Technical Bulletin 2020/2

Technical developments and emerging risks from April to June 2020

Prepared for appointed auditors and audited bodies in all sectors

25 June 2020

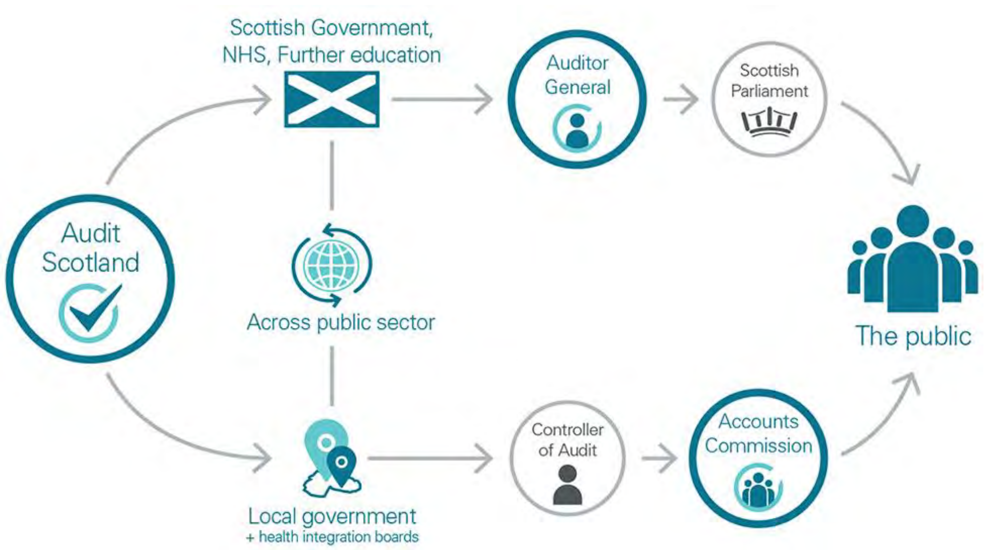
Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.

- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.

- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money

- reporting our findings and conclusions in public

- identifying risks, making clear and relevant recommendations.

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Introduction

Purpose

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

- information on the main technical developments in each sector and on professional matters during the quarter
- guidance on any emerging risks identified in the quarter.

Technical Bulletins provide information on developments and guidance on emerging risks

2. Appointed auditors are required 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 to be aware of. It may still be necessary for auditors to read the source material if greater detail is required. These can be accessed by using the hyperlinks. They are also available from the Technical Reference Library* maintained by Professional Support.

3. The actions by auditors recommended by Professional Support in respect of each item are highlighted in red and are also summarised at the end of each section.

4. Technical Bulletins are also published on the Audit Scotland website and therefore are available to audited bodies and other stakeholders. Hyperlinks indicated with an asterisk link to the Technical Reference Library and therefore are active only for auditors.

Highlights summary

5. Particular attention is drawn in the following table to certain items in this Technical Bulletin:

Professional Support has published an addendum to the guidance on planning 2019/20 audits [see paragraph 7]	The Public Audit Forum has issued an exposure draft of proposed changes to PN 10 [see paragraph 9]	Professional Support has provided technical advice to auditors on a number of issues [see paragraphs 14, 48, 64, and 82]
The Scottish Government has issued guidance on the application of the Coronavirus (Scotland) Act 2020 to local government annual accounts [see paragraph 15]	Professional Support has published model 2019/20 Independent Auditor's Reports for local government [see paragraph 23] and central government [see paragraph 65]	CIPFA has issued guidance on the 2019/20 financial statements of local government bodies [see paragraph 31]
PWC has issued a report on IAS 19 figures at 31 March 2020 [see paragraph 38]	The Scottish Government has issued circulars on a grant funding scheme to assist eligible businesses during the COVID-19 crisis [see paragraph 44]	The Scottish Government has issued revised statutory guidance on the Management Commentary [see paragraph 49]
HM Treasury has issued an addendum to the 2019/20 FReM [see paragraph 60]	TAG has issued additional guidance on the 2019/20 annual report and accounts of health boards [see paragraph 73]	Professional Support has issued a report on CNORIS [see paragraph 81]

Contact point

6. The main contact point for this Technical Bulletin is Paul O'Brien, Senior Manager (Professional Support) – pobrien@audit-scotland.gov.uk.

Feedback on this Technical Bulletin is welcome

Section 1

Cross sector

Addendum to guidance on planning 2019/20 audits

7. Professional Support has issued an addendum to the guidance for auditors on planning their 2019/20 audits. The addendum varies specified elements of the original guidance published in October 2019 which have had to be revised as a result of the impact of the COVID-19 suppression measures on the delivery of audits. These include:

- providing guidance on identifying further significant risks as a result of the impact of COVID-19
- explaining the impact on the timetable for producing the annual accounts and consequent amendments to the submission deadlines
- confirming the acceptability of electronic signatures in the annual accounts.

8. The addendum, like the original guidance, supplements the Code of Audit Practice, and auditors are therefore required to pay due regard to it when planning their 2019/20 audits.

Auditor action
Auditors should pay due regard to the addendum to 2019/20 planning guidance

Proposed changes to practice note 10

9. The Public Audit Forum has issued an exposure draft of proposed changes to Practice Note 10 Audit of Financial Statements and Regularity of Public Sector Bodies in the UK (PN 10).

10. PN 10 sets out how auditors of public sector bodies in the UK apply auditing standards to their work on financial statements, with the aim of supporting consistency in their application. It also provides guidance on the approach to the audit of regularity.

11. A summary of the proposed changes to PN 10 is provided in the annex to the Invitation to Comment. Some key proposed changes are summarised in the following table:

Proposed changes to PN 10

ISA (UK)	Key proposed changes
540	The issue in December 2019 of the revised standard on auditing estimates has been reflected in the revised draft. Guidance has been added at paragraph 1-116 on inherent risk factors relevant to the public sector, with examples such as: • a very high degree of estimation uncertainty caused by the need to project forecasts far into the future • the lack of available comparators for estimates that are unique to the public sector, such as the valuation of important public assets the existence of possible constructive obligations created by political statements or past practice of carrying out actions that may be expected of public authorities.
560	The guidance on determining the date the financial statements are authorised for issue and the date they are issued has been refreshed. Paragraph 1-136 has been amended to advise that central government financial statements are considered to be issued on the date of laying rather than the date of despatch for laying.
570	The revised standard on going concern has been reflected. In addition, paragraphs 1-148 to 1-183 have been extensively reordered to clarify what auditors should do when the financial reporting framework requires a going concern basis of accounting due to the continued provision of services.

ISA (UK)	Key proposed changes
720	Paragraph 1-124 has been added to provide guidance on when the reporting framework requires that the 'other information' presented is fair, balanced and understandable. Paragraph 1-126 has been added on statutory other information, on which the auditor is required to express a positive statement in the auditor's report.

12. Comments on the exposure draft should be sent to PracticeNote10@public-audit-forum.org.uk by 31 August 2020.

Deferral of IFRS 16 Leases

13. The Financial Reporting Advisory Board (FRAB) and the CIPFA/LASAAC Local Authority Code Board have decided to defer the effective date of IFRS 16 Leases in the public sector until 1 April 2021. This is to recognise that bodies' preparations are being adversely affected by dealing with the COVID-19 crisis.

Advice to auditors

14. The following table summarises a request for technical advice recently made by auditors to Professional Support in respect of the audit of the 2019/20 annual accounts which applies to all public bodies, along with the advice offered:

Auditor Action
Auditors should consider the application of this advice to their own audits

Property, plant and equipment

How should auditors respond where a professional valuer has declared a 'material uncertainty' in their valuation report on a property?
RICS guidance is clear that the declaration of a material uncertainty in a valuer's report does not mean that the valuation cannot be relied upon or that there is a misstatement. However, it indicates that less certainty can be attached to the valuation than would otherwise be the case. It is important that audited bodies disclose in the notes to the financial statements an adequate explanation of the estimation uncertainty in accordance with paragraphs 125 of IAS 1 Presentation of Financial Statements. The disclosure should help users understand the judgements that the body has made. Auditors should evaluate whether the disclosures adequately explain the uncertainty and the impact on the amounts recognised in the financial statements. Auditors should consider whether it is appropriate to include an Emphasis of Matter paragraph under ISA (UK) 706 in the Independent Auditor's Report. This would be the case where: • the matter is appropriately presented and disclosed in the financial statements • a modified opinion is not required • the matter is considered to be of such importance that it is fundamental to users' understanding of the financial statements.

Should a car park be treated separately from the land it is on for depreciation purposes?
IAS 16 Property, Plant and Equipment requires buildings to be accounted for separately from the underlying land. Land with an unlimited useful life is not depreciated. Buildings have a finite useful life and are depreciated. In the case of a car park, the appropriate classification may depend on its nature. For example, a multi-story car park is clearly a building whereas it may be acceptable to classify an area of spare land with no road surface as land. An important indicator is whether a valuer has attributed a useful life to the car park. Where a useful life has been attributed to the car park, it should be separated from the land and depreciation should be charged over that life.

Grants and other income

When should a donation for the construction of an asset be recognised?

The recognition of a donation as income can be deferred if there is a condition which requires the donation to be returned if an asset is not constructed. Recognition depends on the wording of the condition attached to the donation and the progress with construction. For example:

- Where construction takes place in the year of receipt, the donation should be recognised as income immediately.
- Where construction does not take place in the year of receipt, but there is reasonable assurance that the asset will be constructed, the donation may be recognised as a deferred credit.
- Where construction starts but is not completed by the year end, subject to the wording of the condition, Professional Support's view is that it may still be appropriate to recognise the donation as income in that year provided the body can demonstrate a clear intention to complete the asset.
- Where it becomes the case that construction will not be completed, and hence it is expected that the condition will be breached, the deferred credit or income should be derecognised and the obligation to return the donation recognised as a liability.

Summary of auditor actions in this section

Paragraphs	Auditor actions
1 - 2	Pay due regard to the addendum to 2019/20 planning guidance
8	Consider the application of the advice from Professional Support to their own audits

Section 2

Local government sector

Annual accounts overall developments

Coronavirus (Scotland) Act 2020

Bodies can decide not to comply with statutory duties

15. Schedule 6 of the Coronavirus (Scotland) Act 2020 amends certain statutory duties of public bodies in light of the impact of COVID-19 suppression measures. The Scottish Government has issued guidance in Finance Circular 10/2020 on the application of the powers contained in the Act to local government.

16. Part 3 of schedule 6 covers statutory duties that require a public body to publish a report in connection with the exercise of its functions. The body may decide to postpone complying with the duty if compliance would be likely to impede its ability to take effective actions against coronavirus. If so, the body must:

- publish a statement to that effect by the date by which the report is due (or as soon as reasonably practicable thereafter); and
- comply with the duty as soon as reasonably practicable.

Each body can determine a revised accounts timetable

17. The finance circular advises that the provisions in part 3 allow each local government body to determine its own revised timetable for the production and publication of its annual accounts. This means that the requirements in The Local Authority (Scotland) Regulations 2014 to:

- publish the unaudited accounts by 30 June can be postponed. The guidance recommends that the statement advising of the postponement be published by 17 June as that would normally be the latest date for advertising the unaudited accounts. It sets out the points to be covered in the statement on page 5
- meet to consider the unaudited accounts by 31 August can be postponed to within 2 months of publication
- publish the audited annual accounts by 31 October can be postponed. The Scottish Ministers consider it reasonable that publication should be by 30 November. The statement advising of the postponement requires to be published before 30 September (as that is the date the Act expires). The statement should also set out when the body will meet to consider the audited accounts.

18. Part 3 also applies to statutory duties that require a public body to give notice of where a document may be inspected, or make available a document for inspection in a particular manner. A body may decide not to comply with the duty if it is of the view that doing so may give rise to a significant risk of the transmission of coronavirus.

19. Where a body decides not to comply, it must publish or make available the document in an electronic format, or if that is not possible a statement to that effect. When the body considers that there is no longer a significant risk of transmission of coronavirus, it must ether:

- take such steps to comply, or
- publish a statement indicating that it is not complying and setting out the reasons for not doing so.

20. The finance circular advises that where it is not possible to allow an interested person access to council offices to inspect the unaudited accounts and related documents, the body can decide under the Act not to comply with the statutory requirements in respect of inspection. However, the guidance suggests that:

- publication of the request, together with the documents provided electronically, should be made in the same place on the website as the inspection notice

- when it is not possible to provide the information in electronic format the request, together with the statement that the body will not comply, should also be published in the same place on the website as the inspection notice. The notice should explain the process where it is not possible to provide that information electronically (i.e. body to contact them to provide access when there is no longer a significant risk of the transmission of coronavirus).

21. As a result of the amended requirements for the inspection of the unaudited accounts, Professional Support has published a revised version of Technical Guidance Note 2020/3(LG).

22. Other matters covered by the guidance in the finance circular include:

- Where a local authority has experienced difficulties in getting the assurances required, for example annual assurance certificates or similar, this should be explained.
- Section 95 officers will need to consider their own circumstances when determining whether they need to qualify their statement regarding whether the financial statements give a true and fair view.
- The Scottish Government has no objection to the use of electronic signatures, but it is for each body to ensure the security of those signatures.

Auditing developments

2019/20 model independent auditor's reports

23. Professional Support has published Technical Guidance Note 2020/5(LG) 2019/20 Independent Auditor's Report for Local Government Bodies to provide auditors with the model Independent Auditor's Reports which should be used for the 2019/20 annual accounts.

24. Section 101(4) of the Local Government (Scotland) Act 1973 requires auditors to place a certificate on a local government body's annual accounts and for that certificate to be in the form prescribed by the Accounts Commission. Auditors are required by the Code of Audit Practice to prepare their Independent Auditor's Reports (i.e. the certificate) in accordance with the TGN.

25. The model Independent Auditor's Reports set out in Appendices 1 to 5 of the TGN have been tailored to reflect local government legislation and augmented by the reporting requirements of the Accounts Commission. There have been no significant changes to the model Independent Auditor's Reports for 2019/20.

26. The TGN also provides guidance on the amendments that require to, or may, be made to the wording in the models in the form of auditor actions. Some enhancements have been made to the guidance to make the required auditor actions clearer and to clarify the use of electronic signatures. Auditors should complete for each report the checklist at Appendix 6 which provides a list of those auditor actions.

27. Any proposed modifications to any audit opinion or conclusion, or the inclusion of 'emphasis of matter' or 'other matter' paragraphs, should be discussed with Professional Support in advance of finalising the report.

28. Auditors should use this TGN when reporting on 2019/20 audits.

Auditor action
Auditors should use this TGN when reporting the audit of the 2019/20 annual accounts and complete the checklist

Financial statements developments

Application of 2019/20 accounting code

29. Technical Bulletin 2020/1 drew attention (at paragraph 17) to proposals to replace the 2019/20 Code of Practice on Local Authority Accounting in the UK (accounting code) with a simplified version that was being prepared.

30. The CIPFA/LASAAC Local Authority Code Board (CIPFA/LASAAC) subsequently issued a statement advising that it had decided not to implement the simplification proposals. The requirements of the 2019/20 accounting code continue to apply in full.

The 2019/20 accounting code continues to apply in full

Guidance on closing 2019/20 financial statements

31. The Chartered Institute of Public Finance And Accountacy (CIPFA) has issued Bulletin 5 Closure of the 2019/20 Financial Statements which provides guidance on the following areas of the 2019/20 financial statements that are relevant to Scottish bodies:

- Deferral of the implementation of IFRS 16 Leases
- Going concern accounting basis
- Accounting for COVID-19 support measures
- Financial reporting issues arising from COVID-19.

Deferral of the implementation of IFRS 16

32. Paragraphs 37 to 39 of the bulletin confirm that the implementation of IFRS 16 Leases has been deferred until 2021/22. Appendix 2 outlines the key changes proposed following the consultation on the adoption of IFRS 16 by local government and provides updates on the early implementation guidance.

Implementation of IFRS 16 has been delayed a year

Going concern accounting basis

33. Paragraphs 43 to 45 highlight that the accounting code's requirement to use the going concern basis of accounting mean that local government bodies cannot apply paragraph 25 of IAS 1 in respect of making an assessment of the body's ability to continue as a going concern.

34. This requirement applies regardless of the impact of COVID-19 on local government financial sustainability because the rationale for requiring the going concern basis remains unchanged.

35. However, local government bodies nevertheless need to report on the impact of the COVID-19 in, for example, the relevant liquidity reporting requirements under IFRS7 Financial Instruments: Disclosures and credit risk disclosures.

Going concern basis of accounting remains appropriate but financial sustainability issues to be reported

Accounting for COVID-19 support measures

36. Paragraph 55 advises that councils should consider whether they are acting as principal or agent in respect of the COVID-19 grant schemes (see paragraph 44 of this Technical Bulletin) and account for the grant accordingly. Paragraph 53 advises that, in the case of similar schemes operating in England, a council is not acting on its own behalf.

Financial reporting issues arising from COVID-19

37. The bulletin (paragraphs 63 to 97) provides guidance on a number of financial reporting issues arising from COVID-19. Some key points are summarised in the following table:

Area	Summary of guidance
Events after the reporting period	Bodies need to continually review and update their assessment of events up to the date the financial statements are authorised for issue. Examples of non-adjusting events might include after the year end: the closure of local offices; abnormally large changes in asset values; and major changes in service delivery. Examples of adjusting events include: the valuer able to access better information on asset values as at the year end; the receipt of information indicating that an asset was impaired; and notification of changes to grant entitlements.
Property, plant and equipment	The body's property (e.g. offices) may be impaired because it was not in use at 31 March. Where valuers include a 'material valuation uncertainty' declaration in their reports, bodies should consider the significance. However, this may not mean that valuers are unable to provide a reliable valuation for the asset. Bodies should be clear in their instructions to the valuer what estimation uncertainty means in financial reporting terms. The accounting code requires the disclosure of information about the assumptions concerning the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities, within the next financial year.

Area	Summary of guidance
Financial instruments – fair value valuation	Fair value measurements for financial instruments, including investment properties, require to take into account the conditions at 31 March. IFRS 13 (paragraphs B37 to B42) provides special arrangements for circumstances where the volume of activity for an asset (or a liability) has significantly decreased. Transactions may be adjusted where they are not orderly (see paragraphs B43 to B44). Where fair value measurements had been based on market valuations and observable inputs, and these are either no longer available or reliable, IFRS 13 (paragraphs 72 to 90 and paragraphs B5 to B11) allows for changes in the inputs used and for different valuation techniques to be used.
Financial instruments – expected credit losses	Bodies are required to measure at 31 March the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECLs) if the credit risk has increased significantly since initial recognition. This could mean that ECLs for some financial assets which were previously based on a '12-month' assessment may move to 'lifetime' ECLs. The economic outlook for a body's financial assets as a result of COVID-19 must be taken into account when assessing ECLs. Bodies need to consider the: • risk of default of its financial assets • exposure to that default risk • estimated loss as a result of the default. ECLs will be individual to each body's debt portfolios, the nature of its financial assets held at amortised cost, and the impact of COVID-19 in its local area (as well as national economic events).
Management Commentary	Narrative reporting will need to cover the effects of COVID-19 on services, operations, performance, strategic direction, resources and financial sustainability. Appendix 3 includes a list of issues bodies may wish to consider including: • Issues that have affected service provision • Workforce changes • Impact on the supply chain • Reserve levels and cash flow management • Major risks and recovery plans.

Retirement benefits – 2019/20 report on actuarial information

38. Professional Support has arranged for PWC to provide a report* to support auditors when assessing the competence and objectivity of, and assumptions and approach adopted by, actuaries producing information required by IAS 19 figures in respect of the Local Government Pension scheme (LGPS) as at 31 March 2020.

39. PWC have confirmed the competence and objectivity of the actuaries involved in valuations for the LGPS in Scotland. They also consider that the assumptions proposed, when taken together, will produce liability figures in line with their expectations.

Proposed actuarial assumptions are reasonable in typical cases

40. However, the report advises auditors to consider whether:

- local issues have been adequately covered in instructions issued by employers to actuaries (page 3)
- to subject the source data provided to the actuaries by employers to further audit procedures as discussed in section 4 of the report
- to establish actual asset returns and compare them with expected returns arrived at using market indices (see page 16)

- additional procedures are required for employer bodies advised by Barnett Waddingham as that actuary does not adjust for actual pension increases in their roll forward calculations (see page 20)
- material significant events have been communicated to the actuary and undertake additional audit procedures as appropriate (page 3).

41. Page 24 of the report provides a summary of the approach each actuary is taking for the McCloud judgement. In summary:

- All actuaries confirmed that where an allowance was made in 2018/19, any update to that allowance for 2019/20 would be recognised within Other Comprehensive Income (OCI).
- Most actuaries confirmed that where no allowance was made in 2018/19, an allowance would be made for 2019/20 and recognised as past service cost.
- Hymans Robertson propose to make no allowance in 2019/20 unless instructed by an employer body and are allowing the bodies to choose whether any allowance is recognised in OCI or past service cost.
- Appendix E summarises the approach to calculating the allowance taken by each actuary and highlights that the approach taken by Hymans Robertson is likely to be more approximate than the others. Further testing by auditors may be necessary where Hymans Robertson is the actuary.

Hymans are not making allowances for the McCloud judgement or GMP unless instructed

42. Page 26 of the report provides a summary of the approach each actuary is taking to Guaranteed Minimum Pension (GMP) indexation:

- Most actuaries are making an allowance for full GMP indexation for members with a statutory retirement age after April 2016.
- Hymans Robertson are giving employing bodies the option to make this allowance.

43. Auditors should refer to paragraphs 20 to 32 in Module 4 of Technical Guidance Note 2019/10(LG).

Grant income - funding scheme

44. The Scottish Government has issued a number of finance circulars setting out the conditions for a Business Support Fund grant scheme administered by councils that is designed to help eligible businesses during the COVID-19 crisis. The two funds within the scheme are:

- Small Business Grant Fund (SBGF)
- Retail, Hospitality and Leisure Grant Fund (RHLGF).

45. An application requires to be completed for receipt of the grant. There have to date been the following three phases of the scheme:

- Phase 1 commenced on 18 March 2020. Finance Circular 8/2020 sets out the conditions for the first phase. Each ratepayer registered the day before the scheme started could claim one grant, regardless of how many properties they had.
- Phase 2 commenced on 5 May, and Finance Circular 9/2020 expands the ways in which RHL businesses can access the SBGF. Following the initial one-off grant, each additional eligible property qualifies for a grant equal to 75% of the one-off grant.
- Phase 3 commenced on 8 June, and Finance Circular 11/2020 also enhances accessibility to the SBGF, including extending the scope to tenants who are not the rate payer for the property.

46. Eligibility criteria and other Information in respect of each fund in the scheme are summarised in the following table:

Feature	SBGF	RHLGF
Payment on first property	£10,000	£25,000
Payment for additional properties (phases 2 and 3)	£7,500	£18,750

Feature	SBGF	RHLGF
Use eligibility	Property must have been wholly or mainly used for one of the qualifying purposes set out in Table 1 in 8/2020 (or similar purpose). Properties used for the purposes set out in Table 2 are specifically excluded.	Property must be operating in the retail, hospitality or leisure sectors and must be used for one of the qualifying purposes set out in Table 3 (or similar purpose).
Relief eligibility (phase 1)	Property must be in eligible for the Small Business Bonus Scheme or Rural Relief.	N/A
Relief eligibility (phase 2)	As for phase 1 plus RHL businesses ineligible for either fund with a cumulative rateable value of all properties between £35,001 and £51,000	N/A
Relief eligibility (phase 3)	As for phase 1 plus RHL businesses ineligible for either fund with a cumulative rateable value of all properties between £35,001 and £500,000	N/A
Rateable value	N/A	Individual properties must have a rateable value between £18,001 and £51,000.

47. The property use, reliefs and rateable value of the property are those as at 17 March 2020.

Advice to auditors

48. The following table summarises a selection of requests for technical advice recently made by auditors to Professional Support in respect of the audit of the 2019/20 annual accounts of local government bodies, along with the advice offered:

Auditor Action
Auditors should consider the application of this advice to their own audits

Property, plant and equipment

Can employee costs be capitalised if the employees have been redeployed from a planned capital project as a result of COVID-19?
Costs attributable to bringing an asset to the location and condition necessary for it to be capable of operating in the manner intended by the public body can be capitalised (i.e. included in the cost of the asset rather than being charged to revenue). Employee costs should be capitalised only where the employee's activities are directly attributable. If an employee has been diverted onto other duties, their salary for the duration of those duties cannot be capitalised.

Can employee costs continue to be capitalised if work already carried out on a project requires to be carried out again due to delays?
If the costs of an activity related to an asset are capitalised but then for whatever reason that activity has to be carried out again, only the costs related to the second occasion can be capitalised. In the scenario where an employee carried out work on a project but due to delays the work has to be carried out again, the council would have to reverse the entire amount capitalised to date back out to revenue as soon as they realise the costs will need to be incurred again.

Loans fund

Should a change in the method for calculating loans fund repayments be applied retrospectively

Finance Circular 7/2016 is clear that changing from the statutory method to a prudent method of calculating the repayments represents a change in accounting policy. Changes in accounting policy are normally applied retrospectively unless there are specific transitional provisions. Finance Circular 7/2016 also states that the change in accounting policy should be applied prospectively, i.e. in respect of repayments from the date of change.

Housing Revenue Account

Does a council have the statutory power to charge maintenance costs to its Housing Revenue Account (HRA) if no maintenance is actually being carried out due to COVID-19 suppression measures?

The credit and debit items required to be made to the HRA are set out schedule 15 of the Housing (Scotland) Act 1987. Schedule 15 states that a “local authority shall debit to the housing revenue account amounts equal to ……the expenditure incurred by the local authority for that year in respect of the repair, maintenance, supervision and management of houses and other property to which the account relates”.

Some councils charge staff costs directly to the HRA while others have a corporate property maintenance function and an element is recharged to the HRA. Councils should seek their own legal advice if in doubt, but the following sets out the views of Professional Support:

There is no objection to a council continuing to charge staff costs directly to the HRA. The expenditure is still being incurred even if the repair activities cannot actually be carried out at the moment. The alternative of instead charging the staff costs to the General Fund does not seem fair or reasonable.

Similarly, the costs of a corporate property maintenance function should also continue to be recharged to the HRA on a fair and reasonable basis. There may be an apparent complication if a council chooses to run the property maintenance function as an internal trading operation and charges the HRA for services provided. Such charges are for internal purposes and do not impact on the recharge to the HRA for external financial reporting purposes.

There should not be any difference regardless of whether councils charge the HRA directly or indirectly.

Statutory Other Information developments

Revised statutory guidance on Management Commentary

49. Finance Circular 10/2020 also contains statutory guidance in respect of the contents of the Management Commentary. The statutory guidance permits, but does not require, a local government body to disapply the following content requirements for the Management Commentary:

- The requirement for the review of the body’s business to be comprehensive.
- An analysis using key performance indicators (KPIs). However, a hyperlink to KPIs published elsewhere is required or a statement that is not possible.
- A description of the body’s strategy and business model. However, a hyperlink to a document published elsewhere is required or a statement that is not possible.
- Political donations and expenditure, financial instruments, indication of future likely developments, disclosure concerning the employment of disabled persons, employee involvement, and disclosures concerning greenhouse gas emissions.
- The requirement to direct the reader to the annual report on treasury management to the extent that the report is not yet published. However, a statement to that effect should be included.

The content requirements for the Management Commentary have been varied

50. Professional Support has revised Module 11* of Technical Guidance Note 2019/9(LG) to reflect the statutory guidance on the Management Commentary.

Grant claims developments

Technical guidance notes for 2019/20

51. Professional Support has published Technical Guidance Note TGN/GEN/20 Auditor Certification of 2019/20 Approved Local Government Grant Claims and Returns to provide general guidance to auditors on the certification of 2019/20 local government grant claims and returns and to explain the approach and procedures to be adopted. The TGN:

- explains the arrangements for the certification of grant claims and other returns
- provides a list of grant claims and other returns which external auditors are required to certify in 2019/20 under their audit appointment
- considers the roles and responsibilities of Professional Support, grant-paying bodies, local government bodies, and appointed auditors
- sets out the overall approach to be adopted by auditors
- provides guidance on auditor reporting.

52. Professional Support also separately publishes a separate TGN on each significant approved claim to provide auditors with specific guidance on certifying that claim. The following have been published for 2019/20:

- Technical Guidance Note TGN/BEL/20 Auditor certification of 2019/20 Bellwin Scheme of Emergency Financial Assistance to Local Authorities
- Technical Guidance Note TGN/HBS/20 Auditor Certification of 2019/20 Housing Benefit Subsidy Claims
- Technical Guidance Note TGN/EMA/20 Auditor Certification of 2019/20 Education Maintenance Allowance Claims
- Technical Guidance Note TGN/NDR/20 Auditor Certification of 2019/20 Non-Domestic Rates Income Return.

Auditor action

Auditors should use these TGNs when certifying 2019/20 grant claims

Housing benefits

53. The Department for Work and Pensions (DWP) has issued the Module 5 software diagnostic tool component of the HBAP approach to the certification of the 2019/20 housing benefit (HB) subsidy claims as well as:

- HB Circular A7/2020 to advise of changes to the additional earnings disregard for housing benefit purposes
- HB Circulars S4/20, S5/20, S6/20 and S7/20 to announce additional funding.

Non-domestic rates

2019/20 return

54. The Scottish Government has issued the 2019/20 return and accompanying guidance notes for non-domestic rates. The most significant changes from 2018/19 are summarised in the following table:

Line	Relief	Change
18 and 19	Transitional	The scheme for some business sectors following the revaluation exercise applicable from 1 April 2017 has been extended to 2019/20
21a and 21b	Business Growth Accelerator	Separate reporting of Business Growth Accelerator relief for improved property (line 21a) and new property (lines 21b)
24	New Fibre	New 100% relief to any provider of new fibre infrastructure for telecommunication
25	Lighthouse	Separate reporting

Line	Relief	Change
28 and 29	Sports Clubs	Separate reporting of discretionary relief for Community Amateur Sports clubs (CASCs) or sports clubs which are registered charities (line 28) from other sports clubs (line 29)
40,41 and 43	Backdated	Separate reporting of backdated sports and charities relief (line 41), backdated Business Growth Accelerator relief (line 40) and other backdated relief (line 43)

Whole of Government Accounts developments

2019/20 guidance

55. HM Treasury has issued guidance for local government users on the 2019/20 Data Collection Tool for Whole of Government Accounts (WGA).

56. A key refinement is that bodies will be able to run the counterparty Matches Report themselves and will be able to see live published data from other bodies for easier rectification of counterparty transactions.

Wider audit scope developments

Treasury and capital management update

57. CIPFA has issued Bulletin 4 Treasury and Capital Management Update to provide an update on treasury management and capital management issues. Paragraphs 4 to 11 of the bulletin set out a number of key issues which need to be considered as a result of COVID-19. They include the following:

- Day-to-day cash flow management should be prioritised. Bodies should consider the control systems required to gather as much information as possible on significant inflows and outflows, such as:
  - the timing for likely changes to the major schemes in the capital programmes
  - the impact of COVID-19 on service provision and cash collection, or new or different levels of grant
  - overtime or special arrangements for key workers.
- Bodies should keep under review the liquidity of their investment portfolios and make cash available in the shorter term. They may also need to consider their ability to be able to convert investments to cash at short notice and even the liquidity of their longer-term investments.
- Borrowing may need to be higher in the short or medium term than originally planned, and may potentially be in excess of agreed limits. Paragraph 29 of the Prudential Code allows bodies to respond to unforeseen and extraordinary circumstances.
- Bodies should consider the procedures in place to ensure that treasury management teams can operate day to day operations remotely.

Guidance on financial management code

58. CIPFA has issued guidance notes* to assist local government bodies in complying with the Financial Management Code referred to in Technical Bulletin 2019/4 (paragraph 54). The notes:

- explore the themes addressed in the code
- provide suggestions as to how it can be implemented in practice
- suggest how bodies might demonstrate that compliance with the code has been achieved.

Summary of auditor actions in this section

Paragraphs	Auditor actions
17 -22	Use Technical Guidance Note 2020/5(LG) when reporting the audit of the 2019/20 annual accounts and complete the checklist
43	Consider the application of the advice from Professional Support to their own audits

Paragraphs	Auditor actions
46 - 47	Use the applicable TGN when certifying 2019/20 grant claims

Contact points for this section

59. The contact points for this section of the Technical Bulletin are:

- Paul O'Brien, Senior Manager (Professional Support) - pobrien@audit-scotland.gov.uk
- Anne Cairns, Manager (Professional Support) – acairns@audit-scotland.gov.uk (grant claims items only).

Section 3

Central government sector

Statutory Other Information developments

Addendum to 2019/20 FReM

60. HM Treasury has issued an addendum to the 2019/20 FReM to set out minimum reporting requirements for the annual report and accounts as a result of the impact of COVID-19 suppression measures.

61. The addendum permits, but does not require, bodies to omit the performance analysis section from the Performance Report. Where relevant performance information has already been published elsewhere, bodies are encouraged to refer to the relevant publication.

The performance analysis section may be omitted

62. Where unaudited information otherwise required to be included in the Accountability Report is already published elsewhere, bodies are permitted to refer to the relevant publication rather than including the information in their Accountability Report.

63. Professional Support has revised Module 11* of Technical Guidance Note 2020/1 to reflect the impact of the FReM addendum.

Advice to auditors

64. The following table summarises a selection of requests for technical advice recently made by auditors to Professional Support in respect of the audit of the 2019/20 annual accounts, along with the advice offered:

Auditor action
Auditors should consider the application of this advice to their own audits

Leases and similar arrangements

How should a rent-free period be accounted for in an operating lease?
A rent-free period is an incentive for the lessee to enter into the lease agreement. Bodies are required to recognise lease incentives in accordance with SIC 15 Operating Lease – Incentives as a reduction in the lease expense over the lease term on a straight-line basis (unless another systematic basis is more representative of the benefits received by the body).

Intangible assets

Should software licences be recognised as intangible assets?
IAS 38 defines an intangible asset as an identifiable non-monetary asset without physical substance which should be recognised if (and only if) it is controlled by the body as a result of past events, and future economic or service benefits are expected to flow from the asset to the body. Software licences allow the body to use the software for a specified period. Where this is for a period in excess of 12 months, the licence will provide future service potential and may be recognised as an intangible asset.

Remuneration and Staff Report

Should all "directors" be disclosed within the Remuneration and Staff Report?
The FReM requires information to be disclosed in the Remuneration and Staff Report for each director. For the purposes of this disclosure, it describes directors as the management board (including advisory and non-executive members) having authority or responsibility for directing or controlling the major activities of the body during the year. It will not necessarily include an individual simply because they have 'director' in their job title. Similarly, it may include individuals who do not have 'director' in their job title. Disclosure is determined by the role undertaken by the individual. Bodies will have to consider whether the individual role meets the definition in the FReM. For example, a director of IT with a role limited to the delivery of a specific IT project is unlikely to meet the definition.

Should employer's pension contributions be included in a director's remuneration in the Remuneration and Staff Report?
The employer's contribution is not included within a director's remuneration. It is effectively reflected in remuneration in the value of pension benefit column, as this is the increase in pension benefit that was purchased with the employer's contribution.

Auditing developments

2019/20 model independent auditor's reports

65. Professional Support has published Technical Guidance Note 2020/4(CG) 2019/20 Independent Auditor's Report for Central Government Bodies to provide auditors with the model Independent Auditor's Reports which should be used for the 2019/20 annual report and accounts.

66. The model Independent Auditor's Reports set out in Appendices 1 to 4 of the TGN have been tailored to reflect central government legislation and augmented by the reporting requirements of the Auditor General. There have been no significant changes to the model Independent Auditor's Reports for 2019/20.

67. The TGN also provides guidance on the amendments that require to, or may, be made to the wording in the models in the form of auditor actions. Some enhancements have been made to the guidance to make the required auditor actions clearer. Auditors should complete for each report the checklist at Appendix 5 which provides a list of those auditor actions.

68. Any proposed modifications to any audit opinion or conclusion, or the inclusion of 'emphasis of matter' or 'other matter' paragraphs, should be discussed with Professional Support in advance of finalising the report.

69. Auditors should use this TGN when reporting on 2019/20 audits.

> **Auditor action**
> Auditors should use this TGN when reporting the audit of the 2019/20 annual report and accounts and complete the checklist

Whole of Government Accounts developments

2019/20 guidance

70. HM Treasury has issued guidance for local government users on the 2019/20 Data Collection Tool for Whole of Government Accounts (WGA).

71. A key refinement is that bodies will be able to run the counterparty Matches Report themselves and will be able to see live published data from other bodies for easier rectification of counterparty transactions.

Summary of auditor actions in this section

Paragraphs	Auditor actions
57	Consider the application of the advice from Professional Support to their own audits
58 - 62	Use Technical Guidance Note 2020/4(CG) when reporting the audit of the 2019/20 annual report and accounts and complete the checklist

Contact point for this section

72. The main contact point for this section of the Technical Bulletin is Neil Cameron, Manager (Professional Support) – ncameron@audit-scotland.gov.uk.

Section 4

Health sector

Annual report and accounts developments

Guidance on 2019/20 accounts

73. The Technical Accounting Group (TAG) has issued additional guidance* on the expected impact of COVID-19 suppression measures on the 2019/20 annual report and accounts of health boards.

74. The guidance advises that, where a board omits the performance analysis section of the Performance Report, specific disclosures required by the accounts manual (i.e. on financial targets and payment policy) should be included within the performance overview section.

75. All areas of the financial statements will be required. However, the guidance advises boards to engage with auditors to consider the appropriateness of excluding or reducing detail in notes to the financial statements where the disclosure is not material.

76. It is expected that additional disclosures will be required to reflect market uncertainties and the impact on asset valuations at 31 March. A suggested form of words is included at paragraph 16 of the guidance. There is also a suggested disclosure at paragraph 22 on the deferral of the application of IFRS 16.

Disclosure wording is suggested

77. The guidance highlights other areas where further disclosure may be required including:

- credit or liquidity risk disclosures for financial instruments
- year-end inventory, particularly where planned counts were unable to be performed
- income and expenditure where there is a high level of estimation, or material movement from previous years

78. The guidance also advises that the threshold for tolerance used in the agreement of balances between boards has been raised to £500,000

Submission timetable

79. In line with the rest of the UK, the Scottish Government has delayed the administrative deadlines for the annual report and accounts of health boards by three months. Boards are required to submit draft accounts by the end of August and audited annual accounts by the end of September.

80. However, some boards have indicated that they intend to proceed with accounts preparation in line with normal timescales.

Provisions for clinical negligence claims

81. Professional Support has issued a report* to auditors following an examination of the Clinical Negligence and Other Risks Indemnity Scheme (CNORIS). The purpose of the report is to:

- provide assurance on the methodology used by the Scottish Government in the calculation of the CNORIS national obligation at 31 March 2020
- inform auditors' evaluation of the role of the NHS Central Legal Office as a management expert.

Auditor action
Auditors should refer to this report when auditing the 2019/20 provision for CNORIS

Auditor action

Auditors should consider the application of this advice to their own audits

Advice to auditors

82. The following table summarises a selection of requests for technical advice recently made by auditors to Professional Support in respect of the audit of the 2019/20 annual report and accounts, along with the advice offered:

Grants and other income

Should a liability be recognised for internal recharges relating to research and development income?

In accordance with generally accepted accounting practices, a liability should be recognised only in respect of the elements of income from research and development (R&D) contracts that are due to be paid to external partners (e.g. universities). Any internal recharges (e.g. reallocation to a different budget head within a board) should not be recognised in the balance sheet.

There may be confusion as the NHS TAG guidance on R&D income could be read as suggesting that amounts due to other budget heads should be included in the liability. Professional Support considers that this was not TAG's intention but in any event the guidance does not supersede generally accepted accounting practice.

Remuneration and staff report

Should the median calculation in the fair pay disclosure in the Remuneration and Staff Report include agency staff costs?

Health boards are required to make the fair pay disclosure because it is a requirement of the accounts manual. The accounts manual is clear that agency staff are excluded from the calculation of median pay. This is because they are not employees on the payroll and instead their service is charged for by invoice.

Professional Support acknowledges that this contrasts with the FReM which requires agency staff to be included in the median pay calculation. However, the provisions in the FReM in respect of the fair pay disclosure do not apply in Scotland as (in accordance with FReM paragraph 5.1.4) they do not originate in accounting standards or Companies Act.

How should a negative pension benefit value be treated in the Remuneration and Staff Report?

The increase in value of pension benefit is a component of the total remuneration figure. Where the calculation results in a negative value, the accounts manual requires the value to be expressed as zero in the relevant column in the remuneration table. Negative values do not therefore reduce the total remuneration figure.

Governance Statement

Can a board adjust its membership as a result of the current COVID 19 crisis?

The Health Boards (Membership and Procedure) (Scotland) Regulations 2001 set the quorum for board meetings as one third of the total number of members including at least two members who do not also hold the position of Chief Officer, Chief Finance Officer or Director of Public Health. While it may be appropriate for boards to introduce streamlined governance arrangements during the COVID 19 suppression measures, they should ensure that these arrangements satisfy the requirements of the regulations and are set out in revised standing orders. Amended arrangements should be disclosed in the Governance Statement.

Auditors may want to confirm that amended arrangements for board meetings meet the requirements of standing orders and the Regulations, and should evaluate whether amended arrangements are disclosed in the Governance Statement.

Summary of auditor actions in this section

Paragraphs	Auditor actions
72	Use the report provided by Professional Support when auditing the 2019/20 provision for CNORIS
73	Consider the application of the advice from Professional Support to own audits

Contact point for this section

83. The main contact point for this section of the Technical Bulletin is Neil Cameron, Manager (Professional Support) – ncameron@audit-scotland.gov.uk.

Section 5

Fraud and irregularities

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

84. This section 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.

Expenditure

Invalid supplier

85. A third party defrauded £64,500 from a public sector body by purporting to be a genuine supplier.

Key features

The purchase ledger team received several emails purporting to be from a named contact at their utility supply company requesting payment of legitimate outstanding invoices. They included copy invoices from the supplier which appeared to be genuine. The emails requested that the standing bank details be amended to those on the invoices. The bank details were changed, and three payments were made. Remittance advices were sent to the legitimate supplier email address. The fraud was identified when correspondence from the legitimate contact in the supplier was received advising that they had received remittance advice notices but no payment.

The fraud was possible as the procedure for confirming bank account changes was not followed. In addition, the email from the supplier had a subtle difference in the address that was not identified at the time.

All finance staff are now receiving training on fraud prevention and detection.

Police Scotland have been informed.

Payroll

Re-directing salary

86. A third party defrauded over £5,000 from a council by re-directing salary payments.

Key features

The payroll team received an email purporting to be from a senior officer of the council, requesting a change to bank account details. The payroll records were amended, and a salary payment was made.

It was not identified as fraud until the officer contacted the payroll team to query why they had not been paid.

The fraud was possible as the procedures in place to check the validity of bank detail changes had not been followed.

Payroll staff have been reminded of the proper verification procedure for changes to employee bank account details. They have also received refresher training on how to spot fraudulent emails. The case is being investigated by Police Scotland.

Contact point

87. The contact point for this section of the Technical Bulletin is Anne Cairns, Manager (Professional Support) – acairns@audit-scotland.gov.uk.

Technical Bulletin 2020/2

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