Item 18b

Technical Bulletin 2023/1

Technical developments and emerging risks from January to March 2023

AUDIT SCOTLAND

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

24 March 2023

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1: Introduction

Purpose

The purpose of Technical Bulletins from Audit Scotland's Professional Support is to provide auditors appointed by the Auditor General for Scotland and Accounts Commission for Scotland with:

- information on the main technical developments in each sector during the quarter
- information on professional matters during the quarter that are expected to have applicability to the public sector
- summaries of responses to any requests from auditors for technical consultations with Professional Support.

Appointed auditors are required by the Code of Audit Practice to pay due regard to Technical Bulletins. The information on technical developments is aimed at highlighting the key points that Professional Support considers auditors in the Scottish public sector require generally to be aware of. It may still be necessary for auditors to read the source material if greater detail is required in the circumstances of a specific audited body. Source material can be accessed by using the hyperlinks.

Any specific actions that Professional Support recommends that auditors take are highlighted in green.

Technical Bulletins are also published on the Audit Scotland website and therefore are available for audited bodies and other stakeholders to access. However, hyperlinks to source material indicated with an asterisk (*) link to files on Audit Scotland's SharePoint* and are only accessible by auditors.

Highlighted items

Professional Support highlights in the following table a selection of the items in this Technical Bulletin that are of particular importance:

Highlighted items		
Professional Support has published model forms of IARs for 2022/23 [**paragraph 1**]	PAF has issued a revised edition of PN 10 [**paragraph 6**]	Treasury has issued a consultation paper on changes to asset valuation [**paragraph 9**]
Professional Support has issued guidance for auditors on cyber security [**paragraph 14**]	Professional Support has published guidance on reporting on summary financial information in 2022/23 [**paragraph 18**]	Treasury has issued guidance on preparing the 2021/22 WGA returns [**paragraph 21**]
Professional Support has published guidance on auditing 2021/22 WGA returns [**paragraph 28**]	Professional Support has issued guidance for auditors on climate change [**paragraph 35**]	The SG has issued statutory guidance on accounting for equal pay [**paragraph 37**]
The SG has issued revised statutory guidance on transformation projects [**paragraph 43**]	CIPFA has issued guidance on accounting for infrastructure assets [**paragraph 47**]	Professional Support has published two assurance protocols for 2022/23 [**paragraph 52**]
CIPFA has issued guidance notes on the 2022/23 accounting code [**paragraph 55**]	CIPFA has issued a disclosure checklist for 2022/23 [**paragraph 58**]	Audit Scotland hosted an event on asset valuation in local government [**paragraph 62**]
The Accounts Commission has published a financial bulletin on 2021/22 [**paragraph 65**]	Professional Support has published a briefing on section 106 charities [**paragraph 52**]	Professional Support has published guidance on risks of misstatement in 2022/23 annual report and accounts [**paragraphs 73 and 86**]
Treasury has issued a revised edition of the 2022/23 FReM and the 2023/24 FReM [**paragraphs 77 and 81**]	The SG has issued the accounts manual for 2022/23 [**paragraph 89**]	The SG has issued the NHS CAM for 2022/23 [**paragraph 91**]

Consulting with Professional Support

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

2: All sectors

Independent auditor's reports for 2022/23

1. Professional Support has published the following technical guidance notes (TGNs) to provide auditors with model forms of Independent Auditor's Reports (IAR) which should be used for the 2022/23 annual accounts of public bodies in Scotland:

- TGN 2023/2(CG) for central government bodies
- TGN 2023/3(H) for health boards.

2. Auditors are required by the Code of Audit Practice to prepare their IARs in accordance with these TGNs. The TGNs are available with supporting material to auditors on SharePoint* and are also freely available from the Audit Scotland website.

3. The model forms of IARs set out in the appendices of the TGNs have been tailored to reflect relevant public sector legislation and augmented by the reporting requirements of the Auditor General and Accounts Commission.

4. There are a number of changes to the model forms of IAR and to the application guidance in 2022/23. These are summarised in the following table:

Area	Change
Model IARs	The description of the financial reporting framework has been removed from the 'true and fair' element of the opinion on the financial statements.
	The period of appointment disclosure has been simplified.
	The explanation of the extent to which the audit is capable of detecting irregularities has been enhanced with a view to reducing any perceived need for extensive local tailoring.
Application guidance	The guidance on the period of appointment disclosure has been revised to reflect the amendment in standard wording.
	Auditors should consult with Professional Support on any tailoring of the standard wording of the explanation of the extent to which the audit is capable of detecting irregularities.
	A new Auditor Action has been added in respect of identifying the audited parts of the Remuneration and Staff Report.

5. For the 2022/23 audits of central government bodies and health boards, auditors should:

- use the relevant model form of IAR for each audited body
- follow the specified wording other than where tailoring adjustments are set out in the application guidance in the TGN
- consult with Professional Support on any modified opinion or conclusion
- complete an Auditor Action Checklist for each IAR prepared.

Revised practice note 10

6. The Public Audit Forum has issued a revised edition of Practice Note 10 Audit of Financial Statements and Regularity of Public Bodies in the UK (PN 10). Audit Scotland's Code of Audit Practice expects auditors to pay due regard to PN 10, i.e. to either apply the guidance or explain any non-application.

7. Part 1 of PN 10 sets out how auditors of public sector bodies apply auditing standards to their work on financial statements. The aim is to support consistency in the application of auditing standards while also recognising the specific legislative and regulatory frameworks that apply to the audits of public sector bodies. Part 2 provides guidance on the approach to the audit of regularity.

8. PN 10 was last revised in 2020 and it has been updated to take account of changes to standards and other developments in the auditing profession. The main changes are summarised in the following table:

Section	Pages	Summary of proposed revisions
ISQM (UK) 1	14 - 21	There are revisions to existing material on ISQC 1 to reflect its replacement by ISQM (UK) 1 in respect of systems of quality management. Most of the proposed changes apply to contracted out audits and therefore do not apply in Scotland (which uses an appointments basis). Revisions that apply in Scotland are the following: • Paragraph 1-23 has been added to advise that public sector auditors may determine that an engagement quality review is appropriate for bodies judged to have a high public profile. • Paragraph 1-27 has been added to explain that the individual assigned operational responsibility for the system of quality management in the national audit agencies may not be eligible for appointment as a statutory auditor under the Companies Act 2006. However, the national audit agencies comply with ISQM (UK) 1 by ensuring that the individuals have levels of experience, knowledge, influence and authority such that they are capable of fulfilling the role of engagement partner as defined in auditing standards. This is considered to be equivalent to the levels required to achieve eligibility for appointment as a statutory auditor.

Section	Pages	Summary of proposed revisions
ISA (UK) 240	21 - 23	Paragraphs 1-40 to 1-44 have been added to provide guidance on the interaction between fraud and regularity responsibilities. This includes the following points: • The public sector auditor's responsibilities relating to fraud under ISA (UK) 240 are interrelated with the work that underpins the regularity opinion. However, the audit of regularity is not in itself sufficient to provide reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud. • The term 'irregularities' refers to instances of non-compliance with laws and regulations, including fraud. In the context of the regularity opinion, the term 'irregular transactions' refers to transactions not in accordance with the framework of authorities. • An irregular transaction may not be an irregularity (e.g. a breach of spending controls may not be unlawful). However, it is likely that transactions relating to an 'irregularity' would also be irregular transactions for the purpose of the regularity opinion. • Even where fraud does not result in misstatement of the financial statements, it may result in transactions that are not in accordance with the framework of authorities. The public sector auditor's responsibilities under ISA (UK) 240 in respect of reporting fraud or suspected fraud extend to such cases.
ISA (UK) 315	27 - 30	There are various revisions to reflect the July 2020 revision of ISA (UK) 315. Key changes include the following: • Paragraph 1-73 explains that ownership of a public body may not have the same relevance as in the private sector because decisions related to the body may be made outside of the body as a result of political processes. Relevant matters include understanding the ability of the body to make unilateral decisions and the ability of other public sector bodies to control or influence it. • Paragraph 1-79 has been added to provide examples of inherent risk factors that may be particularly relevant to public bodies under the categories of inherent risk factors of complexity, subjectivity, change, uncertainty and management bias. • The guidance in paragraph 1-80 on the situation where public bodies are required to work to annual limits on resources has been extended. It explains that the risk of transactions being recorded in the wrong accounting period is increased due to an incentive for an entity to bring forward or delay expenditure or capital additions depending on its expected outturn against these limits. The risk of misclassification is also increased as there is an incentive to recognise items in a manner that increases outturn against limits that are underspent and reduces outturn against limits that are overspent.

Section	Pages	Summary of proposed revisions
ISA (UK) 320	31 - 33	Existing guidance at paragraphs 1-87 and 1-88 has been expanded including providing further examples for determining materiality in the public sector. Key points include: • Attention has been drawn to paragraph A20 of ISA (UK) 450 which highlights circumstances where misclassifications between balance sheet items that do not affect the performance statement may not be considered material. • In some public bodies, the value of gross assets and/or liabilities is much higher than the value of total expenditure and income. Where the audited body has custody of significant public assets held to meet a strategic policy objective, their service potential is an important contributor to the body's ability to deliver its services, which may make them an appropriate benchmark for setting materiality for the financial statements as a whole. • Example 5 has been added on setting materiality where the audited body's accounts include a high-value portfolio of assets and liabilities held in order to meet a strategic public policy objective, but its day-to-day decision making focuses on other account balances, classes of transactions and disclosures An auditor may determine materiality for the financial statements as a whole using a benchmark based on the strategic asset or liability balances and also determine a materiality level to be applied to most or all other account balances (for example, working capital balances or actively-managed investments). The narrative confirms that no assertion is intended that such an approach is applicable to local authority audits.
ISA (UK) 570	43 - 51	The following additional clarification has been added for bodies where the financial reporting framework provides for the adoption of the going concern basis due to the anticipated continuation of the provision of a service in the future: • Paragraph 1-157 explains that the factor relevant to the auditor's work on going concern is whether the services will continue rather than the continued existence of the audited body itself. • Paragraph 1-163 clarifies that uncertainty regarding the future existence of the audited body does not create a material uncertainty, provided that this uncertainty does not also extend to the future delivery of the services.
ISA (UK) 600	52 - 54	Paragraph 1-195 has been added to provide guidance on cases where those charged with governance is unclear. It advises that those charged with governance are the persons or organisations with responsibility for overseeing the financial reporting process relating to the combined financial statements. This group may have responsibility for overseeing the strategic direction and obligations related to the accountability of the sector to which the financial information included in the combined financial statements relates.

Section	Pages	Summary of proposed revisions
Revised Ethical Standard	60 - 61	A new section has been added (paragraphs 1-229 to 1-235) on applying the revised ethical standard to the public sector. For example, paragraph 1-234 explains that it may not be possible to comply strictly with the engagement partner rotation requirements envisaged for listed entities. Nonetheless auditors establish policies and procedures to promote compliance with the spirit of the rotation requirements for significant public bodies.
Materiality for the audit of regularity	69 - 70	Paragraph 2.34 has been added to provide examples of situations when auditors may determine a materiality threshold for the audit of regularity that is different to that determined for the financial statements as a whole. These include where: • the audited body makes payments to individuals or other bodies that are of significantly greater public interest than the administrative functions of the body itself • the benchmark used to determine materiality for the financial statements as a whole has increased significantly but there remains user interest in the regularity of transactions at a more granular level • aspects of the audited body's framework of authorities and/or regulatory oversight regime indicate that quantitatively small non-compliance with the framework of authorities would be perceived more seriously than from assessing the amounts against materiality for the financial statements as a whole • the benchmark used to determine materiality for the financial statements as a whole is based on assets or liabilities and these amounts are out of proportion to the expenditure and income transactions that are subject to the regularity opinion.

Consultation on proposed changes to asset valuations

9. HM Treasury has issued a consultation paper on proposed changes to asset valuation bases for financial reporting purposes. The proposals flow from a thematic review that will affect public sector adaptations and interpretations of IAS 16 and IAS 38 in respect of the measurement of assets.

10. The consultation sets out specific proposals for change, balancing the needs of users and producers of the financial information, value for money considerations and the importance of timely financial reporting. Comments should be submitted to shikha.sharma@hmtreasury.gov.uk by Thursday 18 May 2023.

11. The valuation options are summarised in the following table:

Option	Method	Comments on proposals
1	Historical deemed cost model	The transition value for historical cost would be assumed to equal the current value of the asset at the transition date (i.e. the deemed cost). The main benefits are that this option are: • generally well understood and is less subjective than other options • easy to verify as a reliable measurement basis. The main challenges are: • the disparity between the carrying value under the historical cost model and current values can be significant • reported information will become less useful and relevant over time.
2	Fair value in accordance with IFRS	The main benefits of this option are that fair value may provide more relevant information to users of financial statements, as it is determined from the market participants' perspective and considers the highest and best use of the asset. The main challenges are that: • the constraints that typically apply with respect to disposing or changing the current use of assets in the public sector may lead this option to be less relevant • additional time and effort may be required to identify the most advantageous market, determine highest and best uses of the asset and apply appropriate valuation techniques.
3	Refinement of classes of assets with valuation method based on asset class	This option considers a reassessment of distinct asset classes and the application of a separate measurement basis for each. This enables a differentiation of the valuation approach depending on the nature of the assets. The main benefits of this option are that it: • may allow the application of a relevant and practically achievable accounting policy without undue cost and effort • enables the public sector to apply the optimum cost/benefit measurement basis for each type of asset class, depending on the nature and intended use of the asset. The main challenges are: • the different measurement bases may make aggregate measures less understandable • potential differences in judgement over the categorisation of individual assets.

Option	Method	Comments on proposals
4	Periodic reset to current valuation	There are two approaches to achieving the aims of Option 4. • The first is a periodic reset of deemed cost to current valuation. This would be an adapted historical cost model, reframing the adaptation of IAS 16 to revalue deemed cost quinquennially. • The second is to continue to apply current values but to introduce an adaptation prescribing that revaluations are only required quinquennially.

12. Treasury's preferred option is Option 3. The proposed measurement bases for the six asset categories used by the Government Financial Reporting Manual are summarised in the following table:

Category	Current measurement	Proposed measurement
Networked assets	Depreciated replacement cost (central government) Historical cost (local government)	Depreciated replacement cost for all sectors
Specialised assets	Depreciated replacement cost	Historical (deemed) cost
Non-specialised assets	Market value in existing use	Fair value

13. There are no changes proposed for heritage assets, social housing assets and surplus assets.

Guidance for auditors on cyber security

14. Professional Support has issued guidance to assist auditors consider risks related to cyber security at audited bodies as part of 2022/23 core annual audit activity. The guidance is available to auditors on SharePoint* and is also freely available from the Audit Scotland website.

15. Cyber security is the practice of defending networks and information systems against malicious attacks designed to compromise access to these systems. This guidance prepared by Audit Scotland's Digital Audit team provides information on the current landscape of cyber resilience assessment frameworks within the Scottish public sector, and provides guidance on auditors' consideration of them.

16. The guidance notes that the revised ISA (UK) 315 includes enhanced requirements for auditors to understand a body's use of IT in its business, the related risks and the system of internal control addressing such risks. Meeting these additional requirements is likely to be sufficient consideration of cyber security in 2022/23. This guidance is intended to assist auditors in that regard.

17. Auditors should refer to this guidance when meeting the requirements of ISA (UK) 315 in respect of IT risks and controls.

TGN on reporting on summary financial information in 2022/23

18. Professional Support has issued TGN/SFI/23 to provide auditors with guidance on examining and reporting on summary financial information for 2022/23. The TGN is available to auditors on SharePoint* and is also freely available from the Audit Scotland website.

19. Summary financial information refers to a structured representation of financial information that is derived from, but contains less detail than, a full set of financial statements. In some cases, an audited body may be required by its sponsoring body to produce a separate annual report that includes summary financial information. In other cases, a body may choose to produce a report or other document that contains summary financial information as defined above.

20. In either event, auditors should express an opinion on the summary financial information's consistency with the audited financial statements. TGN/sfi/23:

- provides guidance for auditors on the examination of the summary financial information
- sets out and explains the testing and reporting procedures that auditors should carry out (all summarised in the checklist at Appendix 1)
- provides a model form of report at Appendix 2.

Guidance on 2021/22 WGA returns for preparers

21. Treasury has issued guidance on preparing the 2021/22 Whole of Government Accounts (WGA) returns for local government and for central government bodies. WGA is prepared by Treasury and consolidates bodies in the UK that exercise functions of a public nature or are funded from public money. The process has been running significantly behind schedule over the last few years.

22. Data is collected for the 2021/22 WGA by bodies inputting information directly to the Online System for Central Accounting and Reporting (OSCAR II). Bodies are exempt from the WGA process if their gross expenditure, gross income, gross assets, and gross liabilities are below £30 million for both 2020/21 and 2021/22.

23. Paragraph 1.7.1 sets out the key dates for 2021/22 WGA as summarised in the following table:

Cycle	Return	Submission date
1	Unaudited	28 February 2023

Cycle	Return	Submission date	
2	Audited	31 March 2023	NB Auditors are not expected by Professional Support to meet that date if doing so would compromise audit quality.

24. A diagram at paragraph 4.2.2 of the guidance sets out the steps involved in the WGA submission process. The steps depend on whether the body is above the audit threshold. Paragraph 1.7.2 advises that the threshold for audit is breached if any of total assets (excluding property, plant and equipment), total liabilities (less pension liabilities), total income or total expenditure is above £2 billion.

25. Annex A provides a summary of the proforma tabs used to input data. Chapter 7 provides more detailed guidance on inputting data into the tabs. Paragraph 7.2.7 explains that the Audit Report is a view of all data submitted which can be shared with auditors. It may be appropriate to download the individual tabs instead, and also run the new primary financial statements report.

26. A key part of the WGA process is the elimination of transactions and balances between WGA bodies. Recording complete and accurate counter-party identifier (CPID) information is the only way in which transactions and balances between WGA bodies can be identified and eliminated. Paragraph 6.3.4 explains how bodies can run a Matches Analysis Tool which allows them to see 'live' published data from other bodies. Central government bodies are required to formally agree transaction streams and balances that are above £5 million with central government counterparties.

TGN on 2021/22 WGA returns for auditors

27. Professional Support has published a TGN to provide auditors with guidance on examining and reporting on the 2021/22 Whole of Government Accounts (WGA) returns of public bodies in Scotland. The TGN is provided with supporting material to auditors on SharePoint* and also on the Audit Scotland website.

28. The National Audit Office (NAO) are the group auditor for WGA. Due to late running of the WGA process, the NAO were not able to issue their Group Audit Instructions until February 2023. This consequently delayed the publication of this TGN.

29. Testing and reporting procedures that auditors are required to undertake in respect of providing assurance to the NAO on 2021/22 WGA returns above the threshold is included in the TGN. The procedures are consistent with the NAO's Group Audit Instructions but tailored to Scottish bodies. Reporting procedures include the submission of an Assurance Statement in a form prescribed by NAO.

30. No examination is required for bodies below the threshold, although auditors are required to complete the first eight sections of the Assurance Statement (except for minor bodies) and submit it to the NAO.

31. Auditors should examine and report on the 2021/22 WGA returns of public bodies in Scotland in accordance with the TGN, and make the required submissions as soon as reasonably practicable.

Guidance for auditors on climate change

32. Professional Support has published guidance to assist auditors answer the questions set out in the Guidance on Planning 2022/23 Annual Audits (paragraph 80) on public bodies' arrangements for responding to climate change.

33. The guidance has been prepared by Audit Scotland's Climate Change central team. It is available to auditors on SharePoint* and is also freely available from the Audit Scotland website.

34. Auditors should refer to the guidance and:

- complete the Response Sheet for each public body (except those that meet the definition of Less Complex Bodies) by the target audit completion date for each sector set out in the planning guidance
- report on climate change arrangements in their Annual Audit Reports based on the factual evidence gathered for the survey. No judgements on progress or quality of strategies are required at this stage.

3: Local government sector

New statutory guidance on accounting for equal pay

35. The Scottish Government has issued Finance Circular 2/2023 which contains statutory guidance on accounting for equal pay.

36. Finance Circular 4/2015 originally contained statutory guidance which enabled a local authority to delay the financial impact arising from recognising an equal pay provision until the payment was made. That flexibility originally ceased on 1 April 2018, but Finance Circular 1/2019 extended it to 1 April 2020.

37. In light of continuing equal pay claims for some local authorities, Finance Circular 2/2023 extends the financial flexibility to cover the four-year period from 2020/21 to 2023/24. The flexibility involves the following statutory adjustment for any new or increased equal pay provision over that four-year period:

- Debit Employee Statutory Adjustment Account
- Credit General Fund/HRA.

38. Statutory adjustments related to 2020/21 and 2021/22 should be made in the 2022/23 financial statements. No prior year adjustments are required.

39. When an equal pay provision is derecognised, the deferred charge must be transferred back to the General Fund.

40. Auditors should note that the issue of this circular impacts on Module 2 of TGN 2022/8(LG)*. Specifically, it supersedes the first bullet of paragraph 21 which advises that any increase in provision since 1 April 2020 should not be deferred.

Revised statutory guidance on funding transformation projects

41. The Scottish Government has issued Finance Circular 1/2023 which contains revised statutory guidance on the scheme which permits local authorities to use capital receipts to fund projects designed to transform service delivery to reduce costs and/or reduce demand.

42. The original guidance in Finance Circular 4/2019, which applied for the four-year period from 2018/19 to 2021/22, was extended by Finance Circular 8/2022 to also apply to 2022/23.

43. Finance Circular 1/2023 adds paragraphs 14 to 17 to Finance Circular 8/2022 to prevent capital receipts generated by a disposal to an entity within the local authority's group structure from being used to fund transformation projects:

- The restriction applies prospectively from 1 April 2022. There is no requirement to retrospectively apply the restriction to capital receipts applied before that date.

- Group structure includes entities that meet the definition of subsidiaries, associates and joint ventures (even if they are not conciliated in practice).

44. The issue of this circular impacts on Module 9.8 of TGN 2022/8(LG) (at paragraphs 94 and 95). When evaluating the eligibility of capital receipts, auditors should confirm that those generated by entities within the group structure from 1 April 2022 are not used to fund transformation expenditure.

Guidance on infrastructure assets

45. CIPFA has issued Bulletin 12 to provide guidance on accounting for infrastructure assets. It covers:

- the impact of the statutory overrides set out in Finance Circular 9/2022 (explained at paragraph 11 of Technical Bulletin 2022/3)

- estimating depreciation.

46. Auditors should refer to this bulletin when following the guidance in Module 1 (paragraphs 131 to 133 and 143) of Technical Guidance Note 2022/8(LG) in respect of the statutory override for infrastructure assets. A brief summary is provided in the following paragraphs.

Impact of statutory overrides

47. The bulletin provides the following guidance in respect of each statutory override:

Override	Summary of guidance
Statutory override 1 (which permits the non-disclosure of gross cost and accumulated depreciation in respect of infrastructure assets).	Paragraphs 99 and 100 set out options for amending the format of the property, plant and equipment note to accommodate the non-disclosure. 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.
Statutory override 2 (which allows the carrying amount of a replaced part of infrastructure assets to be derecognised as nil).	Paragraph 47 of the bulletin states that appropriate disclosure should be made in the financial statements where an authority decides to utilise statutory override 2. The disclosure should set out the authority's accounting policy for the derecognition amount on replacement. Annex B provides a suggested disclosure.

Depreciation

48. Paragraph 62 highlights that the depreciation method is required to reflect the pattern in which an asset's future economic benefits or service potential are expected to be consumed. Paragraph 68 advises that this 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.

49. 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 which present information where the local authority is able to estimate information on gross cost and net book value for the different parts.

Audit assurance protocols for 2022/23

50. Professional Support has published two protocols to provide agreed frameworks for auditors to seek and provide certain assurances from auditors of other public bodies (assurance protocols). The assurance protocols are summarised in the following table:

Protocol subject	Nature of audit assurances
Local Government Pension Scheme (LGPS)	LGPS pension fund auditors request assurances from employer body auditors in respect of pension contributions payable by the employer body to the pension fund. Employer body auditors request assurances from pension fund auditors in respect of information provided by the pension fund to the actuary in relation to their reports on employer bodies.

Protocol subject	Nature of audit assurances
Integration joint boards (IJBs)	IJB auditors request assurances from the auditors of the constituent authorities regarding information not held by the IJB.

51. The assurance protocols set out the potential range of assurances but do not compel any specific assurances to be sought. It is not expected that any assurances outwith the specified range will generally be requested but that will be a matter for local agreement in 2022/23.

52. Auditors should:

- judge whether it is necessary to request any assurances from other auditors in 2022/23
- follow the agreed frameworks in each protocol when requesting or providing assurances.

Guidance on 2022/23 accounting code

53. The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance notes* to support the Code of Practice on Local Authority Accounting in the UK 2022/23 (2022/23 accounting code).

54. The overall aim of the guidance notes is to explain and illustrate how to apply the accounting requirements of the accounting code, provide background to the requirements, and illustrate how they might be applied in practical situations. The guidance is not mandatory.

55. This edition of the guidance notes has been updated to reflect changes to the 2022/23 accounting code (explained in Technical Bulletin 2022/3 – paragraph 18).

2022/23 disclosure checklist

56. CIPFA has issued a disclosure checklist* for the 2022/23 financial statements. It is intended for use as an aide-memoire to assist in meeting the requirements of the accounting code.

57. The checklist is in the form of a series of questions and the implications of the answers are set out in the following table:

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

58. When evaluating whether the accounting code's disclosure requirements have been met, auditors should:

- request that the body completes the 2022/23 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 auditor's knowledge.

59. Where the body declines to complete the checklist, auditors should:

- establish the alternative arrangements by which it satisfies itself regarding the completeness of disclosures
- evaluate the adequacy of the arrangements
- consider completing the checklist as part of their audit procedures, where the body's arrangements are judged not to be adequate.

Roundtable and non-current asset valuation

60. Audit Scotland hosted a roundtable event on the valuation of non-current assets in local government. The roundtable event was attended by Audit Scotland staff, Local Government Directors of Finance section, and representatives from appointed firms.

61. Attendees agreed that the overall objective is for valuations to be carried out with sufficient regularity to ensure that the carrying amount of assets in the balance sheet at the year-end should not differ materially from the current value at that date. The actions summarised in the following table were agreed:

Area	Action
Matrix approach	Each class of asset will be revalued on a rolling basis over an appropriate period not exceeding five years.
Valuation date	The valuation date should be 31 March rather than 1 April. Where the valuation exercise is carried out in-year but earlier than 31 March for reasons of expediency, any material changes in value in the interim should be adjusted for.
Definition of 'differs materially'	Local authorities should develop a working definition of 'differs materially'. This will 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. It will also include an explanation of how that range was arrived at and how the change will be estimated. Auditors should evaluate whether the working definition, including the range of values, is reasonable and consistently applied.

Area	Action
Evidence to support estimate	Local authorities should provide a package of 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 will trigger (a) a sample of assets to be subject to full revaluation or (b) possibly the application by a valuer of an appropriate index to all assets measured at DRC that were not revalued. DoFs to explore with RICs the potential for option (b).
Early engagement by auditors	Auditors should engage early and raise concerns about valuations promptly.

2021/22 financial bulletin

62. The Accounts Commission has published its annual financial bulletin of Scottish local authorities. The bulletin provides a high-level independent analysis of the financial performance of local authorities during 2021/22 and their financial position at 31 March 2022. Some key messages include the following:

- The average Council Tax collection rate increased during 2021/22, and is now more in line with pre pandemic levels.
- An increasing proportion of local government funding is now either formally ring-fenced or provided with the expectation it will be spent on specific services.
- Total usable reserves increased by £0.3 billion to £4.1 billion in 2021/22, the majority of which relates to increases in earmarked balances.
- Councils have improved the way in which COVID-19 funds are disclosed in their accounts, but the level of detail varies.

Section 106 charities accounts

63. Professional Support has issued a briefing to encourage a reduction in the number of sets of accounts of registered charities that fall within the scope of section 106 of the Local Government (Scotland) Act 1973 (section 106 charities). The briefing provides information on:

- the number of section 106 charities administered by each local authority in 2020/21
- the number of related sets of accounts.

64. Local authorities continued to administer a total of 172 section 106 charities; twelve authorities administer more than five each. In order to reduce the number of section 106 charities in 2021/22, auditors should strongly encourage authorities with multiple charities to:

- reorganise their charities through merging or winding them up, particularly when they appear to be failing to meet their charitable aims (e.g. by not disbursing funds)
- consider appointing an external trustee as this would remove the charity from the scope of section 106.

65. In the meantime, there is scope under the charity regulations for connected charities to prepare a single set of accounts. In Professional Support's view, the definition of connected charities is met for section 106 charities administered by the same local authority even where trustees differ as they meet the condition for 'unity of administration'. However, in 2020/21

- five authorities made only partial use of the connected charities provisions and produced 19 sets of accounts between them
- eight authorities made no use of the provisions and produced 32 sets of accounts.

66. Auditors should strongly encourage local authorities to make full use of the connected charities provisions in 2021/22.

2022/23 Housing benefit subsidy claims

67. The Department for Work and Pensions (DWP) has issued the 2022/23 housing benefit subsidy claim form and associated guidance* to local authorities.

68. The TGN for the certification of the 2022/23 housing benefit subsidy claims will be issued in due course.

69. Auditors should refer to the DWP guidance and the covering letter, which confirms the administration subsidy and interim subsidy received, when certifying housing benefit subsidy claims.

4: Central government sector

TGN on risks of misstatement in 2022/23

70. Professional Support has published TGN 2023/1 to provide auditors with guidance on risks of misstatement in the 2022/23 annual report and accounts of central government bodies. The TGN and supporting material is accessible by auditors on SharePoint* and is also freely available to download from the Audit Scotland website.

71. The TGN is intended to inform auditors' judgement when identifying and assessing the risks of material misstatement. The TGN supplements the Code of Audit Practice and auditors are expected to pay it due regard and use it as a primary reference source when performing 2022/23 audits. Auditors should advise Professional Support of any intended departures from the guidance.

72. The TGN comprises a number of modules as summarised in the following table:

Module	Risks of misstatement area	Purpose
Overview	Areas that are pervasive to the financial statements as a whole	Explains the appropriate related accounting treatment and sets out the action auditors should undertake to evaluate whether the body has followed the required treatment
1 - 8	Specific classes of transactions, balances and disclosures in the financial statements	
9	Irregular transactions	Explains the requirements and sets out the action auditors should undertake
10	Audited part of the Remuneration and Staff Report	
11	Statutory Other Information (e.g. Performance Report and Governance Statement)	Sets out the procedures for considering Statutory Other Information
12	Charitable NDPBs	Provides guidance on the application of the above modules to charitable NDPBs
13	Health boards	See chapter 5

73. The risks of misstatement for 2022/23 have been updated to reflect new requirements and risks which emerged during the 2021/22 audits that remain applicable. A separate note* summarises the main changes from 2021/22.

Revised 2022/23 FReM

74. HM Treasury has issued a revised version of the 2022/23 Government Financial Reporting Manual (the FReM).

75. There are no significant in-year changes from the initial version published in December 2021 referred to in Technical Bulletin 2022/1 (paragraph 48).

2022/23 GBS account information

76. Professional Support will obtain information on account balances at 31 March 2023 for central government bodies from the Government Banking Service (GBS) and distribute them to relevant auditors.

77. The GBS has confirmed that the arrangements for obtaining 2022/23 account balances are unchanged.

2023/24 FReM

78. Treasury has issued the 2023/24 FReM. The main change is a revised treatment of indexation linked payments in liabilities for service concession in accordance with IFRS 16 Leases.

79. Paragraphs 10.1.63 and 10.1.64 require the liability to be remeasured if there is a change in future lease payments resulting from a change in an index/rate used to determine those payments. This is a different treatment than under IAS 17 which requires such changes to be expensed.

80. Treasury has reissued the application guidance on IFRS 16 to provide further guidance on the FReM change from 2023/24.

Amendments to SPFM

81. The Scottish Government has issued Finance Guidance Note 2023/1 which announces amendments to the Certificates of Assurance section of Scottish Public Finance Manual (SPFM) in respect of the internal control checklist.

82. The questions in a number of sections of the checklist have been amended or reworded. The main changes are summarised in the following table:

Section	Summary of changes
Major investment	Guidance has been updated highlighting: • all major projects should undertake a Programme and Project Management (PPM) Maturity Self-Assessment which should be reviewed periodically • the Scottish Government's Principles for PPM set out a framework of activities that should be embedded to enable and control projects • all projects should articulate an accurate and up-to-date justification, proportionate to the size of the investment
Project Management	The guidance has been reviewed and amended to emphasise: • the Treasury Model and Major Investment Project Guidance • ensure where relevant, projects are registered with the Digital Assurance Office.
Fraud	• Some questions have been reworded to highlight duties around; Cyber Fraud, Scottish Government Fraud Guidance and Fraud Risk Assessments.

5: Health sector

TGN on risks of misstatement in 2022/23

83. Professional Support has published Module 13 of TGN 2023/1 to provide:

- guidance on applying the other modules to the audit of the 2022/23 annual report and accounts of health boards
- supplementary guidance on the risks of misstatements in areas specific to health boards.

84. The module is available with the rest of the TGN and supporting material to auditors on SharePoint* and is also freely available to download from the Audit Scotland website.

85. Auditors are expected to pay due regard to Module 13 and use it as a primary reference source when performing 2022/23 audits of health boards. Auditors should advise Professional Support of any intended departures from the guidance.

2022/23 accounts manual

86. The Scottish Government has issued the 2022/23 Manual for the Annual Report and Accounts of NHS Boards* (accounts manual). The accounts manual complements the guidance contained in the 2022/23 FReM but contains some additional or specific requirements.

87. The main changes arise from the implementation of IFRS 16. Other changes include the following:

- Page 10 of the accounts manual provides wording to be used to explain that the Scottish Government had paused the three-year monitoring of performance against financial targets for 2020/21 and 2021/22 due to the pandemic. However, boards are required to ensure financial balance over the three-year period (2022/23 to 2024/25).
- Pages 20 to 36 of the accounts manual been updated to clarify the disclosures in the Remuneration and Staff Report that are subject to audit.
- The guidance included in notes 3 and 4 in has been clarified to highlight that where contributions to and from IJBs are included in other lines, a footnote may be required to explain the total amounts.

2022/23 CAM

88. The Scottish Government has issued the NHS Scotland Capital Accounting Manual 2022/23* (CAM) to interpret the accounting guidance contained in the 2022/23 FReM on capital accounting issues in the health sector.

89. The main changes to the CAM for 2022/23 are to chapter 8 due to the application of IFRS 16. These include the following:

- In respect of the IFRS 16 requirement for a lessee to recognise assets and liabilities for leases, unless the underlying asset is of low value, CAM section 8.5 explains that the existing capitalisation threshold (£5,000) should be used for determining low-value assets.
- Para 8.7.2 requires irrecoverable VAT payable on lease payments to be expensed in year rather than being included in the initial measurement of the right-of-use asset and lease liability.

90. Guidance on the use of cost as a proxy for current value in existing use or fair value is provided at paragraphs 8.7.5 to 8.7.7. Paragraph 8.7.7 sets general expectations that:

- the IFRS 16 cost measurement provisions for non-property leases will be sufficient
- property leases with a specialised asset will require regular valuations to ensure appropriate measurement
- property leases with non-specialised assets will vary and local assessment will be required.

2021/22 NHS overview

91. The Auditor General has published an overview of the health sector. The report provides an overview of financial performance in 2021/22 and the financial challenges that lie ahead. Some key messages include the following:

- The response to the pandemic and a range of emerging financial pressures have exacerbated the financial position.
- There will be no further Barnett ‘consequential’ funding for pandemic-related spend, but costs will remain such those for vaccinations. These costs must now be met from the Scottish Government’s existing health and social care budget.
- Analysis of boards’ 2022/23 financial plans shows that of the 14 territorial boards, only three are predicting to break even in 2022/23 if their savings targets are met.
- The Scottish Government has given each board a COVID-19 funding budget for 2022/23 and instructed them to keep related costs within it.

6. Fraud and irregularities

This chapter contains a summary of fraud cases and other irregularities facilitated by weaknesses in internal control at audited bodies that have recently been reported by auditors to Professional Support.

Auditors should consider whether weaknesses in internal control which facilitated each fraud may exist in their bodies and take the appropriate action.

Expenditure

Grant payments

92. An unknown individual compromised a grant recipient's email account and committed bank mandate fraud. The council paid a grant of £12,300 to the fraudulent bank account.

Key features
After informing the grant applicant that their application was successful, the council received a request to change the grant recipient's bank account details.
The request came from the genuine grant recipient's email account and contained an attachment on headed paper requesting the change. The bank details were then changed.
The fraud was identified when the genuine grant recipient reported non receipt of the funds.
The fraud could have been prevented if the council has contacted the grant recipient to confirm the bank account changes.
The council have since issued bank mandate guidance for staff and existing controls have been strengthened.

Pension payments

93. A third party claimed over £6,600 from a widower's pension following their death.

Key features

A widower who was in receipt of a pension passed away. No death notification was provided to the council and therefore the pension payments continued.

A subsequent pension payment was returned by the bank. The council sent a letter to the widower's address requesting completion of a new bank mandate. A new bank mandate was emailed to the pensions team from the same email account used for the original bank mandate. The personal details provided, along with the signature, matched those on the original bank mandate and it was processed.

The fraud was identified as part of the National Fraud Initiative (NFI).

The fraud was possible as there was no consideration given to the potential risks associated with the new bank details. An internal audit investigation identified recommendations to help strengthen controls around changes to bank details.

Police Scotland identified the individual who submitted the fraudulent bank mandate and following a police caution, the individual repaid the amount in full.

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Technical Bulletin 2023/1

Technical developments and emerging risks from January to March 2023

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AUDIT SCOTLAND

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

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