

Technical Guidance Note 2023/8(LG) Module 4

**Risks of misstatement in employee benefits in
2023/24**



 **AUDIT SCOTLAND**

Prepared for appointed auditors in the local government sector
14 December 2023

Contents

Module 4 introduction	3
4.1: Untaken holiday liability	4
4.2: Retirement benefits	7
4.3: Termination benefits	21

Module 4 introduction

Purpose and use of this module

1. This module of TGN 2023/8(LG) provides guidance on the risks of misstatement in the following aspects of employee benefits:

- Untaken holiday liability (Section 1).
- Retirement benefits (Section 2).
- Termination benefits (Section 3).

Changes in risks of misstatement in 2023/24

2. The following new risks have been added:

- Net defined benefit liability is not properly presented
- Net defined benefit asset is not properly measured.
- Information on defined benefit asset is not properly disclosed.
- Provisions for early retirement are not properly presented.

3. Changes have been made to the following risk

- Accounting entries for the untaken annual leave liability are not appropriate

Consulting with Professional Support

4. Auditors should consult with Professional Support by sending an email to TechnicalQueries@audit-scotland.gov.uk.

4.1: Untaken holiday liability

Untaken holiday liability is not complete

5. The [Code of Practice on Local Authority Accounting in the UK](#) (accounting code) at chapter 6 requires bodies to recognise the liability for any untaken holiday at the year-end that can be carried forward, in accordance with IAS 19 Employee Benefits.

6. Auditors should evaluate whether the body has identified any untaken holiday (i.e. annual leave, flexitime and time off in lieu balances) at 31 March 2024 that can be carried forward and used during 2024/25.

Untaken holiday accrual is not properly measured

7. The issues in respect of measuring the untaken holiday liability are summarised and discussed in the following table:

Issue	Comment
Identification of relevant costs	The liability should be measured as the additional amount that the body expects to pay as a result of the unused entitlement that has accumulated at 31 March 2024. This should include salary as well as associated employer's national insurance and pension contributions. The reference to 'expectation to pay' does not relate to an additional payment; it refers to where an employee receives their salary for the current year but takes a day off that is part of their entitlement from an earlier year. The liability at 31 March 2024 should reflect rates applicable from 1 April 2024 as that is the year the leave will be taken.
Calculating the liability	The liability should be based on the proportion of the annual salary and associated costs which relates to the number of untaken days at the year end.
Identifying number of untaken days (non-teachers)	For non-teaching staff, contracts of employment specify the rate at which leave is paid, e.g. 1/261 of the annual salary per day. The following two scenarios need to be considered: • Where the employee's leave year is aligned with the financial year (i.e. ends on 31 March 2024), the accrual will be based on any leave carried forward at the end of the leave year. • Where the employee's leave year is not aligned with the financial year, the leave earned by the employee to 31 March 2024 will need to be calculated. This is then compared with the leave taken by that date to establish whether leave is owed to or by the employee.

Issue	Comment
Identifying number of untaken days (teachers)	The accrual required for teachers should be based on the difference between the number of days earned and the number of days holiday in the school year up to 31 March 2024. The body should have: - identified the number of term days between the start of the leave year (e.g. 1 September) and 31 March 2024 - multiplied this figure by the rate at which leave is earned (e.g. 0.2051 days for each day worked) - compared this figure with the number of days holiday between the start of the leave year and 31 March 2024. An example is provided at page 762 of the accounting code guidance notes.

8. Auditors should evaluate whether:

- the accrual includes salary as well as associated employer's national insurance and pension contributions
- the body has gathered reliable information on the number of days of untaken leave as at 31 March 2024
- the calculation, where based on a sample of staff, reflects all groups of staff.

Accounting entries for the untaken annual leave liability are not appropriate

9. The issues in respect of accounting for the untaken annual leave liability are summarised and discussed in the following table:

Issue	Comment
Charging/crediting the surplus or deficit	The difference between the liability at 31 March 2023 and 31 March 2024 should be charged (increase) or credited (decrease) to the Surplus or Deficit on the Provision of Services (SDPS) in the Comprehensive Income and Expenditure Statement (CIES).
Statutory adjustments – annual leave	The statutory guidance issued with Finance Circular 2/2018 allows bodies to make a statutory adjustment to mitigate the impact on the General Fund. Where a body chooses to do so, a sum up to the charge/credit for the year in respect of untaken annual leave should be: - transferred to the Employee Statutory Adjustment Account - included in the adjustments reported in the Movement in Reserves Statement (MiRS).

10. Auditors should evaluate whether:

- the liability in respect of untaken annual leave at 31 March 2023 has been reversed in 2023/24 and replaced with the accrual at 31 March 2024
- the net increase or decrease in the accrual has been:
 - charged/credited to services and included in the SDPS
 - transferred to the Employee Statutory Adjustment Account and included in the adjustments reported in the MiRS.

4.2: Retirement benefits

Retirement benefits are pensions payable to former employees after the completion of their employment (they are referred to in the accounting code as post-employment benefits).

Local government bodies as employers, and their non-teaching employees, pay contributions to the Local Government Pension Scheme (LGPS) which pays retirement benefits to pensioners. The current LGPS operates under **The Local Government Pension Scheme (Scotland) Regulations 2018** (the 2018 LGPS regulations). The scheme managers responsible for the local administration of each LGPS pension fund (referred to as administering authorities) are set out at Schedule 3 to those regulations.

There is a separate pension scheme for teachers.

Accounting policy for the LGPS is not appropriate

11. Retirement benefit schemes are classified by the [accounting code](#) in line with IAS 19 as either defined contribution or defined benefit. The differences in the accounting, and the applicability to the LGPS, are set out in the following table:

Classification	Characteristics	Applicability to LGPS
Defined benefit	Benefits are determined independently of the investments of the scheme. Employers have obligations to make contributions. Liabilities are recognised as benefits are earned or awarded and are matched with the body's attributable share of the scheme's assets.	Councils and other local government bodies where employer contributions are set on the basis of their specific circumstances.
Defined contribution	The employer's obligation is limited to the amount it has agreed to contribute to the pension scheme.	Any local government body where it is not possible to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes.

12. Auditors should evaluate whether the body's accounting policy is to account for retirement benefits arising from the LGPS on a defined benefit basis in 2023/24, unless they are satisfied that it is not able to reliably identify its share of the underlying financial position and performance of the scheme (e.g. regional transport partnerships).

Valuations of defined benefit obligation are not undertaken by an appropriate person

13. In practice, the determination of the defined benefit obligation is carried out by a firm of actuaries engaged by each administering authority. The work of actuaries is set out in the [Pensions technical actuarial standard](#)

14. Regulation 60 of the 2018 LGPS regulations requires administering authorities to obtain a formal actuarial valuation every three years. The valuation that took place at 31 March 2023 applies in 2023/24, and auditors are advised to obtain a copy of the actuary's report.

15. Paragraph 6.4.3.28 of the accounting code requires an approximate assessment of the obligation at 31 March 2024. An assessment is not carried out to the same level of detail as the full valuations and will involve actuaries 'rolling forward' the 31 March 2023 valuation using latest available data to arrive at an estimate as at 31 March 2024.

16. Auditors' evaluation of the actuaries and assessment of the assumptions and approach adopted in the IAS 19 reports may be informed by a report prepared by PWC which is procured each year on auditors' behalf by Audit Scotland's Professional Support. Professional Support will advise auditors on the [Latest Technical News](#) page when the 2023/24 report is available which is expected to be in May 2024. Where intending to make use of the PWC report, auditors should:

- evaluate PWC as an auditor's expert under ISA (UK) 620
- satisfy themselves that the report includes sufficient information to fully understand PWC's work, the judgements made and the basis for the conclusions and opinions expressed. Where that is not the case, auditors should advise Professional Support.

17. Auditors' responsibilities under ISA (UK) 500 are summarised in the following table:

ISA (UK) 500 requirement	Comment
Evaluate the competence, capabilities and objectivity of the actuary	Covered in PWC report.
Understand the work of the actuary	Auditors should consider the instructions issued by employers and evaluate whether local issues have been adequately covered.

ISA (UK) 500 requirement	Comment
Consider the relevance and reasonableness of significant assumptions	The PWC report assists auditors to understand the sensitivity of each assumption. Further investigation will be required, particularly where the employer has requested different assumptions than those proposed by the actuary.
Consider the relevance, completeness and accuracy of the source data	The PWC report will comment on the approach taken by the actuaries to verify the validity and completeness of the data. Auditors should subject the data to further audit procedures (see below).
Consider the reasonableness of the roll-forward approach to estimating the liability	The PWC report will comment on the roll-forward approach. Auditors should consider whether material significant events have been communicated to the actuary.

Source data is not complete or accurate

18. Actuaries rely on the accuracy of the source data provided by employer bodies and the administering authority. Bodies should have communicated accurate cash flows and details of significant events to the pension fund actuary (usually via the relevant administering authority). However, actuaries generally produce their IAS 19 reports by April each year before final cash flow information is available. This means that a significant portion of the figures are estimates.

19. Auditors should:

- discuss with the auditor of the relevant pension fund any assurances required regarding the completeness and accuracy of the information for 2023/24. Auditors may find it helpful to follow a [protocol for assurances](#) that will be provided by Professional Support in due course
- evaluate whether the body has a satisfactory procedure in place to check for significant movements or employer decisions, particularly those occurring in the final months of 2023/24 and early 2024/25, and has passed details to the actuary.

Significant events are not reflected

20. Events external to local government bodies (e.g. court cases, changes in legislation) can impact on the actuaries' estimates of retirement benefit liabilities, including events after the year end. This may be where the courts have found in favour of members who have argued that they have been unfairly treated in some way. In recent years, there have been a number of legal cases that have implications for the benefits paid in public service pension schemes. Examples include the following:

- The McCloud and Sargeant Judgements found that transitional protections on moving from the 2009 to 2015 schemes for members who were within 10 years of normal retirement age in 2012 discriminated against younger members on the grounds of age.
- The Goodwin Tribunal found that male survivors in opposite sex marriages were discriminated against on the grounds of gender (see [SPPA Circular 2020/04](#) for more information). This resulted in [Regulation 17](#) of The Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014 being amended by [Regulation 4](#) of The Local Government Pension Scheme (Scotland) (Miscellaneous Amendments) Regulations 2022.
- The [O'Brien case](#) concerned discrimination against part-time judges in the calculation of pensions.

21. Where a legal ruling has found that certain provisions in the LGPS regulations are illegal, those provisions no longer have legal effect. It is not necessary to wait until the regulations have been amended before recognising any change in liability. This may require estimates based on the latest proposals to amend the regulations.

22. Auditors should evaluate whether bodies are identifying significant events that impact on retirement benefit liabilities at 31 March 2024 (including events after that date) and whether:

- actuaries are making appropriate allowances for the events
- bodies are properly recognising the liabilities in 2023/24.

Assumptions are not reasonable

23. The defined benefit obligation is an estimate of expected future payments required to settle the obligation resulting from employee service in the current and prior periods. It is based on assumptions that are subjective and involve significant judgement. These are:

- actuarial assumptions about demographic variables (e.g. employee turnover, mortality, and expected early retirement rates)
- financial variables (e.g. future increases in salaries) based on market expectations for the period over which the obligations are to be settled. This is usually as at the end of the year but paragraph 6.4.3.5 of the accounting code states that it will be as at the date of any plan amendment, curtailment or settlement that occurs during the year.

24. The estimate is discounted to present value using a discount rate determined by reference to market yields on high quality corporate bonds.

25. Auditors should evaluate, using the PWC report where appropriate, whether:

- the assumptions are within an acceptable range (auditors should be able to demonstrate how their acceptable range has been reached)
- the assumptions are at the optimistic or pessimistic end of the range
- each assumption is appropriate to the body's circumstances
- there is a particular impact on the financial statements of changes in any of the assumptions
- the actuarial assumptions are unbiased (i.e. neither imprudent nor excessively conservative) and mutually compatible
- financial assumptions are based on market expectations as at 31 March 2024 (or the date of any plan amendment, curtailment or settlement) for the period over which the obligations are to be settled
- the rate used to discount the obligation was determined by reference to market yields at 31 March 2024 on high quality corporate bonds
- any change in the discount rate from the previous year has been treated as a change in accounting estimate rather than a change in accounting policy.

Scheme assets are not properly measured

26. Each body's attributable share of the investments held in the pension scheme to cover the defined benefit obligation should be measured at fair value in accordance with IFRS 13 (explained at Module 9.3) at 31 March 2024. Scheme assets exclude any unpaid employer contributions.

27. Under the LGPS, a detailed exercise to allocate assets between employers was also carried out at 31 March 2023. These employer asset allocations have been 'rolled forward' to 31 March 2024 for IAS 19 purposes and amended for subsequent cash flows from dealing with members and from investment returns.

28. Actuaries typically produce IAS 19 reports before full cashflow data is available. Investment returns for the last few months of the year are estimated using market indices. Actual investment returns to 31 March 2024 are expected to be available in May. Bodies should discuss with their actuaries whether the estimates need be updated to reflect the actual returns.

29. Auditors should evaluate whether the fair value of attributable scheme assets at 31 March 2024 is free from misstatement.

Net defined benefit liability is not properly presented

30. Where the employer's deficit of obligations exceeds attributable scheme assets, it is referred to as the net defined benefit liability. This amount should be recognised on the employing body's Balance Sheet.

31. Auditors should evaluate whether the:

- net defined benefit liability at 31 March 2024 has been presented in the Balance Sheet (in a separate line assuming it is material)
- amount is free from misstatement.

Net defined benefit asset is not properly measured

32. In some instances, the employer's obligations when compared with the scheme assets results in a surplus. A significant number of local government bodies moved from a deficit in previous years to a surplus position at 31 March 2023, and this is anticipated to remain the case for 31 March 2024.

33. Where bodies can access the economic benefit arising from the asset in terms of reduced contributions, they should recognise the surplus as a net defined benefit asset. However, where this is the case, there is a limit on the amount that can be recognised on the Balance Sheet (the asset ceiling). The accounting code requires the amount to be recognised on the Balance Sheet to be determined in accordance with [IFRIC 14](#).

34. Under IFRIC 14, the net defined benefit asset recognised should be the surplus adjusted for the effect of any asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of reductions in future contributions to the plan (and any refunds but that is not expected to be relevant for the LGPS).

35. [CIPFA Bulletin 15](#) explains that bodies participating in the LGPS will have a minimum funding requirement as contribution rates are set in advance. Given that most bodies are expected to participate in the LGPS indefinitely, it would be expected that this surplus will lead to lower future contributions by that body.

36. Where there is a minimum funding requirement for contributions relating to future service, the economic benefit available as a reduction in future contributions is:

- the sum of the estimated future service cost in each period, determined using assumptions consistent with those used to determine the defined benefit obligation; less
- the estimated minimum funding requirement contributions that would be required for future service in those periods adjusted for any prepayment made. The estimate of the future minimum funding requirement contributions should include:
 - amounts in the schedule of contributions for the specified fixed period; and
 - an estimate beyond that period that assumes a continuation of those factors establishing the minimum funding basis.

37. Where actuaries report that the present value of the minimum funding requirement contributions exceeds the future service cost, [IFRIC 14](#) advises

that no asset should be recognised. There is no requirement to recognise a liability for the difference.

38. Auditors should evaluate whether the:

- net defined benefit asset at 31 March 2024 has been presented in the Balance Sheet (in a separate line assuming it is material)
- amount is free from misstatement.

Information on defined benefit asset is not properly disclosed

39. The accounting code (paragraph 6.4.3.45) requires the effect of the asset ceiling to be disclosed. The disclosure should clearly explain why the pension surplus is not fully realisable in the form of either refunds or reduction in employer's contributions so that the users can understand why the net defined pension benefit asset is limited to the economic benefits realisable by the body.

40. Section 4 of the Overview module explains the requirement for local government bodies to disclose information about the assumptions they make about the future and other major sources of estimation uncertainty. For the net defined benefit asset, this is likely to include disclosure of any restrictions on the current realisability of the surplus or disclosure of the basis used to determine the amount of the economic benefit available.

41. Auditors should evaluate whether information on any defined benefit asset is properly disclosed in 2023/24.

Service costs are not properly measured or presented

42. The measurement and presentation of each service cost element are summarised in the following table:

Element	Measurement	Presentation in CIES
Current service cost	Increase in the present value of a defined benefit obligation resulting from service in the current period.	Included in the expenditure of each service segment in the SDPS

Element	Measurement	Presentation in CIES
Past service cost	Change in the present value of the defined benefit obligation for service in prior periods, resulting from: • scheme amendment, i.e. the introduction or withdrawal of, or changes to, a defined benefit plan • curtailment, i.e. a significant reduction in the number of employees covered by a plan. [Note: past service cost may be either positive (benefits are introduced) or negative (benefits are withdrawn).]	Included in service expenditure in the SDPS. A body may apportion the cost over each service segment or allocate it all to a corporate service. Recognised at the earlier of when: • the scheme amendment or curtailment occurs • the body recognises related restructuring costs or termination benefits (explained in section 3).
Gain or loss on settlements*	Difference between: • the present value of the defined benefit obligation being settled, as determined on the date of settlement and • the settlement price, including any scheme assets transferred and any payments made directly by the body related to the settlement.	Included in service expenditure in the SDPS. The cost may be: • apportioned over each service segment; or • allocated to a corporate service Recognised when the settlement occurs.

*[Note: A settlement occurs when a body eliminates all further obligation for the benefits (other than a payment of benefits in accordance with the terms of the scheme and included in the actuarial assumptions).]

43. Bodies need not distinguish between past service cost resulting from a plan amendment, past service cost resulting from a curtailment and a gain or loss on settlement if these transactions occur together.

44. Before determining past service cost or a gain or loss on settlement, the body should have re-measured the net defined benefit liability using the current fair value of scheme assets and current actuarial assumptions reflecting the benefits offered under the plan before the amendment, curtailment or settlement.

45. In respect of 2023/24 service costs, auditors should evaluate whether:

- current service cost has been included in the expenditure of each service
- past service cost has been:
 - included in the SDPS
 - recognised at the earlier of when the scheme amendment/curtailment occurs or the body recognises related restructuring costs or termination benefits.
- any gain or loss on settlement has been:
 - included in the SDPS
 - recognised when the settlement occurs.
- the amounts are free from misstatement.

Net interest on the net defined benefit liability/asset is not properly measured or presented

46. Net interest on the net defined benefit liability/asset is the change during the period in the liability/asset that arises from the passage of time. It comprises the:

- interest income on scheme assets
- interest cost on the defined benefit obligation (representing the unwinding of the discount applied in calculating the present value of the obligation).

47. Paragraph 6.4.3.32 of the accounting code requires the interest to be determined by multiplying the fair value of the scheme assets and defined benefit liability by the rate used to discount the obligation to present value. The assets and liability, and discount rate, should have been determined at the start of the year, and take into account changes due to contributions and benefit payments throughout the year.

48. Auditors should evaluate whether:

- net interest has been calculated based on the net defined benefit liability/ asset brought forward and the discount rate at 1 April 2023
- changes during 2023/24 have been taken into account
- net interest has been included in Financing and Investment Income and Expenditure in the SDPS
- the amount is free from misstatement.

Remeasurements of the net defined benefit liability/asset are not properly measured or presented

49. The elements that comprise the remeasurements of the net defined benefit liability item are summarised in the following table:

Element	Characteristics
Actuarial gains and losses	This element comprises: • changes in actuarial assumptions • experience adjustments, i.e. the effects of differences between the previous actuarial assumptions and what has actually occurred due to, for example, unexpectedly high or low rates of employee turnover.
Return on scheme assets	This element comprises: • interest, dividends and other income derived from scheme assets (except for amounts included in net interest) • realised and unrealised gains or losses on the scheme assets. The costs of managing the scheme assets (but not other administration costs) should be deducted from the above.

50. There is a specific line for the remeasurement of the net defined benefit liability/ asset in the OCIE section of the CIES.

51. Auditors should evaluate whether:

- remeasurement of the net defined benefit liability/ asset in 2023/24 is presented in OCIE in the CIES
- remeasurement of the net defined benefit liability/asset comprises:
 - actuarial gains and losses
 - interest, dividends and other income derived from scheme assets (except for amounts included in net interest) net of costs of managing the assets
 - realised and unrealised gains or losses on the scheme assets.
- the amount is free from misstatement.

Employee contributions are not properly measured

52. Employee contributions are payments made into the scheme by employees which increase assets and liabilities equally. Some key features are summarised in the following table:

Feature	Measurement
Normal contribution rates	• Employee contributions are paid on a tiered basis over five earnings bands set out at regulation 9(2)(b) of the 2018 LGPS regulations, with the contribution rate being determined by the amount of earnings falling into each band.

Feature	Measurement
	- The earnings for each band in the 2018 LGPS regulations are expressed as at 1 April 2014 and are increased each year by any increase to benefits under the relevant pensions increase order. - For pensions which began before 11 April 2022, the increase is 10.1%. For pensions which began on or after that date, the increases are set out in The Pensions Increase (Review) Order 2023. - The contribution rates range from 5.5% to 12%.
Other contribution rates	- Regulation 10 allows members to elect to pay a reduced rate of 50% of that which would otherwise be payable. - Regulation 16 allows an active member to pay additional pension contributions up to £6,500 (this limit is expressed as at 1 April 2015 and is increased by subsequent pension increase orders).
Pensionable pay	- Pensionable pay is defined at regulation 20 as all an employee's salary, wages, and other pensionable emoluments (which excludes equal pay compensation). - In some circumstances (e.g. reduced pay on sick leave), an assumed pensionable pay requires to be calculated in accordance with regulation 21. - Under Regulation 90, a member may be protected from a permanent reduction in pay for 10 years.

53. Auditors should evaluate whether:

- contributions for 2023/24 are at the correct rate
- the rate is applied to the correct pensionable pay
- the contributions are in respect of all members, and only members.

54. Auditors should discuss with the auditor of the relevant pension fund the assurances that the pension fund auditor requires. This is covered further in Module 13 but is expected to include assurance as to whether, based on their testing, there are:

- matters arising that could impact on the employing body's ability to properly account to the pension fund for contributions
- audit findings expected to be material to the employer
- issues to be reported to those charged with governance.

55. Auditors may find it helpful to follow a [protocol](#) for seeking and providing assurances that will be provided by Professional Support in due course.

56. Actuaries generally use actual contribution figures to 31 December and generally estimate contribution amounts for the period up to 31 March. Auditors should confirm that the body has discussed with its actuary whether the figure for the 12 months needs to be revised to reflect actual contributions.

Employee contributions are not properly presented

57. Auditors should evaluate whether employee contributions have been set off against current service cost in 2023/24.

Employer contributions are not properly measured

58. Contributions from employers are paid into the scheme and increase scheme assets. The rates for employer contributions are calculated by actuaries to ensure that the existing assets and future contributions will be sufficient to meet future benefit payments from the funds. Some key features of employer contributions are summarised in the following table (all references to regulations are to the 2018 LGPS [regulations](#)):

Feature	Measurement
Normal contributions	- The actuaries provide a report to the administering authority in respect of the valuation and a rates and adjustments certificate specifying the primary rate of employers' contribution, and any adjustments for a particular body (i.e. secondary rate), for each of the three years beginning on 1 April in the year following that in which the valuation date falls. - The administering authority is then required to send a copy of the report and certificate to each employing body. - The applicable actuarial valuation for 2023/24 was as at 31 March 2020 which set contribution rates for the three years from 1 April 2021.
Other contributions	- Further payments are made by scheme employers to the fund under regulation 63 where benefits are paid out to a member early. The payments are to compensate for what is referred to as 'strain on the fund costs' caused by benefits being paid earlier. - Payments require to be made to the fund for the early payment of retirement benefits on ill-health grounds under regulation 34. - An administering authority may require further payments for benefits becoming immediately payable for: - early retirement under regulation 29(6), including the cost of waiving any reduction under regulation 29(9) - flexible retirement under regulation 29(7), including the cost of waiving any reduction under regulation 29(9) - redundancy under regulation 29(8).
Pensionable pay	Same as for employee contributions.

59. Auditors should evaluate whether the 2023/24 employer contributions have been:

- calculated using the correct primary percentage. This is the primary rate of the employer's contribution specified in the rates and adjustments

certificate expressed as a percentage of the pay of its employees who are active members

- calculated using the correct pensionable pay
- increased or reduced by any secondary rate adjustments specified for the body for 2023/24 in the rates and adjustments certificate.

60. As with employee contributions, auditors should provide assurances to the pension fund auditor.

61. Actuaries generally use actual contribution figures to 31 December and estimate contribution amounts for the period up to 31 March. Auditors should confirm that the body has discussed with its actuary whether the figure for the 12 months needs to be revised to reflect actual contributions.

Accounting entries for statutory adjustment for employer contributions are not appropriate

62. The costs to be met by the General Fund are based on employer contributions and any further payments required by 2018 LGPS regulations rather than the costs based on IAS 19.

63. [The Local Government Pension Reserve Fund \(Scotland\) Regulations 2003](#) (the pension reserve regulations) and [Finance Circular 4/2016](#) require councils to charge the IAS 19-based cost to a Pension Reserve rather than to the General Fund.

64. Auditors should evaluate whether:

- the difference between the IAS 19-based cost and the employer contributions for the council is recognised in the Pension Reserve and disclosed in the analysis of adjustments between the accounting basis and the funding basis in the MiRS
- the amount is free from misstatement.

Disclosed information on retirement benefits is not complete

65. The disclosure requirements for retirement benefits are set out at paragraph 6.4.3.45 of the accounting code. It contains explicit disclosure objectives which require bodies to disclose information that: explains the characteristics of their defined benefit schemes; identifies and explains the amounts in the financial statements arising from the defined benefit schemes; and describes how defined benefit schemes may affect the amount, timing and uncertainty of future cash flows.

66. Auditors should evaluate whether:

- the body has met the disclosure objectives for 2023/24
- the disclosures are complete, clear, concise and free from misstatement.

Accounting policy for the Teachers' Pension Scheme is not appropriate

67. Auditors should evaluate whether the Teachers' Pension Scheme administered by the Scottish Government has been accounted for on a defined contribution basis in 2023/24.

Accounting entries for the Teachers' Pension Scheme are not appropriate

68. The accounting treatment on a defined contribution basis involves employer contributions being charged to the CIES as they become payable. Auditors should evaluate whether:

- balances are recognised in the Balance Sheet only to the extent that there are prepaid or outstanding contributions at 31 March 2024
- amounts are free from misstatements.

4.3: Termination benefits

Termination benefits are compensation in exchange for the termination of an employee's employment.

Provision for termination benefits is not complete

69. Termination benefits may be made as:

- payments under a voluntary severance scheme. This is typically because posts have been removed following a restructuring of the body's operations. Payments are those due in the normal course of employment including in lieu of notice (i.e contractual) but are also likely to include a discretionary, ex-gratia element (i.e. non-contractual)
- enhanced retirement benefits in the case of early retirement. The body credits the former employee with an additional period of service ('added years') under [The Local Government \(Discretionary Payments and Injury Benefits\) \(Scotland\) Regulations 1998](#). The enhanced pension is then usually paid by the pension fund on an agency basis but may be paid directly by the body
- payments under agreements to settle an employment dispute (settlement agreements)
- redundancy payments where the body decides to terminate an employee's employment before normal retirement age. This is rare in practice due to the policy of no compulsory redundancies in the Scottish public sector.

70. Termination benefits do not include employment being terminated at the request of the employee without an offer from the body such as early retirement under scheme rules available to all members.

71. A body is required by the [accounting code](#) (section 6.3) to recognise the liability for termination benefits when it can no longer withdraw the offer of those benefits. This is summarised in the following table:

Reason for termination	Point where offer cannot be withdrawn
Employee's decision to accept an offer of voluntary severance, early retirement or settlement	The earlier of when: • the employee accepts the offer; and • a legal or other restriction on the body's ability to withdraw the offer takes effect. This would be when the offer is made, if the restriction existed at that time.

Reason for termination	Point where offer cannot be withdrawn
Body's decision to terminate an employee's employment before normal retirement age	When the body has communicated to the affected employees a plan of termination meeting all of the following criteria: • It is unlikely that significant changes to the plan will be made. • The plan identifies the number of employees whose employment is to be terminated, their job classifications or functions and their locations, and the expected completion date. • The plan establishes the termination benefits in sufficient detail that employees can determine the type and amount of benefits they will receive.

72. In the absence of the above events, a body is required to recognise a liability for the termination benefits no later than when it recognises a provision for the costs of a related restructuring (explained in Module 2).

73. Auditors should evaluate whether termination benefits have been recognised at 31 March 2024 if the body cannot withdraw the offer at that date (or it has recognised a provision for the costs of a related restructuring).

Accounting entries for the provisions for termination benefit are not appropriate

74. Where termination benefits are in the form of 'added years', the pension reserve regulations allow the payments to be made to the General Fund rather than the IAS 19-based cost with the difference recognised in the Pension Reserve. They should therefore be treated in the same way as retirement benefit costs.

75. Auditors should evaluate whether termination benefits in 2023/24 have been:

- recognised in the SDPS when the liability is recognised
- treated in the same way as retirement benefits for the purposes of the statutory adjustment to the Pension Reserve, where applicable
- discounted using the discount rate determined by reference to market yields on high quality corporate bonds, where they fall due more than twelve months after 31 March 2024.

Provisions for early retirement are not properly presented

76. Provisions for discretionary enhancements to retirement benefits (e.g. payments for early retirement) are referred to as unfunded liabilities as they are paid by the body rather than the pension fund. Although they are treated the same way as retirement benefit costs as explained above, bodies do not have a right to set off the unfunded liability against a pension asset.

77. The unfunded liability should therefore be presented separately from a net defined benefit asset (or liability).

78. Auditors should evaluate whether provisions for early retirement have been properly presented in 2023/24 separately from a net defined benefit liability/asset.

Technical Guidance Note 2023/8(LG) – Module 4

Risks of misstatement in employee benefits in 2023/24

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

For the latest news follow us on social media or

[subscribe to our email alerts.](#)



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