Technical Bulletin 2026/2

Technical developments and emerging risks from April to June 2026

AUDIT SCOTLAND

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

June 2026

Contents

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 (*)are held on Audit Scotland's SharePoint* and are not publicly accessible via the website.

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		
Audit Scotland has issued good practice guidance on auditor recommendations for 2025/26 **[paragraph 1]**	The Scottish Government has issued guidance on facility time disclosures for 2025/26 accounts **[paragraph 4]**	CIPFA has issued a bulletin on the 2025/26 financial statements **[paragraph 6]**
PWC has issued a report on IAS 19 actuarial valuations for 2025/26 **[paragraph 10]**	I&Q has issued guidance on objections to 2025/26 local government annual accounts **[paragraph 20]**	The NAO has issued a disclosure checklist for 2025/26 FReM based accounts **[paragraph 25]**
Deloitte has issued a report on the Civil Service Pension calculator for 2025/26 **[paragraph 28]**	Treasury has issued updated guidance on non-investment asset valuations **[paragraph 32]**	The SFC has issued the 2025/26 accounts direction and guidance notes for colleges **[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

Good practice on developing recommendations

1. Audit Scotland has published good practice guidance* intended to assist auditors develop recommendations in the 2025/26 Annual Audit Reports.

2. The Code of Audit Practice requires appointed auditors to make recommendations to audited bodies where they identify significant risks or weaknesses in wider scope reporting areas and in arrangements to secure Best Value. Recommendations should be:

- reported in the Annual Audit Report
- appropriate and proportionate based on the matters arising from the audit
- useful, specific, practicable, and focused on the public interest
- followed up at appropriate intervals to assess progress
- accompanied by management responses and actions taken or proposed, including target dates and responsibility for action.

3. The guidance aims to assist auditors identify when recommendations are required and design recommendations following SMART principles. Examples of good practice are included in an Appendix.

Facility time disclosures 2025/26

4. The Scottish Government has issued updated guidance* on the requirement to publish trade union facility time information.

5. The guidance highlights that requirements under the Trade Union (Facility Time Publication Requirements) Regulations 2017 have been repealed by the Employment Rights Act 2025. The changes are effective from 18 February 2026. Therefore, bodies are not required to publish facility time data in the 2025/26 annual report and accounts.

3: Local Government Sector

Guidance on 2025/26 annual accounts

6. The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued Bulletin 23 Closure of the 2025/26 Financial Statements providing guidance on closing the financial statements. The guidance is intended to be best practice, but it does not have the formal status of the accounting code.

Indexation and valuation arrangements

7. The bulletin provides frequently asked questions on the introduction of indexation for non-current assets (explained at paragraph 10 of Technical Bulletin 2025/4). These include:

Question	Guidance
Can desktop revaluations be undertaken instead of indexation?	No. In rare circumstances where an index is not available, bodies should revalue the asset using a quinquennial revaluation, supplemented by a desktop revaluation in year three.
Can assets still be revalued annually/tri-annually?	Annual or tri-annual formal revaluations would not be Code compliant following the 2025/26 changes. However, the Code states that revaluations carried out prior to 2025/26, remain valid throughout the transition period (being 1 April 2025 to the date of the next revaluation). During the transition period, the maximum period between revaluations must not exceed five years. This means that bodies do not need to engage valuers to revalue all assets during 2025/26 and can move to a five-year cycle as and when formal revaluations become due.
What if there are no indices that cover the bodies geographic area?	Indices for smaller geographical areas such as electoral boundaries may not exist and therefore indices would instead need to cover a larger geographical area such as region. Bulletin 22 explained that differences are to be expected between a valuation and indexation using a region or national index, absolute precision is not expected, nor is it achievable. However, if a body feels that national indices are not suitable, they should evidence why this is the case.

Standards issued not yet adopted

8. Details of the following accounting standards introduced by the 2026/27 accounting code should be considered as "standards issued but not yet adopted" in 2025/26:

- Amendments to FRS 102 in relation to heritage assets
- Amendments IFRS 9 and IFRS 7 regarding
  - the classification and measurement of financial instruments
  - contracts referencing nature-dependent electricity.
- Annual improvements to IFRS accounting standards – Volume 11

9. The relevance of these standards is likely to be limited, and disclosure may not be required, although bodies should consider their individual circumstances.

2025/26 report on actuarial information

10. 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 2026. **Auditors should refer to paragraphs 19 in Module 4 of TGN 2026/1 for guidance on using the report and further information.**

11. 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 2026.

12. However, the report advises **auditors to consider whether:**

- **local issues have been adequately covered in instructions issued by employers to actuaries (page 7)**
- **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 17).**

13. Page 12 of the report sets out the assumptions with the greatest impact on the IAS 19 figures (the discount rate, CPI inflation and mortality) and the consistency of the methodologies used between years and the refinements to approaches used by actuaries in 2026. Each of the material assumptions made by actuaries fall within the expected range at 31 March 2026.

14. Page 14 sets out the refinements to the approach adopted by individual actuaries in 2025/26. The review considered that the refinements were reasonable.

15. Page 26 of the report provides an update on Guaranteed Minimum Pension (GMP) indexation and equalisation, the McCloud judgement and other legal cases. In summary:

- There have been no relevant developments related to GMP and all actuaries are following an approach in 2025/26 consistent with 2024/25.
- In relation to the McCloud judgement, all actuaries are following an approach in 2025/26 consistent with prior years. Certain aspects of the McCloud ruling and its impact on the 2016 valuation cost cap results are currently being challenged. As the outcome of this challenge is not yet known none of the actuaries plan on making any additional allowance for this in the 31 March 2026 disclosures.
- No actuaries made specific allowance for the Virgin Media judgement at 31 March 2026.

16. Pages 20 to 23 of the report provide an update and guidance on IFRIC 14 and IAS 19 surpluses. Actuaries confirmed that the approach they follow is in line with the CIPFA guidance and, where the guidance is not clear, in line with the review's expectations.

17. Page 22 sets out additional guidance on the asset ceiling calculation following discussions with actuaries:

- 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.

18. Page 23 confirms that the net interest income recognised in 2025/26 should be reduced due to an asset restriction in 2024/25. **Auditors should clarify whether actuaries' calculations have taken into account any restrictions applied in 2024/25**.

19. Appendix E to the report provides additional guidance on the application of IFRIC 14.

Guidance on objections to 2025/26 annual accounts

20. I&Q has published TGN 2026/3(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 2025/26 annual accounts of a local government body
- object to those accounts.

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

22. **Auditors should:**

- **evaluate whether the public inspection notice for 2025/26 is in accordance with applicable legislation**

- **carry out the actions set out in the TGN for any objections received.**

2026/27 accounting code

23. CIPFA/LASAAC has issued the accounting code* to set out local government accounting requirements for 2026/27. 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.

24. The most significant changes to the 2026/27 accounting code relate to:

- clarification on the classification and measurement of financial instruments (IFRS 9 and IFRS 7)

- amended standards introduced in respect of the classification and measurement of financial instruments (IFRS 9 and IFRS 7), and to FRS 102 relating to heritage assets.

4: Central Government Sector

Disclosure guide for 2025/26 financial statements

25. The National Audit Office has published a disclosure guide on the 2025/26 financial Statements for bodies covered by the FReM.

26. The guide is designed to ensure that bodies covered by the FReM have prepared their 2025/26 financial statements in the appropriate form and have complied with all disclosure requirements. The guide is cross-referenced to the 2025/26 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.

27. When checking that the FReM's disclosure requirements have been met, **auditors should in accordance with the Overview Module of TGN 2026/1:**

- **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.**

2025/26 Civil Service pension calculator

28. Deloitte have prepared a report* for the National Audit Office on the tool used to calculate Civil Service Pension CETV disclosure information for 2025/26.

29. Administration of the Civil Service Pension transitioned to Capita during 2025/26, however the report notes that under the new arrangements, the tool and the “Disclosure Calculator” used by the previous administration remain in operation.

30. The report reviews how CETV factors and other variables are input and updated within the calculator, how it is monitored and controlled, and recalculates a sample of complex cases.

31. The processes and controls in place over changes to the disclosure calculator in 2026 were assessed as ‘Satisfactory’ which means they are considered adequate in the circumstances.

Updated guidance on non-investment property valuations

32. HM Treasury has issued updated application guidance on non-investment asset valuations. The guidance updates the previous version (referred to at paragraph 47 of Technical Bulletin 2025/1) to include guidance on the following areas:

Area	Key points
Valuation frequency	Three processes are available for revaluing assets: • A quinquennial revaluation with annual indexation in intervening years • A rolling programme of revaluations over a 5-year cycle with annual indexation applied to the non-inspected proportion in intervening years • For non-property assets only, use of appropriate indices An option to undertake a desktop valuation in year 3 should only be used in exceptional circumstances where no reliable index is available.
Depreciated Replacement Cost (DRC) Valuations	There is no change to the methodology used to determine size of modern equivalent asset (MEA) for DRC valuations. The methodology typically requires a smaller site than the actual site. From 2026/27, bodies have the option to disclose the difference between the size of MEA land and the actual land occupied by the asset. The alternative site methodology for determining the EUV of operational land associated with a DRC asset will be disallowed from 2028-29. However, bodies can disapply this method from 2026/27, with Treasury approval.
Indexation	Treasury is not mandating the use of any index; however, the recommended pathway is: • For DRC assets only, the use of BCIS “All in TPI” index is acceptable. The land element should be valued using a suitable land index • For other assets valued at EUV, an index using property transaction evidence by economic or government region is preferred • For land, an index of movement by region supported by market transactions in preferred. However, where there is no transactional evidence available, valuers may now utilise a Development Appraisals or a valuation beacon approach.
Right of Use (RoU) assets	In the majority of cases indexation will not be required as historical cost is an approximation for current value in existing use. Where cost is not a reasonable proxy, it is unlikely that a publicly available index will be suitable. In such cases, the recommended approach is to undertake a desktop valuation at year 3.
Impairments	Full revaluations to demonstrate there has not been a material impairment of an asset is not the default position. IAS 36 paragraphs 12-14 set out the indicators entities must consider when determining whether an asset is impaired.

Technical consultations with auditors

33. 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 2025/26 annual accounts of central government bodies, along with the advice offered:

How should Non-Departmental Public Bodies (NDPBs) which are also companies account for grant in aid received?
Grant in aid (GIA) refers to funding provided by the Scottish Government to sponsored bodies, including NDPBs which are companies, to support their ongoing operational expenditure and objectives. IAS 1 requires that contributions from a controlling party, acting in its capacity as owner, are recognised in equity rather than income. The Government Financial Reporting Manual (FReM) interprets ‘controlling party’ for the public sector context as being a body’s sponsoring department (e.g. the Scottish Government). Under FReM paragraph 11.1.12 GIA provided by the sponsor department is treated as financing, not income. This means it is recognised directly in taxpayers’ equity, specifically within the General Fund, and presented through the Statement of Changes in Taxpayers’ Equity (SoCTE). Although IAS 20 normally requires government grants to be recognised as income, the FReM limits its application where the government is acting as controlling party / owner. IAS 20 would apply only where funding is provided in a non-owner capacity (e.g. arm’s length grants with conditions). Where the NDPB is also a company, the classification of GIA as financing (i.e. a transfer from a controlling party acting as owner) is not considered inconsistent with the Companies Act, because it reflects the substance of the relationship between the NDPB and the Scottish Government. The FReM approach is therefore regarded as compliant with both IFRS (as adapted) and the overarching requirement to present a true and fair view. Any departure from the default treatment (must be approved by the relevant authority (e.g. the Scottish Government). Where a body adopts an alternative treatment (for example, recognising GIA as income), **auditors should obtain sufficient appropriate evidence that:** • **The accounting treatment is justified, based on the substance of the arrangement (i.e. the Scottish Government is acting in a capacity other than the controlling party), and** • **Formal approval has been obtained from the Scottish Government, for example in the body’s framework document.**

5: Health Sector

TGN on potential misstatements in 2025/26

34. I&Q has published Module 17 of the TGN 2026/1. The TGN is intended to inform auditors' judgement when identifying and assessing potential misstatements in the 2025/26 annual report and accounts of audited bodies generally. Module 17 provides:

- guidance on applying the other modules to the audit of the 2025/26 annual report and accounts of health bodies
- supplementary guidance on the risks of misstatements in areas specific to health bodies.

35. Auditors are expected to pay due regard to Module 17 and use it as a primary reference source when performing 2025/26 audits of health bodies.

36. Module 17 is available with the rest of the TGN and supporting material to auditors on SharePoint* and is also freely available from the Audit Scotland website.

Assurance report on 2025/26 clinical negligence claims

37. 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 2026
- inform auditors' evaluation of the role of the NHS Central Legal Office as a management expert.

38. Auditors should have referred to this report when auditing the 2025/26 provisions for CNORIS.

Consolidation Schedules

39. I&Q has published TGN/HCS/26 to provide appointed auditors of health boards with guidance on examining and reporting on consolidation schedules which boards are required to submit to the Scottish Government for 2025/26.

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

41. Auditors are required to examine the consolidation schedules and report on the results in an Assurance Statement. This TGN provides:

- guidance for auditors on the examination of the consolidation schedules (summarised in the checklist at Appendix 1)

- an Assurance Statement at Appendix 2

CETV calculator 2025/26

42. The auditors of the Scottish Public Pensions Agency (SPPA) have issued a report* providing information on the work undertaken and conclusion on the appropriateness of the cash equivalent transfer value (CETV) calculator for 2025/26.

43. As scheme manager for the NHS Pension Scheme (Scotland), SPPA provides a pension calculator to NHS bodies in Scotland. This is referred to as the NHS resource account calculator and supports NHS bodies to prepare their remuneration and staff reports.

44. The work was undertaken to aid auditors understanding of the basis for the 2025/26 CETV calculations, based on the process within SPPA. Auditors may consider this report when auditing the remuneration and staff report disclosures for their audited bodies.

6: College sector

2025/26 accounts direction and guidance

45. The Scottish Funding Council (SFC) has issued their Accounts Direction for Scotland's Colleges 2024/25 and guidance notes on completion of the 2024/25 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.

46. Specific mandatory disclosure requirements for colleges are set out in Appendix 1 to the direction.

47. 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 K. The SFC has reviewed the structure and content of the accounts direction and guidance notes. As a result, guidance on some disclosures has been moved from the direction to be included in the guidance notes.

48. There are no significant changes to the guidance included in the accounts direction or guidance notes from 2024/25. The changes included are in respect of:

- fair pay disclosures
- valuation changes introduced by the 2025/26 FReM
- climate-related financial disclosures.

49. I&Q will publish Module 18 of TGN 2025/1 providing supplementary guidance on the potential misstatements in areas specific to colleges in due course.

7: Professional Developments

Revised auditing standards

50. The Financial Reporting Council (FRC) has issued amendments to two auditing standards to align them with the recently amended equivalent international standard The revisions to:

- ISA(UK)240 (Revised March 26) The Auditor's Responsibilities Related to Fraud in the Financial Statements strengthen and clarify auditors' responsibilities in relation to fraud, including enhanced risk assessment procedures and greater transparency in audit reporting
- ISA(UK) 570 (Revised March 26) Going concern reinforce how auditors assess and report on an entity's ability to continue as a going concern, reflecting lessons learned from recent corporate failures and responding to heightened stakeholder expectations.

51. As both UK standards already included most of the changes to the international standard, the impact on UK auditors is expected to be minimal.

52. The revised standards are effective for audits of financial statements for periods commencing on or after 15 December 2026 (i.e. 2027/28 in the public sector).

Consultation on revisions to auditing standards

53. The FRC has launched a consultation on narrow scope amendments to ISA (UK) 620 and ISAE (UK) 3000.

54. The proposed revisions align the standards with the recently amended International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants which introduced explicit ethical requirements for using the work of external experts.

55. Responses should be sent to AAT@frc.org.uk by Friday 10 July 2026.

56. The key changes are to:

- align definitions and responsibilities for evaluating an external expert's competence, capabilities, and objectivity with the new IESBA ethical provisions
- clarify practitioner responsibilities when using the work of an external expert, and to reinforce the need for robust evaluation and documentation.

57. The revised standards would be effective for periods commencing on or after 15 December 2026 (i.e. 2027/28 in the public sector).

8: 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.

Theft of third-party funds

58. A public sector employee misappropriated £27,000 of client money.

Key features
The perpetrator was responsible for maintaining a spreadsheet of client funds and cashing cheques to make these funds available to clients. However, the individual instead cashed cheques for their own benefit and altered the spreadsheet to conceal the theft and maintain the appearance of accurate balances.
The offences occurred during the COVID-19 pandemic, when reduced office staffing and a lack of segregation of duties weakened internal controls.
The fraud was identified through an internal investigation, initiated following concerns about potentially fraudulent activity in the handling of client funds.
Subsequently, changes have been made to the department's structure and processes to strengthen internal controls. The matter was referred to Police Scotland, and the perpetrator has since pled guilty in court.

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