

# Technical Bulletin

## 2023/3

Technical developments and emerging risks from  
July to September 2023



 **AUDIT SCOTLAND**

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

27 September 2023

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# 1: Introduction

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## 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		
Treasury has issued guidance on preparing WGA returns <b>[paragraph 1]</b>	CIPFA/ LASAAC have issued an exposure draft of the accounting code for 2024/25 <b>[paragraph 10]</b>	CIPFA has issued draft guidance on applying IFRS16 leases to service concession arrangements <b>[paragraph 24]</b>
Professional Support has published Module 14 of TGN 2023/1 on the risks of misstatement specific to colleges <b>[paragraph 28]</b>	Professional Support has published TGN 2023/6(C) Model Independent Auditor's Reports for colleges <b>[paragraph 31]</b>	The SFC has issued the 2022/23 accounts direction <b>[paragraph 35]</b>
The SFC has issued guidance notes on completing the 2022/23 financial statements of colleges <b>[paragraph 37]</b>	The FRC has issued a consultation on a revised Ethical Standard <b>[paragraph 39]</b>	The FRC issued a thematic review of the Task Force on Climate-related Financial Disclosures <b>[paragraph 56]</b>

## Consulting with Professional Support

Auditors should consult with Professional Support by sending an email to [TechnicalQueries@audit-scotland.gov.uk](mailto:TechnicalQueries@audit-scotland.gov.uk).

## 2: All sectors

### Guidance on 2022/23 WGA returns for preparers

1. [HM Treasury](#) has issued guidance on preparing the 2022/23 Whole of Government Accounts (WGA) returns for [local government](#) and for [central government](#) bodies. WGA is prepared by Treasury and consolidates the audited accounts of 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.

2. Paragraph 1.7.1 sets out the key dates for 2022/23 WGA as summarised in the following table:

Sector	Cycle	Return	Submission date
Central government	1	Unaudited	20 October 2023
	2	Audited	17 November 2023
Local Government	1	Unaudited	24 November 2023
	2	Audited	22 December 2023

3. Auditors are not expected by Professional Support to meet these dates if doing so would compromise audit quality.

4. Data is collected for the 2022/23 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 2021/22 and 2022/23.

5. 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. Section 1.7 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.

6. 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. Section 7.2 advises 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.

7. 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.

**8.** A Technical Guidance Note (TGN) on the evaluation by auditors of the 2022/23 submissions will be provided by Professional Support.

## Technical consultations with auditors

### Professional Support responds to requests from auditors for technical consultations

**9.** The following table summarises requests from auditors for technical consultations with Professional Support in respect of issues arising from the audit of the 2022/23 annual accounts, along with the advice offered:

#### What are the accounting implications of the use of Reinforced Autoclaved Aerated Concrete in a body's buildings?

In December 2022, the UK government issued a notice regarding Reinforced Autoclaved Aerated Concrete (RAAC) with a guide for estates managers. RAAC was widely used in the construction of floors and roofs from the 1950s to early 1990s. However, recent investigations have identified that roof leaks could lead to the deterioration of RAAC planks.

The Scottish Government are working in partnership with the UK Government on research into the extent of the use of RAAC in public buildings. The Local Government Association advised its members to check as a matter of urgency whether any buildings in their estates have roofs, floors, cladding or walls made of Reinforced Autoclaved Aerated Concrete (RAAC). A number of Scottish councils have identified buildings which contain RAAC.

Bodies should be considering whether the use of RAAC in a building is an indication that the asset may be impaired.

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# 3: Local government sector

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## Consultation on 2024/25 accounting code

**10.** [CIPFA/LASAAC Local Authority Code Board](#) has issued an exposure draft of the Code of Practice on Local Authority Accounting in the UK (the accounting code) for 2024/25. The [Invitation to Comment \(ITC\)](#) sets out:

- proposed revisions to the 2024/25 accounting code (Section A)
- the proposed approach to implementing IFRS 17 Insurance Contracts (Section B)
- proposals arising from CIPFA/LASAAC's strategic work plan (Section C)
- other financial reporting issues (Section D).

**11.** Responses to the consultation should be sent to [cipfalasaac@cipfa.org](mailto:cipfalasaac@cipfa.org) by 17 October 2023.

## Proposed revisions to the 2024/25 accounting code

**12.** The main proposed revisions to the 2024/25 accounting code relate to the implementation of IFRS 16 Leases. Implementation is mandatory in 2024/25 for any local authority that did not follow the recommendation to adopt in 2022/23 or 2023/24.

**13.** It is not expected that implementation will require any significant changes to the provisions set out in Appendix F to the 2023/24 accounting code. However, it is proposed to add paragraph 4.2.2.91 to reflect an amendment to IFRS 16 in respect of sale and leaseback. This will require the seller-lessee to determine 'lease payments' or 'revised lease payments' in a way that would not recognise any amount of the gain or loss that relates to the right of use retained by the seller-lessee.

**14.** There is also the following proposal on applying IFRS 16 to service concession arrangement liabilities in respect of first time application:

- The main difference from IAS 17 in respect of lease liabilities relates to variable payments that depend on an index or a rate. Instead of being expensed, IFRS 16 requires these to be incorporated into the liability (and subsequently amortised), based on the most recent index or rate. This applies to the extent that variable payments in the unitary charge are allocated to the asset rather than as payment for services.

- The proposal is that remeasurement should be required on the date of initial application, rather than allowing remeasurement to be deferred until the next change in payments. This would mean that, while the opening balance is initially calculated on an IAS 17 basis on 1 April, the liability would then be subject to immediate further remeasurement to reflect the effect of the index or rate on payments, based on the position at 31 March in the previous year.

**15.** Questions 2 and 3 in the ITC request local authority views on their readiness for IFRS 16 implementation and any further support that the Chartered Institute of Public Finance and Accountancy (CIPFA) might be able to provide.

### **Proposed approach to implementing IFRS 17**

**16.** In respect of IFRS 17, it is proposed that:

- mandatory implementation will be deferred to 2025/26, with early adoption allowed
- the standard should be treated the same as the extant IFRS 4, i.e. a brief reference included in Section A of the accounting code as a standard with limited application.

### **CIPFA/LASAAC's strategic work plan**

**17.** CIPFA/LASAAC has updated its strategic work plan with a focus on improving the presentation of the annual accounts and ensuring that they clearly present their key messages. Some aspects of the plan are briefly summarised in the following paragraphs.

### **Overview of performance and summary financial information**

**18.** Questions 11 to 15 ask for views on proposals to add a new section to the Narrative Report to give an overview of performance and summary financial information. This would be on a voluntary basis for 2024/25.

**19.** This proposal is based on a requirement of the Government Financial Reporting Manual (FReM) for a performance overview. The aim is to provide users with a short summary that provides them with sufficient information to understand the body, its purpose and objectives, the outcomes it wants to achieve, its performance against delivering those outcomes and/or objectives, and the impact and management of key risks. The specific requirements are set out at paragraphs 3.1.1.5 to 3.1.1.7.

**20.** The required summary financial information would reconcile to the information produced in the financial statements, include key financial elements of performance, and demonstrate at a high level the authority's financial position. The detailed requirements are set out at paragraph 3.1.1.8 but in summary include the following:

- A summary of service outturn per service in comparison to the budget and reconciled to the amounts charged to revenue in accordance with statutory provisions in the Expenditure and Funding Analysis



- An analysis of outturn against spend for the Housing Revenue Account.
- A summary of the financial position based on the Balance Sheet
- An analysis of an authority's usable reserves.
- An authority's capital expenditure for the current and preceding year, forecast for the following three years, and a short explanation of the capital programme.
- The capital financing requirement, borrowing as a proportion of a council's total income for the current and preceding year and forecast for the following three years, and an explanation of what the trends indicate in terms of capital financing.
- A summary of any significant commercial activities and their risks.

### Changes to the structure/format of the code

**21.** CIPFA/LASAAC is seeking views on restructuring the accounting code at questions 16 to 21 in the ITC. The main issues are summarised in the following table:

Issues	Views requested on whether the....
Accessibility	structure and format of the accounting code allows its provisions to be easily understood and usable.
Approach to content of IFRS	detailed provisions of standards should no longer be presented (similar to the approach adopted by the FReM).
Adaptations and interpretations	adaptations and interpretations are clearly presented and easily identified
Structure of the Code	structure of the accounting code should follow the order in which the financial statements are presented by local authorities (as set out in the table at paragraph 68 of the ITC).
Statutory accounting provisions	specifications for statutory adjustments should be brought together in one place, such as alongside the provisions for the Movement in Reserves Statement.

### Sustainability reporting

**22.** CIPFA/LASAAC is considering whether sustainability reporting requirements should be explicitly included in the accounting code. It is of the view that the requirements should follow international and UK public sector best practice, but considers that in several areas it is not yet well developed. Question 22 therefore asks stakeholders what they consider is the best approach to the introduction of sustainability reporting in local government.

## Other financial reporting issues

**23.** A new section has been introduced to the ITC which features issues which impact on local authority financial reporting or other emerging issues. These include asking stakeholders for views on:

- where the requirements of the accounting code might be changed to ease the burden on the local audit and accounts preparation system
- whether any additional specifications are required in the accounting code on the net defined benefit pensions asset and calculation of an asset ceiling
- the impact of new IPSASs 45 to 48 on the accounting code to the extent they augment the interpretations for the local government context.

## Draft guidance on applying IFRS 16 to service concession arrangements

**24.** [CIPFA](#) has issued [draft guidance](#) on applying the requirements of IFRS 16 to service concession arrangements. It sets out the aspects of accounting which are different as a result of the change from IAS 17 to IFRS 16, and provides illustrative examples.

**25.** Where local authorities implement IFRS 16 in 2022/23 they can opt out of applying the standard to service concession arrangements. However, where IFRS 16 is implemented for leases in 2023/24, it must also apply to service concession arrangements. This is summarised in the following table:

Financial year	Application to leases	Application to service concession arrangements
2022/23	Voluntary	Voluntary
2023/24	Voluntary	Mandatory if applied to leases
2024/24	Mandatory	Mandatory

**26.** Auditors should refer to this guidance where a local authority applies IFRS 16 to service concession arrangements.

## Technical consultations with auditors

### Professional Support responds to requests from auditors for technical consultations

**27.** The following tables summarise requests from auditors for technical consultations with Professional Support in respect of issues arising from the audit of the 2022/23 annual accounts of local government bodies, along with the advice offered:

#### Should bodies recognise a net defined benefit asset when the pension fund reports a surplus as at 31 March 2023?

Where bodies can access the economic benefit arising from the asset in terms of reduced contributions or a refund, they should recognise the net defined benefit as an asset. The net defined benefit asset recognised should be the surplus, adjusted for the effect of any asset ceiling. The surplus is:

- the fair value of plan assets, less
- the present value of the defined benefit obligation.

The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. Bodies should engage with their actuaries to help identify the asset ceiling. The emerging view is that that bodies participating in LGPS will have a minimum funding requirement as contribution rates are set in advance. In their report on IAS 19 reporting (paragraph 31), PWC comment that if a surplus arises for a scheduled body, given that this body is expected to participate in the LGPS indefinitely, it would be expected that this surplus will lead to lower future contributions by that body. They also expect employers to consider contributions in respect of future service to be a minimum funding requirement under IFRIC 14 as they are obligated to pay them.

Where there is a minimum funding requirement for contributions relating to future service, the economic benefit available as a reduction in future contributions is the sum of the estimated future service cost in each period, determined using assumptions consistent with those used to determine the defined benefit obligation, less the estimated minimum funding requirement contributions that would be required for future service in those periods adjusted for any prepayment made. The IFRS Interpretations Committee, in a decision in July 2015, conclude that when an entity estimates the future minimum funding requirement contributions, it should:

- include amounts in the schedule of contributions for the fixed period specified by the schedule; and
- beyond that period, make an estimate that assumes a continuation of those factors establishing the minimum funding basis as determined by the pension trustees.

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

- the method used in making the accounting estimate is appropriate
  - the underlying assumptions are sound
  - the body has considered and addressed the effect of estimation uncertainty
  - the amount is described clearly as being an estimate
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**Should bodies recognise a net defined benefit asset when the pension fund reports a surplus as at 31 March 2023?**

- the nature and limitations of the estimating process are explained
- no errors have been made in selecting and applying an appropriate process for developing the estimate.

Where actuaries report that the present value of the minimum funding requirement contributions exceeds the future service cost, IFRIC 14 advises that no asset should be recognised. There is no requirement to recognise a liability for the difference.

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## 4: College sector

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### TGN on risks of material misstatement in 2022/23

**28.** Professional Support has published Module 14 of TGNote 2023/1. The TGN is intended to inform auditors' judgement when identifying and assessing the risks of material misstatement in the 2022/23 annual report and accounts of central government bodies generally. Module 14 provides:

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

**29.** Module 14 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](#).

**30.** Auditors are expected to pay due regard to Module 14 and use it as a primary reference source when performing 2022/23 audits of colleges. Auditors should advise Professional Support of any intended departures from the guidance.

### Independent auditor's reports for college accounts in 2022/23

**31.** Professional Support has published TGN 2023/6(C) to provide auditors with model forms of Independent Auditor's Reports (IAR) which should be used for the 2022/23 annual accounts of colleges in Scotland.

**32.** Auditors are required by the Code of Audit Practice to prepare their IARs in accordance with the TGN. The TGN is available with supporting material to auditors on [SharePoint\\*](#) and is also freely available from the Audit Scotland [website](#).

**33.** The model forms of IARs set out in the appendices of the TGNs have been tailored to reflect relevant legislation and augmented by the reporting requirements of the Auditor General.

**34.** 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
<b>Model IARs</b>	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.
<b>Application guidance</b>	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 Report.

## 2022/23 accounts direction

**35.** The Scottish Funding Council (SFC) has issued their [Accounts Direction for Scotland's Colleges 2022/23](#). The direction requires colleges to:

- comply with the SORP in preparing their financial statements
- include a Performance Report and Accountability Report in their annual report and accounts in accordance with the FReM.

**36.** Specific mandatory disclosure requirements for colleges are set out in Appendix 2 to the direction. The main changes are as follows:

- Paragraph 11 confirms that the 2016 version of the Code of Good Governance for Scotland's Colleges continues to apply for 2022/23. The revised version issued in September 2022 will be adopted in 2023/24.
- References in the Performance Report and Governance Statement to COVID-19 have been removed. Disclosures should reflect the impact of current geopolitical issues and exceptional inflationary pressures on the sector.

## Guidance on 2022/23 financial statements

**37.** The SFC has issued [guidance notes](#) on completion of the 2022/23 financial statements which are designed to supplement the accounts direction. The guidance covers key disclosures in the financial statements, including model disclosure notes set out at Annexes A to F.

**38.** There are no significant changes from 2021/22.

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# 5 Professional matters

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## Proposed revisions to Ethical Standard

**39.** The [Financial Reporting Council](#) (FRC) has issued a [consultation](#) on a revised Ethical Standard. The purpose of this revision is to:

- take account of changes to the International Ethics Standards Board for Accountants (IESBA) Code of Ethics;
- respond to issues identified through audit inspection
- provide greater clarity in respect of specific prohibitions and requirements
- allow consultation on whether to withdraw the Other Entities of Public Interest category.

**40.** The key changes being consulted on are outlined in the following paragraphs.

### Breaches

**41.** There is a proposed requirement for firms to design controls which effectively identify reportable breaches.

**42.** The concept of ‘inadvertent’ breaches (i.e. those which do not necessarily call into question the firm’s ability to give an opinion) has been proposed. Clarification has been provided to explain which breaches cannot be inadvertent including:

- a deliberate breach either by an individual or a firm
- If a breach occurred due to a firm’s ineffective policies or procedures.

**43.** When a requirement is breached, the engagement partner and ethics partner would need to consider the situation and actions required from the perspective of an objective, reasonable and informed third party. The proposed revised standard highlights examples where individual breaches should be reported outwith the normal timetable.

**44.** Other proposals include:

- requiring engagement partners to report the details and significance of any breaches to those charged with governance of each entity
- requiring a firm, in its assessment of whether to accept or continue any engagement, to document any breaches of the standard and actions taken in response.

### Identification of safeguards

**45.** Paragraph 1.46 proposes additional requirements and prohibitions that would apply to specific categories of entity. The consultation seeks views on whether such enhancements could be made to other areas of the standard.

### Financial relationships

**46.** Paragraphs 2.3 and 2.4 have been revised to clarify requirements set by the standard and those set by statute regarding personal financial independence for engagement teams and other staff.

**47.** Paragraphs 2.5 to 2.10 provide further guidance on financial interests, for example those held by trustees. Paragraph 2.9 and 2.10 have been clarified to explain the actions to be taken where financial interests are not permitted to be held.

### Long association with engagements

**48.** Clarification has been provided in paragraphs 3.22 and 3.23 to explain that:

- once an engagement partner has completed the maximum allowed period, they cannot act as engagement quality reviewer for that engagement for another five years
- where an engagement partner rotates off an engagement after five years, the option to extend for an additional two years is no longer available.

**49.** A table setting out the rotation periods for key audit partners has been included at paragraph 3.23. Guidance has been provided detailing the impact that significant gaps of service have when calculating rotation periods.

### Fees

**50.** Section 4 proposes enhancements to the prohibitions in relation to fees. Calculations used to determine whether an audit firm is over reliant on fees have been amended to include fees from entities that are connected in substance.

### Non-audit/additional services

**51.** Changes to section 5 on non-audit/additional services are being proposed to align more closely with changes to the IESBA Code including:

- information technology services to reflect restrictions on audit firms providing hosting services to audited entities [paragraphs 5.53-5.54]
- enhanced tax service prohibitions [paragraph 5.67]
- recruitment and remuneration services, where audit firms provide related services [paragraph 5.89]
- corporate finance services relating to the provision of advice to audited entities on debt and financial instruments
- internal audit to provide examples of activity that would be classed as internal audit services.



**52.** An example of non-audit services has been provided to aid clarity.

**53.** Documentation requirements in respect of non-audit/additional services have been enhanced to require inclusion of:

- the safeguards adopted, and the reasons why they are considered to be effective, in responding to the specific threats identified
- any significant judgements concerning the potential threats and proposed safeguards
- how the objective and reasonable third-party test has been applied.

**54.** The proposed effective date of the revised standard will be for financial periods commencing on or after 15 December 2024. Comments on the consultation paper should be sent to: [AAT@frc.org.uk](mailto:AAT@frc.org.uk) by 31 October 2023.

## Thematic review of climate related disclosures

**55.** The FRC has issued a [thematic review](#) of the Task Force on Climate-related Financial Disclosures (TCFD) mandated in the annual accounts of premium listed companies.

**56.** The overall conclusion of the review was that the availability and quality of climate-related data is still evolving. The review identified good practice as well as opportunities for improvement.

**57.** The review focused on the following four key questions:

Key question	Observations	Expectations/required improvements
Has reporting of climate-related metrics and targets improved since last year?	<p>Entities' reporting of climate-related metrics has improved incrementally with greater consideration of cross-sector and sector-specific metrics.</p> <p>Due to the high volume of information to be presented, many entities are struggling to clearly present the material metrics and targets.</p> <p>The consistency with the TCFD framework including clearer statements about data that is not yet available improved.</p>	<p>The definition and reporting of entity-specific metrics and targets, beyond the headline 'net zero', should be disclosed.</p> <p>Better linkage is required between the climate-related metrics and targets and the risks and opportunities to which they relate.</p> <p>Explanation is required of year-on-year movements in metrics and performance against targets.</p> <p>Transparency is needed about internal carbon prices, where used.</p> <p>Better linkage is needed between climate-related targets in TCFD disclosures and other related targets disclosed.</p>

Key question	Observations	Expectations/required improvements
Are entities adequately disclosing their plans for transition to a lower carbon economy, including interim milestones and progress?	<p>Most entities have set net-zero or other climate-related targets, but the metrics used to track progress are unclear and explanations of performance are not always provided.</p> <p>It was unclear whether interim emission targets covered all business activities or how the entity planned to meet interim targets.</p>	<p>Disclosures should include the expected steps to meet targets, highlighting areas of judgement and uncertainties.</p> <p>A review should be undertaken of the Transition Plan Taskforce guidance and consideration given as to how best to articulate their targets and plans for transition.</p>
Are entities using consistent and comparable metrics?	Some commonality was identified but methodological differences due to entity-specific adjustments made direct comparisons challenging.	<p>TCFD cross-sector and industry-specific metrics should be used to aid comparability.</p> <p>Details of the methodology applied when calculating non-standard metrics should be provided to aid comparability.</p>
Are entities explaining how their targets have affected the financial statements?	<p>Most entities provided some explanation of how climate was considered in the financial statements. However, it was often difficult to determine the extent of the impact of targets on the financial statements, due to a lack of entity specific disclosures.</p> <p>The connectivity between information included in narrative reporting and financial statements disclosures was mixed.</p>	Where climate-related targets and transition plans could impact the financial statements, entities should explain the assessments undertaken and any impacts on the financial statements.

**58.** Through their reviews of company reporting, the FRC have included some areas that entities should consider when reporting on metrics and targets. This includes clarity, balance and avoiding undue focus on immaterial areas of the business.

## New standards on disclosure of sustainability-related financial information

**59.** The [International Sustainability Standards Board](#) (ISSB) has issued two financial reporting standards setting out the overall requirements for disclosing sustainability-related financial information.

**60. IFRS S1\*** requires entities to disclose information about sustainability-related risks and opportunities that could impact on the entity's cash flows, access to finance or cost of capital over the short, medium and long term. It requires an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed.

**61.** Sustainability-related financial information should therefore include information about the entity's:

- governance processes, controls and procedures used to monitor and manage the risks and opportunities
- strategy and approach used to manage the risks and opportunities
- risk management processes used to identify, assess, prioritise and monitor risks and opportunities
- performance metrics and targets including progress towards any targets the entity has set or is required to meet by law or regulation.

**62. IFRS S2\*** requires entities to disclose information about its climate-related risks and opportunities that is useful to users of the financial statements. The disclosures are summarised in the following table:

Area	Explanation
Governance	<p>Processes, controls and procedures an entity uses to monitor and manage climate-related risks and opportunities. This includes disclosures on:</p> <ul style="list-style-type: none"> <li>• details of the governance body responsible for climate-related matters and, for example, how that body determines whether the skills and competencies are available or need to be developed in this area, how climate-related risks and opportunities are considered when making decisions, and how often it receives performance information.</li> <li>• management's role in the governance process including the controls and procedures used to support oversight of climate-related risks and opportunities and how these integrate with other internal functions.</li> </ul>
Strategy	<p>Disclosures to explain the entity's strategy for managing climate-related risks and opportunities. This includes disclosure on:</p> <ul style="list-style-type: none"> <li>• climate-related risks and opportunities that are expected to affect the entity's prospects and the effect of the risks and opportunities on the business model, decision making, strategy, and financial position</li> <li>• the resilience of the entity's strategy and business model to climate-related risks and opportunities.</li> </ul>

Area	Explanation
Risk management	<p>Disclosure on the risk management arrangements and policies including how the entity identifies, assesses, prioritises, and monitors climate-related risks and opportunities and how these processes are integrated into the entity's overall risk management process. This includes disclosing information on:</p> <ul style="list-style-type: none"> <li>• climate-related scenario analysis used to inform the identification of risks and opportunities</li> <li>• how the entity assesses the nature, likelihood, and magnitude of the effect of risks</li> <li>• prioritisation of climate-related risks relative to other risks</li> <li>• the process for monitoring risks.</li> </ul>
Metrics and targets	<p>Performance information to allow users to understand progress made against climate-related targets set internally or required by law or regulations. Entities are required to disclose information on:</p> <ul style="list-style-type: none"> <li>• cross-industry metrics eg greenhouse gases</li> <li>• industry-based metrics where applicable</li> <li>• qualitative and quantitative climate-related targets.</li> </ul>

**63.** Applying these standards, with additional disclosure when necessary, is presumed to result in a fair presentation.



# Technical Bulletin 2023/3

## Technical developments and emerging risks from July to September 2023

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