

Technical Guidance Note 2024/8(LG)

Summary of Changes

Guidance on potential misstatements in 2024/25 local government annual accounts



 AUDIT SCOTLAND

Prepared for appointed auditors in the local government sector

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Introduction

Purpose of note

1. This note from Audit Scotland's Innovation and Quality provides a summary of the changes made to [Technical Guidance Note \(TGN\) 2024/8\(LG\)](#) compared with the equivalent TGN for last year.

Summary of changes

2. TGN 2024/8(LG) comprises modules that provide guidance on potential misstatements in the 2024/25 annual accounts of local government bodies. This note explains the main changes in the guidance related to each misstatement. Where a module is not included in the summary no substantive changes have been made to the guidance included in that module.

3. The TGN in previous years suggested actions for auditors to undertake when evaluating the accounting treatment related to risks of misstatements. That was in response to feedback from auditors that the guidance should clearly set out what auditors should do when evaluating complex accounting areas.

4. However, we received feedback as part of the consultation on the 2024/25 planning guidance that some auditors interpreted the TGN as requiring them to go through every action and either undertake each one or document a justification for not doing so. That was not the intention.

5. In order to respond to this most recent feedback, paragraphs that contained suggested actions for auditors have been reworded (except for statutory other information) to focus on explaining the accounting treatment without suggesting any associated actions by auditors.

Module 1: Property, Plant and Equipment

There are some additions, clarifications and changes in the guidance on the following potential misstatements:

Specialised assets are not properly measured

6. Paragraph 32 has been added to clarify that under the DRC methodology, a valuer is required to adopt an instant build approach. Guidance issued by the Royal Institution of Chartered Surveyors (RICS) highlights that borrowing costs (which the valuer calls finance costs) should not be included in the valuation of the property where the instant build approach is adopted.

Impairment assessments did not occur

7. The table at paragraph 96 has been added to advise auditors of key points for consideration where a building includes Reinforced Autoclaved Aerated Concrete (RAAC).

Area	Summary of guidance
Subsequent measurement	<p>Consideration needs to be given to whether any additional revaluations are required outwith the usual cycle due to an Office of Government Property safety briefing notice considering RAAC as “life-expired”. Adjustments may be needed due to:</p> <ul style="list-style-type: none">• the ability to deliver services as intended for assets based on existing use value• assets valued at fair value being viewed less favourably on the open market• structural and safety issues for assets valued at DRC
Depreciation & impairment	<p>The useful life of assets, residual value, and previous depreciation calculations may need to be revisited.</p> <p>Consideration should be given to whether assets should be componentised differently.</p>

Area	Summary of guidance
Assets held for sale	<p>When classifying an asset as held for sale, bodies should consider whether:</p> <ul style="list-style-type: none"> remedial work is required prior to a sale the presence of RAAC is likely to adversely impact on the probability of the asset being sold.
Associated revenue costs	<p>One potential impact on revenue is the rental of alternative accommodation, such as classrooms</p>

Accounting entries for capital receipts are not appropriate

8. Paragraph 114 has been amended to advise auditors that the previous financial flexibility included in Finance Circular 4/2015 regarding the use of capital receipts to meet equal pay claims has not been extended to 2024/25

Replaced components of an asset are not derecognised

9. Paragraph 119 has been amended to reflect that Finance Circular 8/2024 extends the option to override paragraphs 4.1.2.21 and 4.1.2.51 of the accounting code to include 2024/25. The effect of the statutory override is that the carrying amount of a replaced component of an infrastructure asset is to be accounted for as a nil amount, and no subsequent adjustment can be made to the carrying amount of the asset with respect to that part.

Module 2: Provisions, Creditors and Accruals

There are some changes in the guidance on the following potential misstatement:

Accounting entries for the provision for equal pay claims statutory adjustment are not appropriate

10. Paragraph 19 has been updated to advise auditors of the various finance circulars containing statutory guidance that have been issued to enable bodies to delay the financial impact arising from recognising an equal pay provision until the payment was made. The most recent finance circular applied up to 2023/24. This has not been extended for 2024/25.

11. Paragraph 20 has therefore been updated to advise that there is no flexibility to transfer new or increased equal pay provision to the Employee Statutory Adjustment Account in 2024/25

12. The previous paragraphs setting out the required accounting entries for the adjustment has therefore been removed.

Module 3: Financial Instruments

There are some changes in the guidance on the following potential misstatements:

Loans Fund is not properly operated

13. Paragraph 28 has been added to advise auditors that in contrast with the requirements under the 1975 Act, external borrowing is no longer required to be carried to the Loans Fund, and the payment of interest or dividends on external borrowing is no longer a function of the Loans Fund. However, paragraph 17 of Finance circular 7/2024 allows bodies to continue to operate the Loans Fund in this way on a non-statutory basis.

14. Paragraph 29 has been amended to advise that the 2016 regulations have been amended from 1 April 2014 to allow greater flexibility in determining loans fund repayments. Paragraph 30 has also been amended to reflect these flexibilities with the following table setting out the amended regulations requirements:

Reg	Requirement placed on local government body
12	To maintain a Loans Fund in accordance with the 2016 Regulations, proper accounting practices and prudent financial management.
13	To make Loans Fund advances each year for expenditure met from borrowing. From 2024/25, the amended 2016 regulations require the advances made after 1 April 2023 to be repaid in accordance with proper accounting practices as set out in statutory guidance.
14	Under the original 2016 regulations, a body was required to determine for each Loans Fund advance the period over which it will be repaid and the amount of each repayment. From 2024/25, the amended 2016 regulations permit a body to vary the period or amount of repayment for advances made prior to 1 April 2023.

15. Paragraph 31 has been amended to advise that Finance Circular 7/2024. has replaced Finance Circular 7/2016 and sets out revised statutory guidance for loans fund accounting for 2024/25 in part 2.f

Loans Fund repayments are not properly measured

16. Paragraph 32 has been amended to reflect that Finance Circular 7/2024 (part 2) provides revised statutory guidance on the prudent repayment of Loans Fund advances made both before and after 1 April 2023. Paragraph 33 advises auditors that the statutory guidance requires the Loans Fund repayment period to align with the useful life of the asset. As a change for 2024/25, where an

asset life cannot reasonably be established, the period should be limited to 50 years.

Loans fund repayments are not properly charged to the General Fund.

17. Paragraph 38 has been updated to advise auditors that for 2024/25, Finance Circular 9/2024 provides a temporary amendment for specific capital grant paid in 2024/25 to be transferred to the Capital Fund rather than the Capital Adjustment Account in order that it may be used to repay the principal of loans fund repayments for both General Fund and HRA loan repayments.

Module 4: Employee Benefits

Changes have been made to the guidance on the following potential misstatements:

Net defined benefit asset is not properly measured

18. Paragraph 30 has been added to explain that 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 31 March 2024. This is anticipated to remain the case for 31 March 2025

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

19. Paragraph 45 has been added to advise auditors that where where the asset ceiling results in a restriction on the asset recognised in the Balance Sheet as at 31 March 2024, this will reduce the amount of net interest income a body can recognise in the CIES in 2024/25.

20. Paragraph 45 has been added to reflect that the net interest income recognised in the 2024/25 CIES is reduced by the interest that has been earned on the element of the asset that has not been recognised due to the application of the asset ceiling. Any change in the size of the restriction over the year should be recognised through Other Comprehensive Income.

Employer contributions are not properly measured

21. The table at paragraph 53 has been amended to advise auditors that secondary contributions are used to address an existing deficit or surplus in the fund. Positive contributions increase the overall contribution to the fund and therefore help to reduce an existing deficit, these are referred to as past service contributions.

22. Paragraph 57 has been added to advise auditors that bodies should account for positive secondary contributions in accordance with IFRIC 14. Paragraphs 23 and 24 of IFRIC 14 require that where past service contributions are not available in the form of a refund or reduction in future contributions, an additional liability should be recognised when the obligation arises. This liability should reduce the net defined benefit asset or increase the net liability

23. Paragraph 58 has been added to highlight that where positive contributions made in either year have not been accounted for correctly, bodies may need to request a calculation from their actuary to determine whether the present value of agreed past service contributions was material at 31 March 2024 and 2025.

24. Paragraph 59 has therefore been added to advise that where positive secondary contributions made in 2023/24 have not been accounted for correctly, a retrospective restatement in 2024/25 may be required. This may also require an IFRIC 14 assessment to be carried out for 2022/23 to ensure the opening position is correct in 2023/24.

Provisions for early retirement are not properly presented

25. Paragraph 75 has been added to advise that actuaries should not include the unfunded payments in future employer contributions when calculating the asset ceiling under IFRIC 14, i.e. the limit on the amount of net defined benefit asset that can be recognised in the Balance Sheet.

Module 5: Reserves

There are some additions, clarifications and changes in the guidance on the following potential misstatements:

Usable reserves are created without statutory powers

26. The table at paragraph 4 has been updated to reflect that there should not have been any capital receipts set aside in the Capital Grants (and Receipts) Unapplied Account to fund equal pay claims since 31 March 2020.

Capital Fund is not properly operated in accordance with statute

27. The table at paragraph 9 has been updated to reflect that [Finance Circular 9/2024](#) replaces Finance Circular 6/2023 to provide a temporary amendment for specific capital grant paid in 2024/25 to be transferred to the Capital Fund rather than the Capital Adjustment Account in order that it may be used to repay the principal of loans fund repayments.

Accounting entries in Capital Fund are not appropriate

28. The table at paragraph 10 has been updated to reflect that

- Finance Circular 7/2024 replaces Finance circular 7/2016 and Finance Circular 9/2024 replaces Finance Circular 6/2023. The circulars clarify that the repayment of loans fund advances still requires to be charged, in full, to the General Fund. The transfer from the Capital Fund (debit) to the General Fund (credit) is a separate transaction.
- Finance Circular 9/2024 permits specific 2024/25 capital grant to be transferred to the Capital Fund in order that it may be used to repay the principal of loans fund repayments.

Module 7: Leases under IFRS 16

The adoption of IFRS 16 is mandatory from 2024/25. The implementation of IFRS 16 for leases in 2024/25, also applies to service concession arrangements. The guidance previously included in Module 7A in respect of service concession arrangements under IAS 17, which also applies under IFRS 16, is now incorporated into this module.

The following potential misstatements have been updated:

Accounting entries for the statutory charge for the repayment of debt are not appropriate

29. Paragraph 63 has been added to explain that [Finance Circular 7/2023](#) contains statutory guidance which replaced Finance Circular 10/2022 from 1 April 2024. It provides bodies with the options summarised in the following table:

Option	Summary of guidance
Eliminate statutory adjustments	<p>The option has retrospective application.</p> <p>All statutory charges should be reversed, such that only the accounting entries required by the accounting code will remain.</p> <p>The cumulative financial effect of all the reversals should be a statutory adjustment to the General Fund on 1 April 2024 for those bodies adopting the option in 2024/25.</p> <p>There is no prior year restatement of statutory adjustments in the annual accounts.</p> <p>The option applies to all arrangements with the exception of those with fewer than 5 years until completion.</p> <p>Once this approach is taken, it should not then be reversed in subsequent years.</p>
Continue to apply the statutory charge for the repayment of debt originally set out in Finance Circular 10/2022	<p>The statutory charge is made to the General Fund each year over the contract period.</p> <p>The statutory charge requires to be equal to the unitary payment after deducting depreciation, impairment losses, and the elements of the unitary payment charged to the CIES.</p> <p>The credit is to the Capital Adjustment Account.</p>

30. Paragraph 64 has been added to highlight that the temporary flexibility included in Finance Circular 10/2022, which permitted a local authority to recognise the principal repayments for a service concession arrangement over the asset life rather than contractual term, is not reflected in the revised statutory guidance in Finance Circular 7/2023, but Finance Circular 10/2022 continues to apply where the flexibility was exercised on an arrangement.

31. Paragraph 65 Circular 10/22 provided a temporary flexibility for service concession arrangements entered into prior to 1 April 2022. It permitted the annual charge for the repayment of debt to be calculated:

- in accordance with the useful life of the asset
- using either equal instalments of principal or the annuity method

32. Paragraph 67 has been added to explain that with the exception of those service concession arrangements to which the flexibility was applied in either 2022/23 or 2023/24, from 1 April 2024 the annual statutory charge (the statutory repayment of debt) to the General Fund for all existing and new service concession arrangements, leases and similar arrangements must reflect the principal element of the contractual repayments and must be charged to the General Fund over the term of the contract.

Disclosure of information on the statutory charge for the repayment of debt

33. Paragraph 68 has been updated to reflect that, where a local government body chooses the option to eliminate statutory adjustments, paragraph 26 of Finance Circular 7/2023 requires an explanation to be disclosed of the basis for the accounting policy change and the impact on the balances reported within the annual accounts.

Accounting entries for lifecycle maintenance costs are not appropriate

34. Paragraph 70 has been updated to reflect that the statutory guidance issued with Finance Circular 7/2023 requires a statutory charge to the General Fund for lifecycle maintenance costs of a capital nature. The statutory charge depends on a number of factors and auditors should refer to paragraphs 21 to 24 of Finance Circular 7/2023 for the detail.

Accounting entries for gains on debt restructuring

35. Paragraph 75 has been updated to explain that in accordance with paragraphs 36 to 38 of Finance Circular 7/2023, the gain on debt restructuring recognised (up to the amount of the premium balance) should have been:

- transferred (debit) from the General Fund to the Financial Instruments Adjustment Account (credit)
- released back to the General Fund over the contract period

- disclosed in the analysis of statutory adjustments in the MiRS.

Module 8: Grants and other income

The guidance on the following potential misstatements has been updated:

Accounting entries for capital grants and contributions are not appropriate

36. Paragraph 13 has been updated to highlight that [Finance Circular 9/2024](#) provides statutory guidance on a temporary amendment to [Finance Circular 3/2018](#) on accounting for capital grants and contributions that have been recognised in the CIES.

37. Paragraph 15 explains that the temporary amendment for 2024/25 permits local authorities to replace reserves held for capital investment purposes with £53 million of unspent 2024/25 General Capital Grant to allow those reserves to be used to fund the 2024/25 local government pay award.

38. Paragraph 16 has been amended to explain that the statutory guidance also provides the consent of the Scottish Ministers required for HRA loan repayments.

39. Paragraph 18 has been updated to explain that the terms and conditions of the general capital grant for 2024/25 require it to be utilised by 31 March 2025 or returned to the Scottish Government, i.e. unutilised grant may not be retained within the General Fund or transferred to the Capital Grants Unapplied Account for future use.

Module 9: Other Financial Statement Areas

There is a new potential misstatement on the Low Emission Zone disclosures and the some clarification and updating of the guidance on the some potential misstatements:

Council tax discounts and increases are not properly measured

40. Paragraph 95 has been updated to highlight that discounts are available under the Council Tax (variation for unoccupied dwellings)(Scotland) Regulations 2013, as amended in 2023, as follows

- Councils have discretion to increase the amount of council tax payable on second homes by up to 100% (double council tax).
- Councils may extend the period for which the discount applies.
- Revenue generated from reducing council tax discounts of between 10% and 50% on second homes and long-term unoccupied properties requires to be ring-fenced for affordable housing and empty homes services. Income received if the discount is less than 10% or where double council tax is charged is not ring-fenced.

Information on new accounting standards is not disclosed

41. Paragraph 119 has been updated to reflect that the relevant standards for 2024/25 will be set out in Appendix D to the 2024/25 accounting code. They include:

- IAS 1 classification of liabilities
- IAS 12 International Tax Reform
- IAS 7 and IFRS 7 supplier finance arrangements.

Information on related parties is not properly disclosed

42. Paragraph 129 has been updated to emphasise that related party transaction disclosures are required if the amount of the transaction and/or balance is considered material to the audited body or the related party.

Information on low emission zone (LEZ) schemes is not properly disclosed

43. A new potential misstatement on the disclosure of low emission zone (LEZ) schemes has been added at paragraph 147, which reflects councils requirements under The Low Emission Zones (Scotland) Regulations 2021 to publish a statement of accounts.

44. Paragraph 148 has been added to highlight the requirements of [Guidance](#) from LASAAC on the content of the required disclosure items is summarised in the following table:

Disclosure	Content
Administering costs	Costs incurred in proposing, making and operating the scheme. Set up costs incurred between 1 April 2024 and 31 March 2025. Costs incurred before 1 April 2024 disclosed in a prior year comparative column.
Revenue from fines and charges	For councils that did not commence charging until 1 June 2024, an explanation should be provided for why there is no revenue to be disclosed in the prior year comparators.
Narrative	An explanation of the income generated and running costs of the scheme. An overview of the legislative requirements for the scheme, including the revenues raised and how they are utilised.

45. Paragraph 149 has been added to explain that as this is a statutory requirement, councils are required to make the disclosure regardless of whether amounts are considered material.

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Technical Guidance Note 2024/8(LG)

Overview Module

Guidance on areas pervasive to the financial
statements in 2024/25



 AUDIT SCOTLAND

Prepared by Innovation and Quality for auditors in the local government sector

January 2025

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Accessibility

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

Introduction

Purpose and use of this Technical Guidance Note

1. The purpose of the modules in this Technical Guidance Note (TGN) from Audit Scotland's Innovation & Quality (I&Q) is to support external auditors appointed by the Accounts Commission in performing an audit of the 2024/25 Annual Accounts of local government bodies.
2. Auditors should also use this TGN as a primary reference source when performing the audit. The TGN concisely explains the appropriate accounting treatment on areas of known complexity or uncertainty to assist auditors in evaluating whether the body has complied with the applicable requirements. This is intended to inform auditors' professional judgement and promote the exercise of professional scepticism.
3. In accordance with Appendix 6 of the Code of Audit Practice, auditors should pay due regard to this TGN and advise I&Q of any intended departure from the guidance such as the acceptance of alternative accounting treatments.

Misstatements in the financial statements

4. A misstatement in the financial statements (and audited part of the Remuneration Report) is defined in [ISA \(UK\) 450](#) as a difference between the amount, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure required for the item to be in accordance with the applicable financial reporting framework.
5. The applicable financial reporting framework for local government financial statements is set out in the [Code of Practice on Local Authority Accounting in the UK 2024/25](#) (the accounting code) and guidance issued by the Scottish Government under [Section 12](#) of the Local Government in Scotland Act 2003 (statutory guidance).
6. Auditors should request relevant officers in the audited body and, if necessary elected members, to correct all misstatements identified during the audit, other than those that are clearly trivial.

Misstatements in Statutory Other Information

7. Auditors also have responsibilities relating to information included in the Annual Accounts other than the financial statements (and audited part of the Remuneration Report). This includes additional responsibilities for information required by statute (which [ISA \(UK\) 720](#) describes as Statutory Other Information). For local government bodies, Statutory Other Information comprises items required by [The Local Authority Accounts \(Scotland\)](#)

[Regulations 2014](#) (accounts regulations), including the Management Commentary and Annual Governance Statement.

8. A misstatement in Statutory Other Information exists when it is incorrectly stated or otherwise misleading, or has not been prepared in accordance with requirements. Auditors should request the audited body to correct all material misstatements in Statutory Other Information.

TGN modular structure

9. This TGN is split into modules. In addition to providing an overall introduction, this Overview Module provides guidance on the following areas that are pervasive to the financial statements as a whole:

- Presentation of the financial statements (section 1).
- Accounting policies, estimates and prior year errors (section 2).
- Events after the year end (section 3).
- Significant judgements and estimation uncertainty (section 4).
- Principal or agent transactions (section 5).

10. Modules 1 to 9 provide guidance on specific classes of transactions, balances and disclosures. Module 10 covers the Remuneration Report and Module 11 Statutory Other Information.

11. Specific guidance on the application of the above modules to integration joint boards (Module 12), pension fund accounts (Module 13) and section 106 charity accounts (Module 14) is also provided.

Changes in guidance in 2024/25

12. A summary of the changes in this TGN compared with 2023/24 is provided in a separate document.

13. There are no changes to the guidance in this Overview Module in 2024/25.

Consulting with I&Q

14. Auditors should consult with I&Q by sending an email to TechnicalQueries@audit-scotland.gov.uk

Related guidance and support

15. Other related support and guidance from I&Q is set out in the following table:

Guidance and support	To provide
Technical Guidance Note on Independent Auditor's Reports	Model Independent Auditor's Reports and guidance on their application
Technical Guidance Note on statutory objections	Guidance on dealing with statutory objections to the unaudited accounts
Technical Bulletins	Information on relevant technical developments each quarter and guidance on emerging risks
Latest Technical News	Information on relevant technical developments as they arise
Main reference material	Each module of this TGN along with access to the main source reference material, e.g. accounting code, legislation and statutory and advisory guidance (there are also hyperlinks embedded in this TGN)
Consulting with I&Q	Advice and support on specific issues Request for consultations with I&Q should be e-mailed to: TechnicalQueries@audit-scotland.gov.uk

1. Presentation of financial statements

The set of financial statements is not complete or properly presented

16. Regulation 8(2) of the [accounts regulations](#) requires the financial statements set out in the [accounting code](#) to be included in the Annual Accounts.

17. The accounting code (section 3.4) requires the financial statements to be prepared in accordance with IAS 1 Presentation of Financial Statements. However, the accounting code specifies the format of the financial statements, minimum level of disclosures, and terminology that are appropriate for local government bodies.

18. Paragraph 3.4.2.17 of the accounting code sets out what a complete set of financial statements should comprise. This is summarised for 2024/25 in the following table:

Element	Purpose
Comprehensive Income and Expenditure Statement (CIES)	<p>The CIES presents the expenditure incurred during 2024/25 on the delivery of services, along with the funding provided and other income earned, expressed in accordance with International Financial Reporting Standards (IFRS) as adapted or interpreted by the accounting code. It comprises sections for:</p> <ul style="list-style-type: none"> • the Surplus or Deficit on the Provision of Services (SDPS) • Other Comprehensive Income and Expenditure (OCIE).
Movement in Reserves Statement (MiRS)	<p>The MiRS presents the movements from 1 April 2024 to 31 March 2025 on the various reserves held by the body, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'.</p> <p>The movements are analysed over total comprehensive income and expenditure from the CIES, statutory adjustments which determine the charge to the General Fund, and transfers between reserves. Guidance in respect of the MiRS is provided in Module 5.</p>
Balance Sheet as at 31 March 2025	<p>The Balance Sheet shows the value as at 31 March 2025 of the assets and liabilities recognised by the body. The net assets are matched by the reserves held by the body.</p>
Cash Flow Statement	<p>A Cash Flow Statement shows the changes in cash and cash equivalents of the body during 2024/25.</p>

Element	Purpose
Notes to the financial statements	Information required to be disclosed in the notes includes: <ul style="list-style-type: none"> • material accounting policy information • the Expenditure and Funding Analysis (EFA) and other disclosures required by the accounting code.
Comparative information in respect of 2023/24	Except when otherwise permitted, comparative information for 2023/24 requires to be presented for all amounts reported in the 2024/25 financial statements.
Statutory income accounts	The Housing Revenue Account, and income statements for council tax and non-domestic rate are explained at Module 9.9.

19. Paragraph 3.4.2.18 of the accounting code requires all of the financial statements to be presented with equal prominence in the order that best enables users to understand them. Some bodies continue to inappropriately categorise the financial statements into ‘core’ and ‘supplementary’.

20. The accounting code requires a description of the purpose of each statement to be provided and sets out recommended wording for each description in section 3.4. Although the accounting code allows the description to be in the Management Commentary, [Finance Circular 5/2015](#) supersedes that option and requires it to be on the face of each statement.

21. In summary, bodies should have in the 2024/25 financial statements:

- presented a complete set of financial statements
- clearly identified the financial statements and distinguished them from the Remuneration Report and Statutory Other Information
- clearly identified each financial statement and the notes
- presented all of the financial statements with equal prominence
- used signage or brackets in a manner that is correct, clear and consistent
- disclosed a description of the purpose of each statement on its face that is clear and concise
- offset assets and liabilities or income and expenses only where required or permitted by the accounting code.

22. When checking that the accounting code's disclosure requirements have been met, auditors may find it helpful to:

- request that the body completes CIPFA's 2024/25 disclosure checklist

- investigate the reasons for any non-compliance that the checklist highlights
- evaluate whether the body's responses in the checklist are consistent with knowledge obtained in the audit.

23. Where the body declines to complete the checklist, auditors may wish to:

- establish the alternative means by which it satisfies itself regarding the completeness of disclosures and evaluate the adequacy of the arrangements
- consider completing the checklist themselves.

SDPS section in the CIES is not properly presented

24. The accounting code specifies at paragraph 3.4.2.39a) to e) the minimum line items that comprise the SDPS in the CIES. These line items are summarised in the following table:

Line item	Notes for auditors
Gross expenditure, gross income, and net expenditure of the body's continuing operations analysed by service segment	The analysis of service segments should be based on the segmental structure used in the EFA (see Module 9.1). Paragraph 3.4.2.40 of the accounting code requires appropriate charges for non-current assets (e.g. depreciation, impairment, etc. explained in Module 1) and employee benefits (explained at Module 4) to be included in services.
Other operating expenditure	For Scottish bodies, this mainly relates to gains or losses on the disposal of non-current assets.
Financing and investment income and expenditure	Interest payable and receivable (Module 3); net interest on net defined benefit obligations (Module 4); changes in the fair value of investment properties (Module 9); and gains and losses on financial assets (Module 3).
Surplus or deficit on discontinued operations	This applies where an operation has ceased completely and therefore this line is expected to be used very rarely.
Taxation and non-specific grant income and expenditure	Taxation includes council tax and non-domestic rates income (explained at section 9 of Module 9). Non-specific grant income includes non-ringfenced revenue grants and capital grants used to fund the body's capital expenditure (Module 8).

25. In summary, there are requirements for 2024/25 that:

- the SDPS comprises the required items

- the service analysis has been presented using the same structure as the EFA
- each service segment includes charges for the use of its non-current assets
- each service segment includes appropriate employee benefit accrued costs
- the body has either presented in the CIES or disclosed in the notes an analysis of the other operating expenditure, financing and investment income and expenditure, and taxation and non-specific grant income
- there are no items of income and expenditure described as extraordinary or as exceptional (as the accounting code does not permit these classifications).

Internal transactions are included in SDPS

26. Transactions between segments should not be included in the CIES. This relates to the impact of internal trading whereby one segment charges another segment (with the charge including a 'profit' element) for the provision of an internal support service. The provider service should not recognise the internal charge as income in the SDPS and the receiving service should not recognise it as expenditure.

27. Where such inter-segment transactions take place, and are reported for internal management purposes, they should however be reflected in the EFA. This is explained further at Module 9.1.

28. It is important to note that the internal transactions outlined above are distinct from the re-allocation of underlying expenditure from one segment to another which is allowed to be reflected in the CIES. This would be the case, for example, where one segment incurs expenditure by transacting with an external party, but the resource is actually consumed by another segment. It is acceptable to re-allocate the expenditure to the segment that consumed the resource (so that its expenditure in the SDPS increases and the expenditure of the segment which initially procured the resource decreases).

OCIE section in the CIES is not properly presented

29. Paragraph 3.4.2.39 j) to n) of the accounting code specifies the minimum line items that comprise the OCIE section of the CIES. These are items that the accounting code does not require or permit to be recognised in the SDPS. The body should have presented amounts in 2024/25 for:

- the increases and decreases on the revaluation of property, plant and equipment not charged to the SDPS (explained at Module 1) or other non-current assets (Module 9)
- impairment losses not charged to the SDPS (Module 1)

- surplus or deficit from financial assets measured at fair value through other comprehensive income (Module 3)
- actuarial gains or losses on the net defined benefit pension liability and return on scheme assets (Module 4).

Balance Sheet is not properly presented

30. The accounting code specifies at paragraph 3.4.2.62 the minimum line items that should be presented in the Balance Sheet. These include resources controlled by the body such as property, plant and equipment, heritage assets, and investment property, as well as obligations to transfer a resource, such as provisions, all of which are explained in the relevant module of this TGN.

31. The accounting code allows a body to disaggregate the required line items where this is considered relevant to an understanding of its financial position.

32. The body should have:

- presented all the line items required by the accounting code that are applicable to the body and are material have in the Balance Sheet at 31 March 2025
- disaggregated items have been where that assists in understanding the financial position
- not aggregated material items have where they have different natures.

Cash Flow Statement is not properly presented

33. Paragraph 3.4.2.70 of the accounting code allows the Cash Flow Statement to be prepared using either the:

- direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or
- indirect method, whereby net SDPS is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of revenue or expense associated with investing or financing cash flows.

Presentation of financial statements is not consistent with previous years

34. Paragraph 3.4.2.34 of the accounting code requires bodies to retain the presentation and classification of items in the financial statements used in the previous year unless another presentation or classification is required by the accounting code or is more appropriate.

35. Where the body has changed presentation or classification in 2024/25:

- the new presentation or classification should be more appropriate

- the body should have accurately reclassified the 2023/24 comparative amounts for changes in the presentation, and any changes of classification, of items in 2024/25
- the nature of the reclassification, the reasons for it, and the amount of each item reclassified should have been disclosed.

36. Where 2023/24 comparative amounts have not been reclassified on the grounds that it is impracticable, the body is required to have made every reasonable effort to reclassify the amounts. Where that is the case, the body should have disclosed the

- reason for not reclassifying the amounts
- nature of the adjustments that would have been made if the amounts had been reclassified.

37. Where it is not considered impracticable to reclassify the items, auditors should request the body to do so. Where the body declines, and the misstatement is material, auditors should consider the impact on their opinion on the financial statements.

Information in the notes is not properly disclosed

38. The information to be disclosed in notes to the financial statements, subject to it being material, is set out in the accounting code at paragraph 3.4.4.1 and within the sections covering each financial statement area. Specific guidance is provided in the relevant module of this TGN. In general:

- the notes should have been presented in a systematic manner as required by paragraph 3.4.2.86 of the accounting code
- each item in the financial statements should have been cross-referenced to any related information in the notes.

2. Accounting policies, estimates and prior year errors

Under the going concern basis of accounting, the financial statements are prepared on the assumption that the body's services will continue for the foreseeable future.

Going concern basis of accounting is not appropriate

39. Under the going concern basis of accounting, the financial statements are prepared on the assumption that the services delivered by the body will continue for the foreseeable future. Assets and liabilities are recorded on the basis that the body will be able to realise its assets and discharge its liabilities in the normal course of business. This contrasts with a 'break up' basis which is required if a body's operations cease suddenly and consequently the recoverable values of its assets may be significantly less than the carrying amount in the balance sheet.

40. The concept of going concern applies in the public sector but in a different way to the private sector. A key difference is that, when assessing whether the going concern basis of accounting is appropriate for a public body, the anticipated continued provision of the body's services is more relevant to the assessment than the continued existence of the body itself. Practice Note 10 provides guidance on applying ISA (UK) 570 Going Concern to the audit of public bodies. Auditors should determine a proportionate approach based on the body's circumstances and the financial reporting framework.

41. Paragraphs 2.1.2.9 and 3.4.2.23 of the [accounting code](#) require the financial statements to be prepared on a going concern basis for bodies that can only be discontinued by statutory prescription. This requirement reflects the presumption that the services of the body will continue to be delivered for the foreseeable future. For other bodies, IAS 1 requires to be followed. Some common scenarios are summarised in the following table:

Body type	Examples	Basis of accounting	Audit procedures
Bodies that can only be discontinued by statutory prescription	Councils, valuation joint boards, integration joint boards, regional transport partnerships	A going concern basis of accounting is required. This continues to apply even if there were plans by the Scottish Government to discontinue the body and transfer responsibility for delivering the services to another public body.	The audit assessment of the appropriateness of the going concern basis of accounting is very straight-forward as it is a requirement of the accounting code. There is no need for any detailed cash-flow projections that are necessary for a

Body type	Examples	Basis of accounting	Audit procedures
			business in the private sector.
Bodies that can be discontinued without statutory prescription – no plans to discontinue	Joint committees	A going concern basis is appropriate.	Auditors should confirm that the constituent authorities have no plans to discontinue the body.
Bodies that can be discontinued without statutory prescription – plans to discontinue body but transfer services to another public body	Joint committees	A going concern basis is likely to be appropriate.	Auditors should confirm that the services will continue to be delivered by a public body.
Bodies that can be discontinued without statutory prescription – plans to discontinue body and services	Joint committees	<p>A going concern basis may be appropriate if the body is being wound up in an orderly and planned manner, and that basis provides a faithful representation of the items in the financial statements.</p> <p>If a going concern basis does not provide a faithful representation (e.g. adjustments are required to assets and liabilities), it is likely that a ‘break up’ basis would be more appropriate.</p>	<p>Auditors may wish to seek confirmation from the constituent authorities that the body continues to have financial backing to utilise its assets and meet liabilities as they fall due. If adequate confirmations are received, it may be reasonable to conclude that the going concern basis is appropriate. If no such confirmation is provided, auditors may decide there is a material uncertainty to be disclosed.</p> <p>Auditors should consider whether adjustments are necessary to items in the financial statements which would mean a ‘break up’ basis would be more appropriate.</p>

42. Auditors should confirm that a going concern basis of accounting has been adopted in 2024/25 for councils and most section 106 bodies. Where the body can be discontinued without statutory prescription and there is an intention to

discontinue or privatise the body's functions, auditors should evaluate whether the basis of accounting is appropriate.

Accounting policies are the principles and other practices applied in preparing and presenting financial statements.

Accounting policies are not appropriate

43. Accounting policies are the specific principles, bases, conventions, rules and practices applied in preparing and presenting financial statements. The accounting code (section 3.3) requires bodies to comply with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

44. The accounting policy applied should normally be determined by the accounting code. Where the code does not specifically apply to a particular transaction or event, the body should use judgement in developing and applying an accounting policy that results in information that is relevant and reliable. Paragraph 3.4.2.21 of the accounting code is clear that a body cannot rectify inappropriate accounting policies either by disclosure of the policies used or by explanatory material.

45. The accounting policies applied by the body in 2024/25 should:

- have been determined by the accounting code where applicable
- be appropriate to its circumstances
- have been consistently applied.

46. ISA (UK) 240 requires auditors to evaluate whether the selection and application of accounting policies by the body, particularly those related to subjective measurements and complex transactions, is indicative of fraudulent financial reporting.

Accounting policy information is not adequately disclosed

47. In accordance with IAS 8, paragraph 3.4.2.88 of the accounting code requires bodies to disclose 'material accounting policy information'.

48. Paragraphs 3.4.2.89 to 3.4.2.93 of the accounting code provide guidance on making this disclosure. They explain that not all accounting policy information relating to material transactions is itself material. Accounting policy information is expected to be material if it relates to material transactions and:

- the body has changed its accounting policy and that resulted in a material change to the information in the financial statements
- the body chose the accounting policy from permitted options
- there was no policy specified in the accounting code

- the accounting policy relates to an area for which the body is required to make significant judgements or assumptions in applying the policy
- the accounting required for them is complex and users would otherwise not understand those material transactions.

49. Paragraph 3.4.2.89 clarifies that accounting policy information may be material because of the nature of the related transactions, even if the related amounts are immaterial.

50. Immaterial accounting policy information need not be disclosed. Where a body nevertheless discloses it, paragraph 3.4.2.92 is clear that it should not obscure material accounting policy information.

51. Paragraph 3.4.2.95 of the accounting code requires bodies to consider whether disclosure would assist users in understanding how transactions are reflected in the financial statements. It also states that it is useful for a body to disclose:

- the choice of policy made by the body when the accounting code allows different policies
- each material accounting policy that, while not specifically required by the accounting code, the body selects and applies to particular transactions or events.

Changes in accounting policies are not properly accounted for

52. Bodies should change an accounting policy only if:

- the change is required by the accounting code; or
- it results in the financial statements providing reliable and more relevant information on an item.

53. Where a body changes an accounting policy, the changes should be applied retrospectively. Retrospective application involves adjusting the opening balance of each affected component for the earliest year presented and the other comparative amounts disclosed as if the new accounting policy had always been applied. Retrospective application is not required:

- where transitional provisions are specified
- to the extent that it is impracticable (i.e. the body cannot apply it retrospectively after making every reasonable effort to do so).

Accounting estimates are judgements when measuring monetary amounts in financial statements that are subject to measurement uncertainty.

Accounting estimates are not reasonable

54. Paragraphs 3.3.2.14 to 3.3.2.15 of the accounting code explain that an accounting policy may require financial statement items to be measured in a way that involves measurement uncertainty. This means that monetary amounts cannot be observed directly and must instead be estimated. In these cases, bodies are required to develop an accounting estimate.

55. Developing accounting estimates involves judgements or assumptions based on the latest available, reliable information. Bodies are required to use measurement techniques and inputs to develop accounting estimates. Measurement techniques include:

- estimation techniques (e.g. when measuring a loss allowance for expected credit losses explained in Module 4)
- valuation techniques (e.g. when measuring the fair value of an asset).

56. An accounting estimate cannot be determined to be accurate or inaccurate, but it can be considered reasonable if:

- the method used in making the accounting estimate is appropriate
- the underlying assumptions are sound
- the body has considered and addressed the effect of estimation uncertainty
- the amount is described clearly as being an accounting estimate
- the nature and limitations of the estimating process are explained
- no errors have been made in selecting and applying an appropriate process for developing the accounting estimate.

Changes in accounting estimates are not properly accounted for

57. An accounting estimate may need to change to reflect any changes in the circumstances on which the accounting estimate was based or as a result of new information. Paragraph 3.3.2.18 of the Code explains that a change in an input or a measurement technique is a change in an accounting estimate unless it results from a prior period error.

58. In summary:

- accounting estimates should have been revised in 2024/25:

- where there are changes in the circumstances on which the estimate was based; or
- as a result of new information or experience.
- the effect of a change in an accounting estimate should have been recognised prospectively (i.e. from the date of change rather than retrospectively)
- a change in an input or measurement technique should have been treated as a change in an estimate
- a change in the measurement basis (i.e. historical cost, fair value or current value) applied to an accounting estimate should have been treated as a change in an accounting policy rather than as a change in an accounting estimate.

Prior year errors arise from a failure to properly use reliable information in prior years.

Prior year errors are not properly corrected

59. Errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts.

60. Prior year errors arise from a failure to use, or misuse of, reliable information in prior years that:

- was available when financial statements for those years were authorised for issue by the body's Section 95 officer; and
- could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

61. Changes in accounting estimates are different from the correction of errors as the former results from new information or new developments.

62. Material prior year errors should be corrected by retrospective restatement in the first set of financial statements authorised for issue after their discovery. The body should have corrected material prior year errors identified in 2024/25 retrospectively by restating:

- the comparative amounts for the prior years presented in which the error occurred; or
- the opening balances of assets, liabilities and reserves for the earliest prior year presented (if the error occurred before the earliest prior year presented).

63. A retrospective restatement to correct a material prior year error is not required if the restatement is impracticable. This is the case where the body cannot restate after making every reasonable effort to do so because:

- the effects of the retrospective restatement are not determinable
- the retrospective restatement requires assumptions about what management's intent would have been in that year; or
- the retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:
 - provides evidence of circumstances that existed on the date(s) at which those amounts are to be recognised, measured or disclosed; and
 - would have been available when the financial statements for that prior year were authorised for issue by the Section 95 officer.

64. When it is impracticable to determine the years effected by an error, the body should have restated the opening balances of assets, liabilities and reserves for the earliest year for which retrospective restatement is practicable (which may be the current year).

Prior year errors are not properly disclosed

65. Where a prior year error has been corrected in 2024/25, the body should have disclosed:

- the nature of the prior year error
- for each prior year presented, to the extent practicable, the amount of the correction for each financial statement line item affected
- the amount of the correction at 1 April 2023 (if years prior to 2024/25 are affected).

3. Events after the reporting period

Financial statements should reflect events after the year end up to the date they are authorised for issue.

Events after the year end are not complete

66. The [accounting code](#) (section 3.8) requires local government bodies to account for events after the year end in accordance with IAS 10 Events after the Reporting Period.

67. Paragraph 3.8.2.11 of the accounting code requires the audited financial statements to reflect events after the year end up to the date the Section 95 officer signs the Balance Sheet to authorise the financial statements for issue (i.e. the authorised for issue date).

68. The body should have identified all events which might affect the Annual Accounts occurring between 31 March 2025 and the authorised for issue date. In accordance with ISA (UK) 560, this evaluation should involve auditors:

- obtaining an understanding of any procedures the body has established to ensure that events after 31 March 2025 are identified
- inquiring whether any events have occurred which might affect the Annual Accounts. This should focus on establishing:
 - the up-to-date status of items that were accounted for on the basis of preliminary data, e.g. developments regarding contingencies; or
 - whether any events have occurred that are relevant to the measurement of estimates or provisions.

Relevant events after 31 March are not properly adjusted for

69. Events after 31 March 2025 should be classified as either adjusting or non-adjusting events. The difference is explained in the following table:

Adjusting	Non-adjusting
Definition	
Events after 31 March 2025 that provide evidence of conditions that existed at that date, e.g. information that allows a more accurate estimate.	Events that are indicative of conditions that arose after 31 March 2025.

Adjusting	Non-adjusting
Examples	
The settlement of a court case that confirms that the body had a present obligation at 31 March 2025.	The settlement of a court case arising solely out of events that occurred after 31 March 2025.
The determination after 31 March 2025 of the proceeds from assets sold before that date.	Major purchases or disposals of assets, or abnormally large changes in asset values, after 31 March 2025.
The receipt of information indicating that an asset was impaired at 31 March 2025.	The destruction of a significant property by fire after 31 March 2025.
Notification of changes to grant entitlements (other than those caused by a change in grant conditions after the year-end).	The announcement after 31 March 2025 of a major restructuring.

70. The financial statements should reflect material adjusting events. Any reliable information that was not used that was available and could reasonably have been taken into account represents a misstatement. The body should have adjusted the amounts recognised in the financial statements to reflect new information concerning conditions that existed at 31 March 2025.

Non-adjusting events are not properly disclosed

71. Where a non-adjusting event is material in 2024/25, the body should have disclosed the nature of the event and an estimate of its financial effect (or a statement that an estimate cannot be made).

Authorised for issue date is not properly disclosed

72. Local government bodies are required to disclose the authorised for issue date. There should be a statement on the face of the Balance Sheet at 31 March 2025 regarding the status of the financial statements in accordance with the last bullet of paragraph 3.8.2.11 of the accounting code, e.g:

"The unaudited financial statements were issued on [insert date] and the audited financial statements were authorised for issue by [name of Section 95 officer] on [insert date]".

Events after the authorised for issue date but before the Independent Auditor's Report is signed are not identified

73. ISA (UK) 560 requires auditors to identify any events occurring between 31 March 2024 and the date of the Independent Auditor's Report (which may be later than the date the Annual Accounts are authorised for issue). ISA (UK) 700 explains that the date of the Independent Auditor's Report informs users that the auditor has considered the effect of events and transactions that occurred up to that date.

74. Auditors should therefore seek, where possible, to sign the Independent Auditor's Report on the same day the financial statements are authorised for issue. Where that is not possible, auditors should ensure they carry out a review to identify any adjusting or non-adjusting events in the period since that date.

Misstatements are identified after the independent auditor's report has been signed

75. Where auditors become aware of a material misstatement in the audited Annual Accounts after the date of the Independent Auditor's Report, the appropriate action depends on whether the misstatement has been identified before or after the Annual Accounts have been published on the body's website. This is summarised in the following table:

Before website publication	After website publication
<p>Auditors should:</p> <ul style="list-style-type: none"> • discuss the matter with the body and agree the required correcting amendment • carry out necessary audit procedures in the circumstances of the amendment • arrange for the Annual Accounts to be re-signed and re-dated • extend the subsequent review procedures to the date of the new Independent Auditor's Report • provide a new, re-dated Independent Auditor's Report. 	<p>Once the Annual Accounts have been published on the website, they cannot be revised and the Independent Auditor's Report cannot be re-issued.</p> <p>In these circumstances, auditors should request that any material misstatement is corrected by the retrospective restatement of a prior year error (explained in section 2) in the 2025/26 accounts.</p>

4. Significant judgements and estimation uncertainty

Disclosure is required of the judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements.

Disclosed significant judgements are not complete

76. Paragraph 3.4.2.94 of the [accounting code](#) requires disclosure of the judgements made by bodies in applying the accounting policies that have the most significant effect on the amounts recognised in the financial statements. These exclude judgements in respect of estimates which are disclosed separately. Examples of such judgements are whether:

- a lease agreement is a finance or operating lease
- the body controls or significantly influences another entity
- the body is acting as principal or agent in a particular transaction
- an item should be recognised as a provision or disclosed as a contingent liability.

Information on significant judgements is not properly disclosed

77. The relevant judgements should be disclosed along with the significant accounting policies or other notes. The aim of the disclosure is to provide sufficient details to help users understand how the policy has been applied, the areas of subjectivity and the basis for the body's judgement.

78. A clear and concise explanation should have been disclosed in 2024/25 which:

- explains the basis of the judgement
- sets out the factors taken into account
- refers to relevant technical sources
- justifies the view taken ahead of any potential alternatives.

Information should be disclosed on sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts within the next financial year.

Disclosed assumptions about estimation uncertainty are not complete

79. Paragraph 3.4.2.96 of the accounting code requires disclosure of information about the assumptions the body makes about the future, and other major sources of estimation uncertainty, that have a significant risk of resulting in a material adjustment to the carrying amounts within the next financial year. All three factors apply (i.e. risk, materiality and timescale), which limits the number of items that require to be reported.

80. The disclosure requirement focusses on assets and liabilities whose carrying amount relies on estimates which are dependent on complex judgements for which there is a risk that correction or re-estimation with material effect during 2025/26 may be required.

81. Estimation uncertainty disclosures deal with situations where a body has incomplete or imperfect information which will only be enhanced as a result of future events. Paragraph 127 of IAS 1 states that the requirements relate only to the most difficult, subjective and complex judgements. Examples of estimates that the body should be considering for inclusion in the note include:

- selection of discount rate for pensions and calculation of any asset ceiling
- provisions subject to the future outcome of litigation in progress at the year end
- determination of asset useful lives for depreciation
- collection rates for debtors.

82. Bodies should be considering the impact of climate change issues, such as potential changes in the regulatory environment or any estimation uncertainty created by environmental issues.

Information on assumptions about estimation uncertainty is not properly disclosed

83. The body, after considering the assumptions and other major sources of estimation uncertainty, should have disclosed for the assets and liabilities affected:

- their nature
- their carrying amount as at 31 March 2025.

84. IAS 1 explains that the nature and extent of the information provided vary according to the nature of the assumption and other circumstances. Examples of the types of disclosures a body makes are as follows:

- the nature of the assumption or other estimation uncertainty
- the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity
- the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected
- an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.

5. Principal or agent transactions

A body is acting as an agent in a transaction when it is an intermediary for a third party.

Agency transactions are not complete

85. A body is acting as an agent in a transaction when it is an intermediary for a third party (as opposed to being the principal when it is operating on its own behalf). Guidance on whether a body is acting as a principal or agent is provided at paragraphs B34 to B38 of [IFRS 15](#). It states that a body may be acting as an agent where it does not control the goods or services before transfer to the service recipient.

86. Indications that the body is acting as a principal are summarised in the following table:

Area	Indications body acting as principal
Primary responsibility for provision or fulfilment	Body has the primary responsibility for providing the goods or services to the service recipient or for fulfilling the order, e.g. by being responsible for the acceptability of the products
Inventory risk	Body has inventory risk before or after the customer order, during shipping or on return
Price setting	Body has discretion in establishing prices of the goods or service
Credit risk	Body bears the service recipient's credit risk for the amount receivable

87. Where the above indications do not apply, this indicates the body is acting as an agent. The accounting code gives the example of the collection of non-domestic rates, and bodies also collect water rates on an agency basis.

88. There may be other cases, such as where a body is acting as a distribution point for grant monies but has no control over the amount of grant allocated.

The accounting treatment of agency transactions is not appropriate

89. Paragraph 2.6.2.4 of the accounting code sets out the accounting treatment for transactions when the body is acting as an agent. Where that is the case during 2024/25:

- the transactions should have been excluded from the 2024/25 CIES

- the Balance Sheet should reflect the debtor or creditor position at 31 March 2025 in respect of cash collected or expenditure incurred on behalf of the principal
- the net cash position at 31 March 2025 should be included in the financing activities in the Cash Flow Statement
- any commission received for acting as an agent during 2024/25 should have been recognised as income.

Information on agency transactions is not properly disclosed

90. There are no disclosure requirements in respect of the amounts involved in agency transactions. Although paragraph 3.4.4.1 of the accounting code requires the nature and amount of any significant agency income and expenditure to be disclosed, this relates to administration costs and any reimbursement rather than the underlying transactions.

91. Although neither accounting standards nor the accounting code for local authorities requires the disclosure of the amounts involved in agency transactions in the financial statements, where those amounts are significant, bodies may wish to make a voluntary disclosure in the interests of public accountability and transparency.

Overview Module Guidance on areas pervasive to the financial statements in 2024/25

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Technical Guidance Note 2024/8(LG) Module 1

Guidance on misstatements in property, plant and equipment in 2024/25



 AUDIT SCOTLAND

Prepared by Innovation and Quality for auditors in the local government sector

January 2025

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Accessibility

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

Module 1 Introduction

Purpose and use of this module

1. This module of TGN 2023/8(LG) provides guidance on potential misstatements in the following aspects of property, plant and equipment (PPE):

- Capital expenditure (section 1).
- Valuations (section 2).
- Depreciation and impairment (section 3).
- Disposals and capital receipts (section 4).
- Presentation and disclosures (section 5).

2. Section 4.1 of the [Code of Practice on Local Authority Accounting in the UK](#) (accounting code) requires local government bodies to account for PPE in accordance with IAS 16 Property, Plant and Equipment. There are some interpretations and adaptations at paragraph 4.1.1.6 including setting out measurement requirements.

Classes of PPE

3. References in this module to classes of PPE are consistent with paragraph 4.1.2.2 of the accounting code. Classes of operational PPE are:

- Council dwellings within the Housing Revenue Account.
- Other land and buildings.
- Vehicles, plant, furniture, and equipment.
- Infrastructure assets.
- Community assets.

4. Classes of non-operational PPE are:

- Surplus assets.

- Assets under construction.

Changes in guidance in 2024/25

5. There are some additions, clarifications and changes in the guidance on the following potential misstatements:

- Specialised assets are not properly measured
- Impairment assessments did not occur
- Accounting entries for capital receipts are not appropriate
- Replaced components of an asset are not derecognised

Consulting with I&Q

6. Auditors should consult I&Q by completing the [enquiry form](#) and sending by email to TechnicalQueries@audit-scotland.gov.uk

1.1: Capital expenditure

Expenditure on purchasing PPE is not complete or did not occur

7. PPE are tangible assets held to deliver services, for rental to others, or for administrative purposes, and are expected to be used over more than one year. Expenditure incurred on purchasing an item of PPE should be recognised as an asset in the Balance Sheet (i.e. capitalised) if it is probable that the local government body will obtain future:

- economic benefits - this is the potential for the asset to contribute to the flow of cash to the body (in the private sector, this would be the sole determinant); or
- service potential - this concept is added by paragraph 4.1.2.18 of the [accounting code](#) for assets which do not contribute to cash flows, but instead provide benefits by allowing the body to deliver services.

8. However, it is acceptable for local government bodies to set a de minimis below which items will not be capitalised. A body may group similar items, such as laptops, and capitalise them even if individually they are below the threshold. The body should explain that in their accounting policies.

9. Contributions made to finance the construction or acquisition of an asset owned by a third party should not be recognised as an asset in the Balance Sheet of the local government body. As explained in Module 3.1, the contributions should be accounted for as revenue expenditure.

Acquisition costs are not properly measured

10. An item of PPE that meets the recognition criteria should be initially measured at its cost, which paragraph 4.1.2.24 of the accounting code requires to comprise:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the body. Paragraph 17 of IAS 16 gives examples of attributable costs that may be included in the measurement of an asset, e.g.:

- the costs of site preparation, initial delivery and handling costs, and installation costs
- professional fees that relate directly to the acquisition of the assets.
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located discounted to present value. This includes asset decommissioning obligations (e.g. landfill sites) when the criteria for recognising a provision are met (explained in Module 2).

Construction costs are not properly recognised or measured

11. The cost of an asset constructed by the body is determined using the same principles as for a purchased asset (described above). However, some additional issues are summarised in the following table:

Issue	Explanation
Employee costs	Employee costs should be capitalised only where the employees' activities are directly attributable to an asset. Page 15 of the Local Authority Capital Accounting Reference Manual for Practitioners provides further guidance. However, the entire price of the services rendered by the staff of external contractors can be capitalised (including items not capitalised for internal staff).
Recharges	Recharges should be capitalised only if they can be traced back to activity on the asset (and so general overhead costs should not be capitalised).
Cut-off	The recognition of costs in the carrying amount of an asset under construction should cease when the item is capable of operating in the manner intended. This may be before it has actually been brought into use.
Abortive costs and abnormal costs	Any abortive costs relating to projects that are discontinued or abnormal costs that arise from inefficiencies (e.g. design faults, theft of materials) should not have been capitalised.

12. When capitalising employee costs, auditors identified in previous years that some bodies charge the full cost to the service and credit the service with the capitalised element. This is acceptable for internal budgetary purposes but not for external financial reporting. Although the net expenditure is the same, both gross expenditure and income would be overstated. Module 9.1 provides guidance on using the Expenditure and

Funding Analysis to remove the internal income and expenditure from the Comprehensive Income and Expenditure Statement (CIES).

13. In summary:

- employee costs, recharges and other costs should have been capitalised where they are directly attributable to the asset being capable of operating as intended
- internal income and expenditure related to capitalised expenditure for budgetary purposes should have been excluded from the CIES
- no further costs should have been included in assets under construction after the asset was capable of operating in the manner intended by management
- abortive costs relating to projects that are discontinued and abnormal costs that arise from inefficiencies should not have been capitalised.

Assets under construction are inappropriately classified

14. The cumulative balance of expenditure for assets under construction should be reclassified to the appropriate class of operational PPE at the point when the asset is capable of operating in the manner intended by the body (regardless of whether it is actually being used).

15. Assets under construction recognised in the Balance Sheet at 31 March 2025 should therefore represent projects where the asset is not yet capable of operating in the intended manner by that date.

Borrowing costs are inappropriately capitalised

16. Borrowing costs are interest and other costs incurred in connection with borrowing to fund capital expenditure. They include the interest expense calculated using the effective interest rate method (explained in Module 3) and finance charged in respect of finance leases (explained in Module 7).

17. While IAS 23 Borrowing Costs requires borrowing costs to be capitalised, paragraph 4.8.1.2 of the accounting code adapts this requirement by permitting these costs to be expensed. Although most bodies have traditionally expensed borrowing costs, some are considering changing their policy to capitalise.

18. In order to be able to capitalise borrowing costs, the borrowing does not have to be taken out specifically for the asset purchase or construction; the costs of general borrowing used to purchase or construct an asset can also be capitalised. However, if the body has not used borrowing to fund the purchase or construction of the asset during

2024/25, there are clearly no borrowing costs that are directly attributable, and therefore a policy of capitalisation would not be appropriate.

19. A change in policy will require to be applied retrospectively and therefore all borrowing costs incurred after 1 April 2009 on completed projects will require to be capitalised where material. The choice to capitalise borrowing costs is not available for assets initially recognised at fair value (explained at Module 9.3), e.g. service concession or finance lease assets.

20. Where the body has a policy to capitalise borrowing costs, capitalisation should have:

- commenced on the date when the body first met all of the following conditions:
 - expenditure on the asset has been incurred
 - borrowing costs have been incurred
 - activities have been undertaken that are necessary to prepare the asset for its intended use or sale.
- ceased when substantially all the activities necessary to prepare the asset for its intended use or sale were complete.

Subsequent expenditure is not complete or did not occur

21. Expenditure incurred during 2024/25 can be added to the carrying amount of an existing asset (i.e. an asset that was recognised at 31 March 2024) if the expenditure has added to the future economic benefits or service potential of the asset, e.g. it has increased the useful life, current value or future performance of the asset. The accounting treatment is as follows:

- Any expenditure incurred during 2024/25 on an asset that was recognised in the Balance Sheet at 31 March 2024 should have been included in its carrying amount at 31 March 2025 where the expenditure adds to its future economic benefits or service potential.
- All other expenditure during 2024/25 that maintains (rather than adds to) the future economic benefits or service potential (that the asset was expected to provide when it was originally acquired) should have been recognised as an expense in the CIES. This includes, for example, the costs of repairs and maintenance.

Donated assets are not complete or are inappropriately classified

22. Local government bodies may also acquire assets through donation. These are any assets acquired at less than fair value. Any assets acquired at less than fair value during 2024/25 should have been identified and classified as donated assets.

Donated assets are not properly measured

23. Paragraph 2.3.2.12 of the accounting code requires a donated asset to be measured at its fair value as at the date of acquisition. Fair value should be measured in accordance with IFRS 13 Fair Value Measurement (explained at Module 9.3).

Accounting entries for donated assets are inappropriate

24. The requirement to measure a donated asset at fair value requires a debit to PPE for the difference between the cost (if any) and fair value. The related credit entry depends on whether any conditions that could require the return of the asset have been met by 31 March. The entries are summarised in the following table:

Treatment if conditions met	Treatment if conditions not met
Recognise immediately in the CIES as service income	Recognise in the donated assets account in the Balance Sheet (transfer to CIES when the conditions subsequently met)

25. In accordance with [Finance circular 9/2024](#), which provides a temporary amendment to Finance Circular 3/2018, amounts credited to the CIES in respect of donated assets are not proper credits to the General Fund, and should be transferred to the Capital Adjustment Account and reported as a statutory adjustment in the Movement in Reserves Statement (MiRS).

1.2: Valuations

Operational land and buildings are not complete

26. Operational land and buildings are those that were used to provide services during the year and continue to be used at the year-end. It is important that the body's asset register is a complete and accurate record of the land and buildings it holds.

Measurement basis for operational land and buildings is inappropriate

27. The current value measurement basis for operational land and buildings is an existing use value where an active market for the asset exists. Existing use value is defined at accounting code paragraph 4.1.2.9 in accordance with the [Royal Institution of Chartered Surveyor's Valuation - Global Standards 2017: UK national supplement](#) (RICS standards) but in summary it is the amount that would be exchanged for the asset in its existing use. [CIPFA's Property Asset Valuation Handbook](#) is intended to help bodies comply with the accounting code in relation to valuing land and buildings, and reflects the requirements of the RICS standards.

28. In some cases, there will be no active market on which to base the value of a building. In such cases, a depreciated replacement cost (DRC) approach may be needed to estimate current value.

Specialised assets are not complete or are inappropriately classified

29. The body should have identified its properties at 31 March 2025 that are considered specialised. These are properties which:

- have a specialised nature arising from:
 - the construction, arrangement, size or location of the property
 - the nature of the plant and machinery which the properties are designed to house
 - the function or the purpose for which the buildings are provided.
- are rarely sold on the open market for single occupation in their existing use.

30. Examples of specialised properties that a local government body may hold include:

- properties of such construction, arrangement, size or specification that there would be no market for a sale to a single owner occupier for the continuation of existing use
- standard properties that are located in particular geographical areas (remote from main business centres) for operational reasons, which are of an abnormal size for that area
- schools and leisure centres where there is no competing market demand from other organisations using these types of property in the area
- museums, libraries, and other similar premises.

Specialised assets are not properly measured

31. Where there is no market-based evidence of current value, a DRC basis may be used for estimating the current value of specialised assets. This is a method of valuation which provides the current cost of replacing an asset with its modern equivalent asset. It is the aggregate amount of the:

- value of the land for the existing use or a notional replacement site in the same locality
- the gross replacement cost of the buildings and other site works, from which appropriate deductions may then be made to allow for age, condition, economic or functional obsolescence, and environmental and other relevant factors.

32. Under the DRC methodology, a valuer is required to adopt an instant build approach. [Guidance](#) issued by the Royal Institution of Chartered Surveyors (RICS) highlights that borrowing costs (which the valuer calls finance costs) should not be included in the valuation of the property where the instant build approach is adopted.

Valuations of land and buildings are not undertaken appropriately

33. Paragraph 4.1.1.6 of the accounting code states that the requirement for measuring current value should be met by a valuation in accordance with UK VPGA 6 and UK VPGA 4 within RICS standards.

34. In accordance with paragraph 4.1.2.39 of the accounting code, the current value of land and buildings should be determined by the body engaging (external) or employing (internal) a professionally qualified valuer to undertake a valuation.

35. A professionally qualified valuer is defined in the accounting code as a person who:

- holds a recognised and relevant professional qualification
- has sufficient current local and national knowledge of the particular market
- possesses the skills and understanding to undertake the valuation competently.

36. Under [ISA \(UK\) 500](#), auditors are required to:

- evaluate the competence, capabilities and objectivity of the valuer
- obtain an understanding of the valuer's work
- evaluate the appropriateness of the valuer's work as audit evidence. This may include considering the relevance and reasonableness of significant assumptions and methodologies, as well as the relevance, completeness and accuracy of the source data.

37. A valuation in accordance with RICS standards involves a professionally qualified valuer carrying out a:

- valuation inspection, which involves a site visit; or
- desktop investigation where digital mapping is used instead of a site visit.

38. There is no requirement for the qualified valuer to be external to the body. However, auditors may wish to request bodies to consider whether it is appropriate for a valuation undertaken by an internal valuer to be reviewed by an external valuer on a sample basis.

Revaluation frequency for land and buildings is not adequate

39. The carrying amount of land and buildings in the Balance Sheet at the year-end is required to reflect its current value. Paragraph 4.1.2.37 of the accounting code therefore requires revaluations to be made with sufficient regularity to ensure that the carrying amount does not differ materially from current value. Paragraph 34 of IAS 16 explains that the frequency of revaluations depends on the anticipated significance and volatility of changes in current value. The following table sets out the expectations of IAS 16:

Nature of changes in value	Appropriate frequency
Significant and volatile changes	Annual revaluation
Insignificant changes	Revaluation every three or five years

40. Paragraph 4.1.2.38 of the accounting code sets five years as the maximum interval between revaluations, but that frequency is only appropriate where the annual change in value is not significant. More frequent valuations are appropriate for land and buildings that experience significant annual changes in value. The appropriate valuation frequency should be informed by the results of previous valuation exercises (e.g. if a significant increase is identified at a quinquennial revaluation, the body should consider increasing the frequency.)

41. IAS 16 and the accounting code allow bodies the option to revalue:

- all land and buildings in each class simultaneously; or
- a proportion of land and buildings in each class each year on a rolling basis. Paragraph 4.1.2.38 interprets this as meaning they are normally measured once every five years (e.g. 20% of each class would be revalued each year in a five-year cycle), but again that frequency is only appropriate where the annual change in value is not significant.

42. The preference at the Roundtable Event was for the second option to be applied, which means that each class of asset would be revalued on a rolling basis over an appropriate period not exceeding five years.

43. Land and buildings should be revalued with sufficient regularity to ensure that the carrying amount in the Balance Sheet at 31 March 2025 does not differ materially from the current value at that date.

Prior year errors are not properly accounted for

44. An adjustment to the carrying amount of land and buildings as a result of a valuation is normally treated as a change in accounting estimate and accounted for prospectively (as explained in section 3 of the Overview Module). However, there may be a prior period error if carrying amounts should have been adjusted in a prior year but were not. Retrospective restatement is required unless it is impracticable to determine the period-specific or cumulative effects of the error. Bodies should consider how any adjustments to the carrying amount at 31 March 2025 should be allocated between 2024/25 (and accounted for as a change in accounting estimate) and prior periods.

45. An example is set out in the following table:

Example: A quinquennial valuation at 31 March 2025 identified a significant increase in current value. There was no evidence of the increase arising solely during 2024/25.

As there was no evidence of the increase in value arising solely during 2024/25, the body concluded that the increase in value had been accumulating over the period since the previous quinquennial valuation at 31 March 2020. The increase in the current value was not significant at 31 March 2021, but the cumulative effect meant there was a material difference between current value and the carrying amount at 31 March 2023.

There should have been arrangements to identify the increase in value at the point the difference to the carrying amount became material, and a valuation exercise should have been carried out by a valuer so the carrying amount could be adjusted accordingly.

The consequences of that adjustment not happening are that the carrying amounts at 31 March in 2023 and 2024 were understated and an element of the increase should be treated as correcting a prior year error.

46. A proportion of the movement in value identified as a result of a valuation exercise at 31 March 2025 should have been treated as a prior year error and subject to retrospective restatement.

Carrying amount of land and buildings not revalued at the year-end differs materially from current value

47. For land and buildings where a revaluation exercise is not scheduled for 31 March 2025, bodies should have robust supporting evidence that the carrying amount at that date does not differ materially from the current value. It was agreed at the Roundtable Event that:

- bodies should develop a working definition of 'differs materially'
- the definition should include setting out a range of values within which any estimated change in value since the previous formal valuation would not be considered materially different from the carrying amount at the year end.
- bodies will explain how the range was arrived at and how the change will be estimated.
- the working definition of materiality including the range of values, should be reasonable and consistently applied

- bodies should provide a package of supporting evidence that demonstrates that the carrying amount of assets not revalued in year does not breach the agreed definition of 'differs materially'. Where an estimated change in value is outwith the set range of values, this should trigger a revaluation.

48. It is expected that the supporting evidence would include, for land and buildings valued on a DRC basis, a consideration of relevant building indices by the valuer. However, there have been significant increases in build costs recently due to inflationary pressures which are likely to result in material increases in asset values.

49. Where a body uses a rolling basis of valuations, the supporting evidence may be an immaterial movement in the proportion of assets revalued at 31 March 2025 and a statement from the valuer that a similar movement is expected in the other assets in that class that were not revalued.

50. Where supporting evidence is inadequate, or if indexation actually indicates a material movement in value, the body should have arranged for a valuation exercise to be carried out by a professionally qualified valuer as at 31 March 2025.

51. It may not be necessary to carry out a valuation exercise for all assets at 31 March 2025. It may be possible that carrying out a revaluation of a proportion of assets would provide sufficient evidence that there is not a material misstatement. For example, the proportion may be a:

- stratified sample whereby the highest value assets are revalued
- representative sample of assets in each class with the outcomes extrapolated across the whole class.

52. I&Q is aware that in previous years, valuation exercises in these circumstances may have been undertaken by an accountant applying indexation to approximate a change in the value of land and buildings, with minimal involvement by a qualified valuer. Indexation by an accountant in such circumstances is not supported by the accounting code as a means of valuation. [Guidance from CIPFA](#) (paragraph 2.5) is consistent with that position.

53. Where the body declines to arrange a valuation of a sufficient number of assets by a professionally qualified valuer at 31 March 2025, auditors should consider whether additional audit procedures are possible, where they are not this may constitute a limitation on the scope of the audit.

Valuations do not reflect current value at the year-end

54. There is no requirement for the valuation date to be 31 March, and the [Local Authority Capital Accounting Reference Manual for Practitioners](#) explains that bodies may use 1 April (or other date during the year) subject

to the standard condition that the carrying amount at the end of the year does not differ materially from the current value at that date.

55. Where a valuation has been carried out at 1 April 2024, the body should:

- have considered whether there have been any movements in value during 2024/25 that should be reflected in the 31 March 2025 carrying amount
- be able to provide evidence-based reasoning to auditors that supports the body's consideration of the above
- have made necessary adjustments to the 31 March 2025 carrying amount to reflect any movements that require to be reflected.

56. Where a valuation has been carried out at 1 April 2025, the body should consider whether that represents an adjusting event in 2024/25 (as explained at section 3 of the Overview Module) on the basis that it provides evidence of conditions that existed at 31 March 2025. There have been examples in the past of material movements in value not being reflected in the relevant year resulting in a prior year error having to be corrected by a retrospective restatement in the following year.

Changes in valuation method are not appropriate

57. Where a body has changed its valuation method in 2024/25, it should be able to demonstrate that the change in method is more appropriate and results in a more accurate estimate of values.

58. When a body changes its valuer, it is often the case that the new valuer will wish to adopt a new valuation method. However, a change in valuer should not necessarily lead to a change in the method adopted. It is for each body to determine the required approach and to instruct the valuer accordingly. It is important that bodies take responsibility for providing valuers with clear instructions.

59. In line with ISA (UK) 500's requirements to evaluate the valuer as a management expert, auditors may wish to obtain the engagement letter or agreement with the valuer to obtain an understanding of their work.

60. Auditors are required to consider whether the change in method is arbitrary. ISA (UK) 540 states that arbitrary changes result in inconsistent financial statements over time and may give rise to a misstatement or be an indicator of possible management bias. If the body cannot demonstrate that the change results in a more accurate estimate, the method should not be changed.

Council dwellings are not properly measured

61. The method of valuation for council dwellings is based on existing use value but with additional special assumptions (EUV–SH) set out at paragraph 4.1.2.10 of the accounting code. The considerations for General Fund land and buildings explained above also apply to council dwellings, but there are further specific issues.

62. In accordance with [mandatory guidance](#) from the LASAAC, the council should have used a beacon approach which values the dwelling based on its vacant possession market value adjusted to reflect its use for social housing (adjusted vacant possession). Further [guidance](#) on the beacon approach is available in guidance from the UK Government. The council should have used a reasonable social use adjustment factor.

63. A discounted cash-flow basis or a 'right to buy' valuation approach are not permitted.

Surplus assets are not complete or are inappropriately classified

64. Assets which are not used in the delivery of services, and there is no plan to bring them back into service, but which do not meet the criteria to be classified as either held for sale or as investment properties (explained in Module 9) should be classified as surplus assets.

Surplus assets are not properly measured

65. The current value measurement basis for surplus assets is fair value in accordance with the accounting code's adoption of IFRS 13. This is explained at Module 9.3 but in summary fair value is the price that would be received to sell the asset in an orderly transaction between market participants at the measurement date.

The accounting entries for revaluation movements during the year are inappropriate

66. The entries where the carrying amount of PPE has increased or decreased as a result of a revaluation affect the Balance Sheet, and the Surplus or Deficit on the Provision of Services (SDPS) and Other Comprehensive Income and Expenditure (OCIE) in the CIES. The entries are summarised in the following table:

Movement	CIES	Comment
Increase	DR PPE CR Revaluation Reserve	OCIE This is the most likely position.

Movement	CIES	Comment
Increase (reversing previous decrease charged to CIES)	DR PPE	This may arise where the increase is reversing a previous decrease on the same asset charged to CIES. This is not a permitted credit to the General Fund and is transferred to the Capital Adjustment Account. The amount credited should be less any depreciation that would have been charged.
	CR General Fund	
	DR General Fund	
	CR Capital Adjustment Account	
Decrease (up to asset's credit balance on Revaluation Reserve)	DR Revaluation Reserve	If the asset had previously been revalued upwards, it will have a credit balance on the Revaluation Reserve. Any decrease is first charged against that balance.
	CR PPE	
Decrease (in excess of asset's credit balance on Revaluation Reserve)	DR General Fund	Any decrease in excess of the credit balance is charged to CIES. This is not a permitted charge to the General Fund and therefore it is transferred to the Capital Adjustment Account.
	CR Property, plant and equipment	
	DR Capital Adjustment Account	
	CR General Fund	

67. In summary:

- an increase in value at 31 March 2025 should have been recognised in:
 - the Revaluation Reserve; or
 - the SDPS if reversing a previous decrease on the same asset that was originally charged there.
- a decrease in value at 31 March 2025 should have been recognised in:
 - the Revaluation Reserve up to the credit balance in respect of the asset

- the SDPS to the extent it exceeds the credit balance on the Revaluation Reserve.
- Revaluation decreases (and their reversal) recognised in the SDPS in 2024/25 should have been:
 - transferred to the Capital Adjustment Account
 - included in the adjustments reported in the MiRS.

Plant and equipment are not properly measured

68. Paragraph 4.1.2.32 of the accounting code allows bodies to adopt a depreciated historical cost basis as a proxy for the current value of plant and equipment.

69. This should only be used for non-property assets that have short useful lives and/or low values, e.g. ICT, furniture and fittings, motor vehicles.

Community assets are not complete

70. Community assets are assets that:

- a body intends to hold in perpetuity
- have no determinable useful life
- may have restrictions on their disposal, e.g. parks, land for cemeteries
- are not classified as heritage assets (explained at Module 9.2).

71. The body should have identified all its community assets at 31 March 2025.

Community assets are not properly measured

72. Local government bodies may elect to measure community assets using either the depreciated historical cost basis or at a valuation.

73. Paragraph 4.1.2.12 of the accounting code deems historical cost to be the carrying amount of an asset (adjusted for subsequent depreciation or impairment) at the later of:

- 1 April 2007; or
- the date of acquisition.

74. Valuations may be made by any method that is appropriate and relevant. There is no requirement for the valuation to be carried out or verified by a professionally qualified valuer.

Infrastructure assets are not complete or are inappropriately classified

75. Infrastructure assets are those that can only ever be used for the purpose they were originally constructed, i.e. there is no prospect of sale or alternative use. Typical examples include highways, footpaths, bridges, drainage systems and coastal defences.

76. The body should have identified all its infrastructure assets at 31 March 2025.

Infrastructure assets are not properly measured

77. Infrastructure assets should be measured at depreciated historical cost.

1.3: Depreciation and impairment

Depreciation charge is not complete

78. A charge for depreciation applies to all PPE whether measured at historical cost or current value. For assets brought into use during 2024/25, the depreciation charge should have commenced at the point the asset was available for use (i.e. when it is in a location and condition for it to be capable of operating in the manner intended by the body's management), even if that is before it was actually brought into use.

79. If depreciation has not been charged on a particular item of PPE for 2024/25, the body should have a valid reason. Reasons often given by bodies for not charging depreciation, and I&Q's view on their validity, are summarised in the following table:

Valid	Invalid (i.e. depreciation still required)
Land which has an unlimited useful life.	The asset's current value has increased in the year.
The residual value of an asset is equal to (or greater than) its carrying value.	Annual revaluations are undertaken.
Community assets that have an indefinite life.	Depreciation is not a charge to the General Fund and is therefore not important.
Assets in the course of construction.	
The asset has been reclassified as being held for sale (explained at Module 9.6).	Regular repairs and maintenance are carried out on the asset.
The asset has been disposed of.	

Depreciation charge is not properly measured

80. Depreciation should be calculated by allocating the depreciable amount (i.e. the carrying value of the asset less any residual value) over the useful life of the asset:

- The residual value is the estimated amount that the body would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.
- The useful life should reasonably reflect the period which the assets are expected to be available for use by the body (and therefore may be shorter than the economic life).

81. Paragraph 4.1.2.46 of the [accounting code](#) requires bodies to review the residual value and useful life at least at each year-end and account for any necessary amendments prospectively as a change in an accounting estimate. Bodies should be including the potential impact of climate change considerations in their review.

82. Land should be accounted for separately from buildings, even when acquired together. An increase in the value of land (which is not depreciated) on which a building stands should not therefore affect the depreciable amount of the building.

83. [CIPFA Bulletin 12](#) provides guidance on depreciation of infrastructure assets. Paragraph 68 advises that reflecting the period which the assets are expected to be available for use is difficult for infrastructure assets as they take the form of a network of assets with many different components maintained in a relatively steady state.

84. Paragraph 70 advises that it would be reasonable to use the categories of the network that were defined in the Code of Practice on the Highways Network Asset, i.e. carriageways, footways and cycle tracks, structures, street lighting, street furniture and traffic management systems. Specific guidance includes the following:

- Paragraphs 77 to 87 provide guidance on methodologies for estimating useful lives for each category.
- Paragraph 88 provides guidance on calculating multipliers for estimating the weighted average useful lives for each category:
 - Where the local authority's highways network is in a relatively steady state, it is likely to be possible to calculate multipliers across the network on a periodic basis and revise them only where there might be evidence that they need to be updated, perhaps because spending patterns across components have changed significantly.
 - Alternatively, authorities might perform the calculations annually.
- Annex C provides illustrative examples where the local authority is able to estimate information on gross cost and net book value for the different parts.

85. In summary:

- the body should have reviewed the useful lives and residual value at 31 March 2025 to check they are reasonable
- the depreciation methods should be appropriate and reflect the pattern in which the asset's future economic benefits or service potential are expected to be consumed, including the impact of climate change
- any change in useful lives, residual values or depreciation method should be accounted for prospectively as a change in accounting estimate
- land and buildings should have been accounted for separately.

Significant components are not complete

86. Paragraph 4.1.2.43 of the accounting code requires depreciation to be provided for separately on each part (i.e. component) of an item of PPE:

- with a cost that is significant in relation to the total cost of the item. Guidance on identifying significant components is included in LAAP Bulletin 86; and
- has a different useful life or depreciation method.

87. Bodies should have established a policy for determining whether the cost of a component is significant. It is expected that the policy will refer to cost as a proportion of the overall cost of the asset (including the new component's cost) rather than an absolute amount. The comparison of the cost of the new component with the overall cost of the asset should be as at the same date. This means the body should have either:

- estimated the current build cost of the asset and compared it with the cost of the new component; or
- discounted the cost of the new component back to the date when the asset was initially recognised and compared it with the original cost of the asset.

88. The remainder consists of the parts of the PPE item that are individually not significant. Approximation techniques may be necessary to depreciate the remainder in a manner that faithfully represents the consumption pattern and useful life of its parts.

89. In summary, the body should have:

- established a reasonable policy for determining whether the cost of a component is significant

- determined significance by comparing a component's cost against the overall asset cost and considering the result against the criteria in the policy
- compared the cost of a new component during 2024/25 against the overall cost of the asset as at the same date.

Accounting entries for depreciation are not appropriate

90. Depreciation should be charged to service segments and included in the SDPS.

91. However, depreciation should not be charged to the General Fund. The charge is prevented from impacting on the General fund through a combination of a statutory adjustment and reserve transfer as a result of [mandatory guidance from LASAAC](#) which requires (at paragraph 50) a:

- statutory adjustment between the General Fund (credit) and the Capital Adjustment Account (debit) equal to the depreciation on the asset's historical cost
- reserve transfer from the Revaluation Reserve (debit) to the General Fund (credit) equal to the depreciation on the asset's revalued element.

92. Although paragraph 4.1.2.48 of the accounting code includes an alternative option for the statutory adjustment to be equal to the whole depreciation charge, that option is not available to Scottish local government bodies. The two options are contrasted in the example in the following table (where historical depreciation is £6M, and depreciation on the revalued element is £4M):

Entry	Required approach in Scotland	Alternative approach not permitted in Scotland
Depreciation charge	Charge to services (£10M)	Charge to services (£10M)
Statutory adjustment (credit to the General Fund from the Capital Adjustment Account)	Amount equal to depreciation on the asset's historical cost (£6M)	Amount equal to full depreciation charge (£10M)

Entry	Required approach in Scotland	Alternative approach not permitted in Scotland
Transfer of an amount equal to the revalued element of depreciation from Revaluation Reserve	To the General Fund (£4M)	To the Capital Adjustment Account (£4M)

93. In summary, depreciation has been properly accounted for in 2024/25, where:

- it has been charged to service segments and included in the SDPS
- it has not been charged to the General Fund (by a credit of depreciation related to historical cost from the Capital Adjustment Account and a credit of depreciation related to revaluation from the Revaluation Reserve)
- the transfer from the Capital Adjustment Account has included in the statutory adjustments reported in the MiRS.

Impairment assessment did not occur

94. The accounting code (section 4.7) requires bodies to account for impairments in accordance with IAS 36 Impairment of Assets. Bodies should assess at the end of each year whether there is any indication that an asset may be impaired. The accounting code gives examples of indications that an impairment may have occurred at paragraph 4.7.2.11, e.g:

- an unexpectedly significant decline in an asset's carrying amount that is specific to the asset
- evidence of obsolescence
- physical damage to an asset.

95. A specific example is the use of Reinforced Autoclaved Aerated Concrete (RAAC) in the construction of floors and roofs which has reached the end of its expected useful life. Bodies should be considering whether the use of RAAC in a building is an indication that the asset may be impaired.

96. Some key points for consideration are summarised in the following table:

Area	Summary of guidance
Subsequent measurement	<p>Consideration needs to be given to whether any additional revaluations are required outwith the usual cycle due to an Office of Government Property safety briefing notice considering RAAC as “life-expired”. Adjustments may be needed due to:</p> <ul style="list-style-type: none"> • the ability to deliver services as intended for assets based on existing use value • assets valued at fair value being viewed less favourably on the open market • structural and safety issues for assets valued at DRC
Depreciation & impairment	<p>The useful life of assets, residual value, and previous depreciation calculations may need to be revisited.</p> <p>Consideration should be given to whether assets should be componentised differently.</p>
Assets held for sale	<p>When classifying an asset as held for sale, bodies should consider whether:</p> <ul style="list-style-type: none"> • remedial work is required prior to a sale • the presence of RAAC is likely to adversely impact on the probability of the asset being sold.
Associated revenue costs	<p>One potential impact on revenue is the rental of alternative accommodation, such as classrooms</p>

97. IAS 36 also includes, as an indication, significant changes with an adverse effect on the body during the year in the extent to which an asset is used. These changes include the asset becoming idle (e.g. buildings not fully utilised due to hybrid working arrangements), plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset. Bodies should be considering the potential impact of climate change on assets as part of their impairment assessments (e.g. changes in environmental requirements).

Impairment losses are not properly measured

98. If there are indications that an asset is impaired, the body is required to make a formal estimate of the recoverable amount of the asset. The recoverable amount of an asset is the higher of its net selling price and its value in use (i.e. the cost of providing the service potential provided by the asset).

99. IAS 36 confirms that revaluation principles take precedence over those for impairment. Before an impairment loss is calculated on an asset measured at current value, the asset should be revalued so the carrying amount is up to date (and any revaluation decrease accounted for).

100. In summary where there are any indications that an asset is impaired in 2024/25:

- the body should have made a formal estimate of the recoverable amount of the asset
- the estimate should be reasonable
- the carrying amount of the asset at 31 March 2025 should have been brought up to date before the impairment loss is calculated
- the impairment loss should be the difference between the estimated recoverable amount and the updated carrying amount.

The accounting entries for impairment losses are not appropriate

101. An asset is described as impaired if its carrying amount is greater than its recoverable amount. Where this is the case, IAS 36 requires the recognition of an impairment loss. Impairment losses should be accounted for in the same way as revaluation decreases explained in section 2.

102. For any impairment loss in 2024/25:

- the loss should have been recognised in the Revaluation Reserve (and included in OCIE) to the extent that there is a credit balance relating to the impaired asset
- any element of the impairment loss in excess of the credit in the Revaluation Reserve and those relating to assets carried at historical cost, including assets under construction, should have been recognised in the SDPS in the CIES
- the loss charged to the CIES should have been transferred to the Capital Adjustment Account and included in the adjustments reported in the MiRS.

Impairment reversals are not complete or did not occur

103. At each year-end, bodies are required by paragraph 4.7.2.16 of the accounting code to assess whether there is any indication that an impairment loss recognised in earlier periods may no longer exist or has decreased. Where an indication exists, bodies are required to estimate the recoverable amount.

104. An impairment loss in a prior year should only be reversed in 2024/25 where there is evidence of genuine reversal of the event or change in circumstances, i.e. where there has been a change in the estimates of the asset's recoverable amount. For impairments relating to physical damage or loss to the asset, this is unlikely to be the case (if an asset is reconstructed, the reconstruction should be accounted for as subsequent expenditure on the existing asset or a new asset in its own right explained in section 1).

Subsequent expenditure is capitalised but inappropriately recognised as an impairment

105. When subsequent expenditure on an asset has been capitalised, auditors identified in previous years that some bodies immediately recognise an impairment loss equal to the expenditure because they do not consider that the current value of the asset has increased. Recognising an impairment is unlikely to be the appropriate treatment; it is more likely that the carrying amount of the asset should have been reduced (possibly in a prior year) which would mean that the capital expenditure could be added without overstating the carrying amount.

106. Where a body immediately recognises an impairment for subsequent expenditure in 2024/25, auditors may find it helpful to establish the reason why the expenditure was necessary as this may determine the appropriate treatment. Possible reasons, and the appropriate treatment, are illustrated in the following table:

Reason for expenditure	Appropriate treatment
Repairs and maintenance	If the work merely maintains, rather than adds to, the economic benefits or service potential of the asset, it is revenue expenditure and should not have been capitalised.
Replace a component	The replaced component should first be derecognised (i.e. removed from the asset's carrying amount in the Balance Sheet). The cost of the new component can then be capitalised and added to the asset's carrying amount. Further guidance on derecognition of components is provided at section 4.
Remedial work to correct an impairment (e.g. repair physical damage)	An impairment loss should have been recognised when the damage was identified (i.e. before the remedial work was carried out) to reduce the asset's carrying amount. The cost of the remedial work can then be capitalised and added in full to the asset's carrying amount.

1.4: Disposals and capital receipts

Disposals are not complete

107. The body should have identified all disposals of PPE during 2024/25. PPE can be disposed of through:

- sale
- entering into a finance lease as lessor
- demolition.

108. A disposal should be recognised on the date when control of the asset is transferred, rather than the point when the body becomes committed to the disposal. For a property transfer, this is likely to be the completion date rather than when contracts are exchanged.

Disposals are not properly derecognised

109. The carrying amount of an item of PPE should have been derecognised (i.e. removed from the Balance Sheet) during 2024/25:

- on disposal (or when no future economic benefits or service potential are expected from its use or disposal)
- by transferring the carrying amount to the Capital Adjustment Account.

110. If the asset derecognised was carried at a revalued amount, the credit balance on the Revaluation Reserve in respect of that asset should have been transferred to the Capital Adjustment Account.

Gain or loss on disposal is not properly measured

111. Bodies are required to calculate the gain or loss arising from the disposal of an asset. The gain or loss is the difference between:

- the disposal proceeds (i.e. capital receipt); and
- the carrying amount of the asset at the date of disposal (i.e. the amount at which the asset is recognised after deducting accumulated depreciation and impairment losses).

112. If payment is deferred beyond normal credit terms, the disposal proceeds should be discounted using a reasonable discount rate. The discounting should be unwound over the credit period by recognising the

difference between the discounted amount and the total payments received as interest income in the SDPS.

Accounting entries for capital receipts are not appropriate

113. The gain or loss on disposal is not a proper charge (or credit) to the General Fund, and should be included in the adjustments reported in the MiRS.

114. The amount of capital receipts should be debited to the General Fund. The account to be credited is usually the Capital Fund or Capital Receipts Reserve (explained in Module 5). However, the credit should be to the Capital Grants and Receipts Unapplied Account when the capital receipts are to be used to finance premiums on extinguished loans (see Module 3). The previous financial flexibility included in Finance Circular 4/2015 regarding the use of capital receipts to meet equal pay claims has not been extended (see module 2).

Replaced components of an asset are not derecognised

115. Paragraphs 4.1.2.21 and 4.1.2.51 of the accounting code require that, where a component is replaced:

- the cost of the new component should be reflected in the carrying amount of the asset
- the carrying amount of the replaced component should be derecognised to avoid double counting. If it is not practicable to determine the carrying amount of the replaced component, paragraph 4.1.2.52 of the accounting code allows the cost of the new component to indicate the cost of the replaced component at the time it was acquired or constructed (adjusted for depreciation and impairment, if required).

116. The recognition and derecognition should take place regardless of whether the replaced component had been depreciated separately.

117. Auditors identified in previous years that councils have not been derecognising replaced components for infrastructure assets since the requirement was introduced in 2010/11 mainly due to inadequate records. This is particularly the case in relation to roads, where the engineering records used for maintenance have not been created to map against identifiable components.

118. As infrastructure assets in local government are measured at depreciated historical cost, the failure to derecognise (while recognising the new component) has overstated the gross book value and accumulated depreciation of the asset. It could also overstate the net book value (i.e. carrying amount in the Balance Sheet) to the extent of any undepreciated element in the replaced components.

119. [Finance Circular 9/2022](#) provided bodies with the option to override paragraphs 4.1.2.21 and 4.1.2.51 of the accounting code in 2022/23 and 2023/24. [Finance Circular 8/2024](#) extends the period to include 2024/25. The effect of the statutory override is that the carrying amount of a replaced component of an infrastructure asset is to be accounted for as a nil amount, and no subsequent adjustment can be made to the carrying amount of the asset with respect to that part. Section 5 of this module explains a second override in respect of disclosure of gross book value and accumulated depreciation.

Insurance proceeds are not properly accounted for

120. [Finance circular 5/2013](#) provides guidance on the treatment of proceeds from insurance claims. Insurance proceeds in 2024/25 should have been treated as a capital receipt if the settlement related effectively to the insurer purchasing the damaged asset from the body. This may be the case if the damaged asset is a vehicle.

121. It is unlikely that an insurer would be considered to have purchased a damaged or destroyed building. It is more likely that the insurer is considered to have compensated the body and therefore the insurance proceeds are not considered to be a capital receipt.

1.5: Presentation and disclosures

The carrying amount of PPE is not properly presented

122. The carrying amount of an item of PPE in the Balance Sheet should be:

- the current value at the date of the last revaluation by a qualified valuer or, where permitted, valuation or historical cost; less
- subsequent accumulated depreciation and any impairment.

123. When the item is revalued, the carrying amount should be adjusted to the revalued amount.

124. Paragraph 4.1.2.33 of the [accounting code](#) requires any accumulated depreciation and impairment at the date of valuation to be eliminated against the gross amount of the asset with the net amount restated to the revalued amount. The option in IAS 16 for the gross carrying amount to be adjusted in a manner that is consistent with the revaluation of the carrying amount was withdrawn by the accounting code in 2016/17 and should therefore not be used.

Information on PPE is not properly disclosed

125. The disclosure requirements for PPE are principally set out at paragraph 4.1.4.3 of the accounting code.

126. The disclosures at paragraph 4.1.4.3 1) are required to be analysed over each class of PPE, i.e. council dwellings; other land and buildings; vehicles, plant, furniture and equipment; infrastructure assets; community assets; assets under construction; and surplus assets. The requirements include disclosure for each class of PPE at the beginning and end of the period of the:

- the gross carrying amount
- accumulated depreciation (aggregated with accumulated impairment losses).

127. Due to the overstatement of the gross carrying amount and accumulated depreciation of infrastructure assets explained in section 4 of this module, [Finance Circular 8/2024](#) also contains an override which permits a council to not make that disclosure for infrastructure assets.

128. Finance Circular 8/2024 requires a council to disclose if it chooses to apply either or both overrides.

129. [CIPFA Bulletin 12](#) provided further guidance on the impact of the statutory overrides. Paragraphs 99 and 100 set out options for amending the format of the property, plant and equipment note to accommodate the non-disclosure disclosure of gross cost and accumulated depreciation in respect of infrastructure assets. They can be summarised as follows:

- An illustration is provided in Annex B. Where infrastructure assets are not separately presented on the face of the balance sheet, a short reconciling note will be required.
- An alternative approach is to retain the current presentation of the note but to shade out the information on gross cost and accumulated depreciation for infrastructure assets.

130. Paragraph 47 of Bulletin 12, states that appropriate disclosure should be made in the financial statements where a council decides to utilise the statutory override in relation to the carrying amount of replaced components. This includes disclosure setting out the council's accounting policy for the derecognition amount on replacement. Annex B provides a suggested disclosure.

131. Paragraph 4.1.4.3 1e) of the accounting code requires disclosure of a reconciliation of the carrying amount in the Balance Sheet at the beginning and end of the period showing movements such as additions, revaluations, impairment, and depreciation. Although only a reconciliation of carrying amount is required, some bodies choose to additionally disclose gross cost and valuation separately.

132. Paragraph 4.1.4.3 5) of the accounting code requires disclosure of

- a summary of capital expenditure during 2024/25 analysed for each class of PPE
- the sources of finance
- the actual capital financing requirement at 31 March 2025.

133. The actual capital financing requirement should be in accordance with paragraph 90 of the Prudential Code. It should be calculated by consolidating the items on the Balance Sheet that relate to capital expenditure incurred (e.g. PPE and other fixed assets, investments treated as capital expenditure, Revaluation Reserve and Capital Adjustment Account).

134. The calculation of the capital financing requirement should exclude:

- the underlying need for the equivalent to borrowing for lease obligations, deferred purchases, and similar arrangements in respect of long-term credit
- prepayments for revenue items

- capital receipts and grants that have not been applied.

135. Paragraph 4.1.4.1 of the accounting code also contains a disclosure requirement. It requires a body to disclose in the accounting policies any de minimis below which items will not be capitalised.

Disclosures on surplus assets are not complete

136. In addition to the accounting code's disclosure requirements for PPE generally, there are disclosures required by paragraph 2.10.4.1 in respect of fair value of surplus assets (covered at Module 9.3).

Technical Guidance Note 2024/8(LG) – Module 1

Guidance on misstatements in property, plant and equipment in 2024/25

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Technical Guidance Note 2024/8(LG)

Module 2

Guidance on misstatements in provisions, creditors,
and accruals in 2024/25



 AUDIT SCOTLAND

Prepared by Innovation and Quality for auditors in the local government sector

January 2025

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Module 2 introduction

Purpose and use of this module

1. This module of TGN 2024/8(LG) provides guidance on potential misstatements in the following:

- Provisions and contingencies (section 1).
- Creditors and accruals (section 2).

Changes in guidance in 2024/25

2. Guidance has been updated on the accounting entries for the provision for equal pay claims statutory adjustment.

Consulting with I&Q

3. Auditors should consult with I&Q by completing the [enquiry form](#) and sending it by email to TechnicalQueries@audit-scotland.gov.uk

2.1: Provisions and contingencies

A provision is a liability of uncertain timing or amount.

Provisions should be accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Provisions are not complete

4. Local government bodies should recognise a provision when the conditions specified in IAS 37 (replicated at paragraph 8.2.2.12 of the [Code of Practice on Local Authority Accounting in the UK](#) (accounting code) are met. The specified conditions are summarised in the following table:

Condition	Explanation
The body has a present obligation as a result of a past event	<p>A past event leads to a present obligation where the settlement:</p> <ul style="list-style-type: none"> • can be enforced by law; or • where there is a constructive obligation, i.e. the body has indicated to other parties that it will accept certain responsibilities and has created valid expectations that it will discharge those responsibilities. <p>The accounting code excludes obligations arising from benefits provided in the pursuit of social policy objectives. For example, provisions are not recognised for an obligation to provide concessionary travel for the elderly.</p>
It is probable that an outflow of resources will be required to settle the obligation	An outflow of resources is regarded as probable if the event is more likely than not to occur.
A reliable estimate can be made of the amount of the obligation	Except in extremely rare cases, a body should be able to determine a range of possible outcomes and can therefore make a 'best estimate' of the obligation that is sufficiently reliable.

5. The body should have identified all of its obligations at 31 March 2025 that can either be enforced by law or represent constructive obligations. These may include a regulatory change in building standards or policy commitments to meet climate change needs if that creates an obligating event.

6. Where a body has identified a present obligation but has not recognised a provision because it believes a reliable estimate cannot be made, auditors

should challenge whether a reasonable estimate is possible. When evaluating reasonableness, auditors should:

- consider the reliability of the latest available information
- evaluate whether there is an appropriate method that can be used in making the estimate
- consider the underlying assumptions.

7. If a reasonable estimate is possible, a provision should be recognised and the nature and limitations of the estimating process should have been disclosed.

8. In some cases, it may not be clear whether there is present obligation (e.g. in respect of legal claims). A body should deem that a past event has given rise to a present obligation at 31 March 2025 if, taking account of all available evidence including the opinion of experts, it is more likely than not that a present obligation exists. The evidence considered should include any additional information provided by events after 31 March 2025.

9. Auditors identified in previous years some bodies setting aside resources in their budgets to fund uncertain future expenditure or earmarking part of the General Fund at 31 March 2025. For financial reporting purposes, this is not a substitute for recognising a provision.

Recognised provisions do not exist

10. A provision should be recognised only when the three specified conditions have been met. Where there is a present obligation but one or both of the other conditions are not met, a provision should not be recognised. However, a contingent liability should instead be disclosed.

11. An example where bodies may be uncertain of the appropriate treatment is the scheme established to give financial redress to survivors of historical child abuse in relevant care settings in Scotland. Some key features of the scheme are as follows:

- The scheme has been established by the [Redress for Survivors \(Historical Child Abuse in Care\) \(Scotland\) Act 2021](#).
- Redress Scotland has been established as an arm's-length, independent body to make determinations in connection with applications by individuals under the scheme.
- Redress Scotland advises the Scottish Government on the amount of redress payments and to whom they should be paid.
- A number of public and charitable bodies contribute towards the funding of redress payments.
- The local government sector makes a contribution to recognise the collective responsibility of all councils. The contribution is to be 'top-

sliced' from the local government settlement for ten years from 2022/23; the contribution is not allocated to individual bodies but rather it is made at a sector level.

- The Act specially provides that making a contribution is not evidence of liability in connection with an allegation of abuse.

12. I&Q has considered the legal form under which the scheme has been set up, and has concluded that individual local government bodies do not have a legal or constructive obligation to provide redress. Rather, local government as a sector is simply making a financial contribution through top slicing of total revenue grant. There does not therefore appear to be any obligation that would require a body to recognise a provision or disclose a contingent liability. The substance of the scheme reflects that legal form so there does not appear to be any substance over form argument.

Provisions are not properly measured

13. The amount recognised for a provision should be the body's best estimate of the expenditure required to settle the obligation at 31 March 2025. This should be the case even where settling the obligation is prohibitively expensive. For example, auditors have identified in previous years that bodies have incorrectly limited the estimate to what is affordable.

14. The management of the body should make reasonable estimates of outcome and financial effect determined by their judgement and supplemented by experience of similar transactions and, where appropriate, reports from independent experts.

15. The amount recognised for a provision at 31 March 2025, should :

- be the best estimate of the expenditure required to settle the obligation at that date, and not have been restricted on the grounds of affordability
- be reasonable estimates of the outcome and financial effect
- the estimate reflects additional evidence provided by any events after 31 March 2025
- include provisions recognised in previous years reviewed and adjusted, where appropriate, to reflect the best estimate at 31 March 2025 or to reflect material changes in the assumptions underlying the calculations of the cash flows
- reflect the time value of money where material, the amount of the provision should have been discounted to the present value of the expected payments.

Accounting entries for provisions are not appropriate

16. Bodies should include:

- any new or increased provisions during 2024/25 as a charge to the Surplus or Deficit in the Provision of Services (SDPS) section of the Comprehensive Income and Expenditure Statement (CIES) (unless in respect of restoring an asset explained later)
- the unwinding of any discounting as an interest charge
- decreased provisions at 31 March 2025 by recognising a credit to the SDPS
- the provision balance at 31 March 2025, debited for any liabilities settled during 2024/25 to arrive at the balance at 31 March 2025.

Constructive obligations for restructurings are not complete or do not exist

4. A restructuring is a programme that is planned and controlled by the body, and materially changes either the scope of its activities, or the manner in which those activities are carried out. Paragraph 72 of [IAS 37](#) explains that a constructive obligation to restructure arises when a body has by 31 March 2025:

- a detailed formal plan for the restructuring identifying: the activities concerned; the principal locations; the number of employees who will be compensated for terminating their services; the cost; date; and
- started to implement that plan or announced its main features to those affected by it.

19. Bodies should:

- recognise a provision at 31 March 2025 for the expected costs of restructuring its operations when the recognition conditions are met
- include only the direct expenditure necessarily entailed by the restructuring (and hence excludes cost associated with the ongoing activities of the body).

Accounting entries for the provision for equal pay claims statutory adjustment are not appropriate

20. The body may continue to recognise a provision for outstanding equal pay claims under the Equal Pay Act 1970 and Equalities Act 2010. Various finance circulars containing statutory guidance have been issued to enable bodies to delay the financial impact arising from recognising an equal pay provision until the payment was made. The most recent finance circular applied up to 2023/24. This has not been extended for 2024/25.

5. There is therefore no flexibility to transfer new or increased equal pay provision to the Employee Statutory Adjustment Account in 2024/25.

21. When settlement payments are made, or the provision is otherwise reduced, in 2024/25 an equivalent amount of the deferred charge should be transferred back from the Employee Statutory Adjustment Account to the General Fund as a statutory adjustment.

22. The previous financial flexibility included in Finance Circular 4/2015 regarding the use of capital receipts to meet equal pay claims has not been extended (though Scottish Government may grant specific consent for a particular body). However, any unused receipts arising before 31 March 2020, can be used in 2024/25 as follows:

- Capital receipts set aside to fund the settlement payments (i.e. any unused balance at 31 March 2020) should be held in the Capital Grants and Receipts Unapplied Account. There should not have been any capital receipts set aside since 1 April 2020.
- Where capital receipts are applied to fund the settlement payments in 2024/25, there should be a transfer from the Capital Grants and Receipts Unapplied Account to the General Fund. This is a movement in usable reserves and should not be treated as a statutory adjustment.

Provisions for restoring assets are not complete

23. As explained in Module 1, the initial estimate of the costs of dismantling and removing an item and restoring the site on which it is located should be included in the measurement of the cost of the asset. However, any costs recognised have to be able to be balanced by a provision meeting the requirements of IAS 37.

24. Examples of potential qualifying costs include decommissioning plant whose installation is damaging to the environment, clean-up and restoration costs of landfill sites and the cost of dismantling additions to property occupied under a lease.

Accounting entries for the provisions for restoring assets are not appropriate

25. LASAAC's [Guidance on asset decommissioning obligations](#) provides guidance on the accounting treatment. Where a provision is required, bodies need to establish the pattern of the restoration or decommissioning obligations, in particular:

- the event that actually triggers the obligation for future restoration / decommissioning costs (e.g. the need for future cash flows to be incurred)
- the estimated present value of the obligation for each trigger event.

26. The discounted present value of the provision for the decommissioning obligation represents capital expenditure. The provision should therefore be

debited to property, plant and equipment when it is recognised, rather than to the SDPS. As it is capital expenditure, councils are able to fund the present value of the provision from borrowing, and therefore a loans fund internal advance would be required (explained in Module 3.2).

Provision for financial guarantees is not complete

27. The accounting code (at section 7.2) requires bodies to comply with IFRS 9 Financial Instruments in respect of financial guarantees. These contracts require bodies to make specified payments to reimburse the holder of a debt if the debtor (usually a local voluntary organisation or a subsidiary) fails to make a payment under a contract. For example, they include letters of comfort provided in respect of a subsidiary.

Accounting entries for financial guarantee provision are not appropriate

28. Bodies should account for financial guarantee provisions as follows:

- Financial guarantee contracts entered into since 1 April 2006 should be recognised as a liability on the Balance Sheet at 31 March 2025.
- The provision should have been initially recognised at fair value in accordance with IFRS 13 (as explained at Module 9.3), estimated by considering the probability of the guarantee being called and the likely amount payable.
- The entries on initial recognition of any new provisions recognised in 2024/25 should be a credit to the financial guarantee liability and a charge to the SDPS.
- The provisions should have been amortised over their useful lives to match any reductions in the underlying risk exposure, e.g. a repayment of some of the principal by the debtor.
- The carrying amount of the financial guarantee at 31 March 2025 should have remained at the initially recognised amount (less cumulative amortisation) unless payment under the guarantee has become probable in which case the amount of the provision should have been determined in accordance with IAS 37.
- Any movements in the carrying amount in 2024/25 should be debited or credited to the SDPS.

Recognised reimbursements do not exist

29. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should:

- be a reasonable estimate (where there is uncertainty over the amount)
- be recognised at 31 March 2025 only when receipt is virtually certain
- not exceed the amount of the provision.

Reimbursements are not properly presented

30. Bodies should treat a reimbursement as a separate asset (and not be netted off the provision) at 31 March 2025.

Disclosures on provisions are not complete

6. The accounting code's disclosure requirements for provisions are set out at paragraph 8.2.4.2.

31. In extremely rare cases, where disclosure of some or all of the required information can be expected to prejudice seriously the position of the body in a dispute with other parties on the subject matter of a provision, the body need not disclose the information that would otherwise be disclosed under IAS 37. The FRC clarify in their [thematic review](#) of IAS 37 that this exemption does not disapply all disclosure requirements relating to the matter; the exemption applies only to the specific prejudicial information. Where the body believes this exception applies in 2024/25, it should disclose

- the general nature of the dispute
- the fact that the specific prejudicial information has not been disclosed
- the reason for non-disclosure

Contingent liability disclosures are not complete

32. A contingent liability requires to be disclosed where:

- there is a present obligation, but it is not probable that an outflow of resources will be required, or the amount cannot be reliably measured
- there is a possible obligation arising from past events whose existence will be confirmed by uncertain future events not wholly within the body's control.

7. Bodies should have disclosed for each contingent liability:

- a brief description of its nature
- an estimate of its financial effect
- an indication of the uncertainties
- the possibility of any reimbursement

33. The disclosure of a contingent liability is not required where:

- the possibility of any outflow in settlement is remote
- it is not practicable to do so

- disclosure of specific information can be expected to prejudice seriously the position of the body in a dispute.

34. Where the body believes any of the above circumstances apply in 2024/25, the body should have disclosed (as appropriate):

- the fact it is not practicable
- the general nature of the dispute; the fact that the specific prejudicial information has not been disclosed; and the reason for non-disclosure.

2.2: Creditors and accruals

Creditors should be accounted for in accordance with IFRS 15 Revenue from Contracts with Customers, IPSAS 23 Revenue from Non-Exchange Transactions and IFRS 9 Financial Instruments.

Creditors are not complete or do not exist

35. Creditors are financial liabilities arising from the contractual obligation to pay cash in the future for goods or services or other benefits that have been received or supplied and have been invoiced or formally agreed with the supplier. The body should have identified all cases where:

- it has been invoiced for ordered goods that have been delivered or services rendered during 2024/25; and
- payment has not been made by 31 March 2025.

Creditors are not properly measured

36. Creditors should be measured at the fair value of the consideration payable in accordance with IFRS 13. Fair value is defined as the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date (explained further at Module 9.3).

Transactions are not recorded in the correct year

37. Transactions around 31 March 2025 involving goods or services should have been recorded in the correct year.

Creditors are not appropriately classified

38. Paragraph 3.4.2.64 of the [accounting code](#) requires bodies to either present on the face of the Balance Sheet or disclose in the notes, sub-classifications of creditors, e.g. amounts payable to trade suppliers, related parties, and other amounts.

Accruals are not complete or do not exist

39. Paragraph 3.4.2.24 of the accounting code requires local government bodies to prepare their financial statements using the accrual basis of accounting. Accruals are liabilities to pay for goods and services that have been received or supplied, including amounts due to employees. They technically differ from creditors in that they have not been invoiced or formally agreed with

the supplier. Although it is usually necessary to estimate the amount of an accrual, the uncertainty is generally much less than for provisions.

40. Auditors should be alert to circumstances which motivate the body to manipulate the amount accrued (either by over or understating) to achieve a particular presentation or result.

41. The body should have identified all cases where:

- ordered goods have been delivered or services rendered during 2024/25; and
- it has not been invoiced, and payment has not been made, by 31 March 20245.

Module 2– Module 2

Guidance on misstatements in provisions, creditors, and accruals

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Technical Guidance Note 2024/8(LG) Module 3

Guidance on misstatements in financial instruments
in 2024/25



 AUDIT SCOTLAND

Prepared by Innovation and Quality for auditors in the local government
January 2025

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Module 3 introduction

Purpose and use of this module

1. This module of TGN 2024/8(LG) provides guidance on potential misstatements in the following aspects of financial instruments:

- Borrowing (Section 1).
- Loans Fund (Section 2).
- Investments (Section 3).
- Derivatives and embedded derivatives (Section 4).
- Presentation and disclosure of above (Section 5).

2. The [Code of Practice on Local Authority Accounting in the UK](#) (accounting code) at chapter 7 requires local government bodies to account for financial instruments in accordance with [IFRS 9 Financial Instruments](#), IAS 32 Financial Instruments: presentation and IFRS 7 Financial Instruments: Disclosures. There are some adaptations to the standards listed at paragraph 7.1.1.3 of the accounting code.

3. The transitional provisions when the accounting code first adopted the equivalent UK financial instrument standards in 2007/08 remain in effect where they continue to be relevant. In particular, recognition and derecognition decisions prior to 1 April 2006 need not be reconsidered.

4. Trade payables (i.e. creditors) and financial guarantees are also financial instruments but are covered in Module 2, and receivables are covered in Module 8.

Changes in guidance in 2024/25

5. There are some changes in the guidance on the following potential misstatements:

- Loans Fund repayments are not properly measured.
- Loans fund repayments are not properly charged to the General Fund.

Consulting with I&Q

6. Auditors should consult I&Q by completing the [enquiry form](#) and sending by email to TechnicalQueries@audit-scotland.gov.uk

3.1: Borrowing

Borrowing refers to loans that bodies borrow externally to fund capital expenditure and some permitted revenue expenditure.

Borrowing is not in accordance with statutory powers

7. [The Local Authority \(Capital Finance and Accounting\) \(Scotland\) Regulations 2016](#) (the 2016 Regulations) set out the purposes for which a local government body may borrow. Local government bodies borrow from the Public Works Loans Board (PWLB), corporate institutions, and each other.

8. The powers to borrow under Regulation 2 are summarised in the following table:

Reg	Permits a body to borrow to:
2(1)(a)	Finance capital expenditure as defined by reference to proper accounting practices
2(1)(b)	Give grants to third parties for expenditure that would be capital if incurred by the body
2(1)(c)	Incur expenditure on third party land and buildings which would be capital if the body had an interest in that land or building
2(1)(d)	Undertake treasury management activities to refinance existing borrowing, use internal cash reserves, borrow in advance or after capital expenditure is incurred and for general liquidity purposes
2(1)(e)	Lend to another statutory body specified at Regulation 10 (e.g. another council, integration joint board or community council) and a council's common good fund
2(1)(f)	Undertake any other purpose where the body is authorised under any enactment

9. The body should have either borrowed only for the purposes set out at Regulation 2(1) or received consent from the Scottish Ministers if it borrowed for other purposes. When exercising its borrowing powers, the body should have had regard to the [Prudential Code for Capital Finance in Local Authorities](#) and [Treasury Management in the Public Service Code of Practice](#).

Accounting entries for revenue expenditure are not appropriate

10. Accounting for capital expenditure is explained in Module 1.

11. Where the body has borrowed in 2024/25 for revenue expenditure (i.e. capital grants to third parties, expenditure on third party assets, or for expenditure for which there is consent) the:

- expenditure should have been accounted for as revenue expenditure, charged to the relevant service and included in the Surplus or Deficit in the Provision of Services (SDPS) section of the Comprehensive Income and Expenditure Statement (CIES).
- initial impact should have been mitigated by credit to the General Fund and a debit to the Capital Adjustment Account.

Loans are not properly measured at initial recognition

12. Any new loans during 2024/25 should have been recognised at the point the cash was received and measured initially at:

- fair value in accordance with IFRS 13 (explained at Module 9.3) - which in most cases will be the transaction price, i.e. the principal amount of the loan received; plus
- transaction costs - which are incremental costs that are directly attributable to the acquisition of the loan, e.g. fees and commission paid to agents etc. It does not include internal administration costs. Paragraph 7.1.1.3(d) of the accounting code adapts IFRS 9 and gives bodies the option to charge transaction costs immediately to the SDPS where they are not material.

Loans are not properly measured subsequently

13. After initial recognition, loans should be carried on the Balance Sheet at amortised cost calculated using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments over the expected life of the loan to the initial net carrying amount.

14. The carrying amount of loans at 31 March 2025 should equal:

- the amount on initial recognition; plus
- the interest expense in 2024/25, including interest due but unpaid at 31 March 2025; less
- the cash paid (both interest and principal).

15. The Debt Management Office provides information on outstanding PWLB loans on their [website](#) which auditors can use as evidence to confirm loan balances at 31 March 2025.

Accounting entries for replacement loans are not appropriate

16. Bodies may replace existing loans with new loans or modify the terms of existing loans as part of their treasury management arrangements. The appropriate accounting treatment, including the treatment of any fees paid (premiums) or received (discounts), depends on the extent of the change and may involve:

- extinguishing (i.e. derecognising) the existing loan and recognising the replacement loan; or
- modifying the existing loan.

17. This is summarised in the following table:

Treatment	Nature of change	Premiums/discounts
Derecognising the existing loan and recognising the replacement loan	<p>The existing loans is extinguished where there has been:</p> <ul style="list-style-type: none"> • a loan exchange with substantially different terms • a substantial modification of the terms of an existing loan or a part of it. 	Recognise immediately in the surplus or deficit in the provision of services in the CIES
Modifying the existing loan	<p>This is allowed where the terms of the loan exchanged are not substantially different or the modification of an existing loan is not substantial.</p> <p>Paragraphs 7.1.4.6 and 7.1.4.7 of the accounting code explains that this is the case if:</p> <ul style="list-style-type: none"> • it is with the existing lender • the present value of the net cash flows under the new terms is no more than 10% different from the present value of the remaining cash flows under the original terms (using the original effective interest rate of the old loan); and • the exchange is simultaneous, i.e. on the same day. 	Adjust the carrying amount of the loan and amortise to CIES over the remaining term of the modified loan

18. Bodies should have accounted for:

- replacement loans during 2024/25 as an extinguishment (where the change is 'substantial') or modification (where the change is not substantial)
- premiums and discounts in the CIES in accordance with the relevant treatment.

19. IFRS 9 requires the carrying amount of modified loans to be recalculated by discounting the modified contractual cash flows by the original effective interest rate. Any such adjustment in 2024/25 should have been recognised in the SDPS.

Premiums and discounts are not properly charged to the General Fund

20. The charges and credits to the General Fund for premiums and discounts on extinguished debt are covered by the statutory guidance in [Finance Circular 7/2018](#). The statutory adjustment is for premiums and discounts recognised in the SDPS in accordance with the accounting code to be transferred from the General Fund to the Financial Instruments Adjustment Account.

21. The maximum periods for recharging back to the General Fund and the annual charges are summarised in the following table (shorter periods may be used):

Type	Maximum recharge period	Annual charge
All premiums/discounts at 31 March 2007	In accordance with pre-existing schedule of annual charges	In accordance with pre-existing schedule of annual charges
From 1 April 2007 – replacement loan is fixed rate	Life of replacement loan	Pro-rata to the expected interest expenditure profile
From 1 April 2007 – replacement loan is variable rate	Lower of life of replacement loan or 20 years	Equal instalments
From 1 April 2007 – replacement loan permits lender to vary interest rate		
From 1 April 2007 – no replacement loan	5 years	
Overhanging premiums and	Lower of premium/discount divided	

Type	Maximum recharge period	Annual charge
discounts – refinancing after 1 April 2007	by annual saving or 20 years	

22. Bodies should have:

- a debit to the General Fund and a credit to the Financial Instruments Adjustment Account for the annual charge in 2024/25
- treated the recharge period and annual charge in accordance with the above table
- consistently applied their write-down policy when the option to write down more quickly is adopted
- disclosed the adjustments in the analysis of adjustments between the accounting basis and funding basis in the Movement in Reserves Statement (MiRS).

Accounting entries for capital receipts used to fund premiums are not appropriate

23. The statutory guidance in [Finance circular 7/2018](#) allows capital receipts to fund the cost of premiums either as they are incurred or as they are recharged annually back to the General Fund. Although not specifically stated in the circular, in I&Q's view, the capital receipts should be first credited to the Government Grants and Receipts Unapplied Account. The entries are then as set out in the following table:

Use of capital receipt	Explanation of entries
Fund the annual charge	Annual charge made to the General Fund as a statutory adjustment as normal. Capital receipt transferred from the Government Grants and Receipts Unapplied Account to the General Fund (may be higher amount than annual charge)
Fund the premium at the point the loan is extinguished	Capital receipt transferred from the Government Grants and Receipts Unapplied Account to the General Fund (the premium is therefore not transferred to the Financial Instrument Adjustment Account as would normally be the case).

Interest on stepped rate loans has not been properly accounted for

24. The interest charged to the Financing and Investment Income and Expenditure line in the CIES should be determined by applying the

effective interest rate to the carrying amount. In most cases the effective interest rate is equal to the contractual interest rate.

25. However, it is necessary for the body to perform an effective interest rate calculation for loans which carry an interest rate which varies over the term of the loan and the variations are known at the start of the contract, e.g. a 'stepped' interest rate loan where interest is fixed for a period but then increases to a higher fixed rate. The calculation of interest and how it should be charged is summarised in the following table:

Action	Note for auditors
Calculation of interest	An effective interest rate requires to be calculated for stepped rate loans to determine the interest charge.
Interest charged to CIES	The interest should be charged to the SDPS.
Charge to General Fund on stepped rate loans held at 31 March 2007	<p>The statutory guidance in Finance Circular 7/2018 allows interest on stepped rate loans held at 31 March 2007 to be charged to the General Fund in line with the contract amounts rather than the effective interest rate.</p> <p>The interest adjustment is made in 2024/25 between the General Fund and the Financial Instruments Adjustment Account</p> <p>The adjustment should be disclosed in the analysis of adjustments between the accounting basis and funding basis in the MiRS</p>
Charge to General Fund on stepped rate loans taken out since 1 April 2007	The statutory guidance does not apply to any new stepped rate borrowing taken out since 1 April 2007 (including any which have been extended or renegotiated). The charge to the General Fund is therefore the interest charged to the SDPS.

Interest charged to the HRA is not reasonably estimated

26. A share of interest expense requires to be charged to the Housing Revenue Account (HRA – explained at Module 9.9) as part of loan charges. There is no guidance on calculating the HRA's share of the interest, and bodies are expected to have their own local policies that are reasonable and consistently applied.

3.2: Loans Fund

Loans Funds record internal advances made to the General Fund to match the capital expenditure financed from external borrowing, and the repayment of those advances.

Loans Fund is not properly operated

27. Loans Funds were initially established under [Schedule 3](#) of the Local Government (Scotland) Act 1975 (1975 Act) to record internal advances made to the General Fund (and HRA) to match the capital expenditure financed from external borrowing. They also record the repayment of those advances. The advances and their repayment are internal transactions, but the repayments are important because they are charged to the General Fund and HRA each year over the period of repayment.

28. In contrast with the requirements under the 1975 Act, external borrowing is no longer required to be carried to the Loans Fund, and the payment of interest or dividends on external borrowing is no longer a function of the Loans Fund. However, paragraph 17 of [Finance Circular 7/2024](#) allows bodies to continue to operate the Loans Fund in this way on a non-statutory basis.

29. The [2016 Regulations](#) came into force on 1 April 2016 and replaced the 1975 Act's provisions in respect of the Loans Fund. The regulations have been amended from 1 April 2014 to allow greater flexibility in determining loans fund repayments.

30. Key requirements of the amended regulations that apply in 2024/25 are summarised in the following table:

Reg	Requirement placed on local government body
12	To maintain a Loans Fund in accordance with the 2016 Regulations, proper accounting practices and prudent financial management.
13	To make Loans Fund advances each year for expenditure met from borrowing. From 2024/25, the amended 2016 regulations require the advances made after 1 April 2023 to be repaid in accordance with proper accounting practices as set out in statutory guidance.
14	Under the original 2016 regulations, a body was required to determine for each Loans Fund advance the period over which it will be repaid and the amount of each repayment. From 2024/25, the amended 2016 regulations permit a body to vary the period or amount of repayment for advances made prior to 1 April 2023.

31. Statutory guidance for loans fund accounting for 2024/25 is set out in part 2 of [Finance Circular 7/2024](#). That circular has replaced Finance Circular 7/2016.

Loans Fund repayments are not properly measured

32. Finance Circular 7/2024 (part 2) provides revised statutory guidance on the prudent repayment of Loans Fund advances made both before and after 1 April 2023.

33. The statutory guidance requires the Loans Fund repayment period to align with the useful life of the asset. As a change for 2024/25, where an asset life cannot reasonably be established, the period should be limited to 50 years.

34. Paragraphs 67 to 105 of the statutory guidance identify four options that are considered prudent, though it is for each body to decide what option to follow. A body may select different options for different capital schemes/projects, though it should be consistent in applying options. The options are summarised in the following table:

Option	Notes for auditors
1 Statutory method	<p>Paragraph 68 explains that the method required by the 1975 Act (the statutory method) was withdrawn from 1 April 2016. This method may continue to be applied to the loans fund repayments for advances made prior to that date.</p> <p>Paragraph 69 of the statutory guidance states that bodies may select an alternative option but only for repayments made from 1 April 2024. However, Audit Scotland obtained a KC opinion that statutory guidance cannot overrule the decision in Parliament to repeal the Act. Bodies can therefore adopt any method for repaying advances made before 1 April 2016, including the statutory method. Bodies should follow finance circular 29/1975 where the statutory method is selected.</p>
2 Depreciation method	<p>Paragraph 71 explains that the annual Loans Fund repayment is equal to:</p> <ul style="list-style-type: none"> • depreciation for the asset as charged to the Surplus or Deficit on the Provision of Services; less • the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost (as recognised by a transfer from the Revaluation Reserve to the Capital Adjustment Account); plus • any impairment or decrease in the carrying amount required to be recognised in the SDPS; less • any reversal of a revaluation decrease or impairment previously recognised in the SDPS.

Option	Notes for auditors
	<p>Where an asset has a residual value, the body should continue to make repayments equal to the depreciation charge made in the previous financial year until the loans fund advance is fully repaid.</p> <p>Where an asset has been disposed of, the repayments should either:</p> <ul style="list-style-type: none"> • continue in accordance with the depreciation schedule as if the disposal had not taken place; or • the outstanding balance on the loans fund may be repaid in full (charged to the General Fund).
3 Asset life method	<p>This differs from the depreciation method as the residual value of an asset is not taken into consideration. Repayments continue to be based on the initial life and value of an asset and do not change if the asset life is subsequently varied or is subject to impairment.</p> <p>The annual repayments are calculated as either equal instalments or by the annuity method:</p> <ul style="list-style-type: none"> • The equal instalment method results in a series of equal annual amounts over the useful life of the asset. The calculation to be made is set out in a formula at paragraph 90 of the statutory guidance. • The annuity method links the repayment of the borrowing to the flow of benefits from an asset where the benefits are expected to increase in later years: <ul style="list-style-type: none"> – A body is required to use an appropriate interest rate to calculate the annual repayment of the loans fund advance. – Once calculated it is only the principal element of the calculation that represents the annual repayment of the loans fund advance. – Interest is to be disregarded after calculation, with the principal element being fixed at the time of the calculation.
4 Funding stream method	<p>The annual repayments of a Loans Fund advance are profiled to reflect a funding or other income stream that can reasonably be associated with the asset/loan to a third party. The repayment of the Loans Fund advance will have a unique profile.</p>

35. In respect of Loans Fund advances made for capital expenditure related to decommissioning obligations (explained in Module 2), the maximum fixed period for the repayment of the advance is set by [Finance Circular 8/2014](#) as the remaining useful life of the asset.

Loans Fund repayments are not properly charged to the General Fund

36. The repayment of the loans fund advance is not charged to the CIES, but instead forms part of the adjustments between the accounting basis and funding basis presented in the MiRS.

37. Loans Fund repayments for 2024/25 should be debited to the General Fund (and HRA) and credited to the Capital Adjustment Account. The adjustment should be disclosed in the analysis of adjustments in the MiRS.

38. The 1975 Act permits a body to establish a Capital Fund, which may be used to finance repayment of the principal of loans (explained at Module 5). For 2024/25, [Finance Circular 9/2024](#) provides a temporary amendment for specific capital grant paid in 2024/25 to be transferred to the Capital Fund rather than the Capital Adjustment Account in order that it may be used to repay the principal of loans fund repayments for both General Fund and HRA loan repayments. The statutory guidance in the circular requires the following:

- Once the capital grant held in the Capital Fund is utilised to fund the principal element of loan repayments it must be transferred to the General Fund or HRA as a transfer from other statutory reserves in the Movement in Reserves Statement.
- The capital grant must be utilised in 2024/25 and therefore may not be transferred to the Capital Grants Unapplied Account/Capital Grants and Receipts Unapplied Account.

39. Where the Capital Fund is used to fund the annual statutory repayment of debt, this is to be treated as a separate transaction, i.e. the statutory repayment of debt should still be charged in full to the General Fund.

3.3: Investments

Investments are not complete or do not exist

40. Section 40 of the Local Government in Scotland Act 2003 provides councils and regional transport partnerships with the power to invest money. [The Local Government Investments \(Scotland\) Regulations 2010](#) set out the requirement for a body to obtain the consent of Scottish Ministers to make investments. [Finance Circular 5/2010](#) provides this consent, subject to the requirement to comply with the conditions in respect of an Annual Investment Strategy and Annual Investment Report which are set out in the circular.

41. The finance circular includes in the definition of investments:

- investment of temporary surpluses with a bank
- loans to third parties
- shares and bonds
- investment properties (covered at Module 9.4).

42. Investments at 31 March 20254 should be permitted by the Annual Investment Strategy for 2024/25 and meet the conditions in the circular.

Investments are not properly classified

43. The classification of investments is based on the business objective for holding the investment and the characteristics of its contractual cash flows. Guidance on classification is provided in section A of CIPFA's [guidance](#) on financial instruments. The classifications are summarised in the following table:

Contractual cashflows	Objective	Classification
Solely payments of principal and interest on the principal amount outstanding (i.e., basic lending arrangement)	To collect contractual cash flows	Amortised cost
Solely payments of principal and interest on the principal amount	To both collect contractual cash flows and for selling investment	Fair value through other comprehensive income (FVOCI)

Contractual cashflows	Objective	Classification
outstanding (i.e., basic lending arrangement)		
Volatility unrelated to a basic lending arrangement (e.g., changes in equity prices)		Fair value through profit or loss (FVPL)

Investments are not properly measured at initial recognition

44. Investments made during 2024/25 should be measured initially at:

- fair value in accordance with IFRS 13 (explained at Module 9.3) - which is usually the transaction price, i.e. the amount of the originating transaction (e.g. payment of loan advance, purchase of bond) unless the transaction was not based on market terms, e.g. soft loans; plus
- transaction costs (other than for those classified as FVPL). As with borrowing, bodies have the option to charge transaction costs immediately to SDPS where they are not material.

Accounting entries for soft loans advanced at initial recognition are not appropriate

45. 'Soft loans' are made by a body at below prevailing market rates, generally to local voluntary sector organisations or to Registered Social Landlords. The fair value of a soft loan does not equal the consideration given as it needs to reflect that the contractual interest rate is lower than the market rate.

46. The fair value of soft loans at the year-end should have been estimated as the present value of all future cash receipts discounted using the prevailing market rate of interest for a similar instrument and for an organisation with a similar credit rating. Paragraph 7.1.6.6 of the [accounting code](#) interprets IFRS 9 by stating that the prevailing rate of interest can be estimated by basing it on the body's borrowing cost plus an allowance for the risk that the loan will not be fully repaid.

47. The difference between the fair value of the soft loan and the amount of the cash lent (unless the recipient is a subsidiary) should have been charged to the SDPS. Where the loan was to a subsidiary, the difference should be recorded as an investment.

Investments at amortised cost are not properly measured subsequently

48. After initial recognition, investments classified as amortised cost should be carried on the Balance Sheet using the effective interest rate method. As explained in section 1, the effective interest rate is the rate that exactly discounts estimated future cash receipts over the expected life of the instrument to the initial net carrying amount. The interest so calculated is added to the investment's value each year.

49. In the case of soft loans, the effective interest rate will be higher than the contractual interest rate as the initial carrying amount of the loan is less than the principal sum required to be repaid. There is no statutory guidance to mitigate the impact of any soft loans made since 31 March 2007. The appropriate accounting is as follows:

- interest income for the year should be credited to the SDPS based on the market rate at inception
- the carrying amount of the loan at 31 March 2025 should be written up by the difference between the interest credited to the CIES and the actual interest received.

Investments at fair value are not properly measured

50. Investments held at FVOCI or FVPL should continue to be measured at fair value, after initial recognition, but without any deduction for transaction costs that would be incurred on sale or other disposal. Bodies should use the quoted price in an active market for an identical instrument, where available, or the valuation techniques set out in IFRS 13 (explained at Module 9.3) to measure investments at fair value.

51. The cost of an equity instrument may be an appropriate estimate of fair value in limited circumstances, i.e. where:

- insufficient information is available since the acquisition to measure fair value
- there is a wide range of possible fair value measurements, but cost is the best estimate within the possible range.

52. If a body wishes to use cost as an estimate of fair value at 31 March 2025, it should have made a reasonable effort to identify a reliable basis of valuation

Accounting entries for valuation gains and losses are not appropriate

53. Investments measured at fair value require to be regularly re-measured. Any gain or loss arising from a change in fair value should be recognised as follows:

- For FVPL, in the SDPS.
- For FVOCI, in the Other Comprehensive Income and Expenditure (OCIE) section of the CIES and transferred to the Financial Instruments Revaluation Reserve until derecognition.

Interest income is not properly measured

54. The interest credited to the Financing and Investments Income and Expenditure line in the CIES should be determined by applying the effective interest rate to the gross carrying amount.

Dividends are not properly accounted for

55. Dividends on equity investments should be credited to the Financing and Investments Income and Expenditure line in the CIES when:

- the body's right to receive payment of the dividend is established
- it is probable that the economic benefits associated with the dividend will flow to the body
- the amount of the dividend can be measured reliably.

Impairments are not properly measured

56. At each year-end, bodies are required to recognise expected credit losses on investments classified at amortised cost and FVOCI. The accounting code provides an exception to this requirement if the counterparty is another local government body. It also exempts central government bodies, but paragraph 7.2.9.1 of the accounting code clarifies that the exemption does not apply to NDPBs unless explicitly covered by a guarantee given by the sponsor department.

57. Guidance on credit losses is provided in section B of CIPFA's [guidance](#) on financial instruments. A credit loss is the cash shortfall between cash flows that are due to a body in accordance with the contract and the cash flows that the body expects to receive, discounted at the original effective interest rate. Expected credit losses should be measured in a way that reflects reasonable and supportable information that is available without undue cost or effort at the year-end about past events, current conditions and forecasts of future economic conditions.

58. The approach to measuring the expected credit losses depends on whether there has been a significant increase in credit risk since initial recognition as summarised in the following table:

Significant increase?	Measurement	Meaning
Yes	Lifetime expected credit losses.	The expected credit losses that result from all possible default events over the expected life of a financial instrument.
No	12-month expected credit losses.	The portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the year-end.

59. When evaluating whether the increase in credit risk is significant, bodies should apply the following guidelines:

- A body should use the change in the risk of a default occurring over the investment's expected life.
- The credit risk has not increased significantly if the investment has a low credit risk.
- There is a rebuttable presumption that the credit risk has increased significantly when contractual payments are more than 30 days past due.
- It may be necessary to perform the assessment on a collective basis by considering information that is indicative of significant increases in credit risk on a group of investments.
- The maximum period to consider when measuring expected credit losses is the maximum contractual period (including extension options) over which the body is exposed to credit risk.

60. In summary, the body should have at 31 March 2025:

- assessed whether the increase in credit risk since initial recognition is significant (unless credit risk is low)
- measured the loss allowance at either (as appropriate):
 - the lifetime expected credit losses (when increase is significant); or
 - 12 month expected credit losses.

Loss allowances are not properly presented

61. A body is required to recognise the movement in the amount of expected credit losses in the Financing and Investments Income and Expenditure line in the CIES as an impairment loss (or gain if a reversal).

62. For investments classified at amortised cost, the credit loss should be netted off the carrying amount of the investment in the Balance Sheet. However, paragraph 7.3.2.10 of the accounting code prohibits that treatment for investments classified at FVOCI; instead, the credit loss should be held in the Financial Instrument Revaluation Reserve.

Derecognition is not properly accounted for

63. An investment should be derecognised (i.e. removed from the Balance Sheet) when the contractual rights to cashflows have expired. The difference between the investment's carrying amount at derecognition and any consideration received should be recognised in the Financing and Investments Income and Expenditure line in the CIES.

64. For an investment at FVOCI, the cumulative gain or loss previously recognised in OCIE (and recorded in the Financial Instruments Revaluation Reserve) should be recognised in the SDPS.

65. When there is no reasonable expectation of recovering an investment (in whole or part), a body should directly reduce the gross carrying amount. This write-off constitutes a derecognition event rather than an impairment.

3.4: Derivatives and embedded derivatives

Derivatives are not complete or do not exist

66. A derivative is a financial instrument with all three of the following characteristics:

- Its value changes in response to the change in a specified rate.
- It requires no initial net investment or one that is smaller than would be required for similar types of contracts.
- It is settled at a future date.

67. The body have identified all the derivatives that it holds at 31 March 2025, e.g. futures and forwards, swap and option contracts.

Derivatives are not properly classified

68. Any derivatives held in 2024/25 should have been classified at FVPL.

Separable embedded derivatives are not complete

69. Some financial instruments comprise a host contract that contains an embedded derivative. An embedded derivative modifies cash flows in a similar way to a stand-alone derivative. For example, a contract may have terms which adjust prices for inflation that make reference to such things as the retail prices index (RPI).

70. Where the following criteria are met, an embedded derivative is required to be separated from its host contract and accounted for at FVPL:

- The economic characteristics and risks of the embedded derivative are not closely related to those of the host contract (e.g. provisions for price increases in a service contract are to be based on an index that does not reasonably reflect how the cost of the service is likely to change).
- A separate instrument with the same terms would meet the definition of a derivative.
- The host contract is not already being accounted for as FVPL.

71. Examples of embedded derivatives where separate accounting may need to be considered are summarised in the following table:

Examples of embedded derivatives	Separate accounting as derivative?
Service concession arrangements (explained at Module 7) where an element of the unitary payment varies in accordance with an index (e.g. RPI).	No - likely to be closely related to the host contract and will not need to be accounted for separately.
Service concession arrangements where an element of the unitary payment varies in accordance with an underlying measure that is based on a multiplier of a relevant index (e.g. RPI plus a percentage).	Yes - may need to be accounted for separately as index does not reasonably reflect how the cost of the service is likely to change.
Lender option borrower option (LOBO) loan debts have a host contract with the rate of interest payable specified for the whole term. However, there is an option that allows the lender to increase the interest charge at specified dates, and the borrower has an option to repay the loan or accept the increased rate.	No - paragraph 7.1.1.3 interprets IFRS 9 and states that, where the specified derivative elements are separable, the options embedded in a LOBO that allow the lender to increase in the interest charge should not be separately accounted for.
LOBOs known as 'inverse floaters' where the coupon rate has an inverse relationship to short-term interest rates, i.e. as the interest rate rises, the coupon rate falls and vice versa.	Yes - may need to be accounted for separately depending on the specific contractual terms. Examples are provided at paragraphs B4.3.3 to B4.3.8 of IFRS 9.

72. Bodies should assess whether there is an embedded derivative when they first become a party to the contract. Subsequent assessment is prohibited unless there is either:

- a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract; or
- a reclassification of a financial asset out of the FVPL category.

Accounting entries for embedded derivatives are not appropriate

73. Once the body has concluded whether an embedded derivative should be separated, auditors should evaluate whether it has been properly accounted for in 2024/25. This is summarised in the following table:

Where separation is required

The embedded derivative should be accounted for as if it were a standalone derivative.

The host contract should be accounted for as if the terms and conditions represented by the embedded derivative were not included.

Where separation is not required

The host contract should be accounted for in terms of its overall status, with the potential changes in variables relating to the embedded derivative being taken into account in the assessment of fair values and amortised cost as appropriate to the financial instrument, in the same way as for other variable aspects of the contract.

3.5: Presentation and disclosure

Financial instruments are not properly classified

74. In accordance with paragraph 7.3.2.2 of the [accounting code](#), the carrying amounts of each of the following categories should be presented in the Balance Sheet (or disclosed in the notes) at 31 March 2025, where applicable:

- Financial assets measured at FVPL
- Financial liabilities measured at FVPL
- Financial assets measured at amortised cost (soft loans disclosed separately if material)
- Financial liabilities measured at amortised cost
- Financial assets measured at FVOCI.

75. Financial liabilities should be classified between the short term and long term as summarised in the following table:

Short term	Long term
Liabilities due to be settled within 12 months after 31 March 2025 including: <ul style="list-style-type: none"> • the portion of long term financial liabilities due to be settled within 12 months • interest due but unpaid 	Liabilities due to be settled out with 12 months
A LOBO with an option date in 2025/26, if the body has the intention of repaying it	A LOBO with no option date in 2025/26

Financial instruments are not properly presented

76. A financial asset and a financial liability should not be offset (i.e. presented net in the Balance Sheet), unless the body:

- has a current, legally enforceable right to set off the recognised amounts; and
- intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Earmarking of the General Fund is not properly presented

77. Mandatory guidance from LASAAC requires that an element of the General Fund balance arising from the increase in the fair value of financial assets should be earmarked as not being available to fund the delivery of services. The element relates to the net cumulative gains arising from increases in fair value to the extent they are not readily convertible to cash.

78. Gains in the fair value of a financial asset are considered to be ‘readily convertible to cash’ if all of the criteria set out in the following table apply:

Criteria	Explanation
Value determination	A value can be determined at which a transaction could occur to convert the change in fair value into cash without the need for negotiation or marketing.
Observable information	There is observable information that market participants can use to determine the value. This would include other similar assets being traded on an open market with access to information on prices, rates, etc (closely aligned with levels 1 and 2 in the IFRS 13 fair value hierarchy)
Immediate conversion	There are no circumstances that prevent the immediate conversion to cash of the change in fair value

79. Even where an increase in fair value is considered readily convertible to cash, bodies are required to judge whether it is prudent to use the increase to fund services where the fair value of the asset is considered to be volatile.

80. The earmarking of the General Fund requires to be disclosed in a note along with an explanation.

81. Where there is a net cumulative gain in respect of financial assets included in the General Fund balance at 31 March 2025:

- an element of the balance should have been earmarked to the extent the gains are:
 - not readily convertible to cash; or
 - considered to be volatile.
- an explanation should have been disclosed.

Information on fair value is not properly disclosed

82. The accounting code’s requirements include the disclosure of the fair value of financial instruments in a way that permits them to be compared with their carrying amount. This requires a calculation of the net present

value of the cash flows that are scheduled to take place over the remaining life of each loan, discounted at the rate available currently in relation to the same loan from a comparable lender. The treatment is different for variable and fixed rate loans as summarised in the following table:

Type of loan	Fair value
Variable rate loan	Fair value is the same as the amortised cost.
Fixed rate loan	<p data-bbox="432 573 1406 645">Fair value is different from amortised cost if the fixed rate is different from prevailing market interest rates.</p> <p data-bbox="432 663 1461 770">The discount rate could either be the rate available for new borrowing or the early repayment rate. Auditors should evaluate whether the body has:</p> <ul data-bbox="432 788 1422 947" style="list-style-type: none"> <li data-bbox="432 788 1358 860">• considered which measure is more relevant to the users of the accounts <li data-bbox="432 878 1422 947">• disclosed an adequate explanation of whichever methodology they have adopted, and assumptions used.

83. The accounting code's requirements include disclosing:

- the methods used
- when a valuation technique is used, the assumptions applied in measuring fair values in accordance with IFRS 13.

Technical Guidance Note 2024/8(LG) Technical Guidance Note 2024/8(LG) Module 3

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Technical Guidance Note 2024/8(LG)

Module 4

Guidance on misstatements in employee benefits in
2024/25



 AUDIT SCOTLAND

Prepared by Innovation and Quality for auditors in the local government sector

January 2025

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Accessibility

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

Module 4 introduction

Purpose and use of this module

1. This module of TGN 2024/8(LG) provides guidance on potential misstatements in the following aspects of employee benefits:

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

Changes in guidance in 2024/25

2. Changes have been made to the following guidance:

- Net defined benefit asset is not properly measured
- Net interest on the net defined benefit liability/asset is not properly measured or presented
- Employer contributions are not properly measured
- Provisions for early retirement are not properly presented.

Consulting with I&Q

3. Auditors should consult with I&Q by completing the [enquiry form](#) and sending an email to TechnicalQueries@audit-scotland.gov.uk.

4.1: Untaken holiday liability

Untaken holiday liability is not complete

4. 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.

5. Bodies should identify any untaken holiday (i.e. annual leave, flexitime and time off in lieu balances) at 31 March 2025 that can be carried forward and used during 2024/25.

Untaken holiday accrual is not properly measured

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

Issue	Comment
Identification of relevant costs	<p>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 2025. This should include salary as well as associated employer's national insurance and pension contributions.</p> <p>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 2025 should reflect rates applicable from 1 April 2025 as that is the year the leave will be taken.</p>
Calculating the liability	<p>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.</p>
Identifying number of untaken days (non-teachers)	<p>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:</p> <ul style="list-style-type: none"> • Where the employee's leave year is aligned with the financial year (i.e. ends on 31 March 2025), 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 2025 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)	<p>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 2025. The body should have:</p> <ul style="list-style-type: none"> • identified the number of term days between the start of the leave year (e.g. 1 September) and 31 March 2025 • 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 2025. <p>An example is provided at page 699 of the accounting code guidance notes.</p>

7. Bodies should have:

- included salary as well as associated employer's national insurance and pension contributions in the accrual
- gathered reliable information on the number of days of untaken leave as at 31 March 2025
- reflected all groups of staff in the calculation, where it is based on a sample of staff.

Accounting entries for the untaken annual leave liability are not appropriate

8. 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 2024 and 31 March 2025 should be charged (increase) or credited (decrease) to services in the Surplus or Deficit on the Provision of Services (SDPS) in the Comprehensive Income and Expenditure Statement (CIES).
Statutory adjustments – annual leave	<p>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:</p> <ul style="list-style-type: none"> • transferred to the Employee Statutory Adjustment Account • included in the adjustments reported in the Movement in Reserves Statement (MiRS).

9. The liability in respect of untaken annual leave at 31 March 2024 should have been reversed in 2024/25 and replaced with the accrual at 31 March 2025.

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

10. 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	<p>Benefits are determined independently of the investments of the scheme. Employers have obligations to make contributions.</p> <p>Liabilities are recognised as benefits are earned or awarded and are matched with the body's attributable share of the scheme's assets.</p>	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

Classification	Characteristics	Applicability to LGPS
		reliability for accounting purposes.

11. The accounting policy for retirement benefits arising from the LGPS should be to account on a defined benefit basis, unless it is not possible to reliably identify the body's 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

12. 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](#)

13. 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 2024/25, and auditors are advised to obtain a copy of the actuary's report.

14. Paragraph 6.4.3.28 of the accounting code requires an approximate assessment of the obligation at 31 March 2025. 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 2025.

15. 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 I&Q. I&Q will advise auditors on the [Latest Technical News](#) page when the 2024/25 report is available which is expected to be in May 2025.

16. Where intending to make use of the PWC report, auditors are required by ISA (UK) 620 to evaluate PWC as an auditor's expert. Auditors' responsibilities under ISA (UK) 500 are summarised in the following table:

ISA (UK) 620 responsibility	Use of PWC report to meet responsibility
Evaluate the competence, capabilities and objectivity of the actuary	Covered in report.
Understand the work of the actuary	Auditors should consider the instructions issued by employers and evaluate whether local issues have been adequately covered.
Consider the relevance and reasonableness of significant assumptions	The PWC report assists auditors to understand the sensitivity of each assumption. Further investigation could be required, particularly where

ISA (UK) 620 responsibility	Use of PWC report to meet responsibility
	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

17. 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.

18. Bodies should have satisfactory procedures in place to check for significant movements or employer decisions, particularly those occurring in the final months of 2024/25 and early 2025/26, and have passed details to the actuary.

19. Auditors are expected to discuss with the auditor of the relevant pension fund any assurances required regarding the completeness and accuracy of the information for 2024/25. Auditors may find it helpful to follow a [protocol for assurances](#) that will be provided by I&Q in due course.

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. Bodies should have identified significant events that impact on retirement benefit liabilities at 31 March 2025 (including events after that date) and whether:

- actuaries are making appropriate allowances for the events
- they are properly recognising the liabilities in 2024/25.

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. The PWC report may be helpful when auditors evaluate 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 2025 (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 2025 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 2025. 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 2025 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 2025 are anticipated to be available in May. Bodies are expected to discuss with their actuaries whether the estimates need be updated to reflect the actual returns.

Net defined benefit liability is not properly presented

29. 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 (in a separate line assuming it is material).

Net defined benefit asset is not properly measured

30. 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 31 March 2024. This is anticipated to remain the case for 31 March 2025

31. 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](#). The amount should be in a separate line assuming it is material.

32. 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).

33. [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.

34. 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.

35. 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.

Information on defined benefit asset is not properly disclosed

36. 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.

37. 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.

Service costs are not properly measured or presented

38. 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
Past service cost	<p>Change in the present value of the defined benefit obligation for service in prior periods, resulting from:</p> <ul style="list-style-type: none"> • 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. <p>[Note: past service cost may be either positive (benefits are introduced) or negative (benefits are withdrawn).]</p>	<p>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.</p> <p>Recognised at the earlier of when:</p> <ul style="list-style-type: none"> • the scheme amendment or curtailment occurs • the body recognises related restructuring costs or termination benefits (explained in section 3).
Gain or loss on settlements*	<p>Difference between:</p> <ul style="list-style-type: none"> • 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. 	<p>Included in service expenditure in the SDPS.</p> <p>The cost may be:</p> <ul style="list-style-type: none"> • apportioned over each service segment; or • allocated to a corporate service <p>Recognised when the settlement occurs.</p>

*[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).]

39. 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.

40. 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.

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

41. 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).

42. Bodies should include net interest in Financing and Investment Income and Expenditure in the SDPS

43. 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.

44. Where the asset ceiling results in a restriction on the asset recognised in the Balance Sheet as at 31 March 2024, this will reduce the amount of net interest income a body can recognise in the CIES in 2024/25.

45. The net interest income recognised in the 2024/25 CIES is reduced by the interest that has been earned on the element of the asset that has not been recognised due to the application of the asset ceiling. Any change in the size of the restriction over the year should be recognised through Other Comprehensive Income.

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

46. 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: <ul style="list-style-type: none"> • 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) net of costs of managing the assets
- 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.

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

Employee contributions are not properly measured

48. 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	<ul style="list-style-type: none"> • 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. • 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 10 April 2023, the increase is 6.7%. For pensions which began on or after that date, the increases are set out in The Pensions Increase (Review) Order 2024. • The contribution rates range from 5.5% to 12%.
Other contribution rates	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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.

49. 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.

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

51. Actuaries generally use actual contribution figures to 31 December and generally estimate contribution amounts for the period up to 31 March. Bodies should have discussed with their actuary whether the figure for the 12 months needs to be revised to reflect actual contributions.

Employee contributions are not properly presented

52. Bodies should have evaluated whether employee contributions have been set off against current service cost in 2024/25.

Employer contributions are not properly measured

53. 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	<ul style="list-style-type: none"> • 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. Secondary contributions are used to address an existing deficit or surplus in the fund. Positive contributions increase the overall contribution to the fund and therefore help to reduce an existing deficit, these are referred to as past service contributions. • The administering authority is then required to send a copy of the report and certificate to each employing body. • The applicable actuarial valuation for 2024/25 was as at 31 March 2023 which set contribution rates for the three years from 1 April 2024.

Feature	Measurement
Other contributions	<ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> – 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	<ul style="list-style-type: none"> • Same as for employee contributions.

54. Employer contributions should 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 2024/25 in the rates and adjustments certificate.

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

56. Actuaries generally use actual contribution figures to 31 December and estimate contribution amounts for the period up to 31 March. Bodies should have discussed with their actuary whether the figure for the 12 months needs to be revised to reflect actual contributions.

57. Bodies should account for positive secondary contributions in accordance with IFRIC 14. Paragraphs 23 and 24 of IFRIC 14 require that where past service contributions are not available in the form of a refund or reduction in future contributions, an additional liability should be recognised when the obligation arises. This liability should reduce the net defined benefit asset or increase the net liability

58. Where positive contributions made in either year have not been accounted for correctly, bodies may need to request a calculation from their actuary to determine whether the present value of agreed past service contributions was material at 31 March 2024 and 2025.

59. Where positive secondary contributions made in 2023/24 have not been accounted for correctly, a retrospective restatement in 2024/25 may be required. This may also require an IFRIC 14 assessment to be carried out for 2022/23 to ensure the opening position is correct in 2023/24.

Accounting entries for statutory adjustment for employer contributions are not appropriate

61. 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.

62. [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.

63. The difference between the IAS 19-based cost and the employer contributions for the council should be recognised in the Pension Reserve and disclosed in the analysis of adjustments between the accounting basis and the funding basis in the MiRS.

Disclosed information on retirement benefits is not complete

64. 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.

Accounting policy for the Teachers' Pension Scheme is not appropriate

65. The Teachers' Pension Scheme administered by the Scottish Government should be counted for on a defined contribution basis.

Accounting entries for the Teachers' Pension Scheme are not appropriate

66. The accounting treatment on a defined contribution basis involves employer contributions being charged to the CIES as they become payable. Balances should have been recognised in the Balance Sheet only to the extent that there are prepaid or outstanding contributions at 31 March 2025.

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

67. 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.

68. 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.

69. 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: <ul style="list-style-type: none"> • the employee accepts the offer; and

Reason for termination	Point where offer cannot be withdrawn
	<ul style="list-style-type: none"> • 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.
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: <ul style="list-style-type: none"> • 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.

70. 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).

71. Termination benefits should have been recognised at 31 March 2025 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

72. 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.

73. Termination benefits in 2024/25 should 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 2025.

Provisions for early retirement are not properly presented

74. 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.

75. Actuaries should not include the unfunded payments in future employer contributions when calculating the asset ceiling under IFRIC 14, i.e. the limit on the amount of net defined benefit asset that can be recognised in the Balance Sheet.

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

Technical Guidance Note 2024/8(LG) – Module 4

Guidance on Mistatements in Employee benefits in 2024/25

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Technical Guidance Note 2024/8(LG)

Module 5

Guidance on misstatements in reserves in 2024/25



 AUDIT SCOTLAND

Prepared by Innovation and Quality for auditors in the local government sector

January 2025

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Module 5 introduction

Purpose and use of this module

1. This module of TGN 2024/8(LG) provides guidance on the potential misstatements in the following aspects of reserves:

- Usable reserves (Section 1).
- Unusable reserves (Section 2).
- Presentation and disclosure (Section 3).

Changes in guidance in 2024/25

2. There are some changes in the guidance on:

- Usable reserves are created without statutory powers
- Capital Fund is not properly operated in accordance with statute
- Accounting entries in Capital Fund are not appropriate

Consulting with I&Q

3. Auditors should consult with I&Q by completing the [enquiry form](#) and sending an email to TechnicalQueries@audit-scotland.gov.uk.

5.1: Usable reserves

Usable reserves can be created where there is a statutory power and used to fund the delivery of services.

Usable reserves are created without statutory powers

4. Usable reserves can be used to fund the delivery of services. Scottish local government bodies can only create a usable reserve for external financial reporting purposes if they have a specific statutory power to do so. Statutory powers that apply to local government bodies are set out at paragraph 15 of [mandatory guidance on reserves](#) issued by LASAAC, and are summarised in the following table:

Usable reserve	Source of power	Summary of permitted use
General Fund	Section 93 of the Local Government (Scotland) Act 1973 (the 1973 Act)	All sums received to be credited to the General Fund and all expenses payable to be charged to it
Capital Fund	Schedule 3 of the Local Government (Scotland) Act 1975 (the 1975 Act)	Financing capital expenditure and the repayment of loans advance
Renewal and Repair Fund	[NB Applies only to councils and specified section 106 bodies, i.e. joint boards with the power to borrow (i.e. not IJBs) and regional transport partnerships]	Financing expenditure to be incurred in repairing, maintaining, replacing and renewing non-current assets
Insurance Fund		Defraying any loss where a body could have insured against a loss but has not done so and for paying premiums on an insurance policy
Capital Grants (and Receipts) Unapplied Account	Statutory guidance in finance circulars	Holding unused capital grant at the year end and capital receipts that will be used to fund equal pay, premiums on repaying loans early, or qualifying expenditure on transformation projects. There should not have been any capital receipts set aside to fund equal pay claims since 31 March 2020.
Harbour Reserve Funds	The Zetland County Council Act 1974 and the Orkney County Council Act 1974	Set out in the Acts

Usable reserve	Source of power	Summary of permitted use
	[NB Applies only to Shetland and Orkney councils]	
Specific funds	Some bodies have local Act powers, e.g. the City of Glasgow District Council Order Confirmation Act 1988	

5. There should be a statutory power for each usable reserve that the body specifically presents and describes as such in the Movement in Reserves Statement (MiRS) or notes.

6. Auditors may find that bodies operate what they describe as 'earmarked reserves' in addition to the above. While this is permissible in England, they should not be treated as separate reserves in the annual accounts by Scottish bodies. However, section 3 explains how elements of a statutory reserve can (or requires to) be earmarked.

General Fund is not properly operated in accordance with statute

7. As a general rule, income and expenditure recognised in the Comprehensive Income and Expenditure Statement (CIES) is credited or charged to the General Fund unless overridden by legislation or statutory guidance. There are also other funding adjustments that are unique to local government accounting.

8. A summary of the main debits and credits to the General Fund is provided in the following table:

Debits	Credits
Revenue expenditure recognised in the CIES	Income recognised in the CIES
Capital expenditure funded from General Fund	Statutory guidance adjustments to mitigate the impact of specific aspects of expenditure recognised in the CIES
Repayment of Loans Fund advance	Permitted revenue expenditure funded from borrowing

Capital Fund is not properly operated in accordance with statute

9. Paragraphs 22(1)(a) and 28 of [Schedule 3](#) of the 1975 Act empowers relevant bodies to establish a Capital Fund. A summary of the permitted debits and credits is set out at paragraph 27 of the LASAAC mandatory guidance, and is briefly summarised in the following table:

Debits	Credits
Capital expenditure funded from the Capital Fund	Proceeds from the disposal of a General Fund asset (i.e. capital receipts)
Repayment of loans fund advance	<p>Sums from revenue as the body may direct</p> <hr/> <p>Finance Circular 9/2024 provides a temporary amendment for specific capital grant paid in 2024/25 to be transferred to the Capital Fund rather than the Capital Adjustment Account in order that it may be used to repay the principal of loans fund repayments. The statutory guidance in the circular requires the following:</p> <ul style="list-style-type: none"> • Once the capital grant held in the Capital Fund is utilised to fund the principal element of loan repayments it must be transferred to the General Fund or HRA as a transfer from other statutory reserves in the Movement in Reserves Statement. • The capital grant must be utilised in 2024/25 and therefore may not be transferred to the Capital Grants Unapplied Account/Capital Grants and Receipts Unapplied Account.

Accounting entries in Capital Fund are not appropriate

10. The following table summarises the issues in respect of each entry to the Capital Fund:

Entry to Capital Fund	Explanation
Capital expenditure funded from the Capital Fund	<p>The capital expenditure should not be charged directly to the reserve.</p> <p>An amount equivalent to the expenditure incurred should be transferred (debit) from the Capital Fund to the Capital Adjustment Account (credit). The transfer between the reserves should be reported in the MiRS.</p>
Repayment of loans fund advance	<p>Finance Circular 7/2024 and Finance Circular 9/2024 clarify that the repayment still requires to be charged, in full, to the General Fund. The transfer from the Capital Fund (debit) to the General Fund (credit) is a separate transaction.</p>
Proceeds from the disposal of an asset (i.e. capital receipts) premiums arising from the refinancing	<p>Bodies should account for the disposal by:</p> <ul style="list-style-type: none"> • recognising a gain or loss in Other Operating Expenditure in the Surplus or Deficit on the Provision of Services (SDPS) in the CIES

Entry to Capital Fund	Explanation
of debt (Module 3) or other permitted purposes (Module 9.8)	<ul style="list-style-type: none"> transferring the disposal proceeds from the General Fund (debit) to the Capital Fund (credit) in the MiRS. <p>Where a body chooses not to use a Capital Fund, paragraph 4.1.3.12 of the Code of Practice on Local Authority Accounting in the UK (accounting code) requires capital receipts to be credited to a Capital Receipts Reserve. Paragraph 29 of the LASAAC guidance formally applies to the Capital Receipts Reserve the permitted debits and credits for the Capital Fund.</p>
Sums from revenue as the local government body may direct	<p>The sum should have been transferred (debit) from the General Fund to the Capital Fund (credit).</p> <p>The transfer between the reserves should have been reported in the MiRS.</p>
Capital grant	As above, Finance Circular 9/2024 permits specific 2024/25 capital grant to be transferred to the Capital Fund in order that it may be used to repay the principal of loans fund repayments.

11. [Finance circular 7/2024](#) clarifies that there is no statutory power for a body to use the Capital Fund or capital receipts to fund grants to a third party or to finance certain capital expenditure on non-current assets not owned by the body (as explained in Module 3).

Renewal and Repair Fund is not properly operated in accordance with statute

12. Paragraphs 22(1)(b) and 28 of [Schedule 3](#) of the 1975 Act empowers relevant bodies to establish a Renewal and Repair Fund. A summary of the permitted debits and credits is provided in the following table:

Debits	Credits
Expenditure to be incurred in repairing, maintaining, replacing and renewing non-current assets	Sums from revenue as the body may direct

Accounting entries in Renewal and Repair Fund are not appropriate

13. When the Renewal and Repair Fund is used to fund revenue expenditure, the expenditure should not be charged directly to the reserve. Instead:

- expenditure in 2024/25 should have been charged to the relevant service in the SDPS of the CIES

- an amount equivalent to the expenditure incurred should have been transferred (debit) from the Renewal and Repair Fund to the General Fund (credit)
- the transfer between the reserves should have been included in the transfer to or from other statutory reserves reported in the MiRS.

14. When the expenditure funded in 2024/25 is of a capital nature, :

- an amount equivalent to the expenditure incurred should have been transferred (debit) from the Renewal and Repair Fund to the Capital Adjustment Account (credit)
- the transfer between the reserves should have been included in the transfer to or from other statutory reserves reported in the MiRS.

Insurance Fund is not properly operated in accordance with statute

15. Paragraphs 22(1)(ba) and 28 of [Schedule 3](#) of the 1975 Act empowers relevant bodies to establish an Insurance Fund. A summary of the permitted debits and credits to the Insurance Fund is provided in the following table:

Debits	Credits
Defraying any loss where a body could have insured against a loss but has not done so	Sums from revenue as the body may direct
Paying premiums on an insurance policy	

Accounting entries in Insurance Fund are not appropriate

16. When the Insurance Fund is used to fund revenue expenditure, the expenditure should not be charged directly to the reserve. Bodies should have:

- charged expenditure in 2024/25 to the relevant service in the SDPS in the CIES
- transferred (debit) from the Insurance Fund to the General Fund (credit)an amount equivalent to the expenditure incurred has been
- the transfer between the reserves has been included in the transfer to or from other statutory reserves reported in the MiRS.

17. The LASAAC guidance issued in 2005 on accounting for the Insurance Fund which recommended the charging of an internal insurance premium was withdrawn from 2018/19. A LASAAC [advisory note](#) on internal transactions explains that any internal insurance premiums charged for management purposes should be eliminated in the Expenditure and Funding Analysis (explained at Module 9.1).

Accounting entries for interest on reserves is not appropriate

18. Interest on reserves should not be credited directly to the relevant reserves, instead:

- the full amount of interest due to the body in 2024/25 (i.e. General Fund and other statutory funds) should have been recognised as interest receivable in the Financing and Investment Income and Expenditure section of the CIES
- the element of the interest that applies to the statutory funds other than the General Fund should have been included in the transfer to or from other statutory reserves reported in the MiRS.

Capital Grants (and Receipts) Unapplied Account is not properly operated

19. The Capital Grants Unapplied Account should be used to hold capital grant that is unused at the year-end (explained in Module 8).

20. It should be renamed as the Capital Grants and Receipts Unapplied Account if it is also used to hold capital receipts set aside to fund:

- equal pay (though there should not have been any capital receipts set aside since 1 April 2020 as explained in Module 2)
- premiums on early loan repayment (as explained in Module 3)
- qualifying expenditure on transformation projects (as explained in Module 9.8).

5.2: Unusable reserves

Reserves cannot be used to fund the delivery of services when they arise as a result of statutory adjustments and/or accounting gains or losses recognised in other comprehensive income and expenditure.

Accounting entries in the Revaluation Reserve are not appropriate

21. The balance on the Revaluation Reserve represents the net increase (ignoring decreases below historical cost) in the value of non-current assets as a result of them being carried in the Balance Sheet at revalued amounts rather than historical cost. Historical cost is deemed to be the carrying amount of an asset (adjusted for subsequent depreciation or impairment) as at the later of:

- 1 April 2007 (i.e. the date that Revaluation Reserves were first established); or
- the date of acquisition.

22. The Revaluation Reserve is credited with increases in the value of non-current assets resulting from a revaluation. A summary of the debits is provided in the following table:

Debits to Revaluation Reserve

Impairment losses and revaluation decreases up to the credit balance on the reserve for the particular asset being impaired or revalued

An entry to remove the credit balance in respect of asset disposals

An amount equal to the part of the depreciation charge incurred only because the asset is carried at current value rather than cost [Note: This is necessary so that the unrealised gains relating to the asset are not overstated (the corresponding credit as explained in Module 1 should be a reserve transfer to the General Fund)]

23. The Revaluation Reserve balance requires to be built up from records of revaluation increases and decreases for each asset. It is therefore necessary that asset registers are capable of maintaining information at the level of individual assets, rather than as a pooled balance.

Accounting entries in the Capital Adjustment Account are not appropriate

24. The Capital Adjustment Account is principally used to take the 'other' entry for items debited and credited to the General Fund in respect of statutory-based departures from accounting standards. There are also entries involving the Capital Fund and Revaluation Reserve.

25. Appendix 1 lists the various debits and credits made to the Capital Adjustment Account, provides a brief explanation of each, and refers to the module which provides fuller guidance. Bodies should have properly operated the Capital Adjustment Account during 2024/25.

Accounting entries in the Financial Instruments Revaluation Reserve are not appropriate

26. Bodies should use the Financial Instruments Revaluation Reserve (as explained in Module 3) to reflect gains and losses arising from changes in the fair value of relevant financial assets.

Accounting entries in the Financial Instruments Adjustment Account are not appropriate

27. The Financial Instruments Adjustment Account should have been (as explained in Module 3):

- credited with the annual amortisation of premiums on the extinguishment of debt
- debited with the annual amortisation of discounts on the extinguishment of debt
- debited or credited with the difference between the effective interest on 'stepped' loans held at 31 March 2007 and the contract interest.

Accounting entries in the Employee Statutory Adjustment Account are not appropriate

28. The Employee Statutory Adjustment Account should have been used in 2024/25 (as explained in Module 4) to:

- remove from the General Fund the net increase or decrease in the untaken annual leave liability during 2024/25
- hold deferred charges up to 31 March 2024 for the equal pay provision.

Accounting entries in the Pension Reserve are not appropriate

29. Councils are required to set up a Pension Reserve under [The Local Government Pension Reserve Fund \(Scotland\) Regulations 2003](#).

30. The Pension Reserve should have been used (as explained in Module 4) in 2024/25 to remove the IAS 19 pension costs from the General Fund and to replace them with employer contributions.

5.3: Presentation and disclosure

Earmarked elements of a statutory fund are not properly disclosed

31. The MiRS should show the usable reserves operated by the body. Paragraph 49 of the LASAAC guidance prohibits earmarked elements of usable reserves from being presented on the face of the MiRS (or Balance Sheet). Where a body has presented an 'earmarked reserve' on the face of the MiRS (or Balance Sheet) for which there is no underlying statutory power, auditors should request that the body removes the reserve from the face of the statement and treats it as an earmarked element of the General Fund (or other statutory fund, if more appropriate).

32. The [accounting code](#) (at paragraph 3.4.2.60) requires an analysis of earmarked reserves to be disclosed in a note. In Scotland, paragraph 54 of the LASAAC guidance applies that requirement to earmarked elements of the General Fund or other statutory fund.

33. Voluntary earmarked elements represent an indication of the intended purposes of the balance at the year end. They do not impose any obligation on the body. In addition, an element of the General Fund requires to be earmarked for:

- gains arising from the increase in the fair value of financial assets to the extent it is not available to fund the delivery of services due to not being readily convertible to cash (explained at Module 3.5)
- any additional income arising from the removal of council tax discounts which will be used on affordable housing (explained at Module 9.9).

34. The exception to the above is the Housing Revenue Account (HRA). The legislative framework does not allow for a specific HRA reserve, but bodies can earmark an element of the General Fund, present it separately in the MiRS, and describe it as the HRA balance.

Reserves are not properly presented in the MiRS

35. While usable reserves should be analysed over the different types of reserve in the MiRS, there may be a single heading to cover all the unusable reserves. Bodies should have complied in 2024/25 with paragraph 3.4.2.58 of the accounting code which requires the classification of reserves presented in the MiRS as summarised in the following table:

Reserves	Notes for auditors
General Fund	Any earmarked elements which should not be presented separately in the MiRS (but should be disclosed in the notes).
HRA balance	The legislative framework does not allow for a specific HRA reserve, and therefore this item is an earmarked element of the General Fund. In this case, the HRA balance earmarking should be presented separately.
Renewal and Repair Fund	The statutory power for a Renewal and Repair Fund refers to a single fund. Only one such fund should be disclosed on the face of the MiRS, and the extent of earmarking may be disclosed in a note.
Capital Fund	Only one Capital Fund is permitted on the face of the MiRS.
Insurance Fund	Only one Insurance Fund is permitted on the face of the MiRS.
Capital Grants (and Receipts) Unapplied Account	This account is treated as a usable reserve.
Total usable reserves	This line should show the total for all usable reserves.
Unusable reserves	Unusable reserves hold unrealised gains and losses or adjustments included in the MiRS line for the differences between the accounting basis and funding basis. Bodies can present all unusable reserves in one line.
Total reserves of the body	There should be a line showing the total (usable and unusable) reserves of the body.

Movements in reserves are not properly presented in the MiRS

36. The MiRS should show reserve movements during 2024/25 analysed between usable and unusable reserves. These are summarised in the following table:

Item	Explanation
Balances at end of previous period	These should agree to the amounts at 31 March 2024 in the Balance Sheet.
Total comprehensive income and expenditure	There is no requirement to show lines separately for the SDPS and Other Comprehensive Income and Expenditure the amount (or amounts if separate) should agree to the CIES.

Item	Explanation
Adjustments to usable reserves permitted by accounting standards	This line is used where a body has transferred the revaluation element of depreciation charges directly to the Revaluation Reserve (explained at Module 1.3).
Adjustments for the differences between the accounting basis of items included in the CIES and the funding basis required by regulations etc	<p>This line relates to items charged or credited to the SDPS that are not permitted debits or credits to the General Fund. They are subject to statutory adjustments to remove the impact from the General Fund. An analysis of the adjustments should either be presented on the face of the MiRS or disclosed in the notes.</p> <p>Paragraph 3.4.2.57 of the accounting code sets out the items that should be included in the analysis. Appendix 2 of this Module provides a summary of the items and the related adjustments.</p>
Transfers to and from other statutory reserves	<p>Included in this line, in addition to the straight-forward transfers between usable reserves, should be transfers of capital receipts from the Capital Grants and Receipts Unapplied Account to the General Fund to fund equal pay (explained in Module 2) or other permitted expenditure (explained at Module 9.8).</p> <p>Bodies should have presented:</p> <ul style="list-style-type: none"> • a line showing the transfers to and from other statutory reserves in the MiRS where relevant • an analysis of the transfers either on the face of the MiRS or disclosed in the note <p>Bodies should have included earmarked elements of the General Fund have been included within the General Fund balance (and not shown separately) in the MiRS.</p>
Balances at end of reporting period	Bodies should have agreed these to the amounts at 31 March 2025 in the Balance Sheet, and total to the net worth of the body at that date.

Analysis of the Employee Statutory Adjustment Account is not properly disclosed

37. [Finance Circular 1/2019](#) and [Finance Circular 2/2023](#) require councils to identify separately the amounts held in the Employee Statutory Adjustment Account for equal pay and for untaken holiday.

38. Bodies (if they have used the statutory mitigation) should have disclosed the required analysis of the balance on the Employee Statutory Adjustment Account at 31 March 2025.

Analysis of the Capital Grants and Receipts Unapplied Account is not properly disclosed

39. [Finance Circular 1/2019](#) and [4/2019](#) require an analysis of the Capital Grants and Receipts Unapplied Account to be disclosed. Bodies should have disclosed the balance at 31 March 2025 analysed between:

- capital grant
- capital receipts held for equal pay
- capital receipts held for transformation projects.

Analysis of the Financial Instruments Adjustment Accounts is not properly disclosed

40. [Finance Circular 7/2018](#) (at paragraph 47 in part 2) requires an analysis of the Financial Instruments Adjustment Account to be disclosed. Bodies should have disclosed the balance at 31 March 2025 analysed between:

- premiums and discounts associated with the refinancing of loans
- loans to third parties granted at less than market interest rates
- borrowing where the loan is a stepped interest rate loan.

Deferred capital receipts are not properly disclosed

41. The proceeds from the disposal of an asset credited to the Capital Fund (or Capital Receipts Reserve) may include sums that have been deferred (e.g. where payments are by instalments). Paragraph 30 of the LASAAC guidance requires deferred capital receipts to be disclosed in the notes.

Appendix 1 Capital Adjustment Account

Capital Adjustment Account entries

Debits (credits to General Fund)

Depreciation, impairment losses and revaluation decreases on PPE	Expenditure charged to CIES is removed from General Fund (Modules 1.2 and 1.3)
Amortisation and impairment losses on intangible assets	Expenditure charged to CIES is removed from General Fund (Module 9.5)
Carrying amount of assets derecognised	Part of the gain/loss on disposal credited or charged to the CIES removed from General Fund (Module 1.4)
Revenue expenditure funded from borrowing	Expenditure charged to CIES is removed from General Fund (Module 3.1)
Decreases in the fair value of investment properties	Charges to CIES removed from General Fund (Module 9.4)

Credits (Debits to General Fund)

Reversals of impairment losses and revaluation decreases on PPE	Credits made to CIES are removed from General Fund (Module 1.2 and 1.3)
Capital expenditure funded from revenue	Capital expenditure charged to General Fund
Loans fund repayments	Repayment charged to General Fund (Module 3.2)
Service concession statutory charge	Charge made to General Fund (Module 7.3)
Capital grants and other contributions	Credit to CIES removed from General Fund (Module 8.1)
Income from donated assets	Credit to CIES removed from General Fund (Module 1.1)
Increases in the fair value of investment properties	Charges and credits to CIES removed from General Fund (Module 9.4)

Credits (Debits to other funds)

Capital expenditure funded from Capital Fund	Other entry is debit to Capital Fund (Module 5.1)
Revaluation Reserve balances of assets derecognised	Part of the removal of the gain/loss on disposal credited or charged to the CIES (Module 1.4).

Appendix 2 Adjustments between accounting and funding basis

The purpose of this appendix is to summarise the main adjustments in 2024/25 required for the differences between an accounting basis and a funding basis that are presented in the MiRS. The entries are between the General Fund (GF), the Capital Fund (CF), and the following unusable reserves:

- Capital Adjustment Account (CAA)
- Employee Statutory Adjustment Account (ESAA)
- Capital Grants and Receipts Unapplied Account (CGRUA)
- Pension Reserve (PR)
- Financial Instruments Adjustment Account (FIAA).

CIES	Funding adjustments		TGN guidance
	Debit	Credit	
Service analysis			
Depreciation	CAA	GF	Module 1.3
Impairment loss and revaluation decrease in excess of revaluation balance	CAA	GF	Module 1.3
Revaluation increase reversing previous loss	GF	CAA	Module 1.2
Income from donated assets	CAA	GF	Module 1.1
Amortisation of intangible assets	CAA	GF	Module 9.5
Increase in untaken annual leave accrual	ESAA	GF	Module 4.1
Qualifying expenditure on transformation projects	CGRUA	GF	Module 9.8
Current service pension cost	PR	GF	Module 4.2
Past service pension cost	PR	GF	

CIES	Funding adjustments		TGN guidance
Revenue expenditure funded by borrowing	CAA	GF	Module 3.1
Premiums and discounts (these are then replaced with an annual charge to the General Fund at which point the entries are reversed)	FIAA	GF	Module 3.1
Other operating income and expenditure			
Gain on disposal of assets – capital receipts to CF	GF CAA	CF	Module 1.4
Gain on disposal of assets – capital receipts to fund qualifying expenditure on transformation projects	GF CAA	CGRUA	Module 9.8
Financing and investment income and expenditure			
Increase in the fair value of investment properties	GF	CAA	Module 9.4
Net interest on the net defined benefit pension liability	PR	GF	Module 4.2
Service concession arrangements and finance lease (Statutory charges for the repayment of debt)	GF	CAA	Module 7.3
Taxation and non-specific grant income			
Capital grants applied	GF	CAA	Module 8.1
Capital grants unapplied at year end	GF	CGRUA	
Donated assets	GF	CGRUA	Module 1.1

NB: Where the above items are a decrease/loss, rather than the increase/gain shown, the entries should be reversed.

Technical Guidance Note 2024/8(LG) – Module 5

Guidance on misstatements in reserves in 2024/25

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Technical Guidance Note 2024/8(LG)

Module 6

Guidance on misstatements in group financial
statements in 2024/25



 AUDIT SCOTLAND

Prepared by Innovation and Quality for auditors in the local government sector

January 2025

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Accessibility

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Module 6 introduction

Purpose and use of this module

1. This module of TGN 2024/8(LG) provides guidance on potential misstatements in the following aspects of group financial statements:

- Subsidiaries (section 1).
- Associates and joint ventures (Section 2).
- Application to arm's-length external organisations (Section 3).
- Application to statutory bodies (Section 4).
- Materiality assessment (Section 5).
- Presentation and disclosure (Section 6).

2. Group financial statements are those in which the assets, liabilities, reserves, income, expenses and cash flows of a parent local government body and its subsidiaries, plus its investments in associates and interests in joint ventures, are presented as those of a single economic entity.

3. Auditors of the parent body should ensure they clearly communicate their requirements to the auditor of the subsidiary, associate or joint venture on a timely basis. The revised [ISA \(UK\) 600](#) contains guidance on required and additional matters that may be included in such communication.

Changes in guidance in 2024/25

4. There are no changes in the guidance on potential misstatements for 2024/25.

Consulting with I&Q

5. Auditors should consult with I&Q by completing the [enquiry form](#) and sending an email to TechnicalQueries@audit-scotland.gov.uk.

6.1: Subsidiaries

A subsidiary is an entity that is controlled by a parent entity. Subsidiaries are consolidated into the group financial statements on a line-by-line basis.

Subsidiaries are not complete or do not exist

6. Entities which a council controls should be treated as subsidiaries. Paragraph 9.1.2.30 of the [Code of Practice on Local Authority Accounting in the UK](#) (accounting code) sets out the three aspects of control summarised in the following table:

Aspect of control	Explanation
Power over an entity	Power is existing rights to direct the relevant activities of the other entity. The main indicator of 'power' is the right to direct the financial and operating policies of that entity. This may be through: <ul style="list-style-type: none"> • more than half of voting rights granted by shares; or • contractual or other binding arrangements (see section 3).
Exposure, or rights, to variable returns from involvement with the entity	This is the case when the financial returns (and non-financial returns as explained in section 3) have the potential to vary as a result of the entity's performance.
Ability to use power over the entity to affect the amount of the returns	This is the case where the body is able to direct the other entity to further the body's objectives.

7. Guidance on assessing control is provided at paragraphs B2 to B72 of [IFRS 10](#).

8. Where a council has voting rights in another entity, the assessment of power is straight-forward. This may be the case where the council has invested in a third-party company.

9. However, the assessment of whether contractual or other binding arrangements give rise to power is more complex. Paragraph 9.1.2.24 of the accounting code uses the term 'structured entity' to describe an entity where a council has been involved in its design and the relevant activities are directed by means of contractual arrangements (as distinct from simply investing in a third party). Voting rights are not the dominant factor in deciding who has power over a structured entity. Consequently, it is necessary to consider the

contractual arrangements. [Auditors should refer to section 3 of this module for guidance on contractual or other binding arrangements.](#)

Accounting entries for subsidiaries are not appropriate

10. Subsidiaries should be consolidated into the group financial statements on a line-by-line basis. Guidance on the mechanics of a line by line consolidation is provided in chapter 10 of [Accounting for Collaborations in Local Government](#) from CIPFA. Subsidiaries should be accounted for by:

- combining like items of assets, liabilities and reserves at 31 March 2025, and income, expenses and cash flows during 2024/25
- offsetting (i.e. eliminating) the carrying amount of the body's investment in each subsidiary and its portion of reserves of each subsidiary
- eliminating in full intragroup assets and liabilities, reserves, income, expenses and cash flows relating to transactions between entities of the group
- treating changes in the body's ownership interest in a subsidiary that do not result in a loss of control as reserve transactions.

Accounting dates are not aligned

11. The group financial statements should be prepared as at 31 March 2025. This may require the other entities in the group financial statements to prepare financial information at that date if they have a different year end. Where that is not practicable, paragraph 9.1.2.59 of the accounting code allows the entities' financial statements to be used, with suitable adjustments, provided the year end is within three months of the 31 March 2025 (i.e. 31 December 2024 to 30 June 2025).

12. Financial information for the other entities should have been prepared as at 31 March 2025. Where this is not practicable (and instead the entities' most recent financial statements have been used),:

- the year end should be within three months of the 31 March 2025
- the financial statements should have been adjusted for significant transactions between the entity's year end and 31 March 2025.

Accounting policies are not aligned

13. Group financial statements should have been prepared using uniform accounting policies. The accounting policies of the subsidiaries may have to be aligned with the policies of the parent council, for the purposes of the group financial statements, if they are materially different. However, adjustments should not be made for statutory reversals that apply only to the council (e.g. pensions).

6.2: Associates and joint ventures

An associate is an entity over which an investor has significant influence. A joint venture is where two or more parties have joint control of an arrangement and have rights to the net assets. Investments in an associate or a joint venture are accounted for using the equity method.

Associates are not complete or do not exist

14. Entities over which a council has significant influence should be treated as associates. The council should have identified all its associates at 31 March 2025.

15. Significant influence is defined at paragraph 9.1.2.22 of the [accounting code](#) as the power to participate in the financial and operating policy decisions of the entity. The existence of significant influence is usually demonstrated by at least one of the following:

- 20% or more of the voting power (the accounting code requires a council to disclose an explanation of why it does not have significant influence but holds 20% of the votes)
- representation on the board of directors or equivalent governing body of the other entity
- participation in policy-making processes, including decisions about dividends
- material transactions between the body and the entity, interchange of managerial personnel, or provision of essential technical information.

Joint ventures are not complete or do not exist

16. The council should have identified all its joint ventures at 31 March 2025. A joint venture is an arrangement where:

- parties are bound by a contractual arrangement which gives two or more of those parties joint control of the arrangement. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control
- the joint venturers have rights to the net assets of the arrangement.

17. Joint arrangements also include joint operations. In contrast with a joint venture, joint operations do not involve a separate vehicle or, if they do, the joint operators have rights to the assets, and obligations for the liabilities, relating to the arrangement (rather than the net assets). Any joint operation should be recognised in the council-only financial statements.

Accounting entries for associates and joint ventures are not appropriate

18. Paragraph 9.1.2.43 of the accounting code requires councils to account for investments in an associate or a joint venture using the equity method. Guidance on the equity method is provided in chapter 11 of [Accounting for Collaborations in Local Government](#). The council should initially recognise the investment at cost and adjust thereafter for the post-acquisition change in its share of net assets of the associate/joint venture.

19. Where surpluses or deficits resulting from transactions between the council and the associate or joint venture are included in the carrying value of assets of either entity, the council's share of those surpluses or deficits should be eliminated. This may be needed, for example, in relation to sales of assets between the council and the associate or joint venture.

20. The council should have:

- used the equity method to account for investments in an associate or joint venture at 31 March 2025 and eliminated its share of surpluses or deficits resulting from transactions with an associate or joint venture, where necessary
- included its share of the investee's profit or loss in the group surplus or deficit on the provision of services
- included its share of the investee's other comprehensive income and expenditure in the group other comprehensive income and expenditure.

6.3: Application to arm's-length external organisations

Councils may set up arm's-length external organisations to deliver services which they may in practice control or at least significantly influence.

Arm's-length external organisations are not properly classified in group financial statements

21. Many councils have established and fund arm's-length external organisations (ALEOs) to deliver a wide range of activities such as leisure services, economic development and property maintenance. ALEOs meet the definition of structured entities (as explained in section 1) and usually take the form of companies limited by guarantee or charitable trusts.

22. Voting rights may not be the dominant factor in deciding who controls the ALEO. The activities of the ALEO are likely to be directed by means of binding arrangements or provisions in founding documents such as articles of association or a constitution.

23. Paragraph AG 17 of [IPSAS 35](#) gives examples of rights that would give a council power over an ALEO (NB The Charities SORP acknowledges that, although a charity is controlled and managed by its trustees, it can be a subsidiary for accounting purposes). These include rights to:

- give policy directions to the governing body of the ALEO that give the council the ability to direct its relevant activities
- appoint, reassign or remove members of the ALEO's key management personnel who have the ability to direct the relevant activities
- approve or veto the ALEO's budgets
- direct the ALEO to enter into, or veto any changes to, transactions for the benefit of the council
- veto key changes to the ALEO, such as the sale of a major asset or of the ALEO as a whole.

24. The above apply even if the rights have not yet been exercised, but the rights should be 'substantive', i.e. the council must have the practical ability to exercise that right. Protective rights relate to fundamental changes to the activities of the ALEO or apply in exceptional circumstances; protective rights are not indicators of power.

25. Where it is difficult to determine whether a council's rights are sufficient to give it power over an ALEO, it is necessary to consider whether the council has the practical ability to direct the relevant activities unilaterally. Examples of considerations are provided at paragraph AG20 of IPSAS 35, and include the council being able (without having the contractual right) to:

- appoint or approve the ALEO's key management personnel who have the ability to direct the relevant activities
- direct the ALEO to enter into, or veto any changes to, significant transactions.

26. Paragraph AG 21 of IPSAS 35 lists other indications that, in combination with other rights, may indicate power. These include the following:

- The council funds a significant portion of the ALEO's operations which the ALEO depends on.
- The council guarantees a significant portion of the ALEO's obligations, which the ALEO depends on.
- A significant portion of the ALEO's activities either involve or are conducted on behalf of the council.

27. Auditors may find it helpful to use the checklist at Appendix 1 of this module to help evaluate whether a council has power over an ALEO through binding arrangements or provisions in founding documents.

28. While IFRS 10 refers to financial returns (e.g. dividends), paragraph 9.1.2.34 of the accounting code refers also to non-financial benefits. Non-financial benefits can occur when the activities of the ALEO are congruent with the council's objectives and support it in achieving those objectives, e.g. service potential generated by the ALEO on behalf of a body. Congruent activities may be undertaken voluntarily, or the body may have the power to direct the other entity to undertake those activities.

29. Paragraph 33 of IPSAS 35 provides the following examples of non-financial benefits:

- The ability to benefit from the specialised knowledge of another entity.
- The value to the body of the other entity undertaking activities that assist the authority in achieving its objectives.
- Improved outcomes, or more efficient delivery of outcomes.
- More efficient or effective production and delivery of goods and services, or having a higher level of service quality than would otherwise be the case.

30. There are also two contrasting examples on page 80 of IPSAS 35 involving assessing control of a leisure trust. The examples are summarised in the following table:

Arrangement	Classification
<p>The trust is required to operate the existing leisure facilities of the council.</p> <p>The levels of service required are specified by the council.</p> <p>A significant portion of the trust's activities are funded by the council.</p> <p>The trust may not engage in any other activities without the approval of the council.</p> <p>The council is not responsible for the debts of the trust.</p>	Subsidiary
<p>The trust can decide the nature and extent of facilities to be provided and can engage in any other charitable purpose.</p> <p>The board of the trust is elected by the community.</p> <p>The council is entitled to have one representative on the board.</p> <p>The trust is required to retain any surplus.</p>	Associate

6.4: Application to statutory bodies

Section 106 bodies should be considered for inclusion in group financial statements

Statutory bodies are not considered for group financial statements

31. Any committee or body to which section 106 of the Local Government (Scotland) Act 1973 applies should be considered an entity in the context of group financial statements. Councils are therefore expected to evaluate their interest in valuation joint boards, joint committees, regional transport partnerships, integration joint boards (IJBs) and charitable funds and trusts.

Statutory bodies are not properly classified in group financial statements

32. As councils act together to direct the relevant activities of statutory bodies, it is unlikely that any single council controls these bodies. It is therefore not expected that statutory bodies will be subsidiaries.

33. A council has joint control over a statutory body where the unanimous consent of that council and all the councils sharing control is required. [Guidance](#) from LASAAC on accounting for health and social care integration expects this to be the case for IJBs, which should therefore be accounted for as joint ventures. However, this is finely balanced, each IJB's operation in practice should be taken into account when deciding the appropriate treatment.

34. Where accounted for as a joint venture, auditors should evaluate whether the council has included its share (50%) of the IJB's:

- surplus or deficit on the provision of services and other comprehensive income and expenditure in the group CIES. Councils should not add their share of IJBs' gross income and expenditure as that is already included in the council-only financial statements
- net worth in the group Balance Sheet.

35. Where there is no joint control, but the council has representation on the board and participates in policy-making processes of a statutory body, this indicates that the council has significant influence. The body should therefore be accounted for as an associate.

6.5: Materiality assessments

There are qualitative as well as quantitative aspects of materiality

The assessment of quantitative materiality is not appropriate

36. After a council has established whether it has interests in other entities, and evaluated the nature of those interests, it should consider whether the interests are material. The accounting code discusses materiality at paragraph 2.1.2.14 and guidance is provided at chapter 4 of [Accounting for Collaborations in Local Government](#).

37. Group financial statements are required unless the body can demonstrate that its interests are not material. In considering quantitative materiality, the body should have:

- focussed on the potential effect of an omission on the decisions or assessments of users made on the basis of the financial statements
- demonstrated that the body's overall financial position or performance has not been misrepresented
- considered potential omissions collectively as well as individually. It could be the case that none of the interests that a body has in other entities would be material individually but they are as a collective
- assessed the qualitative aspects of materiality judged in the surrounding circumstances before considering the amounts involved
- assessed the amounts with reference to all elements of the body's financial statements and not concentrated solely on the Balance Sheet.

Qualitative aspects of materiality are not considered

38. The council should also consider qualitative aspects of materiality. It should satisfy itself that the principal users of the financial statements would be able to see the complete economic activities of the council and its exposure to risk.

39. When assessing the qualitative aspects of materiality, the following situations are indications that an interest is material and should therefore be considered:

- The council depends on these entities to provide statutory services, e.g. leisure trusts.

- There are user expectations that group financial statements will be provided.
- The additional information concerns aspects of the council's activity that have been identified as particularly significant in its strategic objectives.
- There is political concern about the level to which the council is exposed to commercial risk.
- There have been concerns about the extent to which the council has passed on control of its assets to other parties.

Group financial statements are not prepared where the auditor considers they are material

40. Where group financial statements have not been prepared, but auditors have formed the view that they are required, auditors should request that the council prepares them. Where the council declines to do so, auditors should discuss the matter with Audit Scotland's I&Q and consider qualifying their opinion on the financial statements.

6.6: Presentation and disclosure

Group financial statements are required in addition to those for the council-only. Additional notes are required.

Group financial statements are not properly presented

41. The [accounting code](#) adapts IAS 27 by requiring group financial statements to be prepared where a council has investments in associates and/or interests in jointly controlled entities, even if they have no interests in subsidiaries.

42. Councils should not aggregate items with companies and present them in the same line in group financial statements based solely on similar terminology as the underlying substance, such as legal framework, may be quite different. For example, the pension reserve of a council (explained in Module 4.2 as an unusable reserve) is different to a company's pension reserve, and they require to be presented separately.

43. Where financial statements for the group are required in 2024/25, the council should have produced a full set of group financial statements in addition to those for the council-only. Councils are permitted to present the group financial statements alongside the council-only statements.

Information on structured entities is not properly disclosed

44. Paragraphs 9.1.4.14 to 9.1.4.17 of the accounting code require the disclosure of information that enables users to evaluate the nature of, and changes in, the risks associated with the body's interests in structured entities. For example, the body should have disclosed:

- the terms of any contractual arrangements that could require them to provide financial support to a consolidated structured entity
- the type and amount of financial or other support provided where there was no contractual obligation, and the reasons for providing the support
- any current intentions to provide financial or other support.

45. There are also specific requirements at paragraphs 9.1.4.24 to 9.1.4.31 in respect of unconsolidated structured entities (e.g. ALEOs that are not subsidiaries), including disclosing a summary of the following:

- The carrying amounts of the assets and liabilities relating to unconsolidated structured entities, and the line items in the Balance Sheet in which they are recognised.

- The amount that best represents the body's maximum exposure to loss from its interests in unconsolidated structured entities, including how that amount is determined.
- A comparison of the carrying amounts of the assets and liabilities that relate to unconsolidated structured entities and the maximum exposure to loss.

46. The disclosure requirements for unconsolidated structured entities are required even where group financial statements are not prepared. Where that is the case in 2024/25, the disclosures should have been made in the body-only financial statements.

Significant judgements and assumptions are not disclosed

47. Paragraphs 9.1.4.7 to 9.1.4.9 requires bodies to disclose information on the significant judgements and assumptions made in determining that it has control, joint control or significant influence.

Appendix 1 Assessing power over an ALEO

Question	Auditor assessment
1 Does the council have the right to give policy directions to the governing body of the ALEO that give the council the ability to direct its relevant activities?	
2 Does the council have the right to appoint, reassign or remove members of the ALEO's key management personnel who have the ability to direct the relevant activities?	
3. Does the council have the right to approve or veto the ALEO's budgets?	
4. Does the council have the right to direct the ALEO to enter into, or veto any changes to, transactions for the benefit of the council?	
5. Does the council have the right to veto key changes to the ALEO, such as the sale of a major asset or of the ALEO as a whole?	
6. Does the council have the practical ability to direct the relevant activities of the ALEO unilaterally?	
<p>7. Are there other indications that may indicate power including:</p> <ul style="list-style-type: none"> • the council funding a significant portion of the ALEO's operations • the council guaranteeing a significant portion of the ALEO's obligations • a significant portion of the ALEO's activities involve or are conducted on behalf of the council? 	

Technical Guidance Note 2024/8(LG) – Module 6

Guidance on misstatements in group financial statements
in 2024/25

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Technical Guidance Note 2024/8(LG)

Module 7

Guidance on misstatements in leases and similar
arrangements in 2024/25



 AUDIT SCOTLAND

Prepared by Innovation and Quality for auditors in the local government sector

January 2025

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Accessibility

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

Introduction

Purpose and use of this module

1. This module of TGN 2024/8(LG) provides guidance on leases accounted for in accordance with IFRS 16 Leases and service concession arrangements as adapted by the 2024/25 [Code of Practice on Local Authority Accounting in the UK](#) (accounting code).

Changes in guidance in 2024/25

2. The adoption of IFRS 16 is mandatory from 2024/25. The implementation of IFRS 16 for leases in 2024/25, also applies to service concession arrangements. The guidance previously included in Module 7A in respect of service concession arrangements under IAS 17, which also applies under IFRS 16, is now incorporated into this module.

3. Guidance has been updated for 2024/25:

- Accounting entries for the statutory charge for the repayment of debt are not appropriate
- Information on the statutory charge for the repayment of debt is not properly disclosed
- Accounting entries for lifecycle maintenance costs are not appropriate
- Accounting entries for gains on debt restructuring are not appropriate

Consulting with I&Q

4. Auditors should consult with I&Q by completing the [enquiry form](#) and then sending an email to TechnicalQueries@audit-scotland.gov.uk

7.1: Lease identification

A lease is a contract that conveys the right to use an asset for a period of time

Leases are not complete or do not exist

5. A contract is an agreement that creates enforceable rights and obligations. A lease is defined by the accounting code as a contract if it conveys the right to control the use of an identified asset (the underlying asset) for a period of time.

6. Control means having the right to obtain substantially all of the economic benefits and service potential from the underlying asset throughout the period of use. Paragraphs B9 to B31 of IFRS 16 provide guidance in the assessment of control.

7. It should be noted that:

- The accounting code adapts the definition of a lease in IFRS 16 to remove the need for 'consideration'. This means that leases include those agreements that do not include the provision of consideration (referred to as nil consideration leases).
- A local government body is required to assess whether a contract meets the definition of a lease at inception of a contract (i.e. the earlier of the date of a lease agreement and the date of commitment by the parties to the principal terms and conditions of the lease).
- Reassessment of the right to control use is required only where the terms and conditions of the contract are changed.
- A body should not reassess control on transition to IFRS 16 at 1 April 2024, except in relation to leases for nil consideration. Instead, the body is required to apply IFRS 16 only to contracts that were previously identified as leases under IAS 17 and related standards.
- Each lease component within a contract should generally be accounted for as a lease separately from any non-lease components.

8. In a lease, a local government body may be either:

- the lessor, if it conveys the right to use the asset to another entity (section 4.2)
- the lessee, where the right to use the asset is conveyed to the local government body (section 4.2).

7.2: Body as lessor

A local government body as lessor is required to classify a lease as either a finance lease or an operating lease. The accounting treatment of each classification is different.

Leases are not properly classified

9. Where a local government body is the lessor, it is required to classify a lease at its inception as either a finance lease or an operating lease. The difference is that a finance lease transfers substantially all the risks and rewards incidental to ownership of an asset (auditors may find the checklist in the appendix to this module helpful). Classification depends on the substance of the transaction, rather than the form of the contract. Section 4.2 of the [accounting code](#) provides the following guidance:

- Paragraph 4.2.2.71 provides examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease.
- Paragraph 4.2.2.72 gives indicators of situations that could also lead to a lease being classified as a finance lease.

10. Paragraph 65 of IFRS 16 advises that the above examples and indicators are not always conclusive, and the lease should be classified as an operating lease if it is clear that the lease does not transfer substantially all risks and rewards incidental to ownership.

11. The land and buildings elements of a lease should be considered separately for the purposes of lease classification. The land element is normally classified as an operating lease unless title is expected to pass to the lessee by the end of the lease term.

12. The classification of a lease should only be reassessed if there is a lease modification (i.e. a change in the scope of the lease that was not part of the original terms). Changes in estimates (e.g., in respect of the economic life or the residual value of the leased property) or changes in circumstances (e.g. default by the lessee) should not result in reclassification.

13. When classifying a sublease, if the local government body (as intermediate lessee) has accounted for the head lease as a short-term lease, it should (as intermediate lessor) classify the sublease as an operating lease. Where the head lease is not accounted for as a short-term lease, the body should classify the sublease by reference to the right to use the asset arising from the head lease.

14. On transition to IFRS 16 on 1 April 2024, a local government body as intermediate lessor is required by paragraph 4.2.2.108 of the accounting code to:

- reassess subleases that were classified as operating leases applying IAS 17 that are ongoing at 1 April 2024 to determine whether each sublease should be classified as an operating lease or a finance lease applying IFRS 16. The assessment should be on the basis of the remaining contractual terms and conditions
- for subleases that were classified as operating leases applying IAS 17 but finance leases applying IFRS 16, account for the sublease as a new finance lease entered into at 1 April 2024.

Accounting entries for finance leases are not appropriate

15. Accounting requirements where the local government body is the lessor in a finance lease are set out at paragraphs 4.2.2.75 to 4.2.2.81 of the accounting code. For finance leases at 31 March 2025 :

- the assets should have been recognised as a receivable at an amount equal to the net investment in the lease (i.e., the lease payments receivable by the body as lessor plus any unguaranteed residual value of the underlying asset discounted at the interest rate implicit in the lease)
- the lease payments included in the measurement of the net investment in the lease should comprise the payments for the lessee's right to use the underlying asset (less any lease incentives payable) during the lease term that are not received at the commencement date listed at paragraph 4.2.2.77 of the accounting code
- lifetime expected credit losses on the lease receivables should have been recognised where appropriate (explained in Module 3)
- the lease payment receivable should have been treated as repayment of principal and finance income
- the finance income should have been calculated so as to produce a constant periodic rate of return on the net investment
- a lease modification should have been accounted for as a separate lease if it adds the right to use one or more underlying assets and the consideration for the lease increases by an amount commensurate with the stand-alone price
- in the case of a sublease, if the interest rate implicit in the sublease cannot be readily determined, the body as intermediate lessor should have used the discount rate used for the head lease (adjusted for any initial direct costs associated with the sublease) to measure the net investment in the sublease.

16. On transition to IFRS 16 on 1 April 2024, where a body is lessor in a nil consideration lease, paragraph 4.2.2.109 of the accounting code requires:

- the underlying asset being provided to the third party to be derecognised
- any unguaranteed residual value to be recognised
- comparative information to not be restated
- the effect to be recognised as an adjustment to the opening balance of reserves at 1 April 2024.

Accounting entries for operating leases are not appropriate

17. Accounting requirements where the local government body is the lessor in an operating lease are set out at paragraphs 4.2.2.82 to 4.2.2.85 of the accounting code. For operating leases at 31 March 2025:

- the assets should be properly presented in the Balance Sheet
- costs incurred in earning the lease income should have been recognised in the CIES
- the depreciation policy for the underlying asset should be consistent with the depreciation policy for similar assets, and depreciation should have been accounted for in the same way
- income should have been recognised on a straight-line basis over the lease term, or another systematic basis that is more representative of the pattern in which the benefit from the use of the underlying asset is diminished
- initial direct costs incurred in obtaining an operating lease should have been added to the carrying amount of the underlying asset and recognised as an expense over the lease term on the same basis as the lease income.

Sale and lease back transactions where the body is buyer/lessor are not complete

18. A sale and leaseback transaction involves another entity (seller/lessee) transferring an asset to the local government body (buyer/lessor) and then leasing it back.

19. A body should have identified all sale and leaseback transactions where it is the buyer/lessor during 2024/25.

Accounting entries for sale and lease back transactions where the body is buyer/lessor are not appropriate

20. The appropriate accounting treatment for sale and lease back transactions depends on whether the asset transfer satisfies the requirements of IFRS 15 to be treated as a sale. The options are summarised in the following table:

Action	Sale	Not a sale
Transfer	Recognise purchase of asset	No recognition of asset
Leaseback	Account for as a lease	Recognise a financial asset equal to transfer proceeds

21. If the fair value of the consideration for the sale of an asset does not equal the fair value of the asset, or if the payments for the lease are not at market rates, paragraph 4.2.2.89 of the accounting code requires the adjustments set out in the following table to measure the sale proceeds at fair value:

Market terms	Account for as
Below	Prepayment of lease payments
Above	Additional financing provided by the buyer/lessor

Information on leases where the body is lessor is not properly disclosed

22. The disclosure requirements where the local government body is the lessor in a lease are set out at paragraphs 4.2.4.12 to 4.2.4.20 of the accounting code. They are summarised in the following table:

Finance	Operating
The gain or loss on derecognition of the asset; finance income on the net investment in the lease; and income relating to variable lease payments not included in the measurement of the net investment in the lease.	Lease income, separately disclosing income relating to variable lease payments that do not depend on an index or a rate.
Qualitative and quantitative explanation of the significant changes in the carrying amount of the net investment in finance leases.	For items of property, plant and equipment, the disclosure requirements of section 4.1 of the accounting code, except in relation to housing tenancy arrangements.
A reconciliation of the undiscounted lease payments to the net investment in the lease.	
Maturity analysis of the lease payments receivable, showing the undiscounted lease payments to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years.	
Additional qualitative and quantitative information about leasing activities necessary for users to assess the effect that leases have on the financial position, financial performance and cash flows of the body.	

7.3: Body as lessee

Where a local government body is lessee, there is no distinction between finance leases and operating leases. Lessees are required to recognise a right-of-use asset and any lease liability.

Right-of-use assets are not properly measured

23. A right-of-use asset represents a lessee's right to use the underlying asset for the lease term. Measurement requirements are set out at paragraphs 4.2.2.45 to 4.2.2.48 and 4.2.2.52 to 4.2.2.55 of the [accounting code](#) and are summarised in the following table:

Measurement	Requirement
Initial measurement – commercial terms	<p>At cost, i.e:</p> <ul style="list-style-type: none"> the amount of the initial measurement of the lease liability any lease payments made at or before the commencement date (less any lease incentives received) any initial direct costs incurred by the lessee an estimate of dismantling, removal and restoration costs.
Initial measurement – peppercorn or for nominal lease payments, or for nil consideration	Cost measured at fair value.
Subsequent measurement	<p>Current value in accordance with section 4.1 of the accounting code (explained in Module 1).</p> <p>As a practical expedient, the cost model (explained below this table) can be used as a proxy for current value where appropriate.</p>
Depreciation	<p>Depreciation should be charged from the commencement date of the lease until either the:</p> <ul style="list-style-type: none"> end of the useful life of the underlying asset (if the lease transfers ownership); or earlier of (i) the end of the useful life of the right-of-use asset or (ii) the end of the lease term (if the lease does not transfer ownership).

24. Paragraph 4.2.2.52 b) of the accounting code explains the cost model that can be used as a proxy for current value. The cost model means adjusting the cost of the right-of-use asset at initial measurement for any:

- accumulated depreciation and impairment losses
- remeasurement of the lease liability
- changes in the estimated costs of dismantling, removal or restoration.

25. The cost model is not anticipated to be an appropriate proxy for current value where:

- a longer-term lease has no provisions to update lease payments for market conditions (such as rent reviews), or there is a significant period of time between those updates
- the fair value or current value in existing use of the underlying asset is likely to fluctuate significantly due to changes in market prices (e.g. property assets).

26. There are two exemptions to the measurement and presentation requirements, one of which is optional. Lease payments associated with leases that meet the exemption definitions should be recognised as an expense. The exemptions are summarised in the following table:

Code ref	Exemption	Definition	Scope
4.2.2.32	Short term lease (required)	A lease that, at the commencement date, has a lease term of 12 months or less, unless it contains a purchase option.	Measurement of right-of-use asset and lease liability, and presentation requirements.
4.2.2.33	Low value (optional)	The underlying asset is of low value when new. Guidance on making the assessment is provided by the accounting code.	

Lease liability is not properly measured

27. The lease liability is the obligation to make lease payments over the lease term. Measurement requirements are set out at paragraphs 4.2.2.49 to 4.2.2.51 and 4.2.2.56 to 4.2.2.61 of the accounting code. The requirements are summarised in the following table:

Measurement	Requirement
Initial measurement – commercial terms	The present value of outstanding lease payments discounted using the implicit interest rate. The payments are listed at paragraph 4.2.2.50.
Initial measurement – peppercorn or for nominal lease	As above, but the difference between the fair value of the right-of-use asset and the lease liability is recognised in the surplus or deficit

Measurement	Requirement
payments, or for nil consideration	on the provision of services (and transferred to the Capital Adjustment Account).
Subsequent measurement	<p>The carrying amount of the lease liability is:</p> <ul style="list-style-type: none"> increased to reflect interest reduced to reflect the lease payments made remeasured for any reassessment or lease modifications or to reflect revised in-substance fixed lease payment (see below this table for more information on these items).

28. Paragraphs 4.2.2.59 to 4.2.2.61 of the accounting code require the lease liability to be remeasured where there is a change in:

- the lease payments or the lease term
- the assessment of the option to purchase the underlying asset
- the amounts expected to be payable under a residual value guarantee
- future lease payments resulting from a change in an index or a rate used to determine those payments.

29. For a lease modification that is not accounted for as a separate lease:

- paragraph 4.2.2.63 requires the body as lessee (at the effective date of the lease modification) to remeasure the lease liability by discounting the revised lease payments using the interest rate implicit in the lease for the remainder of the lease term (or the lessee's incremental borrowing rate if the implicit rate cannot be readily determined)
- paragraph 4.2.2.64 requires the body to account for the remeasurement of the lease liability by:
 - decreasing the carrying amount of the right-of-use asset to reflect the lease modifications that decrease the scope of the lease
 - making a corresponding adjustment to the right-of-use asset for all other lease modifications.

30. Paragraph B42 of IFRS 16 explains that in-substance fixed lease payments are payments that contain variability but in reality are fixed.

Accounting entries for the statutory charge for the repayment of debt are not appropriate

31. [Finance Circular 7/2023](#) contains statutory guidance which replaced [Finance Circular 10/2022](#) from 1 April 2024. It provides bodies with the option to:

- continue to use the statutory adjustments originally set out in Finance Circular 4/2010, continued in Finance Circular 10/2022, and reported in the Movement in Reserves Statement (MiRS); or
- follow the accounting code and eliminate all statutory adjustments.

32. The accounting treatment in the Balance Sheet, CIES and, if there are statutory adjustments, the MiRS is summarised in the following table:

Balance sheet	CIES	MiRS
Right-of-use asset	Depreciation charge for year	Depreciation removed from General Fund
Reduction in outstanding liability	Finance charge for year	Statutory charge for the repayment of debt
Impairment and gains or losses on revaluation (through Revaluation Reserve)	Impairment and gains or losses on revaluation (not through Revaluation Reserve)	Impairment and gains or losses on revaluation removed from General Fund

33. Where the body opts to continue to have statutory adjustments:

- the statutory charge for the repayment of debt in the MiRS should be equal to the annual lease charge after deducting the amounts charged to the CIES for finance charge (in accordance with paragraphs 32 to 33 of Finance Circular 7/2023)
- depreciation, impairment, and revaluation movements in the CIES should be transferred to the Capital Adjustment Account and reported in the MiRS.

34. Key aspects of the guidance in section 1 of Finance Circular 7/2023 which apply where the body opts to no longer apply any statutory adjustments are summarised in the following table:

Aspect	Summary of guidance
Application	The option has retrospective application. All statutory charges should be reversed, such that only the entries required by the accounting code remain.
Cumulative statutory adjustment	The cumulative financial effect of all the reversals should be a statutory adjustment to the General Fund on 1 April 2024. There is no prior year restatement of statutory adjustments.
Applicable arrangements	The option applies to all leases with the exception of those with fewer than 5 years until completion.

Aspect	Summary of guidance
	Once this option is taken, it should not be reversed in subsequent years.

Sale and lease back transactions where the body is seller/lessee are not complete

35. A sale and leaseback transaction involves the local government body (seller/lessee) transferring an asset to another entity (buyer/lessor) and then leasing it back.

36. The body should have identified all sale and leaseback transactions where it is the seller/lessee during 2024/25.

Accounting entries for sale and lease back transactions where the body is seller/lessee are not appropriate

37. The appropriate accounting treatment depends on whether the asset transfer satisfies the requirements of IFRS 15 to be treated as a sale. The options are summarised in the following table:

Action	Sale	Not a sale
Transfer	Derecognise asset	Continue to recognise transferred asset
Leaseback	Recognise the amount of any gain or loss that relates to the rights transferred to the buyer-lessor	Recognise a financial liability equal to transfer proceeds

38. If the fair value of the consideration for the sale of an asset does not equal the fair value of the asset, or if the payments for the lease are not at market rates, paragraph 4.2.2.89 of the accounting code requires the adjustments set out in the following table to measure the sale proceeds at fair value:

Market terms	Account for as
Below	Prepayment of lease payments
Above	Additional financing provided by the buyer/lessor

Leases are not properly accounted for on transition

39. On transition to IFRS 16 at 1 April 2024, a local government body as lessee is required to apply IFRS 16 to its leases retrospectively with the cumulative effect of initial application recognised at that date. The body should:

- not restate comparative information

- recognise the cumulative effect of initial application as an adjustment to the opening balance of reserves.

40. The following table summarises the treatment at initial application on 1 April 2024 of leases at nil consideration and leases previously classified as

	Nil consideration	Operating lease
Right-of-use asset	Recognise at fair value. Where fair value cannot be obtained at a commensurate cost, current value should be used as a proxy.	Recognise at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments on 31 March 2024.
Lease liability	No liability due to nil consideration. Gain on transition should be recognised as a donated asset as an adjustment to opening balances.	Recognise a lease liability at the present value of the remaining lease payments, discounted using the body's incremental borrowing rate at 1 April 2024.
Impairment	Carry out an impairment assessment, unless the body applies the practical expedient at paragraph 4.2.2.100 of the accounting code. This expedient allows the body to rely on any assessment of whether leases are onerous under IAS 37 carried out on 31 March 2024 as an alternative to performing an impairment review. The body is required to adjust the right-of-use asset by the amount of any such provision.	
Exemptions	Apply the low value and short lease exemptions. The short lease exemption applies to any leases for which the lease term ends by 31 March 2025. The body should include the cost associated with those leases within the disclosure of short-term lease expense in 2024/25.	
Practical expedients	The body may use a number of practical expedients, which may be applied on a lease-by-lease basis. The body may: <ul style="list-style-type: none"> • apply a single discount rate to a portfolio of leases with reasonably similar characteristics • use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease. 	

41. For leases that were classified as finance leases applying IAS 17, the carrying amount of the right-of-use asset and the lease liability at 1 April 2024 should be the carrying amount of the lease asset and lease liability at 31 March 2024.

Leases are not properly presented in the Balance Sheet

42. Paragraph 4.2.2.65 of the accounting code sets out the requirements for presenting leases in the Balance Sheet (or disclosed in notes). They are summarised in the following table:

Item	Balance Sheet	Notes
Right-of-use asset	Either present: <ul style="list-style-type: none"> separately from other assets; or include within the same line item if they were owned; or within the investment property line item, where applicable. 	If not presented separately, disclose the line items in the Balance Sheet that includes the right-of-use assets.
Lease liabilities	Present separately from other liabilities.	If not presented separately, disclose the line items in the Balance Sheet that includes the lease liabilities.

Information on leases where the body is the lessee is not properly disclosed

43. The disclosure requirements where the local government body is the lessee in a lease are set out at paragraphs 4.2.4.2 to 4.2.4.11 of the accounting code. Information to be disclosed includes the following:

- Certain items are listed at paragraph 4.2.4.4 which required to be disclosed in a table (unless another format is more appropriate). These include the expense relating to leases of low-value assets, but this should exclude short-term leases.
- A maturity analysis of lease liabilities separately from the maturity analyses of other financial liabilities.
- Additional qualitative and quantitative information about leasing activities necessary for users to assess the effect that leases have on the financial position, financial performance and cash flows of the body.
- The fact that the leases of low-value assets exemption has been applied, where appropriate.

44. Paragraph 26 of Finance Circular 7/2023 requires an explanation to be disclosed of the impact on the balances reported within the annual accounts when a body decides to no longer apply statutory adjustments.

45. Paragraph 4.2.2.105 of the accounting code sets out disclosure requirements for lessees related to initial application on 1 April 2024. These include:

- a description of the transitional provisions
- the weighted average incremental borrowing rate applied to lease liabilities at 1 April 2024
- an explanation of any difference between:

- operating lease commitments at 31 March 2024, discounted using the incremental borrowing rate at 1 April 2024
- lease liabilities recognised at 1 April 2024
- the practical expedients applied.

7.4: Service concession arrangements

A service concession arrangement involves a private sector operator using an asset to provide a public service and being paid over the period of the arrangement.

Service concession arrangements are not complete or do not exist

46. In a service concession arrangement, the local government body controls:

- the public services the private sector operator must provide, the service recipients, the price levied, and location
- any significant residual interest in the asset at the end of the arrangement.

47. Public private partnership (PPP) and private finance initiative (PFI) contracts are generally service concession arrangements, but some contracts that were not planned as PFI/PPP arrangements could also meet the 'controls' criteria.

48. Other features of typical service concession arrangements are:

- the operator is responsible for at least some of the management of the service concession assets and related services and does not merely act as an agent of the body
- the contract sets initial prices levied by the operator and regulates price revisions over the period
- the operator is obliged to hand over the service concession asset to the body in a specified condition at the end of the period for little incremental consideration.

49. Arrangements that will not be service concessions include:

- a contract solely to construct a property for a local government body
- a lease of a property where the only services provided by the lessor are directly related to the property itself (e.g., repairs and maintenance) and where the amounts paid are not usually abated for failure to carry out these services

- arrangements to outsource the operation of internal services (such as catering, building maintenance and finance) that have no specifications relating to a particular asset.

50. The body should have identified all its service concession arrangements during 2024/25.

Service concession assets are not complete

51. The asset is usually constructed or developed by the operator but may also be an upgrade to an existing asset of the body. Examples of service concession assets include roads, street lighting, schools, and telecommunications networks. They also include assets for the direct use of a body which contribute to the provision of services to the public, e.g., office and administrative buildings.

52. The recognition criteria for the service concession asset (which is the same as for other property, plant and equipment explained in Module 1) may be met during the construction or development period.

Accounting entries for service concession assets are not appropriate

53. Service concession assets should be depreciated, revalued and reviewed for impairment in the same way as other property, plant and equipment.

54. Bodies should have:

- initially recognised a service concession asset constructed or developed by the operator at fair value (or an existing local government asset has been reclassified and the upgrade costs recognised at fair value)
- agreed fair value to the element of the payments paid to the operator for the asset in accordance with the contract (or where not separable, the estimate of fair value is reasonable)
- subsequently revalued the asset to current value
- treated depreciation, impairment and gains or losses on revaluation in the same way as other property, plant and equipment.

Service concession liabilities are not properly measured

55. Where a local government body recognises a service concession asset constructed or developed by the operator, paragraph 4.3.2.16 of the [accounting code](#) requires bodies to recognise a liability initially measured at the same amount as the asset but adjusted by the amount of any other consideration, e.g., cash.

56. Under IFRS 16, where indexation or changes in a rate affect future payments, the lease liability requires to be remeasured. The remeasurement reflects only indexation or rate changes which have already occurred and result in a change to the payment amount. It does not encompass anticipated movements or other undetermined changes.

57. The initial remeasurement and subsequent remeasurement of the liability are summarised in the following table:

Measurement	Adjustment
At 1 April 2024	<p>An opening balance adjustment at 1 April 2024 to account for cumulative indexation changes to the payments for the capital element since the service concession arrangement commenced.</p> <p>Liabilities should be discounted using an appropriate rate, consistent with the rate determined at the inception of the arrangement. However, if a nominal rate was used under IAS 17, then a real rate should now be used to match the real cash flows included in the liability.</p>
Subsequent	<p>A subsequent remeasurement of the liability will be required when there is a change in cash flows as a result of an indexation-linked change (i.e. when the adjustment to lease payments take affect).</p> <p>The liability should not include estimated future indexation linked increases</p>

58. The service element included in the unitary charge continues to be expensed as incurred over the lifetime of the PPP arrangement.

59. Where a PPP arrangement has an indexation floor the size of the impact of the change discussed above will depend on how this 'indexation floor' has been treated in assessing PPP liabilities to date.

Accounting entries for the unitary charge are not appropriate

60. The payment made to the operator is known as the unitary charge. The accounting code (section 4.3) requires local government bodies to account for the unitary charge in accordance with an adaptation of IFRIC 12 Service Concession Arrangements used in the central government sector.

61. The treatment of the unitary charge depends on whether the contract terms can be separated between the service element and the construction element. This is explained at paragraphs 4.3.2.13 to 4.3.2.15 of the accounting code and is summarised in the following table:

Separable	Not separable
Separate into the: <ul style="list-style-type: none"> • service element which is charged to the CIES as incurred; and • construction element which should be analysed between the repayment of the liability (reflected in the Balance Sheet) and an interest element (charged to the CIES) in accordance with the requirements for a finance lease. 	Divide the unitary payment into: <ul style="list-style-type: none"> • an estimate of the service element charged to the CIES • an interest element determined using the rate implicit in the contract (or if that is not available, the cost of capital rate) charged to the CIES • the repayment of the liability reflected in the Balance Sheet

Accounting entries for the statutory charge for the repayment of debt are not appropriate

62. [Finance Circular 7/2023](#) contains statutory guidance which replaced Finance Circular 10/2022 from 1 April 2024. It provides bodies with the options summarised in the following table:

Option	Summary of guidance
Eliminate statutory adjustments	<p>The option has retrospective application.</p> <p>All statutory charges should be reversed, such that only the accounting entries required by the accounting code will remain.</p> <p>The cumulative financial effect of all the reversals should be a statutory adjustment to the General Fund on 1 April 2024 for those bodies adopting the option in 2024/25.</p> <p>There is no prior year restatement of statutory adjustments in the annual accounts.</p> <p>The option applies to all arrangements with the exception of those with fewer than 5 years until completion.</p> <p>Once this approach is taken, it should not then be reversed in subsequent years.</p>
Continue to apply the statutory charge for the repayment of debt originally set out in Finance Circular 10/2022	<p>The statutory charge is made to the General Fund each year over the contract period.</p> <p>The statutory charge requires to be equal to the unitary payment after deducting depreciation, impairment losses, and the elements of the unitary payment charged to the CIES.</p> <p>The credit is to the Capital Adjustment Account.</p>

63. Finance Circular 10/2022 included a temporary flexibility which permitted a local authority to recognise the principal repayments for a service concession arrangement over the asset life rather than contractual term. The flexibility is not reflected in the revised statutory guidance in Finance Circular 7/2023, but

Finance Circular 10/2022 continues to apply where the flexibility was exercised on an arrangement.

64. Finance Circular 10/22 provided a temporary flexibility for service concession arrangements entered into prior to 1 April 2022. It permitted the annual charge for the repayment of debt to be calculated:

- in accordance with the useful life of the asset
- using either equal instalments of principal or the annuity method

65. Key aspects of the flexibility related to this option if it was chosen are explained in the following table:

Aspect	Aspects of flexibility
Applicable years	The flexibility may have either prospective or retrospective application.
Cumulative statutory adjustment	<p>The cumulative statutory adjustment is from the Capital Adjustment Account to the General Fund and is made as at 1 April 2023 if applied in 2023/24.</p> <p>There is no prior year restatement of statutory adjustments in the annual accounts.</p> <p>The service concession arrangement liability will continue to be written down by the contractual principal repayments.</p>
Applicable arrangements	<p>The flexibility must be applied consistently to all service concession arrangements entered into prior to 1 April 2022 with the exception of agreements with fewer than 5 years until completion provided the annual charge is not materially different.</p> <p>A council should separately identify the value of each service concession arrangement. If not, the asset and liability must be restated at market values.</p>
Governance	The decision to apply the flexibility must be approved by the full Council.

66. With the exception of those service concession arrangements to which the flexibility was applied in either 2022/23 or 2023/24, from 1 April 2024 the annual statutory charge (the statutory repayment of debt) to the General Fund for all existing and new service concession arrangements, leases and similar arrangements must reflect the principal element of the contractual repayments and must be charged to the General Fund over the term of the contract.

Information on the statutory charge for the repayment of debt is not properly disclosed

67. Where a local government body chooses the option to eliminate statutory adjustments, paragraph 26 of Finance Circular 7/2023 requires an explanation

to be disclosed of the basis for the accounting policy change and the impact on the balances reported within the annual accounts.

Accounting entries for lifecycle maintenance costs are not appropriate

68. Lifecycle maintenance costs are an estimate of the expenditure to be incurred on maintaining an asset over the course of its useful life. Most lifecycle maintenance costs are revenue in nature, in which case they should be charged to the CIES and General Fund as incurred.

69. However, an element of the lifecycle maintenance costs may be of a capital nature, e.g. where the operator replaces components of an asset as they wear out. The statutory guidance issued with Finance Circular 7/2023 requires a statutory charge to the General Fund for lifecycle maintenance costs of a capital nature. The statutory charge depends on a number of factors and auditors should refer to paragraphs 21 to 24 of Finance Circular 7/2023 for the detail.

Accounting entries for existing assets used in part payment are not appropriate

70. A local government body may provide the operator with access to existing assets (that are not to be used in the service concession arrangement) in exchange for reduced or eliminated payments. The accounting treatment depends on whether the transfer is permanent as explained in the following table:

Permanent transfer or finance lease	Other arrangements
Derecognise the asset	Account for arrangement as an operating lease
Recognise the reduction in the liability in the Balance Sheet (and any other consideration received)	
Recognise any difference between the carrying amount and the total consideration in the SDPS	

Accounting entries for prepayments are not appropriate

71. Service concession arrangements may have been structured to require payments to be made before the related service concession asset was recognised on the Balance Sheet. Bodies should have:

- recognised any such payments as prepayments
- applied the payments to reduce the outstanding liability.

72. Any prepayments should be taken into account when estimating the fair value of the asset and liability and the separation of payments into the liability, interest and service charge elements.

Accounting entries for gains on debt restructuring are not appropriate

73. Service concession arrangements may include clauses that transfer some of the savings arising from the restructuring of the operator's debt to the local government body, and some bodies recognise this as an immediate gain.

74. Where there are outstanding premium balances on the Financial Instruments Adjustment Account (explained at module 3), in accordance with paragraphs 36 to 38 of Finance Circular 7/2023, the gain (up to the amount of the premium balance) should have been:

- transferred (debit) from the General Fund to the Financial Instruments Adjustment Account (credit)
- released back to the General Fund over the contract period
- disclosed in the analysis of statutory adjustments in the MiRS.

Accounting entries for operator rights to third party revenues are not appropriate

75. In some arrangements, the operator has a right to third party revenues. The accounting code does not specify the treatment of this right. However, I&Q considers that recognition of a liability, representing the obligation to forego any claim to such income, would be consistent with the accounting code's general requirements. This would require a reasonable estimate of the income to be made.

Appendix 1 Indicators of finance lease

Indicators	Yes/No/N/A
<p>1. Does the lease transfer ownership of the underlying asset to the lessee by the end of the lease term?</p> <p>[Note: Generally land will be an operating lease but in this situation it would be classified as a finance lease.]</p>	
<p>2. Does the lessee have the option to purchase the underlying asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain that, at the inception date, that the option will be exercised?</p>	
<p>3. Is the lease term for the major part of the economic life of the underlying asset?</p> <p>[Note: This is relevant even if title is not transferred.]</p>	
<p>4. Does the present value of the lease payments at the inception date amount to at least substantially all of the fair value of the underlying asset?</p> <p>[Note: The accounting code confirms that this indicator does not apply to leases on non-commercial terms, i.e., those with nominal or at peppercorn rents, or for nil consideration.]</p>	
<p>5. Is the leased property of such a specialised nature that only the lessee can use it without major modification?</p>	
<p>6. Would the lessor's losses associated with the cancellation of the lease by the lessee be borne by the lessee?</p>	
<p>7. Do gains or losses from the fluctuation in the fair value of the residual accrue to the lessee?</p>	
<p>8. Does the lessee have the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent?</p>	

Technical Guidance Note 2024/8(LG) Module 7

Guidance on misstatements in leases and similar arrangements in 2024/25

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Technical Guidance Note 2024/8(LG)

Module 8

Guidance on misstatements in grants and other
income in 2024/25



 AUDIT SCOTLAND

Prepared by Innovation and Quality for auditors in the local government sector

January 2025

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Accessibility

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

Module 8 introduction

Purpose and use of this module

1. This module of TGN 2024/8(LG) provides guidance on potential misstatements in the following aspects of grants and other income:

- grants and contributions (section 1).
- income from contracts with service recipients (section 2).
- income from non-exchange transactions (section 3).

2. Other sources of local government income are covered in other modules as follows:

- Income from the disposal of property, plant and equipment (Module 1.5)
- Income from financial assets (Module 3.3)
- Local taxation (Module 9.9)
- Bequests and donations (Module 14.7).

Change in guidance in 2024/25

3. The guidance on accounting entries for capital grants and contributions are not appropriate has been updated.

Consulting with I&Q

4. Auditors should consult I&Q by completing the [enquiry form](#) and sending an email to TechnicalQueries@audit-scotland.gov.uk

8.1: Grants and contributions

Grants and contributions are assistance in the form of transfers of resources to a local government body in return for past or future compliance with certain conditions relating to the operation of activities. The accounting is based in IAS 20 but adapted for the local government context.

Grant income is not complete or did not occur

5. [Finance Circular 2/2024](#) provides information on the funding being paid to councils in 2024/25. Funding comprises General Revenue Grant, Non-Domestic Rate Income and some ring-fenced specific grants including those for Pupil Equity Funding, Early Learning and Childcare, Criminal Justice Social Work and Inter-Island Ferries. There is also General Capital Grant and some specific capital grants. Councils also receive subsidy from the Department for Work and Pensions in respect of housing benefit.

6. The [Code of Practice in Local Authority Accounting in the UK](#) (accounting code) at section 2.3 requires local government bodies to account for grants and contributions in accordance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance adapted by paragraph 2.3.1.2. The adaptations extend the scope of IAS 20 to include grants from non-government organisations and require immediate recognition rather than recognition over the period of the related expenditure.

7. Grant and other contributions received should therefore be recognised immediately as income unless any conditions that could lead to their return have not been satisfied by the year end. Where there is reasonable assurance that the body will comply with any such conditions, recognition should be in the Grants Received in Advance Account. There is no definition of what constitutes 'reasonable assurance' in the accounting code, but [CIPFA Bulletin 17](#) provided the following guidance:

- Reasonable assurance is usually in the form of a written agreement or confirmation from the grant-paying body, and any conditions will be set out in the agreement.
- The authority should recognise the grant or contribution when it is satisfied that the grant or contribution will be received, and it intends to comply with the conditions.

8. There may be cases where there is evidence that stipulated conditions in the agreement/confirmation that could lead to return will not be enforced in practice, (e.g. the [National Operational Guidance for Pupil Equity Funding](#)), in which case

I&Q considers it reasonable to treat the conditions as not applying. The various scenarios, and their impact on the recognition of the grant, are summarised in the following table:

Scenario	Impact on recognition
Conditions that require return if not complied with - satisfied by year end	Recognise as income immediately
Conditions that restrict use of grant but do not require return	Recognise as income immediately
Condition that requires return if a specified future event occurs	Recognise as income immediately [Note: a return obligation should be recognised when it is expected that the condition will be breached]
Conditions that require return if not complied with - reasonable assurance at year end they will be satisfied	Recognise in Grants Received in Advance Account
Conditions that require return if not complied with - no reasonable assurance they will be satisfied	Recognise liability at year end

9. Grants receivable in 2024/25 should have been recognised:

- as income where there are no unsatisfied conditions at 31 March 2025 that could lead to their return
- in Grants Received in Advance where there are unsatisfied conditions at 31 March 2025 that could lead to their return but there is evidence that the body is willing and able to comply with the conditions (i.e. reasonable assurance that they will be satisfied).

10. Where there is no reasonable assurance that conditions that could lead to the grant being returned are going to be met (and the grant becomes repayable), auditors should evaluate whether a liability has been recognised at 31 March 2025.

Revenue grants income is not properly presented

11. Where recognised as income, revenue grants should be presented in the CIES as follows:

- General Revenue Grant and Non-domestic Rates income in Taxation and Non-specific Grant Income.
- Ring-fenced specific grants in the relevant service line.

Accounting entries for capital grants and contributions are not appropriate

12. Paragraph 2.3.1.2 of the accounting code removes the option under IAS 20 of deducting capital grant from the carrying amount of the asset. Grants and other contributions relating to capital expenditure should be treated in the same manner as revenue grants in respect of recognition. They should therefore be recognised immediately as income rather than credited to a deferred income account and released to match depreciation.

13. [Finance Circular 9/2024](#) provides statutory guidance on a temporary amendment to [Finance Circular 3/2018](#) on accounting for capital grants and contributions that have been recognised in the CIES. The guidance distinguishes between a capital grant used to fund:

- the body's capital expenditure
- a third party's capital expenditure.

14. The appropriate presentation in the CIES and entries for statutory adjustments for each use of the grant, including where it is unused by the year end and the conditions allow it to be carried forward, are summarised in the following table:

CIES presentation/statutory adjustment	Used to fund body's capital expenditure	Used to fund third party's capital expenditure	Unused by year end
CIES presentation (grant received in 2024/25)	Credit to Taxation and Non-specific Grant Income line	Credit grant received to service income Debit grant paid to service expenditure	Credit to Taxation and Non-specific Grant Income line
CIES presentation (grant received in previous year used in 2024/25)	N/A	Debit grant paid to service expenditure	N/A
Statutory adjustment (grant received in 2024/25)	Debit General Fund Credit Capital Adjustment Account	N/A	Debit General Fund Credit Capital Grants (and Receipts) Unapplied Account
Statutory adjustment (grant received in previous year used in 2024/25)	Debit Capital Grants (and Receipts) Unapplied Account Credit Capital Adjustment Account	Debit Capital Grants (and Receipts) Unapplied Account Credit General Fund	N/A

15. [Finance Circular 9/2024](#) temporarily adapts the statutory guidance in Finance Circular 3/2018 for 2024/25 to permit local authorities to replace reserves held for capital investment purposes with £53 million of unspent 2024/25 General Capital Grant to allow those reserves to be used to fund the 2024/25 local government pay award.

16. The flexibility allows local authorities to transfer the capital grant to the Capital Fund rather than the Capital Adjustment Account in order that it may be used to repay the principal of loans fund repayments for both General Fund and HRA loan repayments. The statutory guidance provides the consent of the Scottish Ministers required for the HRA loan repayments.

17. The flexibilities and the required accounting treatment are summarised in the following table:

Use of grant	Accounting
Fund loans fund repayments	The statutory repayment of debt must be charged (debited) to the General Fund and credited to the Capital Adjustment Account. A separate transaction is then required to transfer (debit) the capital grant from the Capital Fund and to transfer (credit) it to the General Fund or HRA.
Fund capital investment in the housing capital programme	<p>The capital grant may replace housing Capital Financed from Current Revenue (CFCR) or other revenue reserves which will generate a surplus on the Housing Revenue Account which may be released to the General Fund for use towards the pay award.</p> <p>Once the grant is utilised during 2024/25, it should be transferred from the General Fund to the Capital Adjustment Account. (debit General Fund, credit Capital Adjustment Account)</p>

18. The terms and conditions of the general capital grant for 2024/25 require it to be utilised by 31 March 2025 or returned to the Scottish Government, i.e. unutilised grant may not be retained within the General Fund or transferred to the Capital Grants Unapplied Account for future use

8.2: Income from contracts with service recipients

Income received for goods or services under a contract is accounted for in accordance with IFRS 15.

Income from contracts with service recipients is not complete or did not occur

19. The [accounting code](#) (section 2.7) requires local government bodies to recognise income from contracts with service recipients in accordance with IFRS 15. The accounting code contains the following key definitions:

Term	Definition
Contract	An agreement between two or more parties that creates enforceable rights and obligations. They can be written, oral or implied.
Service recipient	A party that has contracted with a local government body to obtain goods or services that are an output of the body's normal operating activities in exchange for consideration.

20. A body is required to account for a contract with a service recipient where all the criteria at paragraph 2.7.2.13 of the accounting code (summarised in the following table) are satisfied:

Criteria	Explanation
Approval and commitment	The parties have approved the contract and are committed to perform their respective obligations.
Rights	The body can identify each party's rights.
Payment terms	The body can identify the payment terms.
Commercial substance	The contract has commercial substance (i.e. the risk, timing or amount of the body's future cash flows is expected to change as a result of the contract).
Consideration	It is probable that the body will collect the expected consideration.

21. Bodies should have identified all contracts with service recipients during 2024/25 which meet all the above criteria. This may include application fees for licences, retail sales at leisure centres, homecare services etc, but excludes council tax income (explained at Module 9.9).

Income from contracts is not recognised as performance obligations are satisfied

22. A body is required to identify at the inception of the contract each promise to transfer to the service recipient a distinct good or service (i.e. each performance obligation). These include:

- performing a contractually agreed task, e.g. registration services, service charges for council dwellings, home care for older people, burial and cremation services, etc
- selling goods purchased or produced by the body
- developing an asset on behalf of a service recipient, e.g. adaptations to residents' homes for social care purposes.

23. Income should be recognised when the body satisfies each performance obligation (i.e. when the service recipient obtains control). This is straightforward when the obligations are satisfied at a point in time. However, obligations are satisfied over time if:

- the service recipient simultaneously receives and consumes the benefits as the body performs, e.g. home care service for older people
- the body's performance creates an asset that the service recipient controls as it is created.

24. For each performance obligation satisfied over time, income should be recognised by measuring the progress towards complete satisfaction of that performance obligation.

Income from contracts is not properly measured

25. When (or as) a performance obligation is satisfied, the body is required to recognise as income the amount of the transaction price (i.e. the expected consideration) that is allocated to that obligation. The body should make a reasonable estimate of any variable amount. The consideration should be adjusted for the effects of the time value of money if the period between transfer and payment is expected to be more than one year. The effects of financing should be presented in the Financing and Investment Income and Expenditure line in the CIES.

The contract is not properly reflected in the Balance Sheet.

26. The contract should be reflected in the Balance Sheet as a contract liability, asset, or receivable as explained in the following table:

Item	Explanation
Contract liability	A body's obligation to transfer goods or services for which the body has received consideration from the service recipient.
Contract asset	A body's right to consideration when that right is conditional on something other than the passage of time, e.g. the body's future performance.
Receivables	A body's right to consideration that is unconditional. This is the case where only the passage of time is required before payment is due.

Loss allowances on receivables and contract assets are not properly measured

27. A loss allowance for expected credit losses on receivables and contract assets requires to be recognised (unless the counter-party is a central or local government body). The calculation of expected credit losses is explained at Module 3, but the body may adopt a simplified approach and use lifetime expected credit losses for receivables or contract assets that either:

- do not contain a significant financing component (or the body applies the practical expedient for contracts that are one year or less); or
- contain a significant financing component but the body chooses as its accounting policy to measure the loss allowance at an amount equal to lifetime expected credit losses.

8.3: Income from non-exchange transactions

In a non-exchange transaction, a body receives value from another entity without directly giving approximately equal value in exchange.

Income from non-exchange transactions is not properly accounted for

28. The [accounting code](#) (section 2.7) requires local government bodies to recognise income from non-exchange transactions in accordance with IPSAS 23 Revenue from Non-Exchange Transactions.

29. In a non-exchange transaction, a body receives value from another entity without directly giving approximately equal value in exchange. In addition to grants (covered at section 1) and taxation (covered at Module 9.9), bodies also receive income from non-exchange transactions where there is a statutory obligation to pay. These include fines and penalties and (for joint boards) requisitions from constituent authorities which should be recognised as income at the time they are imposed.

Technical Guidance Note 2024/8(LG) – Module 8

Guidance on misstatements in grants and other income in
2024/25

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Technical Guidance Note 2024/8(LG)

Module 9

Guidance on misstatements in other financial
statement areas in 2024/25



 AUDIT SCOTLAND

Prepared by Innovation and Quality for auditors in the local government sector

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Accessibility

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

Module 9 introduction

Purpose and use of this module

1. This module of TGN 2024/8(LG) provides guidance on potential misstatements in the following financial statement areas:

- Expenditure and Funding Analysis note (section 1).
- Heritage assets (section 2).
- Fair value measurement (section 3).
- Investment property (section 4).
- Intangible assets (section 5).
- Assets held for sale (section 6).
- Cash and cash equivalents (section 7).
- Statutory income statements, i.e. the Housing Revenue Account, Council Tax Income Account, and Non-domestic Rate Account (section 8).
- Significant Trading Operations (section 9).
- Disclosures (section 10) on:
 - new accounting standards
 - related parties
 - pension fund information by administering authorities
 - nature of expenses
 - trust funds and Common Good.
 - Low Emission Zones (LEZ)

Changes in guidance in 2024/25

2. A new potential misstatement has been added on the disclosure of low emission zone (LEZ) schemes.

3. There are clarifications and changes in the guidance on the following potential misstatements:

- Council tax discounts, reductions and increases are not properly measured
- Information on new accounting standards is not disclosed

Consulting with I&Q

4. Auditors should consult I&Q by completing the [enquiry form](#) and sending an email to TechnicalQueries@audit-scotland.gov.uk.

9.1 Expenditure and funding analysis note

The Expenditure and Funding Analysis note reconciles financial performance on a funding basis in the General Fund and Housing Revenue Account with the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.

Information in the EFA is not properly disclosed

5. The [Code of Practice on Local Authority Accounting in the UK](#) (accounting code) at section 3.4 requires local government bodies to disclose an Expenditure and Funding Analysis (EFA) in the notes. The EFA reconciles the following two items:

- Financial performance on a funding basis in the General Fund and Housing Revenue Account (HRA).
- Surplus or Deficit on the Provision of Services (SDPS) in the Comprehensive Income and Expenditure Statement (CIES).

6. Paragraph 3.4.2.105 of the accounting code requires the EFA to include (at least) three columns and sets out what each column should present. The following table provides an illustration of the requirements:

	1 Net expenditure chargeable to General Fund and HRA balances	2 Adjustments between the funding and accounting basis	3 Net expenditure in the CIES
Service segments			
Net cost of services			
Other income and expenditure			
Surplus (or deficit)			

7. In summary:

- Column 1 should show the income and expenditure chargeable to the General Fund (and HRA) for 2024/25 (and 2023/24 comparatives) and there should be lines for:

- a) Net expenditure chargeable on a statutory funding basis analysed by service segments
 - b) Other income and expenditure not charged to services and chargeable to the General Fund (or HRA)
 - c) Surplus or deficit for the General Fund (and HRA).
 - d) Any transfer between the General Fund and other statutory reserves.
- Column 2 should show adjustments that (i) add expenditure or income not chargeable to council tax or rents and (ii) remove transactions which are only chargeable under statutory provisions.
 - Column 3 should show the net position, i.e. the amounts for each line in column 1 after the adjustments in Column 2. These should equal the net expenditure in the equivalent lines in the CIES. However, paragraph 3.4.2.39 of the accounting code requires some lines (lines b) to e)) to be aggregated into one line for comparison with the General Fund position.

8. Paragraph 3.4.2.39 of the accounting code requires the EFA to comply with IFRS 8 Operating Segments. [Guidance](#) from LASAAC explains that any inter-segment trading transactions reported for internal management purposes should not be included in the CIES. Bodies should therefore include such transactions in column 1, but remove them in column 2 so that they are not included in column 3 (i.e. the CIES amounts). Paragraph 3.4.2.105 of the accounting code allows additional columns to be added where necessary so a body could, for example, add a column for these adjustments if material to keep them separate from the statutory adjustments.

Service segments are not properly presented

9. Paragraphs 3.4.2.98 to 3.4.2.103 of the accounting code set out requirements for determining the service segments. The segments require to be based on the organisational structure used by the body for internal management reporting when assessing the performance of services. When determining which segments to be presented in the EFA, the following requirements apply:

- Not all segments require to be presented separately in the EFA.
- Information on a segment should be presented separately where:
 - its expenditure is 10% or more of the gross expenditure within the net cost of services; or
 - its income is 10% or more of the gross income.
- A body is permitted to present segments that do not meet the above criteria.

- Where the operating segments identified by applying the '10%' criteria do not reach in total 75% of gross expenditure, additional segments require to be presented separately until that level is reached, (i.e. aggregation of the segments not presented separately cannot be more than 25%).
- Segments, which would otherwise require separate presentation, may be aggregated (i.e. presented together) where they are similar in terms of economic characteristics, nature and type of service recipient.
- There is a practical upper limit of ten in terms of separate reporting segments.
- The factors used to identify the segments require to be disclosed.

Movements on the General Fund and HRA are not properly disclosed

10. Paragraph 3.4.2.105 of the accounting code also requires the movement (including opening and closing balances) on the General Fund and HRA to be disclosed at the foot of the EFA.

11. Bodies should have disclosed:

- the balance on the General Fund and HRA at 1 April 2024
- the surplus (or deficit) for 2024/25
- any other transfers to or from the General Fund and HRA during 2024/25
- the balance on the General Fund and HRA at 31 March 2025.

12. Bodies should have either:

- analysed the movements between the General Fund and the HRA; or
- made an appropriate cross reference to those same balances in the MiRS.

The status of the EFA is not clear

13. Paragraph 3.4.2.99 of the accounting code states that the EFA should be given due prominence in accordance with the needs of users. Some bodies present the EFA as a separate financial statement. However, paragraph 3.4.2.105 of the accounting code is clear that the EFA should be disclosed as a note.

14. The EFA should have been treated as a note in line with the expectations of the accounting code. However, it is not a misstatement if the EFA is treated as a financial statement. As a practical point, if the EFA is presented in that way, auditors should ensure they include a reference to it in the Independent Auditor's Report in the list of financial statements that have been audited.

Description of the material adjustments is not properly disclosed

15. Paragraph 3.4.2.106 of the accounting code requires a note to the EFA which describes the material adjustments in Column 2. The following table provides an indicative illustration. The adjustments are allowed to be aggregated, and the illustration aggregates the adjustments under capital, pension and other which is in line with page 378 of the accounting code guidance notes (other aggregations may be more appropriate):

Adjustments from General Fund to arrive at CIES amounts	Adjustments for capital purposes	Net change for pension adjustments	Other adjustments	Total adjustments
Service segments				
Net cost of services				
Other income and expenditure				
Difference between General Fund surplus and CIES surplus				

16. Auditors may find it helpful to refer to paragraph 3.4.2.57 of the accounting code and appendix 2 of this Technical Guidance Note's Module 5) when reviewing the main adjustments

17. In order to meet the requirement to 'describe' the material adjustments, it is expected that some supporting narrative will be required. Pages 379 to 380 of the accounting code guidance notes set out some illustrative wording but bodies will need to tailor it to their circumstances.

A description of the purpose of the EFA is not disclosed

18. Paragraph 3.4.2.104 of the accounting code requires bodies to provide a description of the purpose of the EFA, and suggests recommended wording. Although the code allows the description to be in the Management Commentary, [Finance Circular 5/2015](#) overrides this and requires it to be disclosed in the note.

Other required segmental information is not disclosed

19. Paragraph 3.4.2.107 requires an analysis by segment to be disclosed in the financial statements for any items listed at that paragraph that are reported internally to management (and are therefore included in column 1 of the EFA).

20. For the majority of local government bodies, the most likely item that this will be relevant to is income from service recipients (explained at Module 8). This is reflected in the example financial statements on page 380 of the accounting code guidance notes. There is also an example in the [Good Practice Note](#) on the EFA at Exhibit 12.

21. It is unlikely that the requirement will apply to many of the other items, but where they are reported internally the relevant disclosure would need to be made.

22. Paragraph 3.4.2.108 of the accounting code requires bodies to disclose an analysis of segment assets and/or liabilities only where they report these items internally. Where such an analysis is disclosed, bodies are also required to disclose a reconciliation of segment assets and/or liabilities to the total assets and/or liabilities included in the Balance Sheet.

9.2: Heritage assets

Heritage assets are held for their contribution to knowledge and culture.

Heritage assets are not complete

23. Heritage assets are held principally for their contribution to knowledge and culture. They include for example historical buildings, archaeological sites, scientific equipment of historical importance, civic regalia, museum and gallery collections and works of art. [Guidance](#) from LASAAC provides practical assistance.

24. Bodies should examine their property, plant and equipment in 2024/25 to identify those that are heritage assets.

Heritage assets are incorrectly classified

25. Assets which, in addition to being held for their heritage characteristics, are also used by the body for other activities or to provide other services should be classified as operational assets and accounted for as property, plant and equipment.

26. However, historical buildings held principally for their contribution to knowledge and culture within a park would be a heritage asset while the park would be classified as a community asset within property, plant and equipment.

27. Bodies should have classified all heritage assets in 2024/25 have been appropriately.

Heritage assets are not properly measured

28. The [accounting code](#) (section 4.10) requires local government bodies to account for tangible heritage assets in accordance with FRS 102 subject to an interpretation in respect of valuations. FRS 102 does not require heritage assets to be carried at a current value or fair value basis as defined in the accounting code for other assets. Instead, paragraph 4.10.1.4 of the accounting code interprets FRS 102 to specify that:

- valuations may be made by any method that is appropriate and relevant, e.g. insurance valuations may be appropriate for museum collections
- valuations need not be carried out or verified by external valuers.

29. Bodies should have appropriate arrangements for valuations, including the individuals involved. There is no prescribed minimum period between valuations. However, the accounting code requires the carrying amounts of

heritage assets carried at valuation to be reviewed with sufficient regularity to ensure they remain current. If a body uses insurance valuations, it should have:

- evidence that demonstrates that they provide an appropriate valuation basis
- a valuation that is current at 31 March 2025.

30. Where it is not practicable to obtain a valuation (e.g. because there is no market for the item and it is not possible to provide a reliable estimate of the replacement cost), the assets may be measured at historical cost (less accumulated depreciation and impairment).

Accounting entries for heritage assets are not appropriate

31. Heritage assets require to be recognised in the Balance Sheet where a body has information on the cost or value of a heritage asset (or can obtain it at a cost commensurate with the benefits). When assessing materiality, the cultural or historical significance of the item may be particularly relevant, and the assessment should not be restricted to solely the amount involved.

32. Depreciation is not required on heritage assets which have indefinite lives, but an impairment review should be carried out where an asset has suffered physical deterioration or breakage, or where new doubts arise as to its authenticity.

Information on heritage assets is not properly disclosed

33. The disclosure requirements for heritage assets are detailed at section 4.10.4 of the accounting code. Some disclosures vary depending on whether the assets are recognised in the Balance Sheet (e.g. paragraph 4.10.4.2).

9.3: Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal market at the measurement date under current market conditions.

Items measured at fair value are not complete or that basis is not appropriate

34. The [accounting code](#) (section 2.10 and other relevant sections) requires local government bodies to measure the following items in accordance with IFRS 13 Fair Value Measurement:

- surplus assets
- leases at initial recognition
- financial instruments
- investment property
- intangible assets (where there is an active market)
- assets held for sale
- debtors and creditors
- revenue recognition
- pension scheme assets.

35. Bodies should have only measured items at fair value in 2024/25 which are required (or permitted) by the accounting code.

Items at fair value are not properly measured

36. The measurement requirements for fair value are set out at paragraphs 2.10.2.18 to 2.10.2.29 of the accounting code. The code defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price). The price may be available from a market or estimated using a valuation technique.

37. The following table provides guidelines on interpreting the above definition:

Term	Explanation
Orderly transaction	This assumes the body has access to the market before the measurement date (i.e. 31 March 2025) to allow for the usual marketing activities.
Principal market	The market with the greatest volume and activity for the asset or liability.
Most advantageous market	The market that maximises the amount that would be received to sell the asset or minimises the amount that would be paid to transfer the liability.
Exit price	The price that would be received to sell an asset or paid to transfer a liability. It takes into account the body's ability to generate economic benefits by either using the asset in its highest and best use or by selling it.

38. It is assumed that buyers and sellers in the principal (or most advantageous) market for the asset or liability are:

- independent of each other, i.e. they are not related parties
- knowledgeable, and have a reasonable understanding based on all available information
- willing and able to enter into a transaction for the asset or liability.

39. Bodies should take into account the characteristics of the asset or liability that market participants would take into account when measuring fair value, e.g. the condition and location of the asset, and any restrictions on its sale or use. The exit price used should not be adjusted for transaction costs (the treatment of transaction costs varies and should be in accordance with the relevant sections of the accounting code).

40. Bodies should have measured fair value for applicable assets and liabilities using valuation techniques that are consistent with the three main approaches summarised in the following table:

Approach	Explanation
Market	Prices and other relevant information generated by market transactions involving identical or comparable (i.e. similar) assets and liabilities.
Cost	The amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).
Income	Future cash flows converted to a discounted amount.

41. Bodies should have followed the fair value hierarchy prescribed by IFRS 13 which categorises into three levels the inputs to the above valuation techniques. Inputs are the assumptions that buyers and sellers would use when pricing the asset or liability. They are summarised in the following table:

Level	Inputs	Explanation
1	Quoted prices that are observable in active markets for identical assets or liabilities	<p>This provides the most reliable evidence and auditors should evaluate whether it has been used without adjustment whenever the information is available. The emphasis is on determining:</p> <ul style="list-style-type: none"> the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market; and whether the body can enter into a transaction for the asset or liability at the price in that market at the measurement date. <p>Fair value should be measured as the product of the quoted price for the individual asset or liability and the quantity held.</p>
2	Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly	<p>Inputs include:</p> <ul style="list-style-type: none"> quoted prices for similar assets or liabilities in active markets quoted prices for identical or similar assets or liabilities in markets that are not active inputs other than quoted prices that are observable. <p>Adjustments will vary depending on factors specific to the asset or liability. Those factors include the:</p> <ul style="list-style-type: none"> condition or location of the asset extent to which inputs relate to items that are comparable volume or level of activity in the markets.
3	Unobservable inputs	<p>In the absence of observable inputs, unobservable inputs have to be used. These should reflect the assumptions that buyers and sellers would use when pricing the asset or liability. Auditors should evaluate whether the body (probably using a relevant expert) has developed unobservable inputs using the best information available in the circumstances.</p>

Information on fair value measurement is not properly disclosed

42. The disclosures required set out at section 2.10.4 of the code include:

- the required information for all relevant assets and liabilities measured at fair value
- information to help users evaluate the valuation techniques and inputs used to develop the measurements for assets and liabilities that are measured at fair value after initial recognition

- information to help users evaluate the effect of recurring fair value measurements using significant unobservable inputs (level 3) on the SDPS or Other Comprehensive Income and Expenditure for the period.

9.4: Investment property

Investment property is land or buildings held solely to earn rentals and/or for capital appreciation.

Investment properties are not complete

43. The [accounting code](#) (section 4.4) requires local government bodies to account for investment properties in accordance with IAS 40 Investment Properties subject to an interpretation at paragraph 4.4.1.2 which defines investment property as land or buildings held solely to earn rentals and/or for capital appreciation. [Finance Circular 5/2010](#) includes investment properties in the definition of investments (explained at Module 3).

44. Bodies should have:

- reviewed their land and buildings at 31 March 2025 to identify those that are investment property
- included any investment properties at 31 March 2025 in their permitted investments.

Investment properties are not properly classified

45. A property, notwithstanding that it otherwise meets the definition on investment property, should be accounted for as property, plant and equipment where:

- it is owner-occupied (i.e. the body owns and occupies it for use in the delivery of services, or the production of goods, or for administrative purposes); or
- the rentals arise from the body's regeneration policy.

46. Where a body uses part of a building itself and leases the remainder, the building should be classified as follows:

- Where the elements of the building could be disposed of individually, each element should be accounted for separately, i.e. as owner-occupied property or investment property.
- Where the building cannot be split between the relevant elements, the whole building should be classified as owner-occupied unless that element is insignificant, in which case the whole building should be classified as an investment property.

47. Where a council leases property to a subsidiary, it should be accounted for as an investment property (assuming the definition is met) in its own financial statements, but as property, plant and equipment in the group financial statements as it is owner-occupied from a group perspective.

Investment properties are not properly measured

48. Paragraph 4.4.1.3 of the accounting code interprets IAS 40 and requires investment property, after initial recognition at cost, to be carried at fair value. Fair value should be in accordance with IFRS 13 (as explained at section 3 of this Module). In order to reflect market conditions each year end, it is expected that an annual valuation will be required.

49. Exceptionally, where there is evidence when a property first becomes an investment property that the fair value is not reliably determinable on a continuing basis, bodies are permitted to measure them at historical cost (less accumulated depreciation and impairment).

Accounting entries for investment properties are not appropriate

50. Investment properties held at fair value should not be depreciated. However, auditors should evaluate whether investment property held at cost is being depreciated over its useful life, with the residual value assumed to be zero.

51. Changes in fair value, any depreciation or impairment charges, and gains or losses on disposal should be recognised in the SDPS. Any compensation received from third parties for investment property that becomes impaired, lost or is given up should also be recognised in the SDPS. Statutory guidance issued with [Finance Circular 7/2011](#) requires these items other than depreciation to be transferred from the General Fund to the Capital Adjustment Account as statutory adjustments.

Investment property has not been properly presented

52. The accounting code permits investment property that meets the criteria to be classified as held for sale (as explained at section 6 of this Module) to be reported separately as investment property held for sale.

Transfers to or from investment property are not appropriate

53. Under IAS 40, transfers to or from the investment property classification, should be made when, and only when, there has been a change in use. The requirements are as follows:

- For a transfer from investment property, the deemed cost for subsequent accounting should be fair value at the date of transfer.
- For a transfer to investment property, bodies should apply section 4.1 of the accounting code, including depreciation and impairment losses, up to

the transfer. Any difference in carrying amount should be treated in the same way as a normal revaluation.

9.5: Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

Intangible assets are not complete

54. The [accounting code](#) (section 4.5) requires local government bodies to account for intangible assets in accordance with IAS 38 Intangible Assets. An intangible asset is defined at paragraph 4.5.2.1 of the accounting code as an identifiable non-monetary asset without physical substance. An intangible asset requires to be recognised if (and only if) it is controlled by the body as a result of past events, and future economic or service benefits are expected to flow from the asset to the body.

55. Development expenditure should be recognised as an internally generated intangible asset when it meets the following criteria:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale must be demonstrated.
- There must be an intention to complete the intangible asset and use or sell it.
- The body must be able to use or sell the intangible asset.
- The body must be able to demonstrate how the intangible asset will generate future economic benefits or future service potential, e.g. existence of a market for the output of the intangible or, if it is to be used internally, the usefulness of the intangible asset.
- Adequate resources must be available to complete the development of the asset and to use or sell it.
- The body must be able to reliably measure the expenditure incurred during the development of the intangible asset.

56. The body should have reviewed its expenditure during 2024/25 to identify amounts that meet the accounting code's definition of an intangible asset. For example, it is expected that in most cases purchased computer software will meet the definition.

Recognised intangible assets do not exist

57. The following expenditure should have been recognised as an expense in the CIES when it is incurred during 2024/25 rather than as an intangible asset:

- Expenditure to acquire or generate an item that does not meet the definition of an intangible asset (e.g. research expenditure).
- Subsequent expenditure incurred on an intangible asset unless exceptionally it meets the recognition criteria.

58. SIC 32 Intangible Assets – Website Costs provides guidance on the types of expenditure to be considered for internally generated website projects. It states that expenditure on developing a website for promoting and advertising a body's own products and services should be recognised as an expense. As the primary purpose of a local government body's website is to provide information about services or objectives, auditors should confirm that an internally generated website has not been recognised as an intangible asset.

59. Under cloud computing arrangements, local government bodies access and use a supplier's underlying software as needed (e.g. through the internet or via a dedicated line). The accounting code does not contain explicit guidance on a customer's accounting for cloud computing arrangements and therefore a body needs to use judgement in determining which standard is the most appropriate to apply. The standards most likely to be applicable are IAS 38 or IFRS 16.

60. An intangible asset should be recognised by the body under IAS 38 if it controls the software, future economic or service benefits are expected, and the body can restrict others' access to those benefits. Where a contract conveys only the right to receive access to the supplier's software over the contract term, it would not give the body control of the software and therefore it would not create an intangible asset for the body. If the cloud arrangement does not fall within the scope of these standards, it is likely to be a service contract in which case expenditure should be recognised when the service is received.

61. In determining whether a cloud arrangement is or contains a lease, under IAS IFRS 16(explained in Module 7) bodies should evaluate whether the arrangement conveys a right for them to control the use of the asset (e.g. underlying servers). The [IFRS Interpretations Committee](#) has decided that a right to receive future access to the supplier's infrastructure does not in itself give the customer any rights to control the use of the asset.

Intangible assets are not properly measured

62. An intangible asset should be:

- measured initially at its cost
- carried at its historical cost (less any accumulated amortisation and impairment) unless its fair value can be determined by reference to an active market in accordance with IFRS 13 as required by IAS 38.

Accounting entries for intangible assets are not appropriate

63. An intangible asset with a finite useful life should be amortised; the residual value is normally zero. An asset with an indefinite life is not amortised but should be tested for impairment annually. Amortisation and impairment should be charged to SDPS and then transferred to the Capital Adjustment Account.

64. Amortisation and impairment should have been:

- charged to the SDPS
- transferred to the Capital Adjustment Account
- disclosed in the analysis of statutory adjustments in the MiRS.

9.6: Assets held for sale

An asset is classified as held for sale if its carrying amount will be recovered principally through a sale.

Assets held for sale are not complete

65. The [accounting code](#) (section 4.9) requires local government bodies to account for assets held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Paragraph 4.9.2.12 of the accounting code requires an asset to be classified as held for sale if its carrying amount will be recovered principally through a sale rather than its continued use. Bodies should review their property, plant and equipment at 31 March 2025 to identify any assets which should be classified as held for sale.

Assets held for sale are inappropriately classified

66. Where an asset is categorised as being held for sale at 31 March 2025, it should be available for immediate sale in its present condition, and the sale requires to be highly probable. For the sale to be highly probable:

- the appropriate level of management must be committed to a plan of sale, and an active programme to locate a buyer and complete the plan must have been initiated
- the asset must be actively marketed at a reasonable price
- the sale should be expected to be completed within one year of the classification. Where a sale is not completed within one year due to circumstances beyond the body's control, the asset may remain categorised as being held for sale provided there is sufficient evidence that the body remains committed to the sale.

67. In the event that the criteria have not been met, the following circumstances may apply:

- Assets which do not meet the criteria of an asset held for sale because the body is not actively marketing the asset may meet the criteria to be classified as investment property (explained at section 4 of this Module).
- Assets which do not meet the criteria to be classified as either held for sale or as an investment property should be classified as a surplus asset (which is a sub-classification of property, plant and equipment explained in Module 1).

Assets held for sale are not properly measured

68. The accounting code requires an asset classified as held for sale to be measured at the lower of its carrying value and fair value less costs to sell. Fair value should be determined in accordance with IFRS 13 (as explained at section 3 of this module).

69. When the sale is expected to occur beyond one year:

- the cost to sell should be measured at its present value
- any increase in the present value of the costs to sell that arises from the passage of time should be treated as a financing cost
- the fair value should have been kept up to date.

70. For any assets reclassified as held for sale during 2024/25, :

- immediately before the reclassification, the carrying amount should have been measured in accordance with normal requirements for property, plant and equipment (explained at Module 1)
- following reclassification, the subsequent amount of revaluation gains recognised should have been limited to the cumulative impairment loss that has been previously recognised.

The accounting treatment of assets held for sale is not appropriate

71. Assets held for sale should not be depreciated but may be impaired. Any impairment or revaluation losses on assets held for sale should be recognised in the SDPS, even where there is a balance on the Revaluation Reserve in respect of that asset. They should then be transferred to the Capital Adjustment Account.

72. Impairment losses or revaluation decreases during 2024/25 should have been:

- included in the SDPS
- transferred to the Capital Adjustment Account
- disclosed in the analysis of statutory adjustments in the MiRS.

9.7: Cash and cash equivalents

The accounting code (section 3.4) requires local government bodies to comply with IAS 7 Statement of Cash Flows in respect of cash and cash-equivalents.

Cash is not complete or does not exist

73. Cash includes cash in hand and on demand deposits, which are generally accepted to be deposits that are repayable on demand and available within 24 hours without penalty.

Cash equivalents are not complete or do not exist

74. The body should have adopted a reasonable policy for determining cash equivalents which it applies consistently.

75. The policy should cover short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. IAS 7 suggests that 'short term' would be a period of no more than three months from the date of acquisition of the investment.

Cash and cash equivalents are not properly presented

76. IAS 7 requires cash equivalents to be reported along with cash in the Balance Sheet and the Cash Flow Statement.

77. Paragraph 3.4.2.14 of the accounting code requires cash and cash equivalents to include bank overdrafts where they are an integral part of the body's cash management. This would be where the balance often fluctuates from being in credit to being overdrawn. Although not explicit in the code, this applies only to the Cash Flow Statement (overdrafts should be presented separately in the Balance Sheet). An overdraft at 31 March 2025 should have been presented separately:

- as a liability in the Balance Sheet
- as borrowing in the Cash Flow Statement where the account is rarely if ever in credit and is in effect an arrangement for borrowing.

78. The body's policy on determining cash equivalents should have been properly disclosed in 2024/25 in accordance with paragraph 3.4.2.15 of the accounting code.

9.8: Statutory income statements

In addition to the financial statements set out in the Overview Module, councils also present a Housing Revenue Account, Council Tax Income Account, and Non-domestic Rate Account.

Debits and credits to the HRA are not in accordance with statute

79. The HRA reflects a statutory obligation to maintain a revenue account for social housing provision by councils in accordance with Part X of the Housing (Scotland) Act 1987 (the 1987 Act). The credit and debit items required to be taken into account in determining the surplus or deficit on the HRA for the year are set out at [schedule 15](#) of the 1987 Act. The main items are summarised in the following table:

Statutory credits (income)	Statutory debits (expenditure)
Rents from council dwellings	Expenditure on managing, maintaining, repairing and improving the HRA stock
Rents from other HRA properties	Arrears of rent written off as irrecoverable
Income from service charges	Rent in respect of houses that were not let (void rent)
Investment income	Loan charges
Any income relating to expenditure being debited for that year	

80. Debits and credits other than those set out at schedule 15 are permitted only if the council has consent from the Scottish Ministers.

81. Consistent with the treatment for a council's wider operations, the [accounting code](#) at section 3.5 separates the transactions relating to the HRA into two statements:

- HRA Income and Expenditure Statement shows in more detail the income and expenditure on HRA services included in the whole-council SDPS.
- Movement on the HRA Statement shows how the HRA income and expenditure account surplus/deficit for the year reconciles to the movement on the HRA balance for the year.

82. Items may be debited or credited to the HRA Income and Expenditure Statement in line with normal proper accounting practice but they must be reversed and replaced in the Movement on the HRA Statement with the statutory items.

83. The credits and debits to the HRA should be in accordance with schedule 15 of the 1987 Act and consent has been obtained where required.

Income from rent and service charges is not complete or did not occur

84. Rent on council dwellings is charged under an implied contract with tenants and therefore should be recognised under IFRS 15 (explained at Module 8.2) as should income from service charges.

HRA Income and Expenditure Statement is not properly presented

85. Paragraph 3.5.3.1 of the accounting code sets out line items that should be presented in the HRA Income and Expenditure Statement. The line items analyse the total expenditure and income included in the segmental analysis in the CIES. In summary there should be sub-totals for:

- Net expenditure (or income) of HRA services as included in the CIES.
- Net expenditure (or income) for HRA services (which includes the HRA's share of the council wide expenditure not allocated to specific services in the CIES).
- Surplus (or deficit) for the year on HRA services (which includes the HRA's share of other operating expenditure and financing income and expenditure in the CIES).

86. As paragraph 3.5.3.1 is intended to apply across the UK, in practice some tailoring to the specified line items are appropriate for Scottish councils. The following table summarises the appropriate line items that should be presented in the HRA Income and Expenditure Statement to analyse the total HRA expenditure included in the CIES segmental analysis. It also, for convenience, refers to the impact of each item on the Movement on the HRA Statement:

Item	Explanation	Movement on the HRA Statement impact
Repairs and maintenance	This item should reflect the expenditure on the repair and maintenance of houses and other HRA assets. It should include pension costs of the HRA employees charged on an IAS 19 basis.	IAS 19-based cost should be reversed and replaced with employer contributions and pension payments. Work of a capital nature funded from the HRA should be charged to the Movement on the HRA Statement.

Item	Explanation	Movement on the HRA Statement impact
	Work of a capital nature should not be charged to the HRA Income and Expenditure Statement.	
Supervision and management	This item should reflect tenancy management, rent collection, grounds maintenance, etc. It should include pension costs of relevant HRA employees on an IAS 19 basis.	IAS 19-based cost should be reversed and replaced with employer contributions and pension payments.
Depreciation, impairment and revaluation losses	These items should be charged in accordance with the normal provisions of the accounting code explained at Module 1.	The charges should be reversed out and replaced with loan charges explained at Module 3.
Impairment of debtors	The accounting code does not specify a line for movements on the allowance for bad debts so councils should insert a line. Income for void properties may be included in this line (assuming it is not netted of dwelling rents).	None

87. The following table summarises the appropriate line items presented in the HRA Income and Expenditure Statement which analyse the total HRA income included in the segmental analysis:

Item	Explanation
Dwelling rents (gross)	This item should reflect the income receivable from rents in respect of houses within the HRA. The requirement in the accounting code for this item to be disclosed 'gross' means that the total should include rent remitted by way of rebate, which is financed by a credit from the General Fund.
Non-dwelling rents	This item should reflect the income from rents and charges in respect of other property such as garages, shops, public houses, etc.
Charges for services or facilities	This item should reflect income in respect of services or facilities provided in connection with the provision of houses and other property. It should exclude payments for welfare services that are outside the scope of the HRA.

88. In addition to the above income and expenditure, the HRA should be charged with its share of council-wide expenditure. Section 7 of [guidance](#) from the Scottish Government on operating the HRA covers allocating:

- elements of Corporate and Democratic Core costs that can either be allocated directly to HRA services or be fairly apportioned
- other items of expenditure not distributed to specific services that should reasonably be charged to the HRA.

89. The HRA should also be charged with its share of other operating expenditure and financing income and expenditure in the CIES as summarised in the following table:

Item	Explanation	Movement on the HRA Statement impact
Gain or loss on the sale of assets	This item should be recognised in accordance with the normal provisions of the accounting code explained at Module 1.	The gain or loss should be reversed out in accordance with the normal provisions explained at Module 1.
Interest payable or similar charges	These items should be recognised in accordance with the normal provisions of the accounting code explained at Module 3.	The charge and credit should be reversed out and replaced with loan charges.
Interest and investment income	A council should determine a reasonable basis for identifying the share attributable to the HRA.	
Net Interest on the Net Defined Benefit Liability	This item should be recognised in accordance with the normal provisions of the accounting code explained at Module 4. A council should determine a reasonable basis for identifying the share attributable to the HRA.	IAS 19-based cost should be reversed and replaced with employer contributions and pension payments.
Capital grants and contributions	The item should reflect capital grants or developer contributions to support expenditure on HRA assets.	The income should be reversed out.

90. The HRA Income and Expenditure Statement for 2024/25 should:

- present the income and expenditure items required by paragraph 3.5.3.1 of the accounting code

- have been prepared on the same basis as the council's SDPS and has followed all the requirements of the accounting code
- comprise the HRA's share of amounts included in the whole council net service cost not allocated to individual services, estimated on a fair and reasonable basis

Movement on the HRA Statement is not properly presented

91. The accounting code sets out the required line items for the Movement on the HRA Statement at paragraph 3.5.3.2. These are summarised in the following table:

Item	Notes
Balance on the HRA as at the end of the previous reporting period	This should agree to the figure at 31 March 2024 in the Balance Sheet.
Surplus or (deficit) on the HRA Income and Expenditure Statement	The amount should agree to the HRA Income and Expenditure Statement.
Adjustments between accounting basis and funding basis	This line relates to items charged or credited to the HRA income and expenditure statement that are not permitted debits or credits to the HRA balance. An analysis of the adjustments should be presented on the face of the statement or disclosed in the notes.
Increase or (decrease) in year on the HRA	This is the net movement in the HRA balance during 2024/25
Balance on the HRA as at the end of the current reporting period	This should agree to the figure at 31 March 2025 in the Balance Sheet.

Council Tax Income Account is not properly presented

92. The Council Tax Income Account is required to show net income raised from council taxes under [part II](#) of the Local Government Finance Act 1992. The net amount transferred to the General Fund presented in the income statement should agree to the amount of income in the 2024/25 CIES.

93. The requirements for the statement are set out at paragraph 3.6.3.2 of the accounting code which requires it to present the gross council tax levied less:

- discounts and reductions

- write-off of uncollectable debts and an allowance for impairment
- the amount transferred to the General Fund.

Council tax discounts, reductions and increases are not properly measured

94. Reductions in council tax are available under the Council Tax Reduction Scheme provided for by [The Council Tax Reduction \(Scotland\) Regulations 2012](#) and [The Council Tax Reduction \(State Pension Credit\) \(Scotland\) Regulations 2012](#).

95. Discounts are available under [the Council Tax \(variation for unoccupied dwellings\)\(Scotland\) Regulations 2013](#), as amended in [2016](#), and [2023](#) for second homes and unoccupied properties as follows:

- A second home is a property which is not a main residence but which is occupied for at least 25 days a year. Councils have the discretion to apply a discount of between 10% and 50% on second homes, or may choose to apply no discount. The 2023 Regulations permit councils to increase the amount of council tax payable on second homes by up to 100% (double council tax).
- Councils have discretion to vary the council tax payable on unoccupied properties. Initially a discount of between 10% and 50% is required, but after a property is unoccupied for 12 months (or 24 months if being actively marketed), an increase of up to 100% may be imposed for certain properties. The 2023 Regulations introduced a discretion to allow councils to extend the period for which the discount applies.
- Revenue generated from reducing council tax discounts of between 10% and 50% on second homes and long-term unoccupied requires to be ring-fenced for affordable housing and empty homes services. Income received if the discount is less than 10% or where double council tax is charged is not ring-fenced.

Impairment on council tax debtors is not properly measured

96. Council tax is excluded from the scope of IFRS 9 and therefore is not subject to the 'expected loss' impairment model. Impairment losses are incurred if there is objective evidence of impairment as a result of a past event that occurred subsequent to the initial recognition of the debtor.

97. At each year end, councils are required to assess whether there is objective evidence that a debtor balance or a group of debtor balances may be impaired.

98. For the purposes of a collective evaluation of impairment, debtor balances should be grouped on the basis of similar credit risk characteristics, e.g. past-due status using an age analysis of balances.

Information on council tax is not properly disclosed

99. Paragraph 3.6.4.1 of the accounting code requires councils to disclose:

- the calculation of the council tax base as an equivalent number of band D dwellings and the level of non-payment provided for
- an explanation of the nature and actual amount of each charge fixed.

100. In addition, paragraph 5.2.4.2 requires councils to disclose for council tax debtors that are either past due or impaired an analysis of:

- the age of the assets that are past due as at the year end but not impaired
- the assets that are individually determined to be impaired as at the year end, including the factors the council considered in determining that they are impaired.

Non-domestic Rate Account is not properly presented

101. The Non-domestic Rate Account is required to show income from the rates levied on non-domestic property under [part 1](#) of the Local Government (Scotland) Act 1975 (the 1975 Act) as amended by [section 110](#) of the Local Government Finance Act 1992.

102. The Non-domestic Rate Account should show in accordance with paragraph 3.6.3.3 of the accounting code gross income from the rates on non-domestic property less:

- reliefs and other deductions
- write-offs of uncollectable debts and an allowance for impairment
- adjustment to previous years' national non-domestic rates
- contribution to national non-domestic rate pool.

Non-domestic rate income is not complete or did not occur

103. In general, councils collect non-domestic rates under an agency arrangement on behalf of the Scottish Government. The amount collected is due to the Scottish Government as a contribution to the national non-domestic rate pool. Guidance on the calculation of non-domestic rates, including the various reliefs, will be provided in a separate [TGN](#) on certifying the 2024/25 non-domestic rates returns.

104. The national pool is then distributed to councils proportionately on the basis of each council's mid-year income from the previous year. Information for 2024/25 on the distributable amounts for each council is provided in [Finance Circular 2/2024](#). This amount should be recognised as income in the CIES as explained in Module 8.

105. In addition to the agency arrangement, councils act as principal under the following schemes:

- Tax Incremental Financing (TIF) scheme allows councils to use additional non-domestic rates that has arisen from regeneration projects to fund the repayment of borrowing used to finance the regeneration. Further [information](#) on the TIF scheme has been provided by the Scottish Government.
- Under the Non-Domestic Rates Incentivisation Scheme (NDRIS)(previously known as the Business Rates Incentive Scheme), councils who exceed income targets can retain 50% of any additional income generated. More information is set out in Annex N of the [Finance Circular 1/2024](#).

106. The element of income that is retained should be recognised in the CIES. There is also a line in the Non-domestic Rate Account for income retained by council, with a requirement for separate reporting for each scheme.

Information on non-domestic rates is not properly disclosed

107. Paragraph 3.6.4.1 of the accounting code requires councils to disclose:

- an analysis of rateable values at the beginning of the year
- an explanation of the nature and amount of each rate fixed
- accounting policies in relation to impairment of debts where significant.

9.9: Significant Trading Operations

Councils are required to maintain and disclose trading accounts for Significant Trading Operations.

Trading operations are not complete or do not exist

108. The [Significant Trading Operations - Consolidated Guidance](#) issued by LASAAC sets out the criteria whereby a service or activity should be considered a trading operation for the purposes of [Section 10](#) of the Local Government in Scotland Act 2003 (the 2003 Act). These are principally where the service or activity is provided externally in a competitive environment and charged for on a basis other than the straight recharge of cost. The criteria are applied to some services/activities as an illustration in the following table:

Service/activity	Trading operation?
Internal trading between service segments	No - The LASAAC guidance was amended in 2013/14 to reflect that the requirements apply only to external trading. This is defined as those services or activities which are provided externally by the body.
Discretionary services provided externally at a market rate	Yes - The service is provided externally in a competitive environment and charged for on a basis other than the straight recharge of cost.
Discretionary services provided externally where costs are simply recharged	No - Although the service is provided externally, the charges levied to customers are the straight recharge of cost.
Care home services	No - The requirements do not apply to services which are statutory.

109. Bodies should have identified all trading operations under the 2003 Act, i.e. services or activities:

- provided in a competitive environment
- charged for on a basis other than the straight recharge of cost
- provided externally on a non-statutory basis.

Significance of trading operations is not determined

110. Bodies should have criteria for determining the significance of each trading operation which:

- include financial and non-financial factors
- are a reasonable basis for identifying significance
- are consistently applied to all identified statutory trading operations.

STOs are not charged with relevant costs

111. The trading accounts for each Significant Trading Operation (STO) should be charged with all relevant costs attributable to the external delivery of the service including depreciation, impairment losses, provisions, and current service pension costs.

112. In summary:

- a trading account should have been maintained for each STO
- the trading accounts should have been charged with all relevant costs attributable to the external delivery of the service
- the costs associated with any internal trading should have been recorded separately from the external trading.

Income credited to STOs did not occur

113. The trading accounts of STOs should be credited with the trading income received from service recipients. There should not be any income credited in respect of any internal trading or any form of subsidy.

Information on STOs is not properly disclosed

114. Paragraph 3.4.4.1 of the [accounting code](#) requires information on any significant trading operations to be disclosed in a note and include the following for each STO:

- the nature, turnover and surplus/deficits
- the cumulative surplus or deficit for the three years from 2022/23 to 2024/25.

115. Bodies may choose to also disclose non-statutory trading accounts, e.g. for internal trading. However, these should be disclosed separately from the disclosures for STOs.

Income and expenditure for STOs are not properly presented in the CIES

116. The trading accounts are essentially additional memorandum accounts that exist to demonstrate that a STO has met its statutory objective to break even. The income and expenditure of STOs (other than the cost of capital charge) still require to be included in the relevant service segment in the SDPS.

9.10: Miscellaneous disclosures

Information should be disclosed on changes required by a new accounting standard that has been issued but not yet adopted.

Information on new accounting standards is not disclosed

117. The [accounting code](#) (at paragraph 3.3.4.3) adopts IAS 8 and requires a local government body to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted.

118. Paragraph 3.3.1.3 of the accounting code adapts IAS 8 so that the disclosure requirement applies only to accounting standards that come into effect for financial years commencing on or before 1 January of the financial year in question (i.e. on or before 1 January 2025 for 2024/25).

119. The relevant standards for 2024/25 will be set out in Appendix D to the 2024/25 accounting code. They include:

- IAS 1 classification of liabilities
- IAS 12 International Tax Reform
- IAS 7 and IFRS 7 supplier finance arrangements.

120. Bodies should have considered the impact and materiality of the standards listed in Appendix D to the 2024/25 accounting code and, where required, disclosed:

- the title of the new standard, indicating that it is expected to be adopted by the 2024/25 accounting code
- the nature of the impending changes in accounting policy
- the date by which application of the standard, as adopted by the code is required
- the date at which the body will adopt the standard initially, e.g. 1 April 2025
- a clear and concise discussion of the impact that initial application of the standard as adopted by the accounting code is expected to have on the body's financial statements (or, if that impact is not known or reasonably estimable, a statement to that effect).

Information on related parties requires to be disclosed

Related parties are not complete

121. The accounting code (at section 3.9) requires local government bodies to make related party disclosures in accordance with IAS 24 Related Party Disclosures. In accordance with ISA (UK) 550, auditors should evaluate whether the body has identified its related parties in 2024/25. The objective of the disclosure is to draw attention to the risk that a body's financial position or performance may be affected by a relationship with another party.

122. A related party is defined at paragraph 3.9.2.7 of the accounting code. In summary, a related party relationship exists where there is some element of control or influence by one party over another, or by another party over the two. Such a relationship exists when the body is either exerting the control/influence or is the subject of it.

123. Possible related parties of local government bodies therefore include:

- the Scottish Government as it has effective control over local government bodies
- the elected members who have direct control of the policies of the body
- certain officers who are in a position to influence significantly the policies of the body, e.g. members of the corporate management team and other officers with independent statutory powers, i.e. the section 95 officer and the monitoring officer
- close family members expected to have the ability to influence members or officers
- partnerships, companies, trusts or any entities in which members/officers or a member of their close family or the same household has a controlling interest
- other public bodies subject to common control by the Scottish Government, e.g. non-departmental public bodies (NDPBs), health boards and other local government bodies
- subsidiaries controlled by the body
- associates and joint ventures where the body has sufficient influence to inhibit the entity from pursuing its separate interests
- the pension fund where the body is the administering authority.

Related party transactions are not complete

124. A related party transaction is a transfer of resources or obligations between related parties, regardless of whether a price is charged. This includes sales, transfers and exchanges of non-current assets, leases, guarantees, the provision of goods and services, secondment of staff and the making of loans and investments.

125. Bodies should have identified all transactions with related parties during 2024/25.

Information on related parties is not properly disclosed

126. Where the related party is a central government body, health board, or other local government body, a body is required to disclose:

- the name of the government (i.e. Scottish Government) and the fact that it exerts significant influence through legislation and grant funding
- the nature and amount of each individually significant transaction, and an indication of the extent of other transactions that are collectively, but not individually, significant.

127. For other related parties, a body is required to disclose:

- a description of the nature of the related party relationships
- the amount of transactions that have occurred
- the amount of outstanding balances.

128. There is also a requirement to disclose any amounts incurred by the body for the provision of key management personnel services that are provided by a separate management entity.

129. Transactions and balances only need to be disclosed in the related parties note if they are not disclosed elsewhere in the annual accounts. However, a cross-reference should be included in the related parties note to where the relevant disclosures can be found. Related party transaction disclosures are required if the amount of the transaction and/or balance is considered material to the audited body or the related party.

Information on the pension fund annual report requires to be disclosed by administering authorities

Information on pension funds is not properly disclosed

130. Councils that administer the LGPS are required to publish a pension fund annual report containing the pension funds financial statements (guidance on this is provided in Module 13). Statutory guidance issued with [Finance Circular 1/2018](#) requires administering councils to disclose in their own accounts information about the pension fund annual report.

131. Councils should have disclosed the following in 2024/25:

- A note that the council is an administering council for the LGPS.
- The pension funds it is responsible for, including a general description of each fund and its membership.
- The statutory requirement for the publication of a separate pension fund annual report, and the contents of that report, and how it can be accessed or obtained.

Information on the nature of expenses should be disclosed

Information on the nature of expenses is not properly disclosed

132. Paragraph 3.4.2.46 of the accounting code requires bodies to disclose information on the nature of their expenses (i.e. subjective analysis), and sets out suggested expense headings.

Information on trust funds and the Common Good should be disclosed

Trust funds are not complete

133. Councils should have identified all the trust funds it administers. This includes trust funds administered by the council, regardless of whether they are registered charities or whether there are external trustees.

Information on trust funds is not properly disclosed

134. The accounting code (paragraph 3.4.4.1) contains a requirement for councils to disclose information on trusts funds they administer as sole trustee in a note to their financial statements. These are trust funds to which [Section 106\(1\)](#) of the 1973 Act applies.

135. For the avoidance of doubt, the disclosure requirement applies even where there is a separate statement of accounts (required where the trust fund is a registered charity). Module 14 provides guidance on the audit of a charity's separate statement of accounts.

136. For any trust fund where the council is the sole trustee in 2024/25, details of the nature and amounts involved should be disclosed.

137. For other trust funds administered by the council that do not fall within Section 106(1) (e.g. where there is an external trustee), the council should have disclosed in its own accounts, in accordance with paragraph 3.4.4.1 of the accounting code, an indication of the overall nature and amounts administered by the council.

138. Auditors should encourage councils to disclose the information as a note in line with the expectations of the accounting code. However, it is not a

misstatement if it is presented as a financial statement. As a practical point, if the information is presented in that way, auditors should ensure they include a reference to it in the Independent Auditor's Report in the list of financial statements that have been audited.

Accounting policies for trust funds are not appropriate

139. Paragraph 1.3.7 of the accounting code explains that the applicable financial reporting framework for the information on trust funds disclosed in the council's financial statements depends on whether it is a registered charity (and, if so, its income). If not a registered charity, it depends whether the trust fund falls within Sections 106(1), i.e. whether or not the council is the sole trustee. This is summarised in the following table:

Registered charity		Non-registered	
Income > £250,000	Income < £250,000	Section 106	Not Section 106
Accrued basis based on Charities SORP	Receipts and payments basis	Accrued basis based on accounting code (but statutory adjustments do not apply)	Not prescribed

140. Further information and guidance on the financial reporting framework for registered charities are provided in Module 14.

Information on Common Good funds is not properly disclosed

141. The Common Good is an historic managed fund administered by councils in Scotland; they fall within Section 106(1). As a minimum, Common Good funds are 'other third-party funds administered by the authority' as referred to in paragraph 3.4.4.1 of the accounting code. This would require an indication of the overall nature and amounts to be disclosed in a note to the councils' financial statements.

142. However, mandatory guidance from LASAAC recommends that limited financial statements for the Common Good should be disclosed within the council's financial statements. The [guidance](#) was revised in June 2023 and requires the Common Good financial statements to comprise the elements set out in the following table:

Element	Explanation
Narrative report	A brief explanation of the purpose and background of the Common Good fund. Accounting policies that differ from the local authority's should be highlighted.

Element	Explanation
	Disclosure of the authority's policy position on the use of common good assets and resources.
Income and Expenditure Statement (IES)	<p>The IES should mirror the local authority CIES.</p> <p>Where the local authority manages several funds, they can be aggregated into one single statement.</p> <p>Paragraphs 2.15 and 2.16 of the guidance set out respectively examples of debits and credits expected to be made to the IES.</p> <p>Paragraph 2.17 sets out an illustrative IES format.</p> <p>Statutory adjustments are not permitted.</p>
Balance Sheet	<p>Paragraph 2.19 sets out an illustrative Balance Sheet.</p> <p>Assets should be depreciated and the depreciation charge set against any surplus in the income and expenditure account. Statutory adjustments are not permitted.</p> <p>No additional balance sheet disclosures are required.</p>
Notes	<p>The level of disclosure is left to the local circumstances and requirements of each local authority.</p> <p>There is no prescribed requirement to disclose the common good asset register, although good practice would include a direct link to the register on the council's website as supplementary information.</p>

143. If the information is presented as financial statements, auditors should ensure they include a reference in the Independent Auditor's Report in the list of financial statements that have been audited.

Information on low emission zone (LEZ) schemes is not properly disclosed

147. Regulation 21 of The Low Emission Zones (Scotland) Regulations 2021 requires councils operating a Low Emission Zone (LEZ) to prepare and publish a statement of account in their annual accounts. This is reflected at paragraph 3.4.5.4 of the accounting code. For 2024/25, this requirement applies to Glasgow, Edinburgh, Aberdeen, and Dundee councils.

148. [Guidance](#) from LASAAC on the content of the required disclosure items is summarised in the following table:

Disclosure	Content
Administering costs	<p>Costs incurred in proposing, making and operating the scheme.</p> <p>Set up costs incurred between 1 April 2024 and 31 March 2025.</p>

Disclosure	Content
	Costs incurred before 1 April 2024 disclosed in a prior year comparative column.
Revenue from fines and charges	For councils that did not commence charging until 1 June 2024, an explanation should be provided for why there is no revenue to be disclosed in the prior year comparators.
Narrative	<p>An explanation of the income generated and running costs of the scheme.</p> <p>An overview of the legislative requirements for the scheme, including the revenues raised and how they are utilised.</p>

144. As this is a statutory requirement, councils are required to make the disclosure regardless of whether amounts are considered material.

Technical Guidance Note 2024/8(LG) – Module 9

Guidance on misstatements in other financial statement areas in 2024/25

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Technical Guidance Note 2024/8(LG) Module 10

Guidance on misstatements in the Remuneration
Report (audited part) in 2024/25



 AUDIT SCOTLAND

Prepared by innovation and Quality for auditors in the local government sector

January 2025

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Accessibility

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

Module 10 introduction

Purpose and use of this module

1. This module of TGN 2024/8(LG) provides guidance on potential misstatements in the following aspects of the audited part of the Remuneration Report:

- Inclusion of relevant persons (section 1).
- Remuneration information (section 2).
- Pension benefit information (section 3).
- Other disclosed information, including on pay bands and exit packages (Section 4).

2. The Schedule to [The Local Authority Accounts \(Scotland\) Regulations 2014](#) (accounts regulations) sets out the required elements of the Remuneration Report. As with the private sector and other parts of the public sector, not all elements are audited. In summary:

- the items set out at paragraphs 4 to 12 of the Schedule require to be audited. The disclosure of members' salaries, allowances and expenses also requires to be audited.
- the narrative information on remuneration arrangements required by paragraphs 2 and 3 of the Schedule, and information on trade union facility time, are not audited. Guidance on the risks of misstatement in the unaudited part of the Remuneration Report is provided at Module 11.3.

3. [Finance Circular 8/2011](#) (paragraph 5) requires local government bodies to clearly identify those parts of the Remuneration Report that are subject to audit, and provides illustrative wording. It should be noted that the wording used in the:

- unaudited annual accounts should state that the information 'will be audited'
- used in the audited annual accounts should be updated to 'has been audited'.

4. The audit should enable auditors to form an opinion on whether the audited part of the Remuneration Report has been properly prepared in accordance with the accounts regulations. Auditors are required to obtain reasonable assurance about whether the audited part of the Remuneration Report is free

from material misstatement, whether due to fraud or error. Reasonable assurance is obtained when sufficient appropriate audit evidence is obtained to reduce audit risk to an acceptably low level. Auditors should refer to paragraph A11 of ISA (UK) 320 when judging whether it is appropriate to set a materiality threshold for the Remuneration Report that is lower than that set for the financial statements overall.

5. As explained more fully in Module 11.3, the unaudited elements of the Remuneration Report fall within the definition in ISA (UK) 720 of 'Statutory Other Information'. Auditors are not required to obtain evidence in respect of the unaudited elements beyond that already required to form an opinion on the financial statements or the audited part of the Remuneration Report. Auditors are required to read and consider the unaudited elements and report any uncorrected material misstatements.

Changes in guidance in 2024/25

6. There are no changes in guidance in 2024/25

Consulting with I&Q

7. Auditors should consult I&Q by completing the [enquiry form](#) and sending an email to TechnicalQueries@audit-scotland.gov.uk.

10.1: Inclusion of relevant persons

Information requires to be disclosed for any individual who meets the statutory definition of relevant person.

Disclosed relevant persons are not complete

8. Information is required to be disclosed in the Remuneration Report for 'relevant persons' as defined by paragraph 1 in the Schedule to the [accounts regulations](#). Individuals who comprise 'relevant persons' are explained in the following table:

Relevant person	Explanation
A senior councillor holding office with the body during 2024/25	This means the Leader of the Council, Civic Head and Senior Councillors as defined in The Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007 at any point during the year.
A senior employee, or an individual holding office with the body, during 2024/25	This means any individual employed by, or holding an office with, a local government body (including on a temporary basis) at any point during the year who: <ul style="list-style-type: none"> • has the power to direct or control the major activities of the body; or • holds a post that is politically restricted by reason of section 2(1)(a), (b) or (c) of the <i>Local Government and Housing Act 1989</i>; or • has annual remuneration (as explained in section 2) of £150,000 or more. For employees who are employed part time or for only part of 2024/25, bodies are required to calculate an equivalent annual remuneration for comparison with the £150,000 limit.
Specified persons employed by a local authority subsidiary	Under paragraph 7 to the Schedule to the accounts regulations, relevant persons include the following individuals connected with a subsidiary: <ul style="list-style-type: none"> • the chief executive (or most senior manager) • any director or employee of the subsidiary whose annual remuneration (including any paid by the local government body) for 2024/25 was £150,000 or more. For employees who are employed part time or for only part of 2024/25, bodies are required to calculate an equivalent annual remuneration for comparison with the £150,000 limit.

9. Auditors should presume that information on named individuals will be given in all circumstances. However, [Article 21](#) of the General Data Protection Regulation gives individuals the right to object to disclosure. The relevant person must give specific reasons, based upon their particular situation, for objecting to the disclosure. Bodies can still make the disclosure if they can demonstrate compelling legitimate grounds for disclosing the information which override the rights of the individual. I&Q's view is that the requirement for public accountability represents compelling legitimate grounds for the required disclosures to be made, but bodies may need to obtain legal advice particularly if the objection is on the grounds that disclosure would cause the individual substantial damage or distress.

10. Where non-disclosure is agreed, the body should disclose the fact that certain disclosures have been omitted.

11. Settlement agreements (explained at Module 4.3) sometimes contain confidentiality clauses which attempt to restrict the disclosure of certain remuneration information. For the avoidance of doubt, the requirement to disclose information on a relevant person in the Remuneration Report is not affected by any 'confidentiality clauses'.

12. Where a relevant person has been omitted without an acceptable reason, it is expected that the omission will generally be judged by auditors to be a material misstatement which would lead to a qualified opinion.

10.2: Remuneration information

Remuneration of a relevant person includes salary, fees and bonuses, and the estimated value of any non-cash benefits.

Remuneration information categories have not been properly disclosed

13. Paragraphs 8 to 10 of the [Schedule](#) require remuneration for each relevant person to be disclosed in the Remuneration Report in a tabular form (with separate tables for senior employees, senior councillors, and subsidiaries). The total amounts for each of the following categories of remuneration should be disclosed:

- salary, fees or allowances
- bonuses
- expense allowances chargeable to income tax
- any termination benefits
- any non-cash benefits from a local government body or its subsidiaries, along with a footnote explaining such benefits
- any other payments (other than pensions), including for paid functions in addition to the relevant person's main employment, e.g. a returning officer in an election
- the total remuneration for the current and prior year.

14. Where no remuneration was paid for any category to any person, that category may be omitted. However, paragraph 37 of [Finance Circular 8/2011](#) advises that categories may not be combined.

15. Where an individual ceased to be a relevant person during 2023/24, there is no need for prior-year information in respect of that individual to be included in the 2024/25 report. Where there are changes to relevant persons during 2024/25, Finance Circular 8/2011 suggests that:

- the annual remuneration (i.e. full-year equivalent), together with their leaving date, should be disclosed in addition to the actual remuneration
- there should be only one disclosure for any senior employee who changed posts during 2024/25 (rather than a disclosure for each post) and that the narrative should reflect the change of post

- where an employee has been promoted into a senior employee post from a position that does not require disclosure, only the remuneration which relates to their new appointment has been disclosed. Prior year information is not required.

Remuneration information is not accurate

16. The amount of salary reported should reflect the amount payable to each individual for 2024/25.

17. Bonuses are based on performance levels attained and are usually part of an appraisal process. Bonuses relate to the performance in the year in which they become payable to the individual. i.e. bonuses reported in 2024/25 should relate to performance in 2024/25. The bonus disclosure should only include non-consolidated payments, i.e. a payment that does not permanently increase the salary of the individual. Consolidated performance pay in contrast should be disclosed as part of salary rather than bonuses.

18. Any expense or benefit reported on a P11D or P9D is to be disclosed as part of a person's remuneration. Where a body has a dispensation with HM Revenue and Customs not to report certain expenses or benefits, they do not form part of the remuneration to be disclosed.

19. Termination benefits are explained at Module 4.3. Any lump sum payment for 'added years' should be included in this category, but any annual payments should be disclosed separately and not included in the total remuneration. Any termination benefits should exclude contributions to pension, e.g. strain on the fund costs explained in Module 4.2, as these should be included in the disclosures of pension benefit information.

20. The cost of providing non-cash benefits, including housing, cars and free or subsidised goods or services, should be reported according to the same principles as benefits payable in cash. The amount reported should be the cost to the employer of providing the benefit.

10.3: Pension benefit information

Accrued pension benefit information has not been properly disclosed

21. Paragraphs 11 to 13 of the [Schedule](#) require information on pension benefits for each relevant person to be disclosed in a tabular form (with separate tables for senior employees, senior councillors, and subsidiaries). The required disclosures should be presented beside the post and name of each relevant person. The required information is summarised in the following table:

Disclosure	Explanation
Value of each relevant person's accrued pension benefits under the scheme as at the end of the year	<p>The accrued pension benefit at 31 March 2025:</p> <ul style="list-style-type: none"> • includes both the employer and employee/councillor contributions • includes transfers of benefits from another pension fund (unless the relevant person chooses not to transfer) • excludes any additional voluntary contributions • has been rounded to the nearest £1,000 • is complete and free from misstatement.
Difference between accrued pension benefits at the start and end of the year	<p>The difference between the accrued pension benefit as at 31 March 2024 and the equivalent value as at 31 March 2025 requires to be calculated.</p>
Amount of any pension contributions paid by the local government body or subsidiary (to the nearest £)	<p>Contributions should include relevant payments made under The Local Government Pension Scheme(Scotland) Regulations 2018 (as explained in Module 4.2). The employer rate used in calculating the contribution should be the adjusted rate as specified in the rates and adjustments certificate.</p> <p>The disclosures in respect of the pension contributions for 2024/25 should:</p> <ul style="list-style-type: none"> • include those made by the employer • exclude those made by the employee/councillor (in contrast with the pension benefit disclosure).

22. Some councillors may have pension benefits arising from their association with a subsidiary as well as from their body. When the individual for 2024/25 is:

A senior councillor	Not a senior councillor
the combined pension benefit has been disclosed in the senior councillor pension table, with a disclosure note advising of the additional pension benefits	the element of their pension benefits arising from the subsidiary has been disclosed in the subsidiaries pension table

10.4: Other disclosed information

The number of employees whose remuneration was £50,000 or more requires to be disclosed in pay bands of £5,000.

Pay band information has not been properly disclosed

23. Paragraph 6 of the [Schedule](#) requires bodies to disclose in the Remuneration Report information on the number of employees whose remuneration was £50,000 or more:

- The information should give the number of employees in 2024/25 whose remuneration fell into each £5,000 pay band, starting with £50,000.
- Comparatives for 2023/24 should be disclosed
- Any starters or leavers during 2024/25 should have been included in the band which matches their actual remuneration for the year, rather than their annual remuneration.

An exit package means any agreement by which a local government body and an individual agree that the individual will relinquish an office or employment with the body in exchange for compensation.

Disclosed exit packages are not complete or do not exist

24. Paragraph 4 of the [Schedule](#) (and [accounting code](#) paragraph 3.4.4.1) requires bodies to disclose information in respect of exit packages in the Remuneration Report.

25. Exit packages equate to termination benefits explained at Module 4.3. The disclosure requirement applies to those exit packages that have been agreed between 1 April 2024 and 31 March 2025. A package should be considered as 'agreed' when the offer has been accepted by the employee.

26. As explained at Module 4.3, the termination benefits liability should be recognised at the point that any restriction on the body's ability to withdraw the offer takes effect which could be before the employee accepts the offer. That could lead to circumstances where the termination benefits liability is recognised at 31 March 2025 but the exit package is accepted after 1 April 2025 and hence it is not disclosed as an exit package until 2025/26.

27. The body should have identified all exit packages agreed by 31 March 2025.

Information on exit packages is not properly disclosed

28. Bodies are required to disclose the number and total cost of exit packages in the Remuneration Report.

29. The total cost of an exit package is to be calculated by adding together the costs of all termination benefits payable by the body as a result of that agreement; this includes (as explained in Module 4):

- contractual and non-contractual payments under voluntary severance schemes or settlement payments
- the capitalised cost of pension contributions in respect of 'added years' and 'strain on the fund' costs
- any compulsory redundancy payments.

30. Bodies should have disclosed for 2024/25 (with 2023/24 comparatives):

- the number of exit packages accepted by 31 March 2025 (grouped in bands of £20,000 up to £100,000, and bands of £50,000 thereafter)
- the total cost of packages agreed in each band
- an analysis between compulsory redundancies and other departures.

The salaries and expenses paid to members requires to be disclosed.

Information on members' salaries, allowances and expenses is not properly disclosed

31. Paragraph 3.4.4.1 of the accounting code requires bodies to disclose members' remuneration and reimbursement of actual expenditure under the heads of salaries, allowances and expenses. It is not a requirement of the accounts regulations, but some bodies choose to include this disclosure in the Remuneration Report, in which case it would be covered by the Remuneration Report opinion. Otherwise, it should be disclosed as a note to the financial statements.

32. Payments of salaries, allowances and expenses are made under [The Local Governance \(Scotland\) Act 2004 \(Remuneration\) Regulations 2007](#), [The Local Government \(Allowances and Expenses\) \(Scotland\) Regulations 2007](#) and [The Local Governance \(Scotland\) Act 2004 \(Allowances and Expenses\) Regulations 2007](#), and subsequent amendment regulations which updated the rates.

Technical Guidance Note 2024/8(LG) – Module 10

Guidance on misstatements in the Remuneration Report
(audited part) in 2024/25

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Technical Guidance Note 2024/8(LG)

Module 11

Guidance on misstatements in Statutory Other
Information in 2024/25



 AUDIT SCOTLAND

Prepared by Innovation and Quality for auditors in the local government sector

January 2025

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Accessibility

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

Module 11 introduction

Purpose and use of this module

1. This module of TGN 2024/8(LG) provides guidance on potential misstatements in the following Statutory Other Information:

- Management Commentary (section 1).
- Annual Governance Statement (section 2).
- Statement of Responsibilities and unaudited part of Remuneration Report (section 3).

Summary of auditors' responsibilities

2. Components of the annual accounts required by [The Local Authority Accounts \(Scotland\) Regulations 2014](#) (other than the financial statements and audited part of the Remuneration Report) fall within the definition in [ISA \(UK\) 720](#) of 'Statutory Other Information'. This comprises the Management Commentary, Annual Governance Statement, unaudited part of the Remuneration Report, and the Statement of Responsibilities.

3. ISA (UK) 720 does not require auditors to obtain evidence beyond that required to form an opinion on the financial statements. However, it requires auditors to read and consider the Statutory Other Information and report any uncorrected material misstatements in the Independent Auditor's Report.

4. Misstatements represent information that is incorrectly stated, not been prepared in accordance with applicable requirements, or is otherwise misleading. A misstatement is material if it could reasonably be expected to influence the decisions that users take on the basis of the annual accounts.

5. In addition, the Accounts Commission requires auditors in the local government sector to express an opinion in the Independent Auditor's Report on whether the information in the Management Commentary and Annual Governance Statement:

- is consistent with the financial statements
- has been prepared in accordance with requirements.

6. The test procedures that auditors should undertake to meet the above responsibilities are set out throughout this module and, in respect of the Management Commentary and Annual Governance Statement, are summarised in checklists. Auditors should also make sure they follow the good practice set out in the [thematic review](#) from the FRC.

7. The model Independent Auditor's Report for 2024/25 will be provided in a separate [Technical Guidance Note](#) and will include further guidance on reporting including the wording for the required opinions.
8. There are no changes to the guidance on potential misstatements in 2024/25.

Consulting with I&Q

9. Auditors should consult I&Q by completing the [enquiry form](#) and sending an email to TechnicalQueries@audit-scotland.gov.uk.

11.1: Management Commentary

Regulation 8(2) of the [accounts regulations](#) requires the annual accounts to include a Management Commentary prepared in accordance with statutory guidance.

Management Commentary is not consistent with the financial statements

10. Auditors should carry out test procedure 1 to consider whether there are any material inconsistencies in 2024/25 between information in the Management Commentary and the financial statements:

Test procedure 1 – consistency with financial statements

Auditors should:

- **select amounts or other items in the Management Commentary and compare them with the corresponding amounts or other items in the financial statements**
 - **conclude whether an inconsistency means there is a misstatement**
 - **request that any material misstatements be corrected**
-

11. The Management Commentary may include amounts that are intended to be the same as, to summarise, or to provide greater detail about, the amounts in the financial statements. Examples of such amounts or other items may include:

- tables, charts or graphs containing extracts of the financial statements
- disclosure providing greater detail about an item shown in the financial statements
- descriptions of the financial results.

12. In order to evaluate their consistency, auditors should select a sample of amounts or other items in the Management Commentary and compare them with the corresponding amounts or other items in the financial statements. When making the selection, auditors should consider:

- the significance of the amount or other item in the context in which it is presented, (e.g. a key ratio or amount)
- the relative size of the amount compared with amounts or items in the financial statements or the Management Commentary to which they relate

- the sensitivity of the particular amount or other item in the Management Commentary.

13. When checking the consistency of the selected items, auditors should:

- compare the information to the financial statements (where it is intended to be the same)
- obtain a reconciliation between an amount in the Management Commentary and the financial statements (e.g. between references to General Fund movements and a surplus in the CIES) and:
 - compare items in the reconciliation to the financial statements and the Management Commentary; and
 - check whether the calculations within the reconciliation are arithmetically accurate.
- for information intended to convey the same meaning as disclosures in the financial statements, compare the words used and consider whether any differences imply different meanings.

14. If auditors identify an inconsistency between information in the Management Commentary and the financial statements, auditors should:

- conclude whether there is a misstatement in the Management Commentary (or the financial statements)
- request that the body corrects any material misstatement identified.

Management Commentary is not in accordance with statutory guidance

15. Auditors should carry out test procedure 2 to consider whether the Management Commentary for 2024/25 has been prepared in accordance with the statutory guidance:

Test procedure 2 - non-compliance with statutory guidance

Auditors should:

- **use the checklist at Appendix 2 to evaluate whether information required by the statutory guidance has been omitted from the Management Commentary**
- **evaluate whether items comply with the statutory guidance**
- **request that any material misstatements be corrected**

16. [Finance Circular 5/2015](#) provides guidance on the preparation of a Management Commentary. Part 2 provides statutory guidance which requires the Management Commentary to reflect those matters quoted companies are required by the *Companies Act 2006* to disclose in a strategic report, interpreted for local government. [Finance Circular 7/2016](#) contains a specific requirement in respect of Loans Fund accounting.

17. In order to evaluate whether required information has been omitted, auditors should check whether the Management Commentary includes the items summarised at Appendix 2 to this module. An omission includes situations where a required item has been:

- included by hyperlink to a website; or
- presented in another part of the annual accounts without appropriate cross-reference.

18. In evaluating whether the Management Commentary complies with the statutory guidance, auditors should consider whether:

- it is fair, balanced, understandable, comprehensive and concise
- the principal risks and uncertainties described reflect the risk register which is itself complete
- the key performance indicators reported are corroborated by supporting documents.

19. Local government bodies should be including climate change in their consideration of principal risks and making disclosures accordingly. Narrative reporting should adequately reflect the body's exposure to climate-related issues and how it is monitoring and managing these risks. Narrative reporting requirements and expectations should relate to both the body's impact on the environment, and the impact climate change may have on the body's future.

20. If auditors are of the opinion that the Management Commentary omits an item set out at Appendix 2, or that reported items do not comply with the statutory guidance, this represents a misstatement. Where material, auditors should request that the body makes the necessary correction.

Management Commentary is inconsistent with auditor's knowledge

21. Auditors should carry out test procedure 3 to consider whether there are any material inconsistencies in 2024/25 between information in the Management Commentary and their knowledge obtained in the audit.

Test procedure 3 - inconsistency with auditor's knowledge

Auditors should:

- **consider whether there is a material inconsistency between the Management Commentary and the knowledge they have obtained in the audit**
- **request that any material misstatements be corrected**

22. Auditors' knowledge includes the understanding of the body and its environment obtained in accordance with ISA (UK) 315. Auditors may focus on those matters that are of sufficient importance that a misstatement in relation to that matter could be material.

23. There is no requirement to obtain audit evidence beyond that required to form an opinion on the financial statements. Auditors' recollection of the audit evidence obtained and conclusions reached may be sufficient, or auditors may have to refer to relevant audit documentation.

24. If auditors identify a material inconsistency between information in the Management Commentary and their knowledge, auditors should:

- conclude whether there is a misstatement in the Management Commentary
- consider whether their understanding of the body needs to be updated
- request the body to correct any material misstatement identified.

Information in the Management Commentary is misleading

25. Auditors should carry out test procedure 4 to consider whether information in the Management Commentary is misleading:

Test procedure 4 – misleading information

Auditors should:

- **consider whether any information in the Management Commentary is misleading**
- **request that any material misstatements be corrected**

26. A misstatement in the Management Commentary can also exist when the information is misleading. This includes situations where information necessary for a proper understanding of a matter disclosed in the Management Commentary is omitted or obscured. Examples of misleading information are:

- if the Management Commentary purports to address the key performance indicators, but a key performance indicator has been omitted
- a significant or unusual transaction or event has been omitted such as a large land acquisition
- there is an inappropriate focus on positive issues.

27. If auditors identify any information in the Management Commentary that is misleading, auditors should request the body to correct any material misstatement.

11.2: Annual Governance Statement

Under Regulation 5 of the [accounts regulations](#), local government bodies are required to publish an Annual Governance Statement in accordance with [Delivering Good Governance in Local Government: Framework 2016](#) (the good governance framework).

Annual Governance Statement is inconsistent with the financial statements

28. Auditors should carry out test procedure 1 to consider whether there are any material inconsistencies in 2024/25 between information in the Annual Governance Statement and the financial statements.

Test procedure 1 - inconsistencies with financial statements

Auditors should:

- **select items in the Annual Governance Statement and compare them with the corresponding items in the financial statements**
 - **conclude whether an inconsistency means there is a misstatement**
 - **request that any material misstatements be corrected**
-

29. The Annual Governance Statement may include items that are intended to be the same as, to summarise, or to provide greater detail about, items in the financial statements. In order to evaluate their consistency, auditors should select significant items in the Annual Governance Statement and compare them with the corresponding items in the financial statements.

30. When checking the consistency of the selected items, auditors should:

- compare the information to the financial statements (where it is intended to be the same)
- obtain a reconciliation between an amount within the Annual Governance Statement and the financial statements and:
 - compare items in the reconciliation to the financial statements and the Annual Governance Statement; and
 - check whether the calculations within the reconciliation are arithmetically accurate.

- for information intended to convey the same meaning as disclosures in the financial statements, compare the words used and consider whether any differences imply different meanings.

31. If auditors identify a material inconsistency between information in the Annual Governance Statement and the financial statements, auditors should:

- conclude whether there is a misstatement in the Annual Governance Statement (or the financial statements)
- request that the body corrects any material misstatement identified.

Annual Governance Statement is not in accordance with the good governance framework

32. Auditors should carry out test procedure 2 to consider whether the Annual Governance Statement for 2024/25 has been prepared in accordance with the [good governance framework](#):

Test procedure 2 - non-compliance with good governance framework

Auditors should:

- **use the checklist at Appendix 4 to evaluate whether information required by the good governance framework has been omitted from the Annual Governance Statement**
- **request that any material misstatements be corrected**

33. When the good governance framework was issued in 2016, it required bodies to:

- review their governance arrangements against the principles and sub-principles of good governance set out on pages 13 to 22 of the framework
- develop and maintain a local governance code reflecting the principles and sub-principles
- report publicly on compliance with their own governance code on an annual basis and on how they have monitored the effectiveness of their governance arrangements in the year and on planned changes.

34. Auditors should evaluate whether the body has undertaken a review of its governance arrangements during 2024/25 to establish the extent to which it complies with its own governance code. Where the body has failed to undertake a review, auditors should:

- confirm that the failure has been disclosed and explained in the statement
- consider whether the explanation is consistent with auditors' understanding.

35. Chapter 7 of the good governance framework sets out the information required to be disclosed in the Annual Governance Statement. In order to

evaluate whether required information has been omitted, auditors should check whether the Annual Governance Statement includes the items summarised at Appendix 4 to this module.

36. Paragraph 7.9 of the good governance code sets out the key elements of the governance arrangements. These include complying with the governance requirements of the statements from CIPFA on the [Role of the Chief Financial Officer in Local Government](#) and the [Role of the Head of Internal Audit](#). Where they are not complied with, bodies are required to explain why and set out how they deliver the same impact. There is also a reference to undertaking the core functions of an audit committee in accordance with [Audit Committees: Practical Guidance for Local Authorities](#).

37. Auditors should evaluate whether any item listed at Appendix 4 has been omitted. This includes situations where required information has been:

- included by hyperlink to a website; or
- presented in another part of the annual accounts without appropriate cross-reference.

38. Auditors should evaluate whether the body has considered the following indicators in deciding whether a governance issue is significant:

- The issue seriously prejudices or prevents achievement of a key objective.
- The issue has resulted in a need to seek additional funding to allow it to be resolved, or has resulted in significant diversion of resources from another aspect of the business.
- It has a material impact on the financial statements.
- The audit committee, or equivalent, advises it should be considered significant for this purpose.
- The Head of Internal Audit reports on it as being significant.
- The issue, or its impact, has attracted significant public interest, or has seriously damaged the reputation of the body.

39. If auditors are of the opinion that the Annual Governance Statement omits any item set out at Appendix 4, this represents a misstatement. Where material, auditors should request that the body makes the necessary correction.

Annual Governance Statement is inconsistent with auditor's knowledge

40. Auditors should carry out test procedure 3 to consider whether there are any material inconsistencies in 2024/25 between information in the Annual Governance Statement and the auditor's knowledge obtained in the audit:

Test procedure 3 – inconsistency with auditor’s knowledge

Auditors should:

- consider whether there is a material inconsistency between the Annual Governance Statement and the knowledge they have obtained in the audit
- request that any material misstatements be corrected

41. Auditors’ knowledge includes the understanding of the body and its environment, including the body’s internal control, obtained in accordance with ISA (UK) 315 and issues such as a statutory report from the Controller of Audit on governance issues. Auditors may focus on those matters that are of sufficient importance that a misstatement in relation to that matter could be material.

42. There is no requirement to obtain audit evidence beyond that required to form an opinion on the financial statements. Auditors’ recollection of the audit evidence obtained and conclusions reached may be sufficient, or auditors may have to refer to relevant audit documentation.

43. If auditors identify an inconsistency between information in the Annual Governance Statement and their knowledge, auditors should:

- conclude whether there is a misstatement in the Annual Governance Statement
- consider whether their understanding of the body needs to be updated
- request that the body corrects any misstatement identified.

Information in the Annual Governance Statement is misleading

44. Auditors should carry out test procedure 4 to consider whether information in the Annual Governance Statement for 2024/25 is misleading:

Test procedure 4 - misleading information

Auditors should:

- consider whether any information in the Annual Governance Statement is misleading
- request that any material misstatements be corrected

45. A misstatement in the Annual Governance Statement can also exist when the information is misleading. This includes situations where information necessary for a proper understanding of a matter disclosed in the Annual Governance Statement is omitted or obscured. For example, if the Annual Governance Statement purports to address significant governance issues, omission of such an issue could indicate that the information is misleading.

46. If auditors identify any information in the Annual Governance Statement that is misleading, auditors should:

- conclude whether there is a misstatement in the Annual Governance Statement
- request the body to correct any material misstatement identified.

11.3: Other Statements

Statement of Responsibilities is not in accordance with statutory guidance

47. Regulation 8(2) of the [accounts regulations](#) requires the annual accounts to include a Statement of Responsibilities prepared in accordance with proper accounting practices. [Finance circular 7/2014](#) states that proper accounting practices are those set out in section 3.2 of the accounting code, adapted to reflect the Scottish context as suggested in paragraph 5 of the circular.

48. The accounting code and the circular provide illustrative wording but in summary the statement is required to:

- set out the responsibilities of the body and the Section 95 officer in respect of the annual accounts
- confirm that the annual accounts have been prepared in accordance with the requirements of the accounting code
- state that the financial statements give a true and fair view.

49. Auditors should evaluate whether the required information in the Statement of Responsibilities has been disclosed. If the Statement of Responsibilities omits a required item, this represents a misstatement. Where material, auditors should request that the body makes the necessary correction.

Unaudited part of the Remuneration Report is not in accordance with the accounts regulations

50. Paragraphs 2 and 3 of the Schedule to the accounts regulations require disclosure in the Remuneration Report of details on the remuneration policy and how remuneration arrangements are managed. [The Trade Union \(Facility Time Publication Requirements\) Regulations 2017](#) require employers to publish a range of information in relation to their usage and spend of trade union facility time. [Guidance](#) from the Cabinet Office indicates that disclosure should be in the Remuneration Report.

51. Auditors should evaluate whether required information has been omitted in 2024/25. If the unaudited part of the Remuneration Report omits a required item, this represents a misstatement. Where material, auditors should request that the body makes the necessary correction.

Voluntary information disclosed is inconsistent with the financial statements

52. Any information provided voluntarily by bodies should be included, depending on its nature, within the Management Commentary, Annual Governance Statement, Statement of Responsibilities, or Remuneration Report. This can be done by either physically locating the information within the relevant statement or by simply adding a cross-reference to it (e.g. A statement within the Management Commentary that states “The Foreword on page x forms part of this Management Commentary”). Voluntary information also requires to be considered for any inconsistencies with the financial statements. If auditors identify an inconsistency in 2024/25, auditors should:

- conclude whether there is a misstatement in the voluntary information (or in the financial statements)
- request the body to correct any material misstatement identified.

Information is inconsistent with auditor's knowledge

53. Auditors should evaluate whether there is a material inconsistency between the Statement of Responsibilities, unaudited part of the Remuneration Report, or any information provided voluntarily, and the auditor's knowledge obtained in the audit.

54. If a material inconsistency is identified, auditors should:

- conclude whether there is a misstatement in the information
- request the body to correct any material misstatement identified.

Information disclosed is misleading

55. A misstatement can also exist when the information is misleading. This includes situations where information necessary for a proper understanding of a matter disclosed is omitted or obscured.

56. If auditors identify any information that is misleading, auditors should:

- conclude whether there is a misstatement in the information
- request the body to correct any material misstatements identified.

Appendix 1 Management Commentary

Auditor action checklist

Test procedures	Yes/No/N/A	Initials/date	W/P ref
<p>1 Have you</p> <ul style="list-style-type: none"> selected amounts or other items in the Management Commentary and compared them with the corresponding amounts or other items in the financial statements? concluded whether an inconsistency with the financial statements means there is a misstatement in the Management Commentary? requested that any material misstatement be corrected? 			
<p>2 Have you</p> <ul style="list-style-type: none"> used the checklist at Appendix 2 to evaluate whether information required by the statutory guidance has been omitted from the Management Commentary? evaluated whether the reported items comply with the statutory guidance? requested that any material misstatements be corrected? 			
<p>3 Have you</p> <ul style="list-style-type: none"> considered whether there is a material inconsistency between the Management Commentary and the knowledge you have obtained in the audit? requested that any material misstatements be corrected? 			
<p>4 Have you</p> <ul style="list-style-type: none"> considered whether any information in the Management Commentary is misleading? requested that any material misstatements be corrected? 			
<p>5 Have you discussed any uncorrected material misstatement in the Management Commentary with I&Q?</p>			

Appendix 2 Content of Management Commentary

Checklist

Required item	Yes/No/N/A
<p>1 A fair review of the body's business, which should be a balanced and comprehensive analysis of:</p> <ul style="list-style-type: none"> • the development and performance of the business during 2024/25 • the position of the body's business at 31 March 2025, consistent with the size and complexity of the business. 	
<p>2 A description of the principal risks and uncertainties facing the body.</p>	
<p>3 The review includes an analysis using:</p> <ul style="list-style-type: none"> • financial key performance indicators • other key performance indicators (where appropriate). <p>[Note 1: 'Key performance indicators' means factors reference to which the development, performance or position of the body's business can be measured effectively.]</p> <p>[Note 2: A body may include such non-financial performance indicators as management consider relevant.]</p>	
<p>4 The main trends and factors likely to affect the future development, performance and position of the body's business.</p> <p>[Note 3: This should be to the extent necessary for an understanding of the development, performance or position of the body's business.]</p> <p>[Note 4: The disclosure of information about impending developments or matters in the course of negotiation is not required if the disclosure would be seriously prejudicial to the interests of the body.]</p>	
<p>5 A description of the body's strategy and business model.</p>	
<p>6 The following matters to the extent they are considered to be of strategic importance:</p> <ul style="list-style-type: none"> • Political donations and expenditure • Financial instruments • Events after 31 March 2025 • Indication of future likely developments • Disclosure concerning the employment of disabled persons • Employee involvement 	

Required item	Yes/No/N/A
<ul style="list-style-type: none"> Disclosures concerning greenhouse gas emissions. 	
<p>7 References to, and additional explanations of, amounts included in the body's financial statements.</p>	
<p>8 An explicit reference to the annual strategy and annual report on treasury management that contain additional information on the body's capital investment plans, treasury management, prudential indicators and the loans fund liabilities.</p> <p>[Note 5: This is a requirement of the statutory guidance in finance circular 7/2016.]</p>	
Other requirements	Yes/No/N/A
<p>9 The Management Commentary should recognise, highlight, and explain the relationships and interdependencies between the various required items and other disclosures in the annual accounts (paragraph 7 of the statutory guidance)</p> <p>[Note 6: The required items should not be treated as a list of disclosures and addressed in isolation.]</p>	
<p>10 Only information that is material in the context of the Management Commentary should be included (paragraph 8 of the statutory guidance).</p> <p>[Note 7: Bodies are required to have regard to paragraphs 5.4 and 5.5 of the FRC guidance on strategic reports which highlights the greater influence of qualitative factors and the assessment of materiality to be reviewed annually.]</p>	
<p>11 The Management Commentary should cover the group where group financial statements are prepared (paragraph 3 of the statutory guidance in Part 2 of finance circular 5/2015).</p>	
<p>12 The Management Commentary should:</p> <ul style="list-style-type: none"> be fair, balanced, understandable, and comprehensive but also concise have a forward-looking orientation provide information that is entity-specific highlight and explain linkages between pieces of information presented within the Management Commentary and in the annual accounts more broadly. <p>[Note 7: These are the communication principles set out in the FRC guidance on the strategic report, as required by paragraph 5 of the statutory guidance in Part 2 of finance circular 5/2015]</p>	

Appendix 3 Annual Governance Statement

Auditor action checklist -

Test procedures	Yes/No/N/A	Initials/date	W/P ref
<p>1 Have you</p> <ul style="list-style-type: none"> selected items in the Annual Governance Statement and compared them with the corresponding items in the financial statements? concluded whether an inconsistency with the financial statements means there is a misstatement in the Annual Governance Statement? requested that any material misstatement be corrected? 			
<p>2 Have you</p> <ul style="list-style-type: none"> used the checklist at Appendix 4 to evaluate whether information required by the good governance framework has been omitted from the Annual Governance Statement? requested that any material misstatement be corrected? 			
<p>3 Have you</p> <ul style="list-style-type: none"> considered whether there is a material inconsistency between the Annual Governance Statement and the knowledge you have obtained in the audit? requested that any material misstatements be corrected? 			
<p>4 Have you</p> <ul style="list-style-type: none"> considered whether any information in the Annual Governance Statement is misleading? requested that any material misstatements be corrected? 			
<p>5 Have you discussed any uncorrected material misstatement in the Annual Governance Statement with I&Q?</p>			

Appendix 4 Content of Annual Governance Statement

Checklist

Required item	Yes/No/N/A
1 An acknowledgement of responsibility for ensuring that there is a sound system of governance (incorporating the system of internal control) and reference to the body's code of governance.	
2 Reference to, and assessment of the effectiveness of, key elements of the governance framework and the role of those responsible for developing and maintaining the governance environment.	
3 Appropriate reference to: <ul style="list-style-type: none"> • financial management arrangements conforming with the Role of the Chief Financial Officer in Local Government (or an explanation if not) • counter fraud and anti-corruption arrangements are in accordance with Code of Practice on Managing the Risk of Fraud and Corruption • assurance arrangements conform with the Role of the Head of Internal Audit (or an explanation if not) • the functions of the audit committee are undertaken as identified in Audit Committees: Practical Guidance for Local Authorities. 	
4 An opinion on the level of assurance that the governance arrangements can provide and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.	
5 An agreed action plan showing actions taken, or proposed, to deal with significant governance issues.	
6 Reference to how issues raised in the previous year's Annual Governance Statement have been resolved.	
7 A conclusion which commits to monitoring implementation as part of the next annual review.	
Other requirements	Yes/No/N/A
8 The body should have undertaken a review of its system of governance arrangements during 2024/25 to establish the extent to which it complies with its governance code.	

Other requirements	Yes/No/N/A
9 The Annual Governance Statement should <ul style="list-style-type: none">relate to the governance system as it applied during 2024/25include any significant events up to the authorised for issue date.	

Technical Guidance Note 2024/8(LG) Module 11

Guidance on misstatements in Statutory Other Information in 2024/25

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Technical Guidance Note 2024/8(LG) Module 12

Guidance on misstatements in integration joint boards in 2024/25



 AUDIT SCOTLAND

Prepared by Innovation and Quality for auditors in the local government sector

January 2025

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Accessibility

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

Module 12 introduction

Purpose and use of this module

1. This module (at section 1) provides guidance on applying the other modules of TGN 2023/8(LG) to the audit of the annual accounts of an integration joint board (IJB).
2. Section 2 provides guidance on additional potential misstatements specific to IJBs and supplementary guidance on potential misstatements that also apply to local authorities in the following financial statement areas:
 - Presentation of surplus or deficit on the provision of services (SDPS).
 - Accounting treatment of operating expenditure; underspends and overspends; reserves; and 'hosted' services.
 - Accounting in the absence of cash balances.
 - Calculating hospital services set asides.
 - Disclosure of related parties.
3. There is also supplementary guidance on potential misstatements in the Remuneration Report (section 3).
4. The [Public Bodies \(Joint Working\) \(Scotland\) Act 2014](#) establishes the framework for the integration of health and social care in Scotland. In most cases, the integration authority is a separate IJB, which are legal entities falling within section 106 of the Local Government (Scotland) Act 1973. The IJB has responsibility for the planning, resourcing and operational delivery of all integrated services. An Integration Scheme for each IJB sets out the detail of the integration arrangement.
5. Under the Act:
 - a health board and one or more councils (referred to in the Act as 'constituent authorities' but more informally described as partners) delegate functions and contribute funding to the IJB in respect of those functions
 - the health board sets aside amounts in respect of large hospital services for use by the IJB
 - the IJB commissions services from, and makes payment to, the constituent authorities for delivery of those services

- some IJBs host speciality services for the other IJBs in the health board area.

6. Increasingly, the IJB and its constituent authorities are described as a health and social care partnership. A health and social care partnership is not a reporting entity in its own right.

7. Where the auditor of an IJB does not also audit a constituent authority that hosts systems relevant to the IJB's financial reporting, auditors may find it helpful to refer to the [protocol](#) for requesting assurances provided by I&Q.

Changes in guidance in 2024/25

8. There are no changes to the guidance in 2024/25

Consulting with I&Q

9. Auditors should consult I&Q completing the enquiry form and sending by email to TechnicalQueries@audit-scotland.gov.uk.

12.1: Application of other modules to IJBs

10. The following tables summarise the application of the other modules of the TGN to IJBs, and either provide supplementary guidance in some areas or indicate the section of this module in which it is provided.

Overview Module

11. All sections of the overview module apply to IJBs. Supplementary guidance on the presentation of the financial statements, related parties and agency arrangements is provided at section 2 of this module:

Modules 1 to 8

12. Modules 1, 3 and 7 of the TGN do not apply to IJBs and no further comment is required. The following table covers the application of modules 2, 4 to 6 and 8:

Module	Applicability	Supplementary guidance and action
Module 2 Provisions, creditors and accruals	Applies	The main principles apply though many of the specific provisions referred to will not be applicable.
Module 4 Employee benefits	Not applicable	In accordance with paragraphs 29 and 37 of mandatory guidance from LASAAC, this would only apply if exceptionally the IJB has formally agreed to accept the ongoing retirement benefit liabilities for the Chief Officer or voting board members.
Module 5 Reserves	Applies	While IJBs do not have the power to hold the reserves set out in the 1975 Act, they have a General Fund and may have a balance on it at the year-end if they retain underspends. Supplementary guidance on the General Fund balance is provided at section 2 of this module.
Module 6 Group financial statements	Not applicable	IJBs are unlikely to have to prepare group financial statements. However, IJBs are included in the constituent authority's group financial statements (probably as a joint venture).
Module 8 Grants and other income	Applies	Module 8.3 applies to the funding contributions provided by constituent authorities.

Module 9 Other financial statement areas

13. Most of the sections in Module 9 of the TGN are not expected to apply to IJBs in practice. The following table lists those that may apply along with some supplementary guidance:

Section	Supplementary guidance and action
9.1 Expenditure and Funding Analysis	This applies if there are any statutory adjustments.
9.7 Cash and cash equivalents	IJBs do not hold cash or have bank accounts, and supplementary guidance on the impact of this is provided at section 2 of this module.

Module 10 Remuneration Report

14. Supplementary guidance is provided at section 3 of this module.

Module 11 Statutory Other Information

15. All sections of Module 11 apply to IJBs. The following table provides some supplementary guidance:

Section	Supplementary guidance and action
11.1 Management Commentary	<p>Paragraph 99 of the LASAAC mandatory guidance recommends that IJBs consider including information in the Management Commentary on:</p> <ul style="list-style-type: none"> • the initially agreed funding from each partner; • changes in the budgeted funding contributions; • the final budget for the use of, or contribution to, reserves compared to that originally planned; • an analysis of variances between the outturn and the final budget; and an analysis of any variances which have been retained by the funding partners. <p>The Management Commentary should be signed by the Chief Officer, Chair, and IJB financial officer.</p>
11.2 Annual Governance Statement	The Annual Governance Statement should be signed by the Chief Officer and Chair.
11.3 Other statements	The Statement of Responsibilities should be signed by the IJB chief finance officer.

12.2: Financial statements

SDPS section in the CIES is not properly presented

16. IJBs act as principal (explained in section 5 of the Overview Module) for all integrated services delegated to them. This means that funding contributions received by the IJB from the constituent authorities are distinct from the commissioning expenditure incurred by the IJB, which is also distinct from the subsequent service delivery expenditure incurred by constituent authorities. The various related transactions are summarised in the following table:

Transaction	IJB treatment	Constituent authority treatment
Funding contribution to IJB	Income	Expenditure
IJB operation costs (where support services provided for consideration)	Expenditure	Income
Service commissioning	Expenditure	Income
Service delivery	-	Expenditure

17. An IJB commissions services from the constituent authorities; this is distinct from the IJB exercising operational control of the staff and assets of a constituent authority to deliver the services itself. It is the cost of commissioning the services that is the expenditure recognised by the IJB rather than the expenditure incurred in delivering the services.

18. The items that IJBs are therefore required to present in the CIES are summarised in the following table:

Item	Guidance
Funding contributions from constituent authorities	Non-ringfenced funding should be presented in the Taxation and Non-specific Income line. Any funding provided for a specific service should be presented as income in the relevant service line.
Operating expenditure	This relates to the costs of operating the IJB, and should include the supply of staff and services by the constituent authorities.
Commissioning expenditure	This is the resource provided to constituent authorities to fund the delivery of the commissioned services. The analysis of

Item	Guidance
	service segments should be based on the IJB's internal management reporting.

Operating expenditure is not complete or did not exist

19. The [LASAAC mandatory guidance](#) covers IJB operating expenditure at paragraphs 11 to 19. The main issues are summarised in the following table:

Issue	Guidance
Constituent authorities' own support services (e.g. HR, payroll, accommodation)	Support service cost incurred by constituent authorities when delivering commissioned services should not be included in IJB operating expenditure. However, they may be reflected in commissioning expenditure if the funding contributions include an allowance for them.
Support services provided by constituent authorities to IJB for a consideration (e.g. ledger and financial services)	Where the funding contribution is reduced as consideration for the provision of these services: <ul style="list-style-type: none"> the funding contribution should be grossed up the consideration should be shown as operating expenditure.
Support services provided by constituent authorities to IJB free of charge (i.e. service in kind)	IPSAS 23 states that a body may recognise the value of services in kind received as expenditure and income, but there is no requirement to do so. However, paragraph 19 of the LASAAC mandatory guidance recommends that the nature and extent of the arrangement is disclosed as a note in the IJB accounts.

Accounting entries for under/overspends are not appropriate

20. The Integration Scheme should set out the process to agree and amend funding to the IJB and to deal with variances in spending on integration functions. The appropriate accounting treatment at the year-end is determined by the approach adopted in the Integration Scheme. The Integration Scheme should specify where adjustments to funding contributions and commissioning expenditure are required to meet any under/overspend. For example:

21. Appendix D of the LASAAC mandatory guidance summarises the scenarios that may arise and how these should be treated by constituent authorities.

22. In summary, the Integration Scheme may provide that an:

- underspend is retained by one or more partners, and the funding contribution to the IJB for the year is reduced
- overspend is borne by one or more partners, and the funding contribution to the IJB for the year is increased

- underspend or overspend does not result in any adjustment to the funding contribution for the year.

23. The funding contribution for 2024/25 should have been properly adjusted in accordance with the Integration Scheme to reflect any underspends/overspends.

Accounting entries for reserves are not appropriate

24. Where an IJB had an accumulated surplus on the General Fund at 31 March 2024, it can use some or all of the balance to fund expenditure during 2024/25. Where applied:

- all expenditure should have been charged to the CIES. Direct reserve accounting (whereby expenditure is charged direct to the General Fund in the MIRS) is not permitted
- reserves should not have been recognised as income in the CIES
- the CIES should show a deficit which reduces the General Fund balance in the Balance Sheet at 31 March 2025.

25. There is no statutory restriction that prevents an IJB from having an accumulated deficit on the General Fund (i.e. negative reserve). However, paragraph 102 of the LASAAC mandatory guidance encourages the IJB to remedy the funding situation in year to prevent this position arising. Where this is not possible, and the General Fund presents an accumulated deficit at 31 March 2025, auditors should:

- consider an emphasis of matter paragraph in the Independent Auditor's Report
- discuss with Audit Scotland whether a statutory report should be considered.

Reported cash balances do not exist

26. IJBs do not normally hold cash or operate bank accounts. Instead, each constituent authority uses its funding contribution to pay staff and suppliers of the IJB directly. Where an IJB underspends for a financial year and can retain that underspend, it should recognise a debtor rather than a cash balance. The debtor represents the amount of funding contribution retained by each constituent authority that has not yet been used by the IJB.

27. The practical effect is that accounting entries that would normally involve cash (e.g. debit cash, credit income) should instead involve the debtor (e.g. debit debtor, credit income). An underspend (i.e. income exceeding expenditure) would also lead to a balance on the General Fund which is matched by the debtor.

28. Any General Fund surplus balance at 31 March 2025 should be matched by a debtor rather than a cash balance.

Hosted services are not properly accounted for

29. Some IJBs 'host' speciality services for the whole health board area on behalf of all the other IJBs, with the recipient IJBs being recharged for the services for their area or population. The Integration Scheme should set out how this operates in practice. The main options are set out in the following table:

Option	Treatment
Amount recharged is the same as the costs incurred	It is expected that the hosting IJB is acting as an agent (explained in the Overview Module). The costs and recharges of these services should not appear in the CIES of the hosting IJB (except for its own share of the service costs).
Hosting IJB retains any over/underspend for the whole area	The hosting IJB may be acting as principal. The costs and recharges of these services should be included in the CIES of the hosting IJB.

30. IJBs should have considered the terms of the Integration Scheme and determined whether:

- the hosting IJB is acting as agent or principal
- the arrangements have been accounted for in 2024/25 in line with the requirements of the Integration Scheme
- income and expenditure related to an agency arrangement has been excluded from the CIES.

Amount set aside for hospital services are not properly calculated

31. IJBs are responsible for the strategic planning of hospital services associated with emergency care. Health boards are required to calculate in accordance with [guidance](#) issued by the Integrated Resource Advisory Group under the Act an amount 'set aside' for the provision of these delegated services and advise the IJB accordingly. The extent of compliance with the guidance varies across health boards. However, the failure of the health board to calculate the set aside in accordance with the guidance does not represent a misstatement in the IJB accounts.

32. This resource is within the control of the IJB and should be included in the overall funding contribution. Paragraph 115 of the [LASAAC mandatory guidance](#) requires disclosure of a clear explanation of the relevant health board's progress to date towards full implementation of the guidance. IJBs should have:

- recognised the amounts set aside in the 2024/25 IJB annual accounts as those advised by the health board
- disclosed an explanation of the progress towards full implementation of the guidance.

Information on related parties is not disclosed

33. The constituent authorities are expected to be related parties to the IJB. The [LASAAC mandatory guidance](#) covers related parties at paragraphs 64 to 66. IJBs should disclose:

- contributions received from each constituent authority
- commissioning expenditure provided to each constituent authority
- services in kind
- amounts incurred by the IJB for the provision of key management personnel. This is expected to include non-voting board members (e.g. the IJB chief officer, chief social work officer, chief financial officer) where the IJB is charged by the constituent authorities for their services.

12.3: Remuneration Report

Disclosed relevant persons are not complete

34. The [LASAAC mandatory guidance](#) provides an interpretation of the requirements for the Remuneration Report at paragraphs 20 to 49. The guidance considers which individuals should be considered a 'relevant person' (as explained in Module 10) for inclusion in the Remuneration Report and the related disclosures. This is summarised in the following table:

Category	Relevant person	Disclosure
Chairperson and Vice-Chairperson of the board	Yes	Names and their constituent authority Any remuneration received including taxable expenses Pension entitlement along with an explanation that the pension liability rests with the relevant constituent authority
Other voting board members	No	Names and their constituent authority (voluntary) A statement that the IJB does not pay allowances or remuneration to voting board members but that they are remunerated by their constituent authority
IJB chief officer	Yes	An explanation that the chief officer is regarded as an employee of the IJB although their contract of employment is with the relevant constituent authority Where not full time, only the remuneration related to the IJB post should be disclosed Pension entitlement related to the IJB role along with an explanation of where the pension liability rests
Other office-holders	Possible	As for chief officer where 'relevant person' criteria met

35. Officers and staff other than the chief officer are not regarded as employees of the IJB. However, a 'relevant person' includes any senior employee holding office with an IJB. Direct employment status is not the only consideration to take into account. The chief finance officer is therefore likely to meet the definition of a relevant person by virtue of holding an office with the IJB. This may also apply to other officers and staff.

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Technical Guidance Note

2024/8(LG) Module 12

Guidance on misstatements in integration joint boards in
2024/25

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Technical Guidance Note 2024/8(LG)

Module 13

Guidance on Local Government Pension Scheme
pension fund accounts in 2024/25



 AUDIT SCOTLAND

Prepared by Innovation and Quality for auditors in the local government sector

January 2025

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Accessibility

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

Module 13 introduction

Purpose and use of this module

1. Section 1 of this module provides guidance on applying the other modules of TGN 2024/8(LG) to the audit of the annual accounts of pension funds forming part of the Local Government Pension Scheme (LGPS) in Scotland.

2. It also provides supplementary guidance on the potential misstatements in the following areas:

- Presentation of financial statements (section 2).
- Contributions and other payments to the fund (section 3).
- Investments (section 4).
- Retirement benefits (section 5).
- Management expenses (section 6).
- The actuarial present value of promised retirement benefits (section 7).
- Governance Compliance Statement, and other required statements (section 8).

3. The LGPS in Scotland is a defined benefit scheme operated under [The Local Government Pension Scheme \(Scotland\) Regulations 2018](#) (the LGPS Regulations) as [amended](#). The LGPS in Scotland comprises eleven separately administered pension funds. The scheme managers responsible for the local administration of each fund (referred to as administering authorities) are set out at Schedule 3 of the LGPS Regulations. Membership of the pension funds comprises employees, elected members, and pensioners of the administering authorities and other participating employers.

Changes in guidance in 2024/25

4. There are no changes for 2024/25.

Consulting with I&Q

5. Auditors should consult I&Q by completing the [enquiry form](#) and sending by email to TechnicalQueries@audit-scotland.gov.uk.

13.1: Application of other modules to LGPS

6. The following tables summarise the application of the other modules in the TGN to the LGPS, and either provide supplementary guidance in some areas or indicate the section of this module in which it is provided.

Overview Module

7. Section 1 of the Overview Module on the presentation of the financial statements does not apply to the LGPS and is replaced by section 2 of this module. The other sections of the Overview Module apply in full.

Modules 1 to 8

8. The following table covers the application of modules 1 to 8 of the TGN:

Module	Applicability	Supplementary guidance and action
Module 1 Property, plant and equipment	Not applicable	
Module 2 Provisions, creditors and accruals	Applies	The main principles apply though many of the specific provisions referred to will not be applicable.
Module 3 Financial instruments	Applies	<p>Supplementary guidance on investments is provided at section 4 of this module.</p> <p>An additional consideration for borrowing is Regulation 5 of The Local Government Pension Scheme (Management and Investment of Funds (Scotland) Regulations 2010 (the investment regulations). The administering authority should have borrowed only:</p> <ul style="list-style-type: none"> • by way of temporary loan or overdraft to pay benefits due under the scheme; or meet investment commitments arising from changes to the balance between different types of investment • if it reasonably believes that the sum borrowed, and any interest, can be repaid out of its pension fund within 90 days from the date of borrowing.

Module	Applicability	Supplementary guidance and action
Module 4 Employee benefits	Not applicable	Equivalent guidance from an LGPS perspective is provided in sections 3 (contributions), 5 (retirement benefits) and 7 (actuarial present value of promised retirement benefits) of this module.
Module 5 Reserves	Not applicable	
Module 6 Group financial statements	Applies	Although there is the possibility of group financial statements being required, this is very rare in practice.
Module 7 Leases	Not applicable	
Module 8 Grants and other income	Not applicable	

Module 9

9. Most of the sections in Module 9 of the TGN do not apply to the LGPS. The following table lists those that do apply along with some supplementary guidance:

Section	Supplementary guidance and action
9.3 Fair value measurement	This applies to investments as the Code of Practice on Local Authority Accounting in the UK (accounting code) adapts IFRS 13 to remove pension fund investments from its scope exclusions. There is supplementary guidance at section 4 of this module.
9.4 Investment property	Supplementary guidance on investment properties is provided at section 4 of this module.
9.7 Cash and cash equivalents	In accordance with Regulation 6 of the investment regulations , pension fund money should be kept in a separate bank account held by the administering authority for that purpose.
9.11 New accounting standards, key assumptions and related parties	Section 3.9.4 of the accounting code sets out the disclosure requirements for related parties. Although paragraph 3.9.4.4 of the accounting code states that the disclosure requirements for key management personnel are satisfied by the disclosures for officer remuneration, this is based on the assumption that there are such disclosures in the same document. The inclusion of a Remuneration Report in the authority's own annual accounts does not satisfy the disclosure requirements for key management personnel in the pension fund financial statements. The body should have complied with disclosures required for key management personnel in 2024/25.

Module 10 Remuneration Reports

10. A statement should be disclosed that a Remuneration Report is not required because no relevant persons have received remuneration.

Module 11 Statutory Other Information

11. All sections in Module 11 apply to the LGPS, and the following table provides some supplementary guidance:

Section	Supplementary guidance and action
11.1 Management Commentary	The LGPS regulations also require a report about the management and financial performance of the fund. Guidance is provided in section 8 of this module.
11.2 Annual Governance Statement	The LGPS regulations also require a Governance Compliance Statement. Guidance is provided in section 8 of this module.
11.3 Other statements	Supplementary guidance is provided in section 8 of this module.

13.2: Presentation of financial statements

Pension fund financial statements are different to local authorities and comprise a fund account and a net assets statement.

The set of financial statements is not complete or properly presented

12. Paragraph 6.5.3.6 of the [accounting code](#) sets out the financial statements of a pension fund. [Example accounts](#) have been provided by CIPFA (initially for 2020/21 but they continue to apply for 2024/25). A complete set of financial statements comprises:

- a fund account
- a net assets statement
- notes to the financial statements.

13. The authority should have in respect of 2024/25:

- presented a complete set of financial statements
- clearly identified the financial statements and distinguished them from the Statutory Other Information in the annual accounts
- clearly identified each financial statement and the notes
- presented both the financial statements with equal prominence
- used signage or brackets in a manner that is correct, clear and consistent
- disclosed a description of the purpose of each statement on its face that is clear and concise
- offset assets and liabilities or income and expenses only where required or permitted by the accounting code.

14. When checking that the accounting code's disclosure requirements have been met in 2024/25, the authority should have:

- completed CIPFA's most recent [disclosure checklist](#) (originally issued for 2020/21) that accompanies the example accounts

- investigated the reasons for any non-compliance that is highlighted

15. Where the authority declines to do so, it should have established alternative means by which it satisfies itself regarding the completeness of disclosures.

Fund account is not properly presented

16. The fund account should show the transactions during the year that have changed the value of net assets available for benefits. The following table sets out the items that paragraph 6.5.3.6 of the accounting code requires to be included in the fund account, along with an explanation and/or information on where guidance is provided in this module:

Item	Explanation
Contributions	See section 3
Transfers in from other pension funds	
Retirement benefits	See section 5
Payments to and on account of leavers	
Net (additions)/withdrawals from dealings with members	A sub-total showing the net of the above items
Management expenses	See section 6
Net additions/withdrawals including fund management expenses	A sub-total
Investment income	
Taxes on income	See section 4
Profit and losses on disposal of investments and changes in the market value of investments	
Net return on investments	Sub-total of above three items
Net (increase)/decrease in the net assets available for benefits during the year	Total of all above items

17. The 2024/25 fund account should have been presented in accordance with paragraph 6.5.3.6 of the accounting code.

18. The accounting code allows the option to disclose the actuarial present value of promised retirement benefits (explained at section 7) in the net assets statement. This is not common in practice but, if this option is chosen, the following should have been presented in the fund account:

- the change in actuarial present value of promised retirement benefits during 2024/25
- the surplus/(deficit) on the pension fund for 2024/25.

Net assets statement is not properly presented

19. The net assets statement should show the assets available for retirement benefits, and the associated liabilities, at 31 March 2025. The following table sets out the items that paragraph 6.5.3.6 of the accounting code requires to be included in the net assets statement, along with an explanation and information on where guidance is provided in this module:

Item	Explanation
Investment assets	See section 4
Investment liabilities	
Total net investments	Sub-total
Borrowings	See section 1
Current assets	Includes contributions due at 31 March 2025, and cash balances not included in investments
Current liabilities	Includes benefits unpaid at 31 March 2025
Net assets of the fund available to fund benefits at the end of the reporting period	Total of all above items

20. The net assets statement at 31 March 2025 should have been presented in accordance with paragraph 6.5.3.6 of the accounting code.

21. The net asset statement may also present the actuarial present value of promised retirement benefits where the body chooses that option.

Presentation of financial statements is not consistent with previous years

22. Paragraph 3.4.2.34 of the accounting code requires authorities to retain the presentation and classification of items in the financial statements used in previous years unless another presentation or classification is required by the accounting code or is more appropriate.

23. Where the authority has changed the presentation or classification of items in 2024/25:

- the new presentation or classification should be more appropriate
- it should have accurately reclassified 2023/24 comparative amounts for changes in the presentation, and any changes of classification, of items in 2024/25
- the nature of the reclassification, and reasons for it, and the amount of each item reclassified, should have been disclosed.

24. Where 2023/24 comparative amounts have not been reclassified on the grounds that it is impracticable, the authority should have made every reasonable effort to reclassify the amounts. Where that is the case, they should have disclosed the:

- reason for not reclassifying the amounts
- the nature of the adjustments that would have been made if the amounts had been reclassified.

25. The authority should have reclassified the items where it is not considered impracticable to do so. Auditors should consider the impact on their opinion on the financial statements if the authority has not reclassified and the misstatement is material.

Information in the notes is not properly disclosed

26. The information to be disclosed in notes to the financial statements is set out in the accounting code at paragraph 6.5.5.1. The authority should have:

- presented the notes for 2024/25 in a systematic manner as required by paragraph 3.4.2.86 of the accounting code
- cross-referenced each item in the financial statements to any related information in the notes.

13.3: Contributions to the fund

Contributions are payments from employers and employees to the pension fund which are invested to help meet the long-term cost of the retirement benefits payable.

Employee contributions are not accurate

27. There are two types of employee member under the LGPS regulations as explained in the following table:

Type of member	Reg	Explanation
Active	3	Currently employed by the administering authority or other participating bodies and is making contributions from pensionable pay to the fund.
Deferred	6	Previously an active member but has chosen to leave their accumulated contributions in the fund to benefit from a pension in the future.

28. Contributions from active members are payments made into the pension fund. The LGPS regulations require employee contributions to be calculated by applying specified rates to pensionable pay as explained in the following table:

Feature	Explanation
Normal contribution rates	<p>Employee contributions are paid on a tiered basis over five earnings bands set out at Regulation 9(2)(b) of the LGPS regulations, with the contribution rate being determined by the amount of earnings falling into each band.</p> <p>The earnings for each band in the regulations are expressed as at 1 April 2014 and are increased each year by any increase to benefits under the relevant pensions increase order. The Pensions Increase (Review) Order 2024 sets out the increase from 8 April 2024.</p> <p>The contribution rates range from 5.5% to 12.5%.</p>
Other contribution rates	<p>Regulation 10 of the LGPS regulations allows members to elect to pay a reduced rate of 50% of that which would otherwise be payable.</p> <p>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).</p>

Feature	Explanation
Pensionable pay	<p>Pensionable pay is defined at regulation 20 of the LGPS regulations as all of an employee's salary, wages, and other pensionable emoluments including equal pay arrears of pay (but not equal pay compensation).</p> <p>In some circumstances (e.g. reduced pay on sick leave), an assumed pensionable pay requires to be calculated in accordance with regulation 21.</p> <p>Under Regulation 90, a member may be protected from a permanent reduction in pay for 10 years.</p>

29. The authority should have applied:

- contributions during 2024/25 at the correct rate
- the rate to correct pensionable pay
- contributions in respect of all members, and only members.

30. Under the LGPS regulations, responsibility for calculating the contributions lies with the employing body rather than the administering authority. Testing should therefore be straight-forward for the 11 employing bodies that are also administering authorities, as auditors will have access to the necessary information.

31. For the other employing bodies, testing of employee contributions will have been carried out as part of the audit of retirement benefits set out at Module 4. Auditors of those employing bodies are expected to provide assurance to the pension fund auditor as to whether 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.

32. Where auditors of employing bodies are not in a position to give sufficient assurance for 2024/25 to the satisfaction of the pension fund auditor, further testing of contributions will be required. It is considered most efficient if the testing is carried out by the auditor of the employing body. In the event this is not possible, arrangements should be made for the auditor of the pension fund to visit the employing body to undertake the testing directly.

33. Auditors of pension funds should contact the auditors of the other employing bodies they consider necessary to agree arrangements for satisfactory assurances to be provided. Auditors may find it helpful to follow a [protocol](#) for seeking and providing assurances that will be provided by I&Q in due course.

Employer contributions are not accurate

34. Employer members of the LGPS are summarised in the following table:

Employers	Explanation
Administering authorities	An employing authority which administers the pension fund.
Scheduled bodies	Bodies with a statutory obligation to join, e.g. other councils in the area, non-uniformed staff in police and fire, and colleges.
Admitted bodies	Bodies who meet certain conditions set out at Part 2 of Schedule 2 to the LGPS regulations, e.g. a body which provides a public service (they may have their own separate admission fund).

35. The rates for employer contributions are calculated to ensure that the existing assets and future contributions will be sufficient to meet future benefit payments from the fund. Regulation 60 of the LGPS regulations requires administering authorities to obtain a triennial valuation by actuaries of the assets and liabilities of each pension fund as at 31 March. Some key features of the valuation are summarised in the following table:

Feature	Explanation
Assessment of liabilities	Liabilities are assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes financial assumptions for discount rates, pay increases, pension increases, as well as longevity assumptions.
Notifying actuaries of future events	Authorities need to make sure that actuaries are made aware of future events that could affect the calculation of the liability, e.g: <ul style="list-style-type: none"> • significant redundancy schemes • workforce growth or reduction schemes • significant service restructuring or pay re-grading • planned pay awards.
Expected rate of return for investments	Actuaries apply a discount rate that reflects the expected rate of return for investments (which is different to the estimate disclosed for the purposes of the financial statements explained at section 7).
Actuarial report	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 applicable actuarial valuation for 2024/25 was as at 31 March 2023 which set contribution rates for the three years from 1 April 2024.

36. There are two categories of employer contributions as explained in the following table:

Type of contribution	Explanation
Normal contributions	These are set in respect of scheme membership expected to be completed after the date of the actuarial valuation, i.e. 'future service'. The contribution rate required to meet the expected cost of future service benefits is derived from an assessment of the cost of future service benefits, less expected employee contributions.
Deficit recovery contributions	Some contributions are in respect of scheme membership completed before the valuation date. This is where funds have a deficit at the actuarial valuation, and employers are required to make a contribution towards restoring the funding position in excess of the amount required to fund the ongoing accrual of benefits (i.e. deficit funding). The deficit recovery period varies depending on the individual circumstances of each employer.

37. Employers' contributions for 2024/25 should 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 that employer for that year in the rates and adjustments certificate.

38. As with employee contributions, auditors of pension funds should contact the auditors of the other employing bodies to agree arrangements for satisfactory assurances to be provided.

Further employer payments are not accurate

39. Further payments are made by scheme employers to the fund under Regulation 63 of the LGPS regulations 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 the earlier payment. 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 under the LGPS regulations 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).

40. As with employer and employee contributions, auditors of pension funds should contact the auditors of the other employing bodies to agree arrangements for satisfactory assurances to be provided.

Contributions and further payments are not properly accounted for

41. The accounting code requires contributions to be recognised as income in the fund account when it is probable that the associated economic benefits or service potential will flow to the pension fund, and the amount of the contributions can be measured reliably. For 2024/25:

- normal contributions during 2024/25, both from employers and employees, should have been recognised on an accruals basis in the period to which they relate
- deficit recovery contributions and pension strain contributions should have been recognised in the period in which the liability arises
- a debtor should have been recognised at 31 March 2025 where the recognition criteria has been met but contributions or further payments have not been received.

42. Admitted bodies are required to evaluate their risk of dissolving due to insolvency. Where necessary, the body is required to enter into an indemnity or bond agreement. The authority should have:

- indemnities or bonds are in place at 31 March 2025 with appropriate admitted bodies
- recognised an impairment loss at 31 March 2025 for potential non-payment where a dissolved admitted body is not covered by adequate indemnities or bonds.

Information on contributions is not properly disclosed

43. The [accounting code's](#) disclosure requirements for contributions are set out at:

- paragraph 6.5.3.6 which requires contributions analysed between employer and employee to be disclosed in the notes if not presented on the face of the fund account
- paragraph 6.5.5.1 n) and q) which require disclosure in the notes of: the funding policy, (i.e. the basis on which the contribution rate has been set for both the administering authorities and scheduled bodies); and contributions receivable analysed between the administering authority, scheduled bodies, and admitted bodies, and by type of contribution.

44. The authority should have complied in 2024/25 with the accounting code's disclosure requirements for contributions.

Additional voluntary contributions are not properly treated

45. Regulation 17 of the LGPS regulations permits active members to enter into arrangements to pay additional voluntary contributions (AVCs). The arrangements are established between the administering authority and an external insurance company. The AVC payments are invested in the insurance company rather than the pension fund.

46. Paragraph 6.5.5.1 u) of the accounting code requires information on AVCs to be disclosed. any AVC payments during 2024/25 have been excluded from the fund account; and the amount paid by members during 2024/25 and the value at 31 March 2025 of separately invested AVCs have been disclosed

Transfer payments are not complete or are not properly presented

47. In accordance with paragraph 6.5.3.6 of the accounting code, the authority should have presented a line in the 2024/25 fund account for transfers from other pension funds under Regulation 95 of the LGPS regulations

Payments for added years are not properly treated

48. Employing bodies make payments to retired members when they have decided to augment their benefits by adding years to their length of qualifying service (generally referred to as 'added years') under [The Local Government \(Discretionary Payments and Injury Benefits\) \(Scotland\) Regulations 1998](#). Administering authorities often manage the payments as agents of the employing bodies. As this is an agency arrangement, the payments (both to the fund from the employing body and from the fund to pensioners) should not be recognised in the fund account as either contributions or benefits paid.

49. Payments of 'added years' during 2024/25 should have been accounted for on agency basis; and information regarding the payments of 'added years' should have been disclosed as an agency arrangement in accordance with paragraph 3.4.4.1 (3) of the accounting code:

13.4: Investments

The investing powers of pension funds are wider than those available to local authorities generally and includes contracts in financial futures, traded options, and insurance and stock lending.

Investments are not complete or do not exist

50. The [investment regulations](#) provide for the use and investment of pension fund money. The investing powers of pension funds are wider than those available to local authorities generally and include: securities; equities; investment property; cash deposits; derivative contracts; and pooled investments (a means of seeking economies of scale and risk diversification through a variety of investors 'pooling' their investments).

51. Key requirements of the [investment regulations](#) are summarised in the following table:

Reg	Requirement
3	The term 'investments' includes contracts in financial futures, traded options, and insurance and stock lending.
11	An administering authority is required to formulate a policy for the investment of fund money. (Regulation 55 of the LGPS regulations requires a report which explains the authority's investment policy and reviews the performance of the investments requires to be included in the pension fund annual report).
12	An administering authority is required to prepare, maintain and publish a written statement of investment principles. The statement is required to be included in the pension fund annual report and cover the policy on: <ul style="list-style-type: none"> • the types of investment to be held and the balance between them • the risk and expected return on investments • the realisation of investments • socially responsible investment • the exercise of voting rights attached to investments.
Part 1 of Schedule 1	This part limits the proportion of fund money which can be invested in specified investments to the percentage shown in a table in that schedule.

52. Administering authorities should have identified all the pension fund investments at 31 March 2025.

Investments are not properly measured

53. The accounting code (paragraph 6.5.1.2) requires bodies to account for investments in accordance with *IFRS 9 Financial Instruments*. Pension fund investments should be included in the category of fair value through profit and loss (as explained in Module 3) and should be measured at fair value using the valuation techniques set out in IFRS 13. They therefore need to be regularly re-measured by administering authorities.

54. Paragraph 6.5.3.3 of the accounting code clarifies that marketable securities should be valued at market value, measured by the current bid price in accordance with IFRS 9. These requirements supersede the provisions of IAS 26 Retirement Benefit Plans which provide an option to carry securities with a fixed redemption value based on the redemption value assuming a constant rate to maturity.

55. Pension funds use derivative contracts (explained at Module 3.4) more than councils generally. Derivatives are contracts that specify conditions for future payments, which are often related to specific dates, indexes, or exchange rates. Derivatives can be used for risk management (e.g. hedging) to limit the exposure of the fund to future events (e.g. to mitigate unexpected changes in foreign exchange rates). Forms of derivative contract used by pension funds include:

- futures/forwards - an agreement to buy or sell an asset at a future date at an agreed price
- forward foreign currency - an agreement to buy or sell foreign currency at a future date at an agreed exchange rate
- options - an agreement which allows the option to buy or sell an asset at a future date at an agreed price.

56. The authority should:

- have established fair value at 31 March 2025 by using any published price quotations in an active market or, in the absence of that information, a suitable valuation technique in accordance with IFRS 13
- not have made any deduction for transaction costs that would be incurred on disposal

Investment income has not been properly measured

57. Interest income credited to the fund account should be determined by applying the effective interest rate to the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash receipts over the expected life of the instrument to the initial net carrying amount.

58. Dividends on equity investments should be credited when they become receivable. Rental income from investment property should be recognised gross in the fund account.

59. Interest, dividend and gross rental income receivable during 2024/25 should have been credited to the fund account.

Taxes on income are not complete

60. Pension funds are exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. However, income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax should be accounted for as a fund expense as it arises.

61. Irrecoverable withholding tax should have been charged to the fund account.

Movements in fair value of investments are not complete or did not occur

62. Movements in the net market value of investments (including investment properties) may arise from gains or losses arising from: changes in fair value; impairment losses; and disposal.

63. The gain or loss arising from a change in the fair value of an investment should be recognised in the fund account. The gain or loss is the difference between fair value and the amortised cost (calculated using the effective interest rate), with the calculation based on the 'clean' price of the instrument, i.e. excluding accrued interest.

64. The administering authority should have made an assessment at 31 March 2025 as to whether there are any expected credit losses. Where an impairment has been identified, the loss should be recognised in the fund account.

65. When an investment is disposed of, the gain or loss should be recognised in the fund account.

66. The authority should have recognised:

- gains and losses arising from changes in fair value during 2024/25 in the fund account
- gain or loss as the difference between fair value and amortised cost based on the 'clean' price
- impairment losses during 2024/25 in the fund account
- gains and losses arising from disposal during 2024/25 in the fund account.

Investments are not properly presented

67. IAS 26 does not specify how the assets of a pension fund are to be presented, other than requiring them to be suitably classified. However, the accounting code has adopted the format for a net assets statement from the pensions SORP. The authority should have analysed:

- investments at 31 March 2025 in accordance with paragraph 6.5.3.6 of the accounting code either on the face of the net assets statement or in the notes. Pooled investment vehicles require to be analysed between equities, bonds, property, hedge funds, diversified growth funds, private equity funds, infrastructure funds and other
- investment income receivable during 2024/25 in accordance with paragraph 6.5.3.6 of the accounting code on the face of the fund account or in the notes.

Information on investments is not properly disclosed

68. The disclosure requirements for pension fund investments are set out at paragraph 6.5.5.1a), c) to l) and s).

69. In addition, the following disclosure requirements also apply:

- section 7.3 of the accounting code in respect of financial assets
- section 2.10.4 of the accounting code in respect of fair value measurement.

70. CIPFA's example accounts provide helpful illustrations of the required disclosures.

71. The authority should have complied in 2024/25 with the disclosure requirements in the accounting code for pension fund investments, financial assets and fair value measurement

13.5: Retirement benefits

Retirement benefits include retirement pension, lump sums and death grants payable to members.

Retirement pensions are not complete or do not exist

72. There are three categories of member who should be receiving pensions under the LGPS regulations. They are summarised in the following table:

Reg	Category	Explanation
7	Pensioner member	Receives pension from the fund as a former contributor
8(1)	Pension credit member	Receives pension under a sharing arrangement in accordance with the <i>Welfare Reform and Pensions Act 1999</i> (e.g. former spouse)
8(2)	Survivor member	Receives pension as a dependent of a former contributor who is deceased

73. All members receiving pensions during 2024/25 fall into one of the above categories.

Retirement pensions are not properly measured

74. Under Regulation 29(1) of the LGPS regulations, a member with a qualifying service of at least two years who reaches normal pension age (and is no longer an employee) is entitled to immediate payment of pension without reduction. Pensions are generally based on length of qualifying service and pensionable pay.

75. Some key issues around the calculation of retirement pension are summarised in the following table:

Issue	Explanation
Normal pension age	Prior to 1 April 2015, normal pension age was 65. From 1 April 2015, it has been aligned with the state pension age as specified in Schedule 4 to the <i>Pensions Act 1995</i> (or if higher, age 65). A member may elect to defer payment until they are 75 and receive an actuarial enhancement.

Issue	Explanation
Pensionable pay	<p>Prior to 1 April 2015, pensionable pay was based on final salary:</p> <ul style="list-style-type: none"> Any pension built up before April 2009 is calculated at an accrual rate of 1/80th of pensionable pay for each year of service. Any pension built up from 1 April 2009 to 31 March 2015 is calculated at a 1/60th accrual rate. From 1 April 2015, this is based on a career average revalued earnings basis rather than final salary (Regulation 23(2) of the LGPS regulations). The amount of earned pension for a scheme year is 1/49th of the member's pensionable pay received in that year (or 1/98th where contributions were temporarily reduced).
Voluntary early or flexible retirement	<p>A member who is at least 55 may elect to receive immediate payment of:</p> <ul style="list-style-type: none"> their retirement pension (subject to the consent of the employing body where the member is less than 60) all or part of their retirement pension where the member reduces their working hours or grade (referred to as flexible retirement). <p>In both cases above, the amount of pension is normally subject to an actuarial reduction to recognise the early payment. However, under regulation 29(9) of the LGPS regulations, the employing body may agree to waive all or some of the reduction.</p>
Redundancy	<p>Regulation 29(8) covers the cases where an active member has attained the age of 55 or over and:</p> <ul style="list-style-type: none"> is dismissed by reason of redundancy or business efficiency; or their employment ends by mutual consent due to business efficiency. <p>The member is entitled to immediate payment of retirement pension.</p>
Ill health	<p>Under Regulation 34, an active member is entitled to early payment of a retirement pension if:</p> <ul style="list-style-type: none"> their employment was terminated by a scheme employer on the grounds of ill-health before the age of 65 they are permanently incapable of discharging efficiently the duties of the employment they were engaged in; and they have qualifying service for at least two years.
Additional pension	<p>Regulation 30 permits scheme employers to award an additional pension of up to £5,000 to:</p> <ul style="list-style-type: none"> an active member a member who was dismissed by reason of redundancy, or business efficiency, or whose employment was terminated by mutual consent on grounds of business efficiency. The decision requires to be made within 6 months of the date the member's employment ended.

Issue	Explanation
Pension increases	Retirement pensions are increased each year by the relevant pensions increase order. The Pensions Increase (Review) Order 2024 sets out the increase for 2024/25.

76. The authority should have:

- applied the appropriate accrual rate
- used the correct pensionable pay
- applied actuarial reductions where appropriate
- complied with the conditions of Regulations 29 and 34
- applied the correct increase
- properly calculated any additional pension under regulation 30
- included all retirement pensions amounts known to be due as at 31 March 2025.

Lump sums are not properly measured

77. Under Regulation 32 of the LGPS regulations a member may, before the benefit crystallises, commute all or part of the retirement pension payable at a rate of £12 for every £1 of annual pension commuted, subject to a maximum of 25% of the capital value of the member's accrued rights (calculated in accordance with [actuarial guidance](#) from the Scottish Public Pension Agency).

78. For pension built up before April 2009 under the 2009 LGPS, there was an automatic lump sum of three times the annual pension.

79. The authority should have:

- on pensions built up since 1 April 2009:
 - commuted the retirement pension payable at a rate of £12 for every £1 of annual pension commuted
 - not exceeded 25% of the capital value of the member's accrued rights when calculating the total amount of the commuted sum
 - calculated the capital value in accordance with guidance issued by the Scottish Ministers.
- for pension built up before April 2009, calculated the lump sum equating to three times the annual pension.

Death grants are not complete or properly measured

80. The LGPS regulations provide for death grants to be paid to members who die before the age of 75. The calculation depends on the category of member as summarised in the following table:

Category	Reg	Calculation
Active members	38	Highest of: <ul style="list-style-type: none"> • three times annual assumed pensionable pay at the date of death • death grant payable for deferred members • death grant payable for pension members.
Deferred members	41	Five times the amount the member would have been entitled to receive as annual pension
Pension credit members	41	Three times the amount the member would have been entitled to receive as annual pension
Pension members	44	Ten times the annual amount the member would have been entitled to receive as retirement pension at the date of death if there had been no commutation under regulation 32. The amount should be reduced by: <ul style="list-style-type: none"> • the amounts of any such commuted lump sum; and • any retirement pension paid to the member.

81. Death grants are included in the 2024/25 fund account where:

- the relevant members died before the age of 75
- the grant was calculated as in the above table depending on the category of member
- the liability for death grant has been recognised when the obligating event occurs (i.e. the date of death) rather than when the payment is made.

Information on benefits has not been properly disclosed

82. The accounting code's disclosure requirements for benefits are set out at:

- paragraph 6.5.3.6 which requires an analysis between the following retirement benefits (if not presented on the face of the fund account): retirement pensions; commutations of lump sum benefits; purchased annuities; and lump sum death benefits

- paragraph 6.5.5.1 q) which requires disclosure of the total retirement benefits payable analysed between the administering body, scheduled bodies, and admitted bodies.

Transfer payments to other pension funds are not properly recognised

83. In accordance with paragraph 6.5.3.6 of the accounting code, a line should be presented in the fund account for payments to or on account of leavers under Regulation 91 (individuals) or Regulation 93 (bulk transfers) of the LGPS regulations.

84. Individual transfers out are accounted for when paid, which is normally when the member liability is discharged. Bulk transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement. In accordance with Regulation 97, the amount of the bulk transfer should have been determined by an actuary to be equal to the value of the liabilities which have accrued in respect of those members.

13.6: Management Expenses

Management expenses comprise: administration expenses; oversight and governance expenses; and investment management expenses (i.e. transaction costs, management fees, performance fees, and custody fees).

Management expenses are not properly classified

85. CIPFA guidance [Accounting for Local Government Pension Schemes Management Expenses](#) is not mandatory, but a footnote on page 228 of the accounting code recommends that due regard is paid to it. The Accounts Commission has expressed a desire for the guidance to be followed in the interest of achieving consistency.

86. Bodies should have paid due regard to the guidance, i.e. follow it unless they have a persuasive reason not to.

87. The CIPFA guidance recommends that management expenses should be classified as summarised in the following table:

Administration expenses	Oversight and governance expenses	Investment management expenses
All activities performed to administer entitlements and provide members with scheme and benefit entitlement information	Appointing and monitoring external fund managers	Management of pension fund assets and financial instruments related to the management of fund assets
Interaction with scheme employers, e.g. data collection and verification, contributions collection and reconciliation	Investment advisory services	
Associated projects	Operating and supporting the pensions committee	
	Internal or external reporting	
	Legal services connected with investment management	
	Internal and external audit	

88. Bodies should have:

- treated administration expenses for 2024/25 in accordance with the CIPFA guidance and not included any expenses that are:

- incurred by the administering authority in its role as a scheme employer
- associated with the administration of any other scheme with which the administering authority is associated
- treated oversight and governance expenses during 2024/25 in accordance with the above table
- included investment management expenses

Investment management expenses are not complete

89. Under Regulation 8 of the investment regulations, an administering authority may appoint investment managers to manage and invest fund money. Investment managers are required to report quarterly to the body on the action they have taken. The [CIPFA guidance](#) recommends that investment management expenses comprise the four types of expenses in the following table:

Types	Explanation
Transaction costs	Costs associated with the acquisition, issue or disposal of fund assets and associated financial instruments usually a flat rate fee charged quarterly
Management fees	Fees calculated and charged periodically depending on contract terms and usually linked to fund value
Performance fees	Fees which become payable to a manager when a minimum level of performance is achieved
Custody fees	Fees charged by a custodian

90. The [CIPFA guidance](#) states that investment management expenses include:

- expenses that are directly invoiced by investment fund managers; and
- any fees that are payable to fund managers which are deducted from fund assets.

91. The following table sets out some issues in identifying all investment management expenses:

Issue	Explanation
Capitalisation of some transaction costs	Transaction costs on investment property should have been excluded from the fund account as the accounting code requires them to be capitalised. Transaction costs on financial instruments during 2024/25 should be reported gross in the fund

Issue	Explanation
	account as they are not capitalised under the accounting code (in contrast with the pension SORP).
Transaction costs and management fees netted off against income	Fund managers often net off transaction costs and management fees against investment income, and it is therefore likely that not all costs/fees are routinely reported back to the body. The body should have requested that the fund managers provide the necessary information. If it is not provided, a reasonable estimation technique should have been used for 2024/25, with any limitations disclosed in the notes.
Management fees deducted from pooled funds at source	<p>In the case of pooled funds, management fees may be deducted from the pool at source, effectively through the redemption of units in the fund. The value of the pooled fund is reported at the end of the reporting period net of the units redeemed. The body should have included a reasonable estimate for these fees for 2024/25. Paragraph 64 of the CIPFA guidance advises that the value of the fees can usually be measured by:</p> <ul style="list-style-type: none"> • applying the year end unit offer price to the units redeemed: or • contacting the fund manager directly.
'Fund of funds' structure	<p>Certain types of investment (such as private equity and hedge funds) are commonly accessed through a 'fund of funds' structure, with costs being incurred at each tier in the investment structure. The body should have included a reasonable estimate for these fees for 2024/25. The previous edition of the CIPFA guidance required all costs at each tier to be reported by the pension fund. The guidance was revised in 2016 to clarify that reported costs should be limited to those where the pension fund has both:</p> <ul style="list-style-type: none"> • a contractual liability to pay; and • control.

Management expenses are not properly presented

92. Management expenses should have been presented in a separate line in the 2024/25 fund account.

Management expenses are not properly disclosed

93. Paragraph 6.5.5.1(v) of the accounting code requires the total amount of transaction costs of all major asset classes to be disclosed in the notes, including an explanation to enable users to understand the nature of the transaction costs and how they arise for different types of investment. This includes capitalised transaction costs for investment property. The body should have complied with paragraph 6.5.5.1(v) for 2024/25

94. The [CIPFA guidance](#) recommends that an analysis of management expenses across the following three cost categories should be disclosed in the notes:

- Investment management expenses
- Administration expenses
- Oversight and governance expenses.

95. It also recommends that an analysis of investment management expenses be disclosed across:

- transaction costs
- management fees
- performance fees
- custody fees.

13.7: Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is equivalent to the future liability to pay pensions that employing bodies recognise.

Actuarial present value of promised retirement benefits is not accurate

96. The actuarial present value of promised retirement benefits is the IAS 26 terminology for what *IAS 19* refers to as the 'defined benefit obligation'. It is therefore equivalent to the liability that employing bodies are required to recognise in their Balance Sheet in respect of their future liability to pay pensions earned at 31 March.

97. It should be calculated on an IAS 19 basis (explained in Module 4) rather than based on the triennial valuations. Some key differences between the IAS 19 liability and the liability used for calculating contributions are summarised in the following table:

Liability	Discount rate	Assumptions
IAS 19 basis	The discount rate is determined by reference to market yields at 31 March on high quality corporate bonds (i.e. returns on relatively 'secure' investments).	While the actuary may make suggestions about reasonable assumptions, the administering authority's section 95 officer should select assumptions that are reasonable and appropriate.
Triennial valuation	Actuaries may apply a discount rate that reflects the expected rate of return of investments for the fund. Normally these will be higher than those for high quality corporate bonds, which means that the estimate will often be lower than on an IAS 19 basis.	The actuary will normally determine the assumptions used for the triennial valuations.

98. IAS 26 permits the IAS 19 valuation to be based on either current salary levels or projected salary levels. However, paragraph 6.5.2.8 of the accounting code does not allow the former option, and the body should have used the projected salary levels approach in 2024/25.

Actuarial present value of promised retirement benefits is not properly presented or disclosed

99. Paragraph 6.5.2.8 of the accounting code follows IAS 26 and requires the actuarial present value of promised retirement benefits to be disclosed. IAS 26 gives various options for the presentation or disclosure of the actuarial present value of promised retirement benefits. Paragraph 6.5.2.9 of the accounting code explains how these are to be applied and this is summarised in the following table:

Option	Explanation
Net assets statement	<p>This is only permitted if the actuarial present value of promised retirement benefits is estimated as at 31 March 2025. This does not require a full actuarial valuation at that date, and the same actuarial techniques for rolling forward used to estimate individual employers' IAS 19 pension liabilities between triennial revaluations (as explained in Module 4) may be used.</p> <p>The fund account requires to disclose the resulting surplus or deficit. This is the accounting code's preferred approach, but is not commonly used.</p>
Notes	<p>The actuarial valuation does not have to be at 31 March 2025, but the latest IAS 19 valuation should be used (with the date of the valuation disclosed). This is the approach that pension funds usually adopt though they generally obtain IAS 19 valuations every year.</p>
Reference to actuarial report	<p>This option requires reference to the information in the accompanying actuarial report to be disclosed.</p>

Information on the actuarial present value of promised retirement benefits is not properly disclosed

100. The disclosure requirements regarding information on the actuarial present value of promised retirement benefits is set out at paragraphs 6.5.5.1 o) and p) of the accounting code.

13.8: Statutory other information

In addition to an Annual Governance Statement and Management Commentary, pension funds are required to publish a Governance Compliance Statement, a report about the management and financial performance of the fund, and other specified reports.

Governance Compliance Statement is not presented

101. Regulation 53 of LGPS regulations requires the inclusion of a Governance Compliance Statement in the annual report. [Finance Circular 1/2018](#) recommends that an administering authority includes either:

- a single governance statement with two sections, with the first being the Annual Governance Statement, and the second the Governance Compliance Statement; or
- two separate statements, with the Annual Governance Statement followed immediately by the Governance Compliance Statement.

102. The body should have included a Governance Compliance Statement in the 2024/25 annual report.

103. Auditors' responsibilities for the Governance Compliance Statement are the same as for the Annual Governance Statement (explained at Module 11.2). The test procedures that auditors should undertake are set out throughout this section and are summarised in Appendix 1 to this section. The model independent auditor's report for 2024/25 will be provided in a separate [TGN](#) and will include wording for the opinion on the Governance Compliance Statement.

Governance Compliance Statement is inconsistent with the financial statements

104. Auditors should carry out test procedure 1 to consider whether there are any material inconsistencies in 2024/25 between information in the Governance Compliance Statement and the financial statements.

Test procedure 1 – inconsistencies with financial statements

Auditors should

- select items in the Governance Compliance Statement and compare them with the corresponding items in the financial statements
-

- conclude whether an inconsistency means there is a misstatement
- request that any misstatements be corrected

105. Auditors should refer to Module 11.2 for guidance on the above procedures.

Governance Compliance Statement is not in accordance with Regulation 53

106. Auditors should carry out test procedure 2 to consider whether the Governance Compliance Statement has been prepared in accordance with Regulation 53 of the LGPS regulations.

Test procedure 2 – non-compliance with regulation 53

Auditors should

- **use the checklist at Appendix 2 to evaluate whether information required by Regulation 53 has been omitted from the Governance Compliance Statement**
- **request that any misstatements be corrected.**

107. Auditors should evaluate whether any information required by Regulation 53 of the LGPS regulations to be included in the Governance Compliance Statement has been omitted. This includes situations where required information has been presented separately without appropriate cross-reference.

108. In order to evaluate whether required information has been omitted, auditors should check whether the Governance Compliance Statement includes the items summarised at appendix 2 to this module. Guidance on the requirements is provided in the following table:

Required information	Guidance
The terms, structure and operational procedures where LGPS functions have been delegated.	Under section 56 of the 1973 Act, an administering authority can delegate its pension investment functions to committees, sub-committees or officers. Under section 57 , it is for the body to decide on the number of committee members and their terms of office. Most pension funds are managed by a formal committee representing the political balance of the administering authority. The pensions committee arranges for the supervision and administration of the investments and the appointment of fund managers, and has regard to pension scheme administration matters.
The extent to which the governance arrangements for the pension fund comply with guidance from the	The guidance sets out nine principles (e.g. structure; representation; selection and role of lay members; voting, etc) against which administering authorities

Required information	Guidance
Scottish Ministers , and the reasons for any non-compliance	should measure their governance arrangements. Most bodies use a tabular format in practice that lists each principle, indicates the extent of compliance, and provides commentary for each.
Details of the terms, structure and operational procedures relating to the pension board	<p>A pension board requires to be established under Regulation 5 of The Local Government Pension Scheme (Governance) (Scotland) Regulations 2015. CIPFA's Local pension boards - a technical knowledge and skills framework addresses the training and development of pension board members. The board is required to assist the body comply with:</p> <ul style="list-style-type: none"> • the LGPS regulations • any other legislation relating to the governance and administration of the scheme • requirements imposed by the Pension Regulator.

Governance Compliance Statement is inconsistent with auditor's knowledge

109. Auditors should carry out test procedure 3 to consider whether there are any material inconsistencies between information in the Governance Compliance Statement and the auditor's knowledge obtained in the audit.

Test procedure 3 - inconsistency with auditor's knowledge

Auditors should

- consider whether there is a material inconsistency between the Governance Compliance Statement and the knowledge they have obtained in the audit
- request that any misstatements be corrected

110. Auditors should refer to Module 11.2 for guidance on the above procedures.

Information in the Governance Compliance Statement is misleading

111. Auditors should carry out test procedure 4 to consider whether information in the Governance Compliance Statement is misleading.

Test procedure 4 - misleading information

Auditors should

- consider whether any information in the Governance Compliance Statement is misleading

Test procedure 4 - misleading information

- request that any misstatements be corrected

112. Auditors should refer to Module 11.2 for guidance on the above procedures.

Governance statements are not properly signed

113. Auditors should evaluate whether the Annual Governance Statement or combined governance statement in the audited accounts has been signed by the Chief Executive and the convenor of the pension committee. Although [The Local Authority Accounts \(Scotland\) Regulations 2014](#) (accounts regulations) refer to the Leader of the Council being the signatory, [Finance Circular 1/2018](#) considers that the convenor should be nominated to sign the relevant statements instead of the Leader of the Council.

114. Although it is considered good practice to do so, there is no explicit requirement for a separate Governance Compliance Statement to be signed.

Report on the management and financial performance of the fund is not presented

115. The requirement for a Management Commentary in Regulation 8(2) of the accounts regulations applies to LGPS annual accounts. Auditors should therefore refer to section 1 of module 11. [Finance Circular 1/2018](#) considers that the convenor of the pension committee should be nominated to sign the Management Commentary in place of the Leader of the Council.

116. An additional consideration for the LGPS is that Regulation 53 of the LGPS regulations requires a report on the management and financial performance of the pension fund. The Scottish Government recommend in [Finance Circular 1/2018](#) that one report is prepared which satisfies both the accounts regulations and the LGPS regulations. Where a pension fund adopts this approach, auditors are not required to extend their opinion to cover compliance with the LGPS regulations.

Other required reports in annual report are not presented

117. Regulation 55 of the LGPS regulations also requires the annual report to contain:

- a report explaining the body's investment policy and reviewing the performance during the year of the investments of each fund
- a report of the arrangements made during the year for the administration of the funds
- a statement by the actuary of the level of funding disclosed by their most recent valuation
- the funding strategy statement and statement of investment principles

- the extent to which levels of performance set out in the pension administration strategy have been achieved.

Required reports are inconsistent with auditor's knowledge or misleading

118. ISA (UK) 720 requires auditors to consider whether there is a material inconsistency between the required statements and the auditor's knowledge obtained in the audit, and to remain alert for instances where the information is misleading.

119. If auditors identify an inconsistency or misleading information, they should:

- conclude whether there is a misstatement in the required statements
- consider whether their understanding of the pension fund needs to be updated
- request the body to correct any misstatement identified.

120. Any material misstatements in the reports should be reported in the Independent Auditor's Report, but auditors are not required to express any opinions in respect of these required statements.

Appendix 1 Governance Compliance Statement

Auditor action checklist

Test procedures	Yes/No/N/A	Initials/date	W/P ref
<p>1 Have you</p> <ul style="list-style-type: none"> selected items in the Governance Compliance Statement and compared them with the corresponding items in the financial statements? concluded whether an inconsistency with the financial statements means there is a misstatement in the Governance Compliance Statement? requested that any misstatement be corrected? 			
<p>2 Have you</p> <ul style="list-style-type: none"> used the checklist at Appendix 2 to evaluate whether information required by regulation 53 has been omitted from the Governance Compliance Statement? requested that any misstatements be corrected? 			
<p>3 Have you</p> <ul style="list-style-type: none"> considered whether there is a material inconsistency between the Governance Compliance Statement and the knowledge you have obtained in performing the audit? requested that any misstatements be corrected? 			
<p>4 Have you</p> <ul style="list-style-type: none"> considered whether any information in the Governance Compliance Statement is misleading? requested that any misstatements be corrected? 			
<p>5 Have you discussed any uncorrected material misstatement in the Governance Compliance Statement with Professional Support?</p>			

Appendix 2 Content of Governance Compliance Statement

Required item	Yes/No/N/A
1 A statement as to whether the body delegates its LGPS functions.	
2 The terms, structure and operational procedures of the delegation.	
3 The frequency of any committee or sub-committee meetings.	
4 Whether such a committee or sub-committee includes representatives of employing bodies or members and, if so, whether those representatives have voting rights.	
5 The extent to which the delegation complies with guidance from the Scottish Ministers, and the reasons for any non-compliance.	
6 Details of the terms, structure and operational procedures relating to the pension board.	

Technical Guidance Note

2024/8(LG) Module 13

Guidance on Local Government Pension Scheme pension fund accounts in 2024/25

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Technical Guidance Note 2024/8(LG) Module 14

Guidance on misstatements in Section 106 Charities
in 2024/25



 AUDIT SCOTLAND

Prepared by Innovation and Quality for auditors in the local government sector
January 2025

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Accessibility

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

Module 14 introduction

1. This module of TGN 2024/8(LG) provides guidance on the following statement of accounts areas of registered charities that fall within [section 106](#) of the Local Government (Scotland) Act 1973 (section 106 charities):

- Financial reporting framework (section 1).
- Fund accounting (section 2).
- Presentation of financial statements (section 3).
- Investments (section 4).
- Donations and legacies (section 5).
- Grant payments (section 6).
- Combinations and winding ups (section 7).
- Disclosures on being a subsidiary, related parties, trustees' remuneration and auditor's remuneration (section 8).
- Receipts and payments accounts (section 9).
- Trustees' Annual Report (section 10).

2. Other areas such as heritage assets may also apply to a section 106 charity, and auditors should refer to the relevant module of the TGN.

3. The audit of the statement of accounts prepared by registered charities is regulated by [The Charities Accounts \(Scotland\) Regulations 2006](#) (the charity regulations) which require an auditor's report to accompany a charity's statement of accounts where, among other reasons, any legislation requires an audit. As Section 106 of the 1973 Act requires an audit, appointed auditors are required to prepare an Independent Auditor's Report for each section 106 charity's statement of accounts.

Changes in guidance on potential misstatements in 2024/25

4. There are no changes for 2024/25.

Consulting with I&Q

5. Auditors should consult I&Q by completing the [enquiry form](#) and sending by email to TechnicalQueries@audit-scotland.gov.uk.

14.1: Financial reporting framework

The charity regulations require larger charities to prepare financial statements on an accrued basis and smaller charities to prepare them on a receipts and payments basis.

The accounting basis is not appropriate

6. The Charities and Trustee Investment (Scotland) Act 2005 (the 2005 Act) requires charities to follow the requirements of the [charity regulations](#). Guidance from the Office of the Scottish Charity Regulator (OSCR) on the regulations is provided in [Scottish charity accounts - An updated guide to the 2006 regulations](#).

7. Regulation 8 (as [amended](#)) of the charity regulations requires accrued financial statements to be prepared by a charity that has a gross income for the year of £250,000 or more. Regulation 9(4) also requires accrued financial statements where:

- the constitution or any enactment requires the charity to prepare accrued financial statements or those that give a true and fair view of its financial affairs; or
- the trustees have decided that they will prepare accrued financial statements.

8. Section 106 charities are required to follow the [Accounting and reporting by charities: statement of recommended practice](#) (charities SORP) which is based on [FRS 102](#) when preparing their accounts on an accruals basis in accordance with regulation 8.

9. Where the terms set out by regulation 8 do not apply, regulation 9 permits charities to prepare their financial statements on a receipts and payments basis.

10. Accrued financial statements should have been prepared for 2024/25 where:

- gross income for the year is £250,000 or more; or
- the governing documents or any enactment require the charity to prepare accrued financial statements or those that give a true and fair view of its financial affairs; or
- the trustees have decided that they will prepare accrued financial statements.

The statement of accounts is not properly prepared in accordance with the governing documents

11. The governing documents establish a charity's purpose and constitution, and are specific to each charity. They also specify the charitable activities and powers conferred on trustees. They are likely to take the form of a trust deed for section 106 charities, but may be another document such as letter or will.

12. The charity should have complied with the governing documents and appropriately disclosed in 2024/25 any:

- restrictions on how income or capital are applied
- special provisions as to the presentation or disclosure of information in the financial statements
- significant non-compliance with a requirement is adequately explained
- changes in the charity's activities, or new or unusual transactions.

The governing documents are not complete or do not exist

13. In some cases, the council may not be able to locate the governing documents for the charities it administers, particularly the older ones. Auditors should encourage the administering council to contact OSCR as they hold documentation passed from HM Revenue and Customs and may be able to help.

14. If the governing documents still cannot be located, :

- the administering council should have demonstrated that the charity's activities nevertheless meet its charitable purposes. This is expected to include obtaining appropriate representations from trustees and the council's Section 95 officer, and reviewing correspondence and reports for any indication of restricted funds
- an adequate explanation should have been disclosed in the statement of accounts that the governing documents cannot be found including a clear and concise description of how trustees have assured themselves that the charity nevertheless meets its objectives
- the administering council should have identified any reason to believe that the missing governing documents may require an accruals basis, (e.g. where the trust deeds for other similar charities contain such a requirement).

14. There are a number of potential reporting implications for auditors where governing documents cannot be found. Auditors should contact Audit Scotland's I&Q as the specifics may vary, but general guidance is provided in the following table:

Reporting option	Explanation
ISA(UK) 260 communication	The unavailability of governing documents is a significant difficulty encountered during the audit and is likely to be reported to trustees under ISA(UK)260 Communication with those charged governance.
Emphasis of matter paragraph under ISA(UK) 705	Where the absence of the governing documents is adequately explained in a disclosure in the statement of accounts, an emphasis of matter paragraph in the Independent Auditor's Report may be appropriate.
Qualified conclusion on adequacy of accounting records	The charity regulations require auditors to report if accounting records have not been kept. Auditors may judge that the absence of governing documents means that adequate accounting records have not been kept.
Limitation of audit scope	There may be uncertainty as to whether the missing governing documents specify restrictions on how income or capital can be applied. Auditors should consider the likelihood of restrictions that would require separate accounting. If auditors are unable to obtain sufficient appropriate evidence, they may judge that this constitutes a limitation on the scope of the audit and consider the impact on their opinion. If the likelihood of restrictions is judged to be remote, a qualified opinion on the basis of limitation of scope would not be necessary.

Connected charities provisions are inappropriately applied

15. Regulation 7 of the charity regulations (as amended in 2010) permits a single set of accounts for connected charities. These are defined at Regulation 1 and include charities that have unity of administration. In I&Q's view, the definition is therefore met for section 106 charities administered by the same council.

16. The overall number of separate sets of statements of accounts that are required to be prepared and audited for section 106 charities can therefore be reduced by the effective application of the connected charities provisions.

17. Auditors should encourage councils to prepare a single set of accounts in 2024/25 covering all the section 106 charities they administer.

14.2: Fund account

The Charities SORP sets out four different types of fund.

Charitable funds are not properly classified

18. Module 2 of the [charities SORP](#) sets out the requirements for the analysis and presentation of a charity's funds. Fund accounting distinguishes between four classes of fund as explained in the following table:

Class of fund	Explanation
Unrestricted funds	<p>These can be spent or applied at the discretion of the trustees to further any of the charity's purposes. Unrestricted funds can be used to supplement expenditure made from restricted funds.</p> <p>They include funds that the trustees have decided to designate for a particular purpose. This may be because the donor expressed a non-binding preference as to the use of the funds, which falls short of imposing a restriction in trust law.</p>
Restricted income funds	<p>These require to be spent or applied within a reasonable period from their receipt to further a specific purpose of the charity. Restrictions on the use of the funds are generally declared by the donor when making the gift. It is possible that a charity may have several individual restricted funds, each for a particular purpose of the charity.</p>
Permanent endowment funds (also known as capital funds).	<p>An endowment where there is no power to convert the capital into income is known as a permanent endowment fund, which must normally be held indefinitely. Trust law requires a charity to invest the assets of an endowment or retain them for the charity's use to further its purposes.</p>
Expendable endowments	<p>Where trustees have the power to convert endowment funds into income, such funds are known as expendable endowments. These are distinguishable from restricted income funds in that there is no actual requirement to spend or apply the capital until the trustees decide to do so.</p>

19. Charities should have properly classified ensure that charitable funds in 2024/25.

Charitable funds have not been properly accounted for

20. Funds should have been accounted for as follows:

- restricted income funds should have been spent or applied during 2024/25:
 - within a reasonable period from their receipt
 - to further one or more (but not all) of the charity's charitable purposes. If the funds can be applied to all the charity's purposes, or the charity only has one purpose, they should be classified as unrestricted.
- each restricted fund, and the income received and expenditure made from it, should have been separately identified in the accounting records
- costs charged to a restricted income fund should relate to the activities undertaken to further the specific charitable purposes the fund was established to support. These costs include both direct and support costs associated with the activities undertaken
- expenditure should have been charged to a restricted income fund which is in deficit only when there is a realistic expectation that future income will be received to cover the shortfall
- the only expenses charged to permanent endowment funds should be those incurred on the administration or protection of the investments or property of the endowment. Where the endowment has insufficient funds to meet the expenses (or the terms of the trust prohibit the charging of expenses), the expenses should have been charged to restricted income funds
- if the trustees exercised the power to spend or apply the capital of an expendable endowment during 2024/25, the relevant funds should have become:
 - unrestricted funds where the terms of the gift permit expenditure for any of the charity's purposes
 - restricted income funds where the terms permit expenditure only for specific purposes.

Transfers between funds have not been properly presented

21. A transfer may be made between funds, for example to transfer assets from unrestricted funds to finance a deficit on a restricted fund, or where restricted funds have been lawfully released and transferred to unrestricted funds.

22. Any transfers during 2024/25 should have been presented in the transfer line in the Statement of Financial Activities (SoFA – explained in section 3).

Information on funds has not been properly disclosed

23. [Charities SORP](#) paragraph 2.28 requires a charity to disclose information on material individual fund balances, movements, and the purposes for which the funds are held. Disclosures should differentiate between unrestricted funds, restricted income funds, permanently endowed funds and expendable endowments. Table 1 in the charities SORP provides an example of how the movements in material funds may be shown. Further disclosures are required by SORP paragraph 2.29.

14.3: Presentation of accrued financial statements

Charities have different financial statements compared with local authorities.

The set of financial statements are not complete or are not properly presented

24. Regulation 8 requires a complete set of financial statements to comprise:

- a SoFA which shows the total incoming resources and application of the resources, together with any movements in the total resources, of the charity during 2024/25
- a Balance Sheet which shows the state of affairs of the charity as at 31 March 2024
- a Cash Flow Statement, if appropriate
- notes to the accounts

25. Charities should have:

- presented a complete set of financial statements for 2024/25
- clearly identified the financial statements and distinguished them from the other information in the statement of accounts
- clearly identified each financial statement and the notes
- used signage or brackets in a manner that is correct, clear and consistent
- offset assets and liabilities or income and expenses only where required or permitted by the [FRS 102](#) or the [charities SORP](#)
- presented corresponding amounts in respect of 2023/24 for each item presented
- adopted the same format as 2023/24 (or the change is explained in the notes)
- omitted any line where there is nothing to report in 2024/25 and 2023/24.

Statement of financial activities is not properly presented

26. Module 4 of the [charities SORP](#) sets out the requirements for the SoFA which is a single accounting statement that should include all income, gains, expenditure and losses recognised for 2024/25. The SoFA provides the user with an analysis of the income and endowment funds received and the expenditure by the charity on its activities, as well as a reconciliation of the movements in a charity's funds for 2024/25.

27. The options for the structure of the SoFA are summarised in the following table:

Options	Structure
Activity basis	The structure and headings are set out in Table 2 (page 38) of the charities SORP .
Nature of income and expenditure	SORP paragraph 4.22 states that charities below the charity audit threshold may adopt an alternative approach to their analysis. This analysis may be based on the nature of the income and expenditure. For example, expenditure could be analysed by salary-related costs, premises-related costs, interest etc.
Accounting records	SORP paragraph 4.23 allows a charity to use the headings it uses to record expenditure in its own accounting records.

28. The columns of the SoFA should distinguish between restricted income funds, unrestricted funds, and endowment funds. If a class of funds is not considered material, it may be combined with another class. Where the charity applies this approach, the heading should be changed appropriately (e.g. to 'all unrestricted and restricted funds').

29. Charities should :

- follow Table 2 of the charities SORP where an activity basis has been used for the SoFA
- where an alternative approach is adopted, have presented in its SoFA the items listed at SORP paragraph 4.24
- have distinguished between restricted income funds, unrestricted funds, and endowment funds in the columns of the SoFA
- have combined classes of funds only where they are not considered material individually and, where applied, the heading should have been changed appropriately.

Balance Sheet is not properly presented

30. Module 10 of the charities SORP sets out the requirements for the Balance Sheet. The objective of the Balance Sheet is to show the resources available to the charity and whether these are available for all purposes of the charity or for specific purposes.

31. Table 5 of the charities SORP (page 83) sets out the format of a charity's Balance Sheet and the headings used to present its assets, liabilities and funds. The Balance Sheet may also be presented in a columnar format that analyses Balance Sheet items by class of fund.

32. Charities should have:

- properly presented the Balance Sheet has been in accordance with table 5 or in a columnar format
- where the corresponding amount for 2023/24 is not comparable due to a change in accounting policy, adjusted it and disclosed the reason for the adjustment
- signed the Balance Sheet by at least one authorised trustee
- specified the date the accounts were approved by the trustee body on the face of the Balance Sheet .

14.4: Investments

Investments are not properly classified

33. Section A4 of module 10 of the [charities SORP](#) sets out the classification requirements for investments. Investments are held to generate income and/or for their investment potential. Modules 11 and 21 of the charities SORP cover the different types of investments that charities may hold. These are summarised in the following table:

Type	Description
Fixed asset	Investments held to generate income and/or for their investment potential
Current asset	Investments held for resale or pending their sale Cash or cash equivalents with a maturity date of less than one year - includes cash on deposit and cash equivalents with a maturity of less than one year held for investment purposes rather than to meet short-term cash commitments as they fall due (may be invested in the administering council's loans fund)
Programme related	Investments made primarily to further the charitable aims of the investing charity (social investments)
Mixed motive	Investments made to generate an investment return and as a social investment

34. Charities should have identified and properly classified all investments they hold during 2024/25

Investments are not properly measured

35. Section 11 of [FRS 102](#) sets out requirements for basic financial assets. Module 11 of the [charities SORP](#) sets out the accounting requirements. The charities SORP's requirements for valuing investments (after initial recognition at cost) are summarised in the following table:

Investment	Valuation requirement
Quoted shares, traded bonds and similar investments	Fair value (i.e. market value)
Unlisted equity investments Social investments	Best estimate of their fair value or, where not available, cost less impairment

36. Charities should have measured:

- investments in quoted shares, traded bonds and similar investments at their market value at 31 March 2025
- unlisted equity investments at the best estimate of their market value, where practicable. Where valuation techniques are considered unreliable or the cost involved in the valuation outweighs the benefits, they should have been included at cost
- social investments in the form of shares at either cost less any provision for diminution in value or at market value where this can be measured

Investment income is not complete or did not occur

37. Investment income is made up of:

- the income derived from the investment (e.g. interest, dividends, royalties or rents)
- any gain or loss in the market value of the investment.

38. For unrestricted funds and restricted income funds, returns should have been allocated to the fund holding the investment. Income generated by the investment of a fund's assets accrues to that fund unless the terms of the initial gift provide otherwise.

39. In the case of endowment, SORP paragraph 2.25 states that trustees cannot normally add the income from investments to the endowment capital and that:

- income from the investment should have been allocated to either unrestricted funds or a restricted income fund depending on the terms of the gift
- any gain or loss on the market value should have been attributed to the endowment capital
- any gain or loss should have been allocated correctly to each individual endowment.

40. Investment income receivable for 2024/25: should have been presented as a separate heading on the face of the SoFA (where material)

Investment properties are not complete

41. The charity should have identified all the investment properties it held during 2024/25. Investment property is an interest in land and/or buildings:

- held for its investment potential with rental income being negotiated at an arm's length
- the construction and development of which has been completed.

42. In previous years, auditors have identified some property held on trust included inappropriately in the council's single-entity Balance Sheet (e.g. where the charity holds legal title rather than the council). In addition, a [judicial review](#) determined that any property constructed on common good land belonged to the common good.

Investment properties have not been properly measured

43. In accordance with Section 16 of [FRS 102](#), investment properties should have been:

- measured at their market value at 31 March 2025
- charged with depreciation in 2024/25 where the property is held on a lease with an unexpired term of 20 years or less.

Information on investments and investment properties is not properly disclosed

44. SORP paragraph 10.53 requires a charity to disclose:

- the accounting policies for investments, including the basis on which they are valued
- an analysis by class of investment identifying the amounts held within each class, with those investments held at market value differentiated from those held at historical cost less impairment
- an analysis reconciling the opening and closing carrying amounts of each class of fixed asset investment held.

45. If the charity holds investment property, it is required to disclose the name or particulars of the qualifications of the person who undertook the valuation, and the bases used by them.

14.5: Donations and Legacies

Donations and legacies are gifts received.

Donations and legacies are not complete

46. Donations and legacies include all income received by the charity that is, in substance, a gift made to it on a voluntary basis. A donation or legacy may be for any purpose of the charity (unrestricted funds) or for a particular purpose of the charity (restricted income funds or endowment funds).

47. Charities should have identified all donations and legacies in 2024/25.

Income from donations is not properly recognised

48. Module 5 of the [charities SORP](#) sets out the requirements for the recognition of income. Income from donations should be recognised when the charity becomes entitled to it. Entitlement to a donation usually arises immediately on its receipt, unless there are any terms or conditions which must be met before the charity is entitled to the resources. A condition that simply restricts the use of a donation does not affect a charity's entitlement (although it does affect how the donation is reported in the accounts as explained in section 2).

49. Charities should have recognised as income donations received during 2024/25 when there is evidence of entitlement.

Income from legacies is not properly recognised

50. Legacies should be recognised as income when the three conditions set out in the following table are met:

Condition	Explanation
Evidence of entitlement to the legacy	Entitlement to a legacy cannot arise without the charity knowing of both the existence of a valid will and the death of the benefactor. Evidence of entitlement to a legacy exists when the charity has sufficient evidence that a gift has been left to them and the executor is satisfied that the property in question will not be required to satisfy claims in the estate.

Receipt is probable Receipt is normally probable when:

- there has been confirmation of the will by the Sheriff Court, i.e. authority to the executor of the will to manage the disposal of assets

Condition	Explanation
	<ul style="list-style-type: none"> the executors have established that there are sufficient assets in the estate, after settling any liabilities, to pay the legacy any conditions attached to the legacy are either within the control of the charity or have been met.
Amount can be measured reliably	In some cases, there may be uncertainty as to the amount of the payment. For example, the legacy may be subject to challenge or the charity's interest may be a residual one.

15. Legacies arising during 2024/25 should have been recognised as income when the three above conditions have been met. Where there is uncertainty that prevents the amount from being estimated reliably, the legacy should have been disclosed as a contingent asset.

51. Where a payment is received from an estate or is notified as receivable by the executors after 31 March 2025 (and before the accounts are authorised for issue) but it is clear that the payment had been agreed by the executors prior to that date, it should have been treated as an adjusting event and accrued as income if receipt is probable.

Donated facilities and services are not complete

52. In accordance with SORP paragraph 6.13, facilities and services donated for a charity's own use which it would otherwise have purchased should be recognised as income when received.

53. Donated facilities and services should be measured on the basis of the value of the gift to the charity. This is the amount that the charity would pay in the open market for an item that would provide equivalent benefit. 'Value to the charity' may be lower than, but cannot exceed, the price the charity would pay in the open market for the item. An amount equivalent to the amount recognised as income requires to be recognised as an expense under the appropriate heading in the SoFA.

54. An example of a donated service for a section 106 charity is where the administering council absorbs the fees for the external audit of a charity's accounts. Where this is the case in 2024/25, the amount of the fees should have been:

- recognised in income as a donated service
- recognised as expenditure
- disclosed in the notes to the accounts.

Information on donated goods and services is not properly disclosed

55. SORP paragraph 6.31 requires a charity to disclose:

- the accounting policy for the recognition and valuation of donated goods, facilities and services
- the nature and amounts of donated goods, facilities and services receivable from non-exchange transactions recognised in the accounts, for example, seconded staff, use of property, external audit fees, etc.

14.6: Grant Payments

Grant payments are not complete

56. Grants are payments made by a charity:

- to either a person or an institution
- with the objective of furthering the purposes of the charity
- for which the charity does not receive goods or services of equal value in exchange.

57. All grants made by the charity during 2024/25 should have been properly included under the heading of 'expenditure on charitable activities' in the SoFA.

Information on grant-making activities is not properly disclosed

58. [SORP](#) paragraph 16.13 requires disclosure of the grants paid analysed by: individuals and institutions; and nature or type of activity being supported; and the amount of support costs allocated to grant-making activities. Disclosure is not required where:

- grants are made to individuals, in which case details of the recipient are not required (except those grants made to related parties - explained in section 8)
- the grant-making activities in total are not material
- total grants to a particular institution are not material in the context of institutional grants, in which case the name of the recipient institution need not be disclosed
- disclosure could result in serious prejudice to the charity or the recipient.

59. Grants to individuals are those made for the direct benefit of the recipient, e.g. to relieve financial hardship or as an educational bursary. All other grants are treated as being to institutions.

Grant commitments are not complete or do not exist

60. The award of a grant by a charity does not create a contractual relationship with the recipient. However, a liability should be recognised if the charity has no realistic alternative to making the payment. Auditors should evaluate whether a

commitment to award a grant in existence at 31 March 2025 has been recognised as a liability when, and only when:

- the criteria for a constructive obligation are met
- payment is probable
- it can be measured reliably
- there are no conditions attaching to its payment that limit its recognition.

61. When making this assessment, evidence of a constructive obligation exists where:

- the commitment made by the charity is specific, e.g. a promise is made to provide particular grant funding
- the commitment is communicated directly to particular grant recipients
- there is an established pattern of practice that indicates to the recipients that the charity will meet its commitment.

62. The charity may have the discretion to avoid paying grant based on their assessment of whether attached conditions will be met by the recipient. Where a condition remains within the control of the charity, a liability should not be recognised.

Information on funding commitments is not properly presented and disclosed

63. Charities SORP paragraph 7.43 requires a charity to:

- present an analysis of the expenditure resulting from recognised funding commitments across the appropriate headings in the SoFA
- disclose a reconciliation of the movements in funding commitments
- provide a brief description of the nature of the commitment made, the expected amount and timing of any resulting payments, and any related uncertainties
- disclose the amount of any expected reimbursement.

Information on unrecognised grant commitments is not properly disclosed

64. The existence of any unrecognised grant commitments at 31 March 2025 should have been disclosed as a contingent liability including an explanation of how these will be funded.

14.7: Combinations and winding ups

The combination or winding up is not properly accounted for

65. Chapter 5 of the 2005 Act provides for the reorganisation of charities which includes amalgamation or winding up. There are generally two options when accounting for the combination of charities, i.e. either merger or as a gift. A charity merger involves two or more charities combining, usually through the creation of a new charity. The criteria for a combination to be accounted for as a merger (all of which must be met) are summarised in the following table:

Criteria	Explanation
No party is acquirer or acquiree	No party to the combination should be portrayed as either acquirer or acquiree, either by its governing body or management or by another party to the combination.
All parties participate in establishing the new management structure	All parties to the combination, as represented by the members of the governing body, should participate in establishing the management structure of the new charity. Such decisions are made on the basis of a consensus between the parties to the combination, rather than purely by exercising voting rights.
No significant change to beneficiaries or purpose	There should be no significant change to the class of beneficiaries of the combining charities or the purpose of the benefits provided as a result of the combination. When charities combine, their purposes must be concurrent and the purposes of the new charity must encompass those of the combining charities. A significant change in purposes or the beneficiary class would rule out accounting for the combination using merger accounting.

66. The combination should be accounted for as gift when one charity is wound up and its assets and liabilities are transferred at nil consideration into the control of another charity.

67. Any combination of charities, or the winding up of a charity, during 2024/25 should have been accounted for on the correct basis.

Gifts from a wound-up charity are not properly accounted for

68. The transfer of assets and liabilities from a charity requires the assets to be measured at fair value by the receiving charity. The required treatment is set out in the following table:

Difference between fair value	Accounting treatment
Fair value of the assets received exceeds the fair value of the liabilities assumed	Recognise difference as gain and present separately within income normally as a gift (donation)
Fair value of liabilities assumed exceed the fair value of the assets acquired	Recognise difference as loss Present separately in charitable expenditure

69. Charities should have

- estimated a fair value by the receiving charity for any assets and liabilities transferred during 2024/25
- properly recognised the difference between the fair value of assets and the fair value of liabilities.

Mergers are not properly accounted for

70. Where the merger criteria are met, the combination of charities should be accounted for on a merger accounting basis. Paragraphs 19.27 to 19.33 of [FRS 102](#) and Module 27 of the [charities SORP](#) cover merger accounting. The main issues are summarised in the following table:

Issue	Explanation
Aggregation of assets, liabilities and funds	The assets and liabilities of the combining charities are presented as though they had always been part of the same reporting charity.
Merger reflected from start of year regardless of date merger takes place	Where a merger has taken place during 2024/25, the accounts should reflect the results of the combining charities from 1 April 2024.
Comparative information	The accounts should disclose comparative amounts to show the aggregated results for the combining charities for 2023/24, and should be described as being 'combined' figures.
Valuation	Assets and liabilities of the combining charities should be aggregated at their carrying amounts at the date of the merger and should not be restated to fair value.
Accounting policies	Adjustments may be necessary to ensure uniformity of policies.
Restricted funds	Any funds of the amalgamating charities that are restricted to the particular purposes of the new charity should continue to be presented as 'restricted' in the accounts of the new charity.
Unrestricted funds	The unrestricted funds of the amalgamating charities should be aggregated provided their purposes are identical to the new charity.

71. Any mergers during 2024/25 should have been accounted for in accordance with the above table.

Information on mergers is not properly disclosed

72. Charities should have:

- complied with the disclosure requirements of SORP paragraph 27.14 for any new charity created from a merger during 2024/25
- disclosed in 2024/25 the names and descriptions of the combining charities, and the date of the merger (required by SORP paragraph 27.15) for a charity created by a merger in a previous year has

Statement of accounts for a wound-up charity is not prepared

73. When a charity is wound up, the [charity regulations](#) require the submission of the statement of accounts and Independent Auditor's Report to OSCR within 9 months of the date of removal from the charity register. The financial period covered by the accounts would be from 1 April to the day on which the charity was removed from the register.

74. However, in practice, OSCR allows a derogation from the requirement for part-year accounts. Where an administering council can demonstrate (e.g. through correspondence with OSCR) that part-year accounts are not required for 2024/25 for a charity wound up during the year, there would be no requirement for an Independent Auditor's Report.

75. Auditors should:

- identify if any charities have been removed from the register during 2024/25
- establish whether OSCR require part-year 2024/25 accounts
- where part-year accounts are required, audit the 2024/25 accounts for the appropriate period and provide an Independent Auditor's Report to a timescale that allows the submission of the accounts and Independent Auditor's Report within nine months of the date of removal.

14.8: Miscellaneous disclosures

Information on the charity being a subsidiary is not properly disclosed

76. [Charities SORP](#) paragraph 26.1 clarifies that when a body acts as a charity's corporate trustee or appoints a charity's trustees, the charity is a subsidiary because it is being 'controlled' by that body through the trusteeship arrangements. A section 106 charity is controlled by the administering council and is expected to be included in its group financial statements as a subsidiary (explained in Module 6).

77. In accordance with SORP paragraphs 26.5 and 26.6, where a charity is a subsidiary they should have disclosed in their accounts:

- the name of its parent entity, i.e. the name of the administering council
- if unincorporated, the address of its parent's place of business
- the address from which the group financial statements can be obtained
- the administering council's principal purposes and activities
- how control can be exercised by the administering council.

Information on related parties is not properly disclosed

78. Related party disclosures are dealt with in section 33 of [FRS 102](#) and module 9 of the charities SORP. The charities SORP requires all transactions between a charity and a related party to be disclosed (subject to specified exemptions). Related parties include a charity's trustees and their close family members and those entities which they either control or in which they have a significant interest. The SORP extends the definition provided in FRS 102 to include all persons and institutions that are deemed to be connected with a charity or a trustee in charity law.

79. Charities should have disclosed in the 2024/25 statement of accounts the information required by SORP paragraph 9.20.

80. SORP paragraph 9.18 lists transactions involving trustees or other related parties that need not be disclosed unless there is evidence to indicate that they have influenced the charity's activities or use of resources. If there have been no related party transactions in 2024/25 that require disclosure, , in accordance with SORP paragraph 9.19, this fact should have been disclosed.

Information on trustees' remuneration has not been properly disclosed

81. Charities SORP paragraph 9.6 requires charities to disclose whether the trustees were paid any remuneration or received any other benefits from an employment with their charity or a related entity.

82. Charities should have disclosed either:

- a statement that none of the trustees have been paid any relevant remuneration or received any other benefits; or
- that one or more of the trustees has been paid remuneration or has received other benefits. The information set out at SORP paragraph 9.7 should also have been disclosed..

Information on trustee's expenses has not been properly disclosed

83. Charities SORP paragraph 9.11 requires charities to disclose whether the trustees were reimbursed expenses incurred in carrying out their duties or whether similar payments were made by the charity direct to third parties on their behalf.

84. Charities should have disclosed either:

- that no trustee expenses have been incurred; or
- that one or more of the trustees has claimed expenses or had their expenses met by the charity and disclosed the information set out at SORP paragraph 9.12.

Information on auditor's remuneration has not been properly disclosed

85. Charities should have followed SORP paragraph 9.23 and disclosed the fees payable for the statutory audit.

86. This requirement applies even where the fee was absorbed by the administering council (as explained in section 5).

14.9: Financial statements – receipts and payment basis

A receipts and payments basis is not properly followed

87. Receipts and payments accounts are created using a simple form of accounting that summarises all monies received and paid via the bank and in cash by the charity during its financial year, along with a statement of balances (instead of a Balance Sheet).

88. Financial statements that purport to be on a receipts and payments basis in 2024/25 should only reflect cash movements. In particular:

- no adjustments should have been made for the timing of income or payments to bring them in line with the activities to which they relate
- the purchase or sale of assets for cash should have been included in the statement of receipts and payments. Assets owned by the charity should be shown separately on the statement of balances
- changes in the value of assets should not have been reflected.

89. Financial statements prepared on a receipts and payments basis are not intended to give a true and fair view. Financial reporting standards therefore do not apply to receipts and payments accounts. Accounts prepared on a receipts and payments basis in 2024/5 should not contain any narrative stating that they give a true and fair view.

Statement of receipts and payments is not properly presented

90. The statement of receipts and payments provides an analysis of the incoming and outgoing cash and bank transactions for the year. The requirements for a statement of receipts and payments are set out at Part 1 of Schedule 3 to the [charity regulations](#). The 2024/25 statement should show the following categories separately:

- receipts, including donations, legacies and grants
- proceeds from the sale of fixed assets and investments
- payments, including investment management costs, grants and governance costs
- purchase of fixed assets and investments.

91. The statement of receipts and payments distinguishes between unrestricted funds, restricted funds, and endowment funds (analysed between expendable

and permanent endowment funds). This is usually achieved by giving each fund a separate column in the statement.

92. Where a charity has more than one fund in any category,:

- it should have presented the total held in each fund
- the notes to the accounts should explain in sufficient detail the content of the unrestricted, restricted and endowment funds.

93. Any transfers from a restricted, unrestricted, expendable endowment or permanent endowment fund into another fund should have been shown separately from the receipts and payments.

Statement of balances is not properly presented

94. The requirements for a statement of balances are set out at Part 1 of Schedule 3. The statement of balances at 31 March 2025 should:

- distinguish between unrestricted, restricted, expendable endowment or permanent endowment funds
- reconcile the cash and bank balances at 1 April 2024 and 31 March 2025 with the surplus or deficit shown by the receipts and payments account
- summarise the holding of investments and market valuation
- summarise other assets including gifts and states the cost or a valuation of the assets (a valuation is required where the charity trustees consider it to be lower than cost)
- state an estimate of the liabilities at 31 March 2025 (e.g. the audit fee but only where payable by the charity) showing separately any contingent liabilities
- have been signed by a charity trustee on behalf of all the charity trustees
- specify the date on which the statement of account was approved by the trustees.

Information in the notes has not been properly disclosed

95. Part 2 of Schedule 3 requires the additional information to be disclosed in the notes to the accounts:

14.10: Trustees' Annual Report

The Trustees' Annual Report is the charity equivalent of a local government body's Management Commentary.

Trustees' Annual Report is not presented

96. The Trustees' Annual Report is a narrative statement from the trustees which the [charity regulations](#) require to be included with the statement of accounts. It is the charity equivalent of a local government body's Management Commentary.

97. Auditors' responsibilities for a Trustees' Annual Report are the same as for a local government body's Management Commentary (explained in section 1 of Module 11). The test procedures that auditors should undertake to meet the above responsibilities are summarised in Appendix 1. The model Independent Auditor's Report for 2024/25 will be provided in a separate [TGN](#) and will include wording for the Trustees' Annual Report opinions.

Trustees' Annual Report is not consistent with the financial statements

98. Auditors should carry out test procedure 1 to consider whether there are any material inconsistencies in 2024/25 between information in the Trustees' Annual Report and the financial statements, and express an opinion in the Independent Auditor's Report:

Test procedure 1 - inconsistencies with financial statements

Auditors should:

- select amounts or other items in the Trustees' Annual Report and compare them with the corresponding amounts or other items in the financial statements
- conclude whether an inconsistency means there is a misstatement
- request that any misstatements be corrected.

99. Auditors should refer to section 1 of Module 11 for guidance on the above procedures.

Trustees' annual report is not in accordance with applicable requirements

100. Auditors should carry out test procedure 2 to consider whether the Trustees' Annual Report for 2024/25 has been prepared in accordance with applicable requirements, and express an opinion in the Independent Auditor's Report.

Test procedure 2 - non-compliance with applicable requirements

Auditors should:

- use the checklist at Appendix 2 to evaluate whether information required by applicable requirements has been omitted from the Trustees' Annual Report
- evaluate whether items comply with the applicable requirements
- request that any misstatements be corrected.

101. The required contents for smaller charities are set out at paragraphs 1.14 to 1.32 of the [charities SORP](#). Smaller charities are described by SORP paragraph 1.9 as those with a gross income of £500,000 or less.

102. Schedule 2 of the [charity regulations](#) set out the requirements for accounts prepared on a receipts and payments basis.

103. In order to evaluate whether required information has been omitted, auditors should check whether the Trustees' Annual Report includes the items summarised at Appendix 2 to this Module. An omission includes situations where a required item has been:

- included by hyperlink to a website; or
- presented in another part of the statement of accounts without appropriate cross-reference.

104. If auditors are of the opinion that the Trustees' Annual Report omits an item set out at Appendix 2, or that reported items do not comply with applicable requirements, this represents a misstatement. Where material, auditors should request that the charity makes the necessary correction.

Trustees' Annual Report is inconsistent with auditor's knowledge

105. Auditors should carry out test procedure 3 to consider whether there are any material inconsistencies between information in the Trustees' Annual Report and their knowledge obtained in the audit.

Test procedure 3 - inconsistency with auditor's knowledge

Auditors should:

- consider whether there is a material inconsistency between the Trustees' Annual Report and the knowledge they have obtained in performing the audit
- request that any misstatements be corrected.

106. Auditors should refer to section 1 of Module 11 for guidance on the above procedures.

Information in the Trustees' Annual Report is misleading

107. Auditors should carry out test procedure 4 to consider whether information in the Trustees' Annual Report is misleading.

Test procedure 4 - misleading information

Auditors should:

- consider whether any information in the Trustees' Annual Report is misleading
 - request that any misstatements be corrected.
-

108. Auditors should refer to section 1 of Module 11 for guidance on the above procedures.

Trustees' Annual Report is not properly signed

109. Auditors should confirm that the Trustees' Annual Report has been signed by one or more of the charity's trustees.

Appendix 1 Trustees' Annual Report

Auditor action

Test procedures	Yes/No/N/A	Initials/date	W/P ref
<p>1 Have you</p> <ul style="list-style-type: none"> • selected amounts or other items in the Trustees' Annual Report and compared them with the corresponding amounts or other items in the financial statements? • concluded whether an inconsistency with the financial statements means there is a misstatement in the Trustees' Annual Report? • requested that any misstatement be corrected? 			
<p>2 Have you:</p> <ul style="list-style-type: none"> • used the checklist at Appendix 2 to evaluate whether information required by the applicable requirements has been omitted from the Trustees' Annual Report? • requested that any misstatements be corrected? 			
<p>3 Have you:</p> <ul style="list-style-type: none"> • considered whether there is a material inconsistency between the Trustees' Annual Report and the knowledge you have obtained in performing the audit? • requested that any misstatements be corrected? 			
<p>4 Have you:</p> <ul style="list-style-type: none"> • considered whether any information in the trustees' annual report is misleading? • requested that any misstatements be corrected? 			
<p>5 Have you discussed any uncorrected material misstatement in the Trustees' Annual Report with Audit Scotland's I&Q?</p>			

Appendix 2 Content of Trustees' Annual Report

Required item	Yes/No/N/A
1 A summary of the purposes of the charity as set out in its governing document; and the main activities undertaken in relation to those purposes	
2 A summary of the main achievements of the charity	
3 A review of the charity's financial position at the end of the reporting period	
4 Any policy it has for holding reserves, the amounts of those reserves and why they are held. If the trustees have decided that holding reserves is unnecessary, the report must disclose this fact and provide the reasons behind this decision	
5 The identification of any fund that is materially in deficit, with an explanation of the circumstances giving rise to the deficit and the steps being taken to eliminate the deficit	
6 The nature of the governing documents, how the charity is constituted, and the methods used to appoint new trustees	
7 Reference and administrative information including the name of the charity, the names of all those who were the charity's trustees on the date the report was approved or who served as a trustee in the reporting period, and the names of the directors of any corporate trustees on the date the report was approved.	

Technical Guidance Note 2024/8(LG) – Module 14

Guidance on misstatements in Section 106 Charities in 2024/25

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