

Technical Bulletin

2026/3

Technical developments and emerging risks from
July to September 2026



 AUDIT SCOTLAND

Prepared by Audit Scotland for appointed auditors and audited bodies in all sectors
September 2026

Contents

1: Introduction	3
2: All sectors	5
3: Local Government Sector	7
4: Central Government Sector	9
6: College sector	12
7: Professional Developments	13
8: Fraud and irregularities	14

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		
The CIPFA/LASAAC Local Authority Code Board has issued an exposure draft of the 2025/26 accounting code	Audit Scotland has issued guidance on the certification of housing benefit subsidy claims in 2025/26	Treasury has issued updated sustainability reporting guidance
[paragraph 2]	[paragraph 6]	[paragraph 11]
Audit Scotland has issued guidance on potential misstatements in college annual report and accounts for 2025/26	The FRC has issued amendments to auditing standards	
[paragraph 19]	[paragraph 22]	

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

Technical consultations with auditors

1. The following table summarises requests from auditors for technical consultations with I&Q in respect of issues arising from the audit of the 2025/26 annual accounts, along with the advice offered:

Do public bodies affected by proposals in the Scottish Government's Programme for Government need to reconsider whether the going concern basis of accounting remains appropriate in 2025/26?

Announcements made as part of the Programme for Government to reduce the number of public bodies will not affect the appropriateness of the going concern basis of accounting. The proposals announced to date, including replacing the 14 territorial health boards with two strategic boards, reducing the number of special health boards, merging certain public bodies and reviewing further opportunities for merger, focus on reorganising the delivery of public services rather than discontinuing them.

Practice Note 10 (paragraph 1-143) states that the anticipated continuation of public service delivery is normally sufficient evidence that the going concern basis remains appropriate. Accordingly, where functions are expected to continue within another public sector body following reform, merger or closure, the going concern basis is likely to remain appropriate.

As there is currently no indication that any body's services will be discontinued, the proposals released to date do not have any implications for going concern. Audit Scotland will continue to monitor developments and provide further guidance if circumstances change

Are public bodies required to make disclosures on trade union facility time in their 2025/26 annual report and accounts?

The Trade Union (Facility Time Publication Requirements) Regulations 2017 required most public bodies, including local authorities, to report on their spend and use of trade union facility time within their annual report and accounts. Section 66 of the Employment Rights Act 2025 and associated regulations have repealed these statutory reporting requirements for periods ending after 18 February 2026.

For central government bodies, health boards and colleges, although the 2025/26 Government Financial Reporting Manual (FReM) still includes reference to the facility time disclosure requirement, the Scottish Government has issued guidance stating that there is no expectation for Scottish public bodies to publish this information.

Public bodies, including local authorities, are therefore not required to disclose trade union facility time information in their 2025/26 annual report and accounts

What are the audit requirements for Whole of Government Accounts (WGA) returns in 2025/26?

Treasury issued guidance for preparers of WGA returns in [local government](#) and [central government](#) in August outlining revised arrangements for 2025/26. All bodies other than minor bodies are still required to submit Cycle 1 and Cycle 2 Data Collection Tool (DCT) in accordance with the HM Treasury timetable. However, HM Treasury has removed the requirement for DCT returns to be audited.

The National Audit Office (NAO) still require auditors to complete assurance statements for 2025/26. The completion of the assurance statements will be based solely on information from the statutory audit and accounts. The NAO has advised that assurance statements are expected to be significantly simpler than in previous years and the required template should be available in October 2026.

The NAO will also continue to undertake additional procedures on selected bodies where considered necessary, including review of audit work performed. Such reviews are expected to affect only a small number of Scottish bodies and should not delay the completion of annual audits.

3: Local Government Sector

Exposure draft of the 2027/28 accounting code

2. The [CIPFA/LASAAC Local Authority Code Board](#) has issued an [exposure draft](#) of the Code of Practice on Local Authority Accounting in the UK (accounting code) for 2027/28.

3. The main proposals in the Invitation to Comment (ITC) relate to:

- the definition of primary users of the accounts
- the introduction of an Accountability Report and removal of the expenditure and funding analysis (EFA)
- changes to primary financial statements and disclosure notes
- changes to pension reporting arrangements
- the introduction of sustainability reporting.

4. The Code Board sought views on implementing the Accountability Report and revised financial statements and disclosures in 2028/29.

5. Responses to the consultation were to be submitted by 27 September 2026.

2025/26 housing benefit subsidy claims

Technical Guidance Note for auditors

6. I&Q has published TGN/HBS/26 on certifying the 2025/26 housing benefit (HB) subsidy claim. The TGN is provided with supporting material to auditors on [SharePoint](#)* and is also available from the Audit Scotland [website](#). The TGN:

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

7. The key changes for 2025/26 are:

- Detailed testing requirements have been aligned more closely with an agreed-upon procedures (AUP) engagement, in line with ISRS 4400 (Revised)
- Specified re-performance testing levels on work carried out by the local authority have been introduced
- Additional testing may be carried out either by the local authority's internal audit service or the benefits service.

8. Auditors should certify 2025/26 HB subsidy claims in accordance with TGN/HBS/26.

DWP guidance and tools

9. The following modules of the HB subsidy certification approach have been issued by the DWP. Auditors should refer to these modules when certifying the 2025/26 subsidy claims:

- [the uprating checklist](#)* to help auditors ensure that the authority's system is using the correct benefit parameters to calculate benefit entitlement and for the authority to claim the correct amount of subsidy.
- [the workbooks](#)* to be completed for detailed testing.
- [the software diagnostic tool](#)* to ensure the subsidy claim has been completed using the recognised software for claim completion and reconciles "benefit granted" to "benefit paid" in accordance with the software suppliers' instructions.

4: Central Government Sector

Technical consultations with auditors

10. The following table summarises requests from auditors for technical consultations with I&Q in respect of issues 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).

How should auditors respond where pension benefit information required for a body to prepare its Remuneration Report has not been provided by the pension scheme administrator?

The FReM requires bodies to include prescribed pension benefit disclosures in the Remuneration and Staff Report. Where pension administration services are provided by Capita, some bodies are experiencing delays in obtaining the information needed to prepare these disclosures or may have received incomplete or inaccurate data.

Capita initially indicated that the outstanding pension benefit information for affected bodies would be provided by the end of August 2026. The Scottish Government has now indicated

that the outstanding information should be provided by Capita on Friday 25 September, but notes that it won't be available for sharing with audited bodies until Wednesday 30 September.

Given the short period before this information is expected to become available, I&Q anticipate affected bodies will defer signing their annual accounts until the information has been received and the required pension benefit disclosures have been completed.

Where information remains outstanding beyond the revised timetable, auditors should notify I&Q.

Sustainability Reporting

11. [HM Treasury](#) has issued [Sustainability Reporting Guidance for 2026/27](#). All central government bodies are required to follow the guidance subject to specific exemptions and a de minimis threshold. The guidance highlights that separate reporting requirements are set by the devolved administrations. There are no significant changes from the version of this guidance issued in 2025/26.

12. The guidance sets out the minimum reporting requirements, subject to materiality (on a comply or explain basis) as shown in the table below:

Area	Non financial disclosure	Financial information
Greenhouse gas (GHG) emissions.	Scope 1 emissions (from sources owned or controlled by the organisation): Domestic fuel/gas consumption (kWh) Scope 2 emissions (energy consumed which is supplied by another party) Energy (kWh): domestic energy consumption	Gross expenditure.
Carbon offsets	Total volume of carbon credits purchased and retired during the reporting period Type of credits purchased or retired	Total expenditure on carbon credits.
Waste management	Waste (kg) from the body reported against certain categories.	Total expenditure on waste disposal.
Finite resource consumption	Water consumption (m ³)	Total expenditure on finite resources.

13. Chapter 2 provides guidance on accounting for GHG emissions (commonly referred to as carbon accounting) for inclusion in public sector annual reports and accounts.

14. Chapter 3 sets out the reporting for waste generated and Chapter 4 sets out the reporting of finite resources used, including minimum reporting requirements for water usage.

15. The Scottish Government [Sustainability Disclosures for Public Sector Annual Reports - Application Guidance](#) which Scottish bodies are also required to follow

generally align with this guidance and the Task-Force for Climate Related Financial Disclosures (TCFD) application guidance.

Amendments to SPFM

16. The [Scottish Government](#) has issued [FGN 2026/02](#) updating the Scottish Public Finance Manual (SPFM). The amendments provide clarification, a standardised layout and wording to each section highlighting relevant legislation.

17. The updates provide links to further guidance in a number of areas including:

- Audit committees
- Fraud
- Governance statements

18. The Delegated Authority section has been updated to include the 2026/27 Scheme of Delegation.

6: College sector

TGN on potential misstatements in 2025/26

19. I&Q has published Module 18 of 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 18 provides:

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

20. Module 18 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](#).

21. Auditors are expected to pay due regard to Module 18 and use it as a primary reference source when performing 2025/26 audits of colleges. Auditors should advise I&Q of any intended departures from the guidance.

7: Professional Developments

Revised auditing standards

22. The [Financial Reporting Council](#) (FRC) has issued amendments to the auditing standards on auditors reporting of the audit to align them with the equivalent international standards issued by the International Audit and Assurance Standards Board (IAASB). The amendments also simplify and declutter the auditor's report and ensure reporting by exception.

- [ISA\(UK\)700 \(Revised May 2026\)](#) Forming an Opinion and Reporting on Financial Statements. Key changes include:
 - the removal of the requirement to explain the extent to which the audit was considered capable of detecting irregularities, for all bodies except PIEs and listed entities
 - confirmation that the auditor communicates with those charged with governance regarding significant audit findings
 - where reporting on certain matters by exception, the requirement to describe the auditor's responsibilities has been removed
 - additional reporting of ethical requirements in the auditor's report.
- [ISA \(UK\) 701\(Revised May 2026\)](#) Communicating Key Audit Matters in the Independent Auditor's Report. Key changes include the requirements to communicate significant deficiencies in internal controls, the extent to which the audit was considered capable of detecting irregularities (for PIEs and listed entities) and where relevant, key observations with respect to each key audit matter.
- [ISA\(UK\) 720 \(Revised May 2026\)](#) The Auditor's Responsibilities Relating to Other Information. Amendments include the removal of the distinction between "other information" and "statutory other information" and previous references to the auditor's report including a separate "Corporate Governance Statement" section for entities that report on the UK Corporate Governance Code application.

23. The changes are effective for financial statement periods commencing on or after 15 December 2026, with early adoption permitted.

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.

Invalid supplier

24. A third party impersonated a supplier and committed bank mandate fraud. The public body paid £13,000 to a fraudulent bank account.

Key features

The perpetrator accessed a supplier's email account allowing them to submit revised invoices containing amended bank account details. The fraudster followed up the invoice from the supplier's email account requesting payment to the fraudulent account.

The public body amended the bank account details and made the payment. The fraud was identified when the supplier reported that invoices had not been paid.

The fraud was possible as the procedure for changing bank details was not documented. The bank account details were amended by a new member of staff who was unaware of the correct procedure.

The procedure for changing bank details has since been documented and staff have received training.

Technical Bulletin 2026/3

Technical developments and emerging risks from July to September 2026



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