	Within 5 years	3.64%
Medium term	Between 5 and 10 years	4.22%
Long term	Between 10 and 40 years	5.32%
Very long term	More than 40 years	5.07%

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

- 2.50% for up to one year from the end
- 2.00% between one and two years
- 2.00% for after two years

Post-employment benefits

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

Use	Rate from 31 March 2026
Real rate used for valuing unfunded pension scheme liabilities and early departure provisions	2.95%
Nominal rate for unwinding discount on liabilities (interest)	5.60%
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 2026 are set out in the following table:

Use	Rate from 31 March 2026
Nominal rate when financial instrument is not linked to an inflationary index	2.45%
In excess of RPI:	
Real rate when financial instrument indexed to RPI	Until February 2030 (0.55%)
	From February 2030 0.35%

Leases

36. Where a body cannot determine the interest rate implicit in the lease, they are required to use a nominal lease discount rate of 5.32%. This is relevant for new leases that commence or are remeasured between 1 January 2026 and 31 December 2026.

Charities statement of recommended practice (SORP)

37. The [Charities SORP](#) making body has published the [Charities SORP 2026](#), effective for accounting periods commencing after 1 January 2026. Early adoption is allowed where the Financial Reporting Council's *Periodic Review Amendments 2024* to FRS 102 are also applied.

38. The changes from the 2019 SORP include:

Module	Changes
Scope & application	Clarification of the reporting requirements for each tier of charity based on the charity's level of income are specified in each module.
1. Trustee's annual report	New requirements include: <ul style="list-style-type: none">• reporting on environmental, governance and social matters• impact reporting• tier 2 and tier 3 charities should provide additional narrative on the recognition of legacies
2. Fund accounting	Additional guidance is provided on restricted funds and to assist with appropriate stewardship of the funds. An updated example disclosure note is provided.
3. Accounting standards, policies, etc	Additional guidance on material uncertainties related to going concern. Charities must take into account all available information about the future for at least 12 months when making a going concern assessment

Module	Changes
5. Recognition of income	Guidance is included on the 5-step model for income recognition. Guidance is also provided on when grant income is a result of a non-exchange transaction.
10. Balance sheet	<p>A new lease accounting module has been introduced (10B) to reflect changes to FRS 102.</p> <p>Recognition exemptions are available for short term leases and low value assets.</p>

5: College Sector

Further and higher education statement of recommended practice (SORP)

39. The [Further Education and Higher Education \(FEHE\) SORP Board](#) has published the [Statement of recommended practice: Accounting for further and higher education, 2026 edition](#), effective for accounting periods commencing after 1 January 2026 with early adoption allowed where the Accounts Direction permits.

40. The changes made to the SORP are similar to the changes to the Charities SORP (see paragraph 37) and reflect the FRC’s *Periodic Review Amendments 2024* to FRS 102.

41. Changes in the 2026 SORP include the following:

Area of change	Details
	A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. (paragraph 14.28)
Leases (Section 14)	<p>Two recognition exemptions relating to short term leases (under 12 months) and to low value leases are available. (paragraph 14.4)</p> <p>When implementing the changes, comparative information should not be restated. The cumulative effect should be recognised as an adjustment to the opening balance of reserves at the date of initial application. (paragraph 27.6)</p>
Revenue recognition (Section 16)	<p>The introduction of the five-step model for recognising revenue from contracts with customers (paragraph 16.7).</p> <p>The changes should be applied retrospectively with the cumulative effect recognised as an adjustment to the opening balance of reserves. (paragraph 27.6)</p> <p>Bursaries, scholarships, or similar awards provided to students are generally expected to represent a consideration payable to a customer and should be accounted for as a reduction to the transaction price. (paragraph 16.38)</p>
The strategic report	The strategic report should include information on environmental, social and governance practices. (paragraph 3.27)

Area of change	Details
Service concession arrangements	Disclosures on service concession arrangements in addition to the requirements of FRS 102 in line with other public sector entity disclosure requirements. (paragraph 26.44)

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