Technical Bulletin 2024/1

Technical developments and emerging risks from January to March 2024

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

3 April 2024

Contents

1: Introduction

Purpose

The purpose of Technical Bulletins from Audit Scotland's Innovation and Quality (I&Q) business group is to provide auditors appointed by the Auditor General for Scotland and Accounts Commission for Scotland with:

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

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

Any specific actions that I&Q recommends that auditors take are highlighted in 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

I&Q highlights in the following table a selection of the items in this Technical Bulletin that are of particular importance:

Highlighted items		
I&Q has published guidance on reporting on summary financial information in 2023/24 **[paragraph 1]**	The Scottish Government has issued revised statutory guidance on accounting for service concession arrangements **[paragraph 4]**	CIPFA has published guidance notes on the 2023/24 accounting code **[paragraph 14]**
CIPFA has issued a disclosure checklist for 2023/24 **[paragraph 17]**	I&Q has published two auditor assurance protocols **[paragraph 21]**	The Accounts Commission has published a financial bulletin on 2022/23 [**paragraph 24**]
I&Q has published a briefing on section 106 charities [**paragraph 27**]	I&Q has published guidance on risks of misstatement in 2023/24 annual report and accounts **[paragraph 40 and 69]**	I&Q has published model forms of IARs for 2023/24 **[paragraph 44]**
Treasury has re-issued the 2023/24 FREM and issued the 2024/25 FReM **[paragraph 49 and 58]**	The Scottish Government has issued the NHS accounts manual and CAM for 2023/24 **[paragraph 72 and 80]**	The FRC has issued a revised Ethical Standard **[paragraph 83]**

Consulting with I&Q

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

2: All sectors

TGN on reporting on summary financial information in 2023/24

1. I&Q has issued a Technical Guidance Note (TGN) TGN/SFI/24 to provide auditors with guidance on examining and reporting on summary financial information for 2023/24. The TGN is available to auditors on SharePoint* and is also freely available from the Audit Scotland website.

2. 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.

3. In either event, auditors should express an opinion on the summary financial information's consistency with the audited financial statements. TGN/SFI/24:

- 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.

3: Local government sector

Revised guidance on accounting for service concession arrangements

4. The Scottish Government has published Finance Circular 7/2023 to provide revised statutory guidance on accounting for service concession arrangements, leases and similar arrangements. The revised statutory guidance replaces Finance Circular 10/2022 from 1 April 2024.

5. Finance Circular 10/2022 temporarily permitted a local authority to recognise the principal repayments for a service concession arrangement over the asset life rather than contractual term. This temporary flexibility is not reflected in the new statutory guidance.

6. 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 to the General Fund for all existing and new service concession arrangements, leases and similar arrangements will be required to:

- reflect the principal element of the contractual repayments
- be charged to the General Fund over the term of the contract.

7. Finance Circular 10/2022 will continue to apply where the temporary flexibility was exercised.

8. The proposed amendment explained in Technical Bulletin 2023/4 (paragraph 33) relating to leases reclassified on transition to IFRS 16 has not been progressed.

Proposed amendments to loans fund repayments - update

9. The Scottish Government has issued a response* to the comments received on its consultation on amending requirements for calculating repayments to loans fund advances (explained in Technical Bulletin 2023/4 (paragraph 23). The consultation proposed amendments to:

- The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 (the 2016 Regulations) which set out the statutory requirements for loans fund accounting
- Finance Circular 7/2016 (the statutory guidance) which sets out proper accounting practices for loans fund accounting.

10. The original proposed amendments to the 2016 regulations and any revisions to the actual amendments (which will come into force on 1 April 2024 rather than the proposed 1 April 2023) as a result of the consultation are summarised in the following table:

Original proposal	Revised requirement
A variation to a loans fund repayment must not extend the repayment period beyond the earlier of the end of the asset's useful life or 50 years after advance was made.	The revised requirement is that a varied repayment period must not exceed the useful life of the asset. Where a useful asset life cannot reasonably be determined, the repayment period may not exceed 50 years. Scottish Ministers may permit a longer repayment period where there is a compelling reason to do so.
Variation to a loans fund repayment must be applied prospectively and can never give rise to a nil or negative repayment.	No change
A loans fund repayment may not be varied where Scottish Ministers have consented to that borrowing	No change
Any decision to make a variation must be made by the whole council and may not be delegated.	Proposal withdrawn

11. The 2016 regulations apply to loans fund advances made prior to 1 April 2023 and have been amended by The Local Authority (Capital Finance and Accounting) (Scotland) Amendment Regulations 2024 to give effect to the above revisions. Equivalent amendments will be made to the statutory guidance which applies to advances made after 1 April 2023.

12. The following additional amendments to statutory guidance were deferred for further consideration:

- A requirement to categorise each loans fund advance against a specific element of capital expenditure.
- A restriction or removal of the use of the annuity method of establishing the loans fund repayment profile for new capital investment projects from 1 April 2023.
- An amendment to advise that the use of capital receipts to meet loans fund repayments does not reflect prudent provision and the Scottish Government has a longer-term aim to restrict the use of capital receipts for loans fund repayments.

- From 1 April 2023, all loans fund advances that relate to new capital investment projects which have not been approved prior to 1 April 2023 must be repaid in full on derecognition of an asset.

13.The above amendments, if applied, would not be introduced before 1 April 2027.

Guidance on 2023/24 accounting code

14.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 2023/24 (2023/24 accounting code).

15. 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.

16. This edition of the guidance notes has been updated to reflect changes to the 2023/24 accounting code (explained in Technical Bulletin 2023/2 – paragraph 44). The most significant changes relate to accounting policies as a result of amendments to IAS 1 including the following:

- Guidance has been added to pages 31 and 32 on the application of amendments related to the selection and presentation of accounting policies. The guidance highlights that there is:
    - greater care to be taken to avoid ‘boilerplate’ text, especially where it is not tailored to the authority or simply repeats accounting code requirements
    - greater emphasis on the effectiveness of the judgements made in deciding what is material
    - a focus on organising and presenting material accounting policy information clearly and concisely.
- Further guidance has been added to paragraphs 32 to 34 on making judgements on materiality, highlighting the process to identify information that might influence the assessment, classification and presentation of material information clearly and concisely.
- Guidance has been added on pages 193 to 199 which clarifies the distinction between changes in estimates, changes in accounting policies, and correction of errors.

2023/24 disclosure checklist

17.CIPFA has issued a disclosure checklist* for the 2023/24 financial statements. It is intended for use as an aide-memoire to assist in meeting the requirements of the accounting code.

18. 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.

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

- request that the body completes the 2023/24 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.

20. 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.

Auditor assurance protocols for 2023/24

21. I&Q 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.

22. 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 2023/24.

23. Auditors should:

- judge whether it is necessary to request any assurances from other auditors in 2023/24
- follow the agreed frameworks in each protocol when requesting or providing assurances.

2022/23 financial bulletin

24. 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 2022/23 and their financial position at 31 March 2023. Some key messages include the following:

- There is pressure on capital budgets, presenting risks to the viability of local government capital programmes, Capital funding from the Scottish Government rose in 2022/23 but remains lower than before the pandemic and has been volatile over the past decade.
- 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.
- Councils anticipate budget gaps of over £476 million for the year, higher than the previous year. Councils are increasingly having to rely on savings and reserves to balance budgets. Half of councils increased their usable reserves in 2022/23, and overall usable reserves grew to £4.45 billion.

2024/25 finance settlement

25. The Scottish Government has published Finance Circular 8/2023 announcing the local government finance settlement for 2024/25 and revised funding for 2023/24.

26. The circular provides details of:

- the provisional total revenue and capital funding allocations for 2024/25
- the latest information on redeterminations for 2023/24

- a range of non-domestic rates measures, including the proposed poundage for 2024/25 and changes to certain reliefs.

Section 106 charities accounts

27. I&Q 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 2022/23
- the number of related sets of accounts.

28. Local authorities continued to administer a total of 165 charities in 2022/23 (a small reduction of five from 2021/22). In order to reduce the number of section 106 charities in 2023/24, 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.

29. In the meantime, there is scope under the charity regulations for connected charities to prepare a single set of accounts. In I&Q'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 2022/23:

- four authorities made only partial use of the connected charities provisions and produced 18 sets of accounts between them
- four authorities made no use of the provisions and produced 16 sets of accounts.

30. Auditors should strongly encourage local authorities to make full use of the connected charities provisions in 2023/24.

Consultation on measures to aid local audit in England

31. The CIPFA/LASAAC Board has issued a consultation on measures to aid the recovery of local audit in England. The proposals are set out in an update to the accounting code that would apply to local authorities in England only and would apply to 2023/24 and 2024/25. Although intended for England, Scottish stakeholders may be interested in the nature of the proposals.

32. The main proposal relates to an option to use specified indexation to remeasure operational property, plant and equipment instead of using professional valuations. This would involve the following:

- Asset values in 2023/24 and then 2024/25 would be based on the information in the 2022/23 financial statements updated by a standard index.
- The index would be centrally determined and be adjusted to reflect different regions in England.
- The consultation asks which party would be appropriate to determine the index to be applied.
- The asset values would still need to reflect current value subject to considerations of materiality. Local authorities will therefore still need to ensure that asset carrying amounts are supported by a sufficiently current evidence base.

33. There is also a proposal to reduce disclosures for pensions reporting. The proposal is to align disclosure requirements for pensions with FRS 102. The reduced requirements would therefore be for a local authority to disclose information that:

- explains the characteristics of its defined benefit plans and risks associated with them
- identifies and explains the amounts in its financial statements arising from its defined benefit plans
- describes how its defined benefit plans may affect the amount and timing of the authority's future cash flows.

34. Responses to the consultation were required by 28 March 2024.

Availability of 2023 triennial valuation reports

35. Technical Bulletin 2023/4 (paragraph 41) provided a view from I&Q on whether pension amounts in the balance sheet should be adjusted to reflect the 31 March 2023 triennial valuation. I&Q is aware that some pension funds have received triennial valuation reports from their actuaries and the following paragraphs provide updated guidance.

36. The triennial valuation sets the employer contribution rate for the next three years. It involves a more detailed estimate of a local authority's obligations than is required by the accounting code for IAS 19 reporting. However, the accounting code establishes the triennial valuation as the starting point for IAS 19 reporting, though it does not anticipate that it is directly used in the financial statements. A separate report for IAS 19 purposes is therefore required to be prepared by an actuary. The 31 March 2023 valuation reports will then be the starting point for the IAS 19-based amount in the balance sheet at 31 March 2024.

37. However, where the 2023 valuation reports become available before the 2022/23 audits are complete, local authorities need to consider the impact on the pension amounts in the balance sheet. CIPFA issued a bulletin to support this consideration (initially for English local authorities in 2021/22 but which is equally applicable to Scottish authorities in 2022/23). The bulletin advises authorities to review the triennial valuation with the actuary to determine whether it includes information which may provide evidence of an adjusting or non-adjusting event. Paragraph 11 of the bulletin provides helpful examples to aid this determination (e.g. changes in membership data or demographic assumptions that the actuary should have taken into account in the IAS 19 report).

38. The bulletin also highlights the importance of judgements on materiality in terms of whether any differences could reasonably be expected to influence users' decisions or conclusions. This is important when determining whether:

- the triennial valuation provides sufficiently different information to justify asking actuaries to revisit the IAS 19 information
- if IAS 19 information is revisited, the figures are sufficiently different from those in the unaudited accounts to require amendment.

39. Auditors should check that affected local authorities have discussed the impact of triennial reports with their actuaries and use that information to inform their own judgements on the likelihood of material adjustments being necessary. Where a material difference is considered likely, auditors should consider requesting that the local authority obtained a revised IAS 19 report from the actuary.

4: Central government sector

TGN on risks of misstatement in 2023/24

40. I&Q has published TGN 2024/1 to provide auditors with guidance on risks of misstatement in the 2023/24 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.

41. 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 2023/24 audits. Auditors should advise I&Q of any intended departures from the guidance.

42. 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

43. The risks of misstatement for 2023/24 have been updated to reflect new requirements and risks which emerged during the 2022/23 audits that remain applicable. A separate note* summarises the main changes from 2022/23.

Independent auditor's reports for 2023/24

44. I&Q has published TGN 2024/2(CG) to provide auditors with model forms of Independent Auditor's Reports (IAR) which should be used for the 2023/24 annual accounts of central government bodies.

45. 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.

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

47. The main change to the model IARs for 2023/24 is to reflect the requirement for bodies to disclose material accounting policy information rather than significant accounting policies.

48. For the 2023/24 audits of central government bodies, 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 I&Q on any modified opinion or conclusion
- complete an Auditor Action Checklist for each IAR prepared.

Revised 2023/24 FReM

49. HM Treasury has issued a revised version of the 2023/24 Government Financial Reporting Manual (the FReM). The main changes are explained in the following paragraphs.

Service concession arrangements

50. The FReM includes guidance on a revised treatment of indexation linked payments in liabilities for service concession arrangements at paragraphs 10.1.63 to10.1.65. It requires 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.

51. Bodies will need to consider the initial remeasurement and subsequent remeasurement of the liability as summarised in the following table:

Measurement	Adjustment
At 1 April 2023	An opening balance adjustment at 1 April 2023 to account for cumulative indexation changes since the service concession arrangement commenced.
Subsequent	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).

Sustainability reporting

52. Paragraph 5.4.9 has been added to require UK departments and large central government bodies to comply with the Task Force on Climate-related Financial Disclosures (TCFD)-Aligned Disclosure Application Guidance Phase 1.

53. The TCFD-aligned disclosures are being adopted on a phased basis with Phase 1 being applied in 2023/24. Relevant bodies are required to include a TCFD compliance statement, governance disclosures and metrics and targets in the Performance Report.

54. Paragraph 5.4.15 of the FReM explains that Scottish bodies should report in accordance with guidance from the Scottish Government who have clarified that the TCFD disclosure requirements do not apply in Scotland in 2023/24. However, bodies may make TCFD-aligned disclosure on a voluntary basis.

Other changes

55. The other changes applicable to Scottish bodies are summarised in the following table:

Area	Paragraphs	Amendment
Performance Report	5.4.6 (b)	Bodies have the option to signpost from the Performance Report to information published elsewhere on how they have promoted equality of delivery of services to different groups.
Material remote contingent liabilities	6.7.1 (b)	Clarification has been added that the disclosure in the Accountability Report of material remote contingent liabilities applies to contingent liabilities within the scope of IAS 37 that are not required by that standard to be disclosed because the likelihood of a transfer of economic benefits is considered too remote.
IFRS 9 Financial instruments	8.2.1	An adaption has been added where a body issues a financial instrument (other than a financial guarantee) at an amount that is different to fair value.

Area	Paragraphs	Amendment
		Where recognising at fair value would not result in a gain or profit and where no active market or observable equivalent exists, the adaptation requires bodies to measure the instrument on initial recognition at fair value.
Carbon reduction commitment scheme	10.3	References to the Carbon Reduction Commitment Scheme have been removed and replaced with guidance on the Climate Change Levy which is the successor scheme. The guidance explains that bodies subject to payment of the levy will see an outflow of assets when cash is paid over under the terms of the levy. The levy should be treated as an expense.

2023/24 GBS account information

56. I&Q will obtain information on account balances at 31 March 2024 for central government bodies from the Government Banking Service (GBS) and distribute them to relevant auditors.

57. The GBS has confirmed that the arrangements for obtaining 2023/24 account balances are unchanged.

2024/25 FReM

58. Treasury has issued the 2024/25 FReM. There are, however, no changes from the 2023/24 edition.

Consultation on valuation of non-investment assets

59. HM Treasury has issued an exposure draft on the valuation of non-investment assets. The proposed changes flow from Treasury's thematic review of non-investment asset valuations and a previous consultation paper referred to in Technical Bulletin 2023/1 (paragraph 9). The exposure draft covers the whole UK public sector in principle but is mainly focussed on central government.

60. Treasury is recommending that current valuation still be used for operational assets but is proposing changes to the measurement basis to address the disproportionality in cost associated with the current requirements.

61. The main proposed changes are summarised in the following table:

Area	Proposals
New class for operational assets	References to 'assets held for their service potential' to be replaced with 'assets held for their operational capacity'.

Area	Proposals
	‘Assets held for their operational capacity’ to be a new asset class that replaces networked assets, specialised assets and ‘non-specialised assets. The current split between specialised/ non-specialised assets is therefore to be removed.
Change to Depreciated Replacement Cost (DRC) calculation	The option to consider alternative locations when valuing an asset using DRC to be removed, i.e. assets should be valued based on their existing location.
Revaluation frequency of property	A quinquennial frequency for full professional revaluations of property to be prescribed. Indexation to be required for the intervening years. Treasury will provide examples of common indices, but will not prescribe particular indices, for bodies to use. The requirement for full revaluations more frequently than five years to be withdrawn (unless there are observable indicators of impairment). The requirement to revalue an asset when its current value differs materially from its carrying value to be withdrawn.
Measurement basis for intangible assets	The measurement basis for intangible assets to change from market value in existing use to historical cost. The carrying amount of intangible assets at the date of transition will be deemed to be the asset’s cost, with historical cost accounting applied thereafter.
Transitional arrangements	The implementation date for the changes to be 1 April 2025 (i.e. effective from 2025/26 financial statements). The changes to apply prospectively from that date (i.e. prior year comparatives will not be restated).

62. Comments were required by 16 February 2024.

Phase 2 guidance on TCFD

63. HM Treasury issued Phase 2 application guidance for TCFD- aligned disclosures. The additional disclosure requirements for phase 2 which applies in 2024/25 are set out in the following table:

Area	Proposed disclosures
Risk management	A description of the body’s processes for: • identifying and assessing climate-related risks • managing climate-related risks

	• identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management arrangements.
Metrics and targets	The metrics used by the body to assess climate-related risks and opportunities in line with its strategy and risk management process. Greenhouse gas (GHG) emissions, and the related risks. The targets used by the body to manage climate-related risks and opportunities and performance against those targets.

64. Bodies are required to report at a group level and apply a "comply or explain" basis for the proposed disclosures.

65. The Scottish Government have not yet advised on the applicability of the requirements to Scottish bodies.

Amendments to SPFM

66. The Scottish Government has issued two Finance Guidance Notes which announce amendments to the Certificates of Assurance and the Settlement, Severance, Early Retirement and Redundancy sections of the Scottish Public Finance Manual (SPFM)

67. Finance Guidance Note 2024/1 amends the questions in a number of sections of the Certificates of Assurance internal control checklist. The main changes are summarised in the following table:

Area	Amendment
Risk management	Guidance has been updated on disaster recovery responsibilities and the use of business impact assessments.
Major investment	Guidance has been updated to require IT and digital projects to comply with the Digital Scotland Service Standard.
Procurement	Guidance has been updated to highlight the importance of engaging with Scottish Procurement and Property Directorate and involving them in the drafting of Strategic Outline Cases for major projects.

68. Finance Guidance Note 2024/2 amends the chapter on settlement agreements, severance, early retirement and redundancy terms. The amendments arise from recommendations from a recent evaluation of the severance policy. The main changes:

- are revised templates for business cases
- reinforce the need for a business case for all Settlement Agreements.

5: Health

TGN on risks of misstatement in 2023/24

69. I&Q will shortly publish Module 13 of TGN 2024/1 to provide:

- guidance on applying the other modules to the audit of the 2023/24 annual report and accounts of health boards
- supplementary guidance on the risks of misstatements in areas specific to health boards.

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

71. Auditors are expected to pay due regard to Module 13 and use it as a primary reference source when performing 2023/24 audits of health boards. Auditors should advise I&Q of any intended departures from the guidance.

2023/24 accounts manual

72. The Scottish Government has issued the 2023/24 Manual for the Annual Report and Accounts of NHS Boards* (accounts manual). The accounts manual complements the guidance contained in the 2023/24 FReM but contains some additional or specific requirements.

73. The main changes are set out in the following paragraphs.

IFRS 16 application to service concession arrangements

74. Changes resulting from the application of IFRS 16 to service concession and similar arrangements (explained in the previous article on the 2023/24 FReM) should be disclosed in the Note 1 accounting policies and the Note 18 Commitments Under PFI/PPP Contracts.

Income from service level agreements

75. Page 93 clarifies the accounting treatment for inter-board service level agreements (SLAs), setting out that health boards should follow IFRS 15. Where compliance remains problematic, health boards can either:

- agree a contract amendment in accordance with IFRS 15 (paragraphs 18-21); or
- agree to a Scottish Government top slice equivalent to the SLA income/expenditure.

Repairs and maintenance expenditure

76. Page 126 clarifies that a provision should not be recognised for repairs and maintenance expenditure on a board's own assets as the board does not have an obligation to a third party.

Performance Report

77. Page 10 and 11 have been updated to reflect that formal three-year financial planning has resumed from 2023/24.

Governance Statement

78. A paragraph has been added to page 19 to clarify that the Governance Statement should clearly explain the relationship between health boards and their IJBs and how boards maintain governance oversight and receive assurances on the development and delivery of strategy.

79. Guidance has also been added to reflect the need for health boards to consider their compliance with the NHS Scotland – blueprint for good governance: second edition.

2023/24 CAM

80. The Scottish Government has issued the NHS Scotland Capital Accounting Manual 2023/24* (CAM) to interpret the accounting guidance contained in the 2023/24 FReM on capital accounting issues in the health sector.

81. The main changes for 2023/24 are to chapters 8 and 11 due to the application of IFRS 16 to service concession arrangements,

82. The Scottish Government has provided a 'Lease Helper' spreadsheet to assist health boards with their accounting entries.

5: Professional matters

Revised Ethical Standard

83. The Financial Reporting Council (FRC) has published a revised Ethical Standard to:

- take account of changes to the International Ethics Standards Board for Accountants Code of Ethics
- simplify the existing ethical standard and provide clarity in a limited number of areas
- add a new targeted restriction on fees from entities related by a single controlling party.

84. The key changes are summarised in the following table:

Area	Para	Revision
Breaches	1.22	When there has been a breach of the standard the engagement partner and ethics partner must consider the situation and actions required from the perspective of an objective, reasonable and informed third party.
	1.24	Firms are required to report to the FRC about individual breaches outside of the biannual timetable where the FRC would reasonably expect notice. This may be due to the nature or seriousness of the breach, including for example where the firm may need to consider resigning from an engagement.
	1.25	The revised standard clarifies that in deciding whether a breach is inadvertent is a matter of professional judgement based on an objective assessment of the evidence. A requirement has been added that the engagement partner is required to report the details and significance of any breaches to those charged with governance of each entity.
Financial relationships	2.3 and 2.4	These paragraphs have been completely revised to clarify requirements set by the standard, and those set by statute regarding personal financial independence for engagement teams and other staff.
	2.6 and 2.10	These paragraphs have been amended to provide further guidance on financial interests.

Area	Para	Revision
Long association with engagements	3.10 and 3.14	Clarification has been provided to explain that: • once an engagement partner has completed the maximum allowed period, the engagement partner cannot act as engagement quality reviewer for the engagement for another five years. • where an engagement partner rotates off an engagement after five years, then the option to extend for an additional two years is no longer available.
	3.22	A table setting out the rotation periods for key audit partners has been added.
	3.23	This paragraph has been added to provide guidance on cases where there are significant gaps in service (e.g. caused by a period of maternity or paternity leave, a sabbatical or long-term sickness absence) and the role is temporarily taken on by another person: • The firm should exclude this period for the purposes of calculating applicable rotation periods (unless the person in substance retains their role). • Any periods excluded should be long-term in nature and should not comprise multiple smaller blocks of time.
Fees	4.5, 4.6, 4.21 to 4.29	These paragraphs have been revised to enhance the prohibitions in relation to fees. Calculations used to determine whether an audit firm is over reliant on fees from entities have been amended to include fees from entities that are connected in substance.
Non-audit/additional services	5.7	Guidance has been added that non-audit services may comprise any engagement in which a firm provides professional services to another entity where the subject matter of the engagement includes the audited entity. Consideration may be given to the nature of the service, the ultimate beneficiary, the fee and the perspective of an objective, reasonable and informed third party.
	5.33	Documentation requirements in respect to the provision of non-audit/additional services have been enhanced to require inclusion of significant judgements concerning the potential threats and proposed safeguards and how the objective and reasonable third-party test has been applied
	5.46	The range of ‘internal audit services’ is wide and they may not be termed as such by the audited entity. The following engagements would fall within the term: ‘: • outsourcing the audited entity’s entire internal audit function

Area	Para	Revision
		• supplementing the function in specific areas • providing occasional internal audit services on an ad hoc basis.
	5.53 and 5.54	Examples of IT services which create threats include: • acting as the only access to financial or non-financial information systems • storing the entity's data or records • providing electronic security or back-up services • operating, maintaining, or monitoring the entity's IT systems, network or website. However, the routine collection, transmission and retention of data to enable the provision of a permissible service does not create threats.
	5.89	References to recruitment services includes: • searching for or seeking out candidates; • undertaking reference checks of prospective candidates; • acting as a negotiator on the entity's behalf; • recommending the person to be appointed.

85. The revised standard applies to financial periods commencing on or after 15 December 2024 (i.e. 2025/26).

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 I&Q.

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

Expenditure

Invalid supplier

86. An unknown individual compromised a supplier's email account and committed bank mandate fraud. The public body paid £5,000 to the fraudulent bank account.

Key features
The public body received a request by email to amend a supplier's bank account details. The public body sent an amendment form by email to the supplier for completion. The amendment form was completed and returned by email. The supplier's email address had been intercepted by a fraudster who requested the change. The fraud was possible as the public body did not telephone the supplier to verify the change of bank details. The issue was identified when the payment was reported as suspicious by the public body's bank. The public body has reported the case to the police and has since provided counter-fraud training to their finance team.

Council tax

87. A council employee and their partner committed council tax fraud totalling £17,000 by submitting fictitious details online.

Key features
The employee and their partner were jointly liable for council tax at their home from 2015. No payment was made towards the council tax liability from April 2015. From October 2018 onwards, three online forms were submitted by the employee and their partner to the council to change the names of those liable for council tax to the names of fictious individuals.

Key features

During sequestration action to recover the outstanding council tax liability carried out by Sheriff Officers in March 2023, concerns came to light that the council employee was deliberately misrepresenting their identity to avoid paying council tax arrears dating back to 2015. A Counter Fraud Team investigation confirmed that the council employee and partner were the only residents at the property from April 2015 and that the three online change requests were fraudulent.

The fraud was possible as the process to change council tax liability did not require verification checks to be carried out.

Controls have since been improved with increased scrutiny and checking of changes to council tax liability, data matching and fraud awareness briefings for staff.

Technical Bulletin 2024/1

Technical developments and emerging risks from January 2024 to March 2024

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