Technical Bulletin 2021/2

Technical developments and emerging risks from April to June 2021

AUDIT SCOTLAND

Prepared for appointed auditors and audited bodies in all sectors

23 June 2021

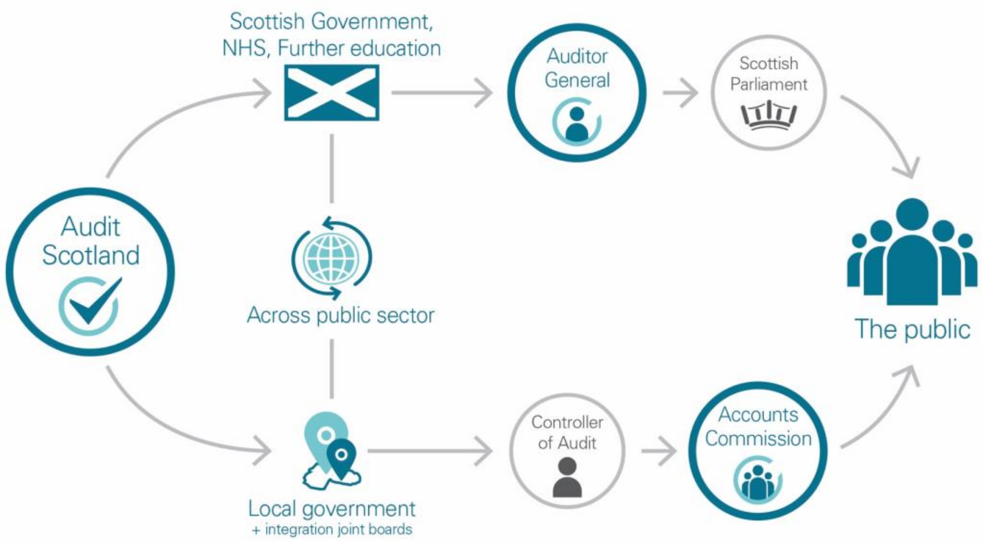
Who we are

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.

Contents

Introduction

Purpose

Technical Bulletins provide information on developments and guidance on emerging risks

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 during the quarter
- information on professional matters during the quarter that are expected to have applicability to the public sector
- guidance on any emerging risks identified in the quarter.

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. However, hyperlinks in this bulletin indicated with an asterisk link to documents on the Technical Reference Library and therefore are active only for auditors.

Highlights summary

5. Professional Support draws attention in the following table to certain items in this Technical Bulletin:

Highlights summary		
Professional Support has published model Independent Auditor's Reports for local government [see paragraph 9]	Professional Support has published guidance on objections to 2020/21 local government annual accounts [see paragraph 14]	LASAAC has issued guidance on accounting for COVID-19 grants [see paragraph 17]
LASAAC has issued guidance on accounting for reserves [see paragraph 21]	CIPFA has issued guidance on the 2020/21 local government financial statements [see paragraph 35]	The Scottish Government has issued proposed revised statutory guidance on service concession arrangements [see paragraph 46]

Highlights summary		
The NAO has issued a disclosure guide for central government financial statements [see paragraph 59]	The Cabinet Office has issued guidance on the Remuneration and Staff Report [see paragraph 66]	Professional Support has issued an assurance report on CNORIS [see paragraph 73]
The Scottish Government has issued guidance on accounting by health boards for vaccines [see paragraph 75]	The Scottish Government has issued guidance on accounting by health boards for personal protective equipment [see paragraph 77]	The SFC has issued the 2020/21 accounts direction for colleges [see paragraph 88]
The SFC has issued the guidance on the 2020/21 accounts direction for colleges [see paragraph 90]	The FRC has issued a revised ISA (UK) 240 on fraud [see paragraph 94]	The UK Government has issued an updated response to the Redmond Review [see paragraph 96]

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
All sectors

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

Advice to auditors

7. The following tables summarise requests for technical advice recently made by auditors to Professional Support in respect of the audit of the 2020/21 annual accounts which applies to all public bodies, along with the advice offered:

Property, plant and equipment

Can a valuer carry out a valuation if COVID-19 restrictions prevent the physical inspection of the property?

Where COVID-19 restrictions prevent a valuer from undertaking the physical inspection of a property, the Red Book allows a 'desktop' valuation to be performed using digital mapping, records, plans and other data. This involves the adoption of reasonable assumptions concerning relevant matters, such as the condition of the property.

Dispensing with an inspection because of COVID-19 restrictions does not automatically lead to the need for a declaration of material uncertainty in relation to the valuation opinion. The decision on whether to make such a declaration rests with the valuer. The Red Book defines material uncertainty as where the degree of uncertainty in a valuation falls outside any parameters that might normally be expected. Consequently, less certainty and a higher degree of caution should be attached to the valuation than would normally be the case. For the avoidance of doubt, it does not mean that the valuation cannot be relied upon:

Where no Material Valuation Uncertainty is declared, there are no specific disclosure requirements for the financial statements. However, bodies may judge it helpful to users if an explanation is provided in their accounting policy on revaluations.

Where a Material Valuation Uncertainty is declared by the valuer, a clear explanation should be disclosed in the sources of estimation uncertainty note in the financial statements. Where properly disclosed and considered fundamental to understanding the accounts, auditors should include an Emphasis of Matter paragraph in the Independent Auditor's Report using the wording provided by Professional Support.

In some circumstances, valuers may conclude that they are unable to form an opinion on the value from the information collected and provided. They would therefore be required to decline the instruction. Where that is the case, bodies should disclose an explanation in the financial statements. Regardless of any disclosures, auditors should consider qualifying their opinion on the financial statements on the basis of limitation of scope.

What indexation should public bodies use when valuing property in between formal valuations?

The Government Financial Reporting Manual (FReM) at paragraph 10.1.2 requires bodies to value their property using the most appropriate valuation process, and states that such processes might include a quinquennial valuation supplemented by either annual indexation or regular desktop valuation update.

Indices are intended to reflect price movements anticipated over the course of the following financial year to provide indicative values at 31 March. The FReM does not specify a particular index but indicates that indices should be provided by a professional valuer. For health boards, paragraph 4.11.2 of the Capital Accounting Manual (CAM) expects the indices to be based on the Building Cost Information Service (BCIS) from RICS. The CAM is clear that indices are only appropriate for use on those properties measured at Depreciated Replacement Cost. In Professional Support's view, although the guidance in the CAM applies directly only to health boards, it is also useful for central government bodies. Indexation is rare in the local government sector but there is nothing to prevent it.

What indexation should public bodies use when valuing property in between formal valuations?
Auditors should evaluate whether: • indexation is appropriate for the relevant asset, particularly where it is measured at fair value or existing use value • the chosen index is reasonable • information on the source of the index has been adequately disclosed.

Contact point for this section

8. The contact point for this section of the Technical Bulletin is Paul O'Brien, Senior Manager (Professional Support) - pobrien@audit-scotland.gov.uk.

Section 2
Local government sector

Auditing developments

2020/21 model Independent Auditor's Reports

9. Professional Support has published Technical Guidance Note (TGN) 2021/5(LG) to provide auditors with the model Independent Auditor's Reports (IARs) which should be used for the 2020/21 annual accounts. Auditors are required by the Code of Audit Practice to prepare their IARs in accordance with this TGN. The TGN is available with supporting material to auditors on SharePoint* and is also freely available from the Audit Scotland website.

10. The model IARs 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.

11. There are a number of changes to the model IARs as a result of revised versions of international standards on auditing (ISAs) applying in 2020/21 and other changes to the guidance. These are summarised in the following table:

Auditor action
Auditors should use this TGN when reporting the audit of the 2020/21 annual accounts and complete the checklist

Reason for change	Nature of change
Change to models arising from revised ISAs	• The assurance on the going concern basis of accounting is now in the form of a positive statement (rather than reported by exception). • The explanation of the extent to which the audit is considered capable of detecting irregularities has been revised to give greater focus to non-compliance with laws and regulations. • The opinions on the Remuneration Report and Statutory Other Information are now in separate parts of the model IARs, with the description of the auditor’s responsibilities for Statutory Other information clarified and moved to the latter part.
Changes in guidance	• Additional emphasis has been added of the requirement to discuss any modifications or additions to the model IAR with Professional Support, including any Emphasis of Matter paragraph. • Wording has been specified for use where auditors judge an Emphasis of Matter paragraph is appropriate where the declaration of a ‘material valuation uncertainty’ has been disclosed’.

12. 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. Auditors should complete for each report the checklist at Appendix 6 which provides a list of those auditor actions.

13. 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.

Guidance on objections to 2020/21 annual accounts

14. Professional Support has published TGN 2021/3(LG) to provide auditors with guidance on the right of an interested person under section 101 of the Local Government (Scotland) Act 1973 to:

- inspect the unaudited 2020/21 annual accounts of a local government body
- object to those accounts.

15. The TGN is available with supporting material to auditors on SharePoint* and is also freely available from the Audit Scotland website.

16. Auditors should:

- evaluate whether the public inspection notice for 2020/21 is in accordance with applicable legislation
- carry out the actions set out in the TGN for any objections received.

Auditor action
Auditors should evaluate the 2020/21 inspection notice and deal with objections in accordance with this TGN

Financial statements developments

Guidance on COVID-19 grants

17. The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) has issued guidance on the accounting and disclosure in 2020/21 for COVID-19 grants from the Scottish Government. The main consideration for local government bodies is to assess whether they are acting as the principal (i.e. the body is acting on its own behalf) or as an agent of the Scottish Government in the disbursement of the grants to third parties.

Local authorities need to assess whether they are principal or agent

18. A list of the various funding streams is provided at Appendix 1 of the guidance. This includes an initial assessment by a sub-group of LASAAC of the appropriate accounting treatment for each stream. The assessment indicates that bodies are acting as the principal for most funding streams, other than grants to support businesses and the £500 payment to social care staff. However, bodies are responsible for making their own assessments.

19. Where a body is acting as an agent, the transactions should not be recognised as income or expenditure in the Comprehensive Income and Expenditure Statement (CIES). It may be necessary to recognise a creditor or debtor in the Balance Sheet at the year end and the net cash position will be included in financing activities in the Cash Flow Statement.

20. There are no specific disclosure requirements relating to agent transactions. However, the guidance:

- expects inclusion of appropriate narrative explaining the body's role in distributing COVID-19 grants in the Management Commentary. This could include the total value of agency grants
- advises bodies to consider also disclosing the total amount of COVID-19 agency grants in a note to the financial statements. Inclusion in a note means that disclosure would be covered by the audit opinion on the financial statements.

Disclosure of information in Management Commentary and notes

Updated guidance on reserves

21. LASAAC has issued updated guidance on accounting for and disclosing reserves. The guidance represents proper accounting practices and, where it goes further than the accounting code or legislation, it represents mandatory guidance for Scottish local government bodies.

22. The guidance distinguishes between:

- usable reserves (i.e. those representing resources which the body can use to support service delivery)

- unusable reserves (as a result of statutory adjustments or accounting gains or losses recognised in other comprehensive income and expenditure).

Statutory power required for reserves

23. Scottish local government bodies can only create a usable reserve for external financial reporting purposes if they have a specific statutory power to do so. Applicable powers are set out at paragraph 15 of the guidance but are summarised in the following table:

Fund	Statutory power	Applicable bodies
General Fund	Section 93 of the Local Government (Scotland) Act 1973 (the 1973 Act)	All councils and bodies covered by section 106 of the 1973 Act
Capital Fund, Renewal and Repair Fund and Insurance Fund	Schedule 3 of the Local Government (Scotland) Act 1975	Councils, Regional Transport Partnerships and joint boards with the power to borrow
Capital Grants (and Receipts) Unapplied Account	Various statutory guidance	All councils and section 106 bodies

24. The guidance explains that:

No direct reserve accounting

- income cannot be credited directly to a reserve. It must first be recognised as income in the CIES, and then either remain in the General Fund or be transferred to one of the other statutory funds.

- expenditure cannot be debited directly to a reserve. It must first be recognised as an expense in the CIES, and then an equivalent amount is transferred to the General Fund from one of the other statutory funds.

- where a statutory fund is used to fund capital expenditure, an amount equivalent to the expenditure incurred should be transferred (debit) from that fund to the Capital Adjustment Account (credit).

Only historical cost depreciation is a statutory adjustment

25. Paragraph 50 of the guidance refers to the statutory adjustment made to the Capital Adjustment Account in respect of depreciation. The accounting code allows local government bodies to either:

- treat all depreciation as a statutory adjustment; or

- split depreciation into the historical cost element (statutory adjustment) and the valuation element (reserve transfer to Revaluation Reserve).

26. The guidance makes the second option mandatory. The option of treating the valuation element of depreciation as a statutory adjustment is therefore withdrawn from 2020/21.

27. Paragraph 19 explains that Scottish local government bodies can earmark part of the General Fund balance, but earmarked parts remain part of the General Fund and should not be described or presented as separate reserves (with the exception of the HRA balance). Paragraph 20 recommends that bodies draw a distinction between:

- ‘mandatory earmarked balances’, for example gains on financial instruments classified as fair value through profit or loss

- ‘voluntary earmarked balances’ reflecting the body’s discretionary financial management plans for the use of funds.

28. Paragraph 54 refers to a requirement in the accounting code that an analysis of earmarked reserves should be disclosed in a note. This guidance applies that requirement in Scotland and requires earmarked elements of the General Fund (or other statutory fund) to be disclosed in a note. An illustration of a disclosure note for the earmarked parts of the General Fund balance is provided at Appendix 1 of the guidance.

Earmarked elements should be disclosed in a note

29. Where deferred capital receipts (e.g. sales proceeds in instalments or a finance lease receipt) are held in a Capital Fund, paragraph 30 requires the relevant balance to be disclosed.

2019/20 report on actuarial information

30. 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 2021. Auditors should refer to paragraphs 19 to 31 in Module 4 of Technical Guidance Note 2020/8(LG) for guidance on using the report and further information.

31. PWC have confirmed the competence and objectivity of the actuaries involved in valuations for the LGPS in Scotland. They are also comfortable that in aggregate the assumptions adopted by all actuaries will lead to liabilities falling within their expected ranges for all employers at 31 March 2021.

Actuarial assumptions are reasonable in typical cases

32. 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 higher experience items on both the asset and liability side as a result of the funding valuations performed at 31 March 2020 (see page 17)
- material significant events have been communicated to the actuary and undertake additional audit procedures as appropriate (page 3).

Points for auditors to consider

33. Page 18 of the report provides a summary of the approach each actuary is taking for the McCloud judgement and the Goodwin case. In summary:

- All actuaries confirmed that for most employers an allowance for McCloud was made in the 2019/20 accounts. Any update (e.g. updated membership data due to the valuations at 31 March 2020) would therefore be recognised within Other Comprehensive Income (OCI).
- The majority of actuaries have confirmed that the 2020/21 service cost would include an allowance for the impact of McCloud (as one further year of service would need to be compensated for affected members).
- Appendix E summarises the approach to calculating the allowance taken by each actuary.
- Actuaries do not intend to make any specific allowance for the Goodwin case, unless requested to do so.

34. Page 22 of the report provides a summary of the approach being taken to Guaranteed Minimum Pension (GMP) indexation and equalisation:

- All actuaries have confirmed that they will make an allowance for full indexation for all members reaching statutory pension age from 6 April 2016, calculated using individual member data as at 31 March 2020.

- Most pension funds allowed for full indexation in 2019/20 and so any updates will go through OCI.

- None of the actuaries have made any allowance for any additional liabilities relating to GMP equalisation in view of the Treasury announcement that there was no impact on public service schemes.

Guidance on closing 2019/20 financial statements

35. The Chartered Institute of Public Finance And Accountacy (CIPFA) has issued Bulletin 9 Closure of the 2020/21 Financial Statements which provides guidance on the following areas of the 2020/21 financial statements that are relevant to Scottish bodies:

- Financial reporting issues arising from COVID 19

- Issued accounting standards not yet adopted

- Going concern basis of accounting

- Financial flexibilities.

Financial reporting issues arising from COVID 19

36. Paragraph 2 of the bulletin lists a range of potential financial reporting impacts of COVID-19, including on:

- property, plant and equipment, particularly where market value measurement is used

- financial instruments and investment property measured at fair value

- expected credit losses in financial assets

- reporting judgements and estimation uncertainty

- measurement of a local authority's interests in other entities

- potential volatility in measurement of pension fund assets and liabilities.

37. Paragraph 39 advises that the Management Commentary should include a section on the local authority's overall response to the pandemic including the administration of the various grants and reliefs administered on behalf of central government. This would include agent transactions to give a fuller picture of activity.

The Management Commentary should reflect the authority's overall response to the pandemic

38. Paragraphs 49 to 51 provide guidance on COVID-19-related rent concessions such as a temporary rent reduction or rent holiday. It recommends that affected local authorities should follow the accounting treatment set out in the amendments to FRS 102 on this subject. These require a lessee to recognise any change in lease payments arising from rent concessions over the periods that the change is intended to compensate. This applies if, and only if, all of the following conditions are met:

- The change is a reduction in lease payments.

- Any reduction in lease payments affects only those payments originally due before applying the concession.

- There is no significant change to other terms and conditions of the lease.

Issued accounting standards not yet adopted

39. Paragraph 73 of the bulletin advises that the standards introduced by the 2021/22 accounting code that should be considered for disclosures in the 2020/21 financial statements as 'standards issued but not yet adopted' are:

- Definition of a Business: Amendments to IFRS 3 Business Combinations
- Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7
- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

40. IFRS 16 Leases and IFRS 17 Insurance Contracts are excluded from these requirements as they have not been adopted by the 2021/22 accounting code.

Going concern basis of accounting

41. Paragraphs 81 to 83 of the bulletin highlight that the accounting code's requirement to use the going concern basis of accounting means 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.

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

43. However, this is separate from the need for local government bodies to report on the impact of the COVID-19 in:

- the financial pressures in the Management Commentary
- the relevant liquidity reporting requirements under 7 Financial Instruments: Disclosures.
- credit risk disclosures.

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

Financial flexibilities

44. Paragraph 91 advises that the financial flexibilities allowed by the Scottish Government in respect of the use of capital receipts and deferring loans fund repayments (explained in Technical Bulletin 2021/1 – paragraphs 17 and 21) do not require changes to the accounting code.

45. If a local authority takes up the flexibilities available for 2020/21, it should consider the adequacy of any disclosures in relation to accounting policies and disclosure notes.

Proposed changes to statutory guidance on service concession arrangements

46. The Scottish Government has issued draft revised statutory guidance* on accounting for service concession arrangements. The revised statutory arrangements are being offered by the Scottish Government as a partial reform of the statutory arrangements as well as providing some financial flexibility to fund the impact of COVID-19.

47. The proposed guidance is permissive and there is no requirement to adopt any of the revised statutory arrangements, i.e. a local authority may continue to apply the current requirements set out in Finance Circular 4/2010. The guidance assumes a local authority will adopt one of the revised arrangements only when a financial benefit arises.

48. It is proposed that the revised statutory guidance will apply from 2020/21 but will have retrospective application. The options for proposed revised arrangement are:

- Restate to accounting standards. This is an irrevocable option to restate selected service concession arrangements onto an accounting standards basis in 2020/21 or a future year, with limited statutory adjustments for some impairments
- Reduce liability over asset life. Under this option, the liability repayment is charged over the useful life of the asset rather than the contract period. This may be applied to existing service concession arrangements where a local authority does not have the accounting records necessary to apply the accounting standards option, or has funded prepaid capital contributions and does not wish to revisit that
- COVID-19 flexibility. This is a short term option in response to the financial impact of COVID-19, and may only be implemented in either 2020/21 or 2021/22.

Three proposed new options

49. The proposed statutory adjustments related to each option, compared with the statutory adjustments required by Finance Circular 4/2010, are summarised in the following table:

Circular 4/2010	Restate to accounting standard	Reduce liability over asset life	COVID-19 flexibility
Statutory adjustment requiring prepaid capital contributions to be funded at 1 April 2009	Reversed	Not reversed	Not reversed
Statutory adjustment to exclude depreciation and impairment costs from the movement on the General Fund	Depreciation and impairment *within* the local authority's control charged to General Fund	Statutory adjustment to exclude depreciation and impairment costs from the movement on the General Fund	Statutory adjustment to exclude depreciation and impairment costs from the movement on the General Fund
Statutory charge to the General Fund equal to the unitary payment less service costs and finance costs charged to income and expenditure account *over the contract period*	Statutory adjustment reversed but new statutory adjustment for impairments *outwith* a local authority's control Also new statutory adjustment for any asset not depreciated	Statutory adjustment reversed but replaced with recalculated statutory adjustment charged in equal instalments *over asset life* (difference on recalculation credited to General Fund as a statutory adjustment)	Statutory adjustment reversed but replaced with recalculated statutory adjustment charged on *an annuity basis* (difference on recalculation credited to General Fund limited to any amount necessary to meet COVID-19 costs as a statutory adjustment)
Capitalised lifecycle replacement costs required to be charged to the General Fund as a statutory adjustment when the capital expenditure is incurred	Reversed	Not reversed	Not reversed

50. A working group has been set up comprising representatives from the CIPFA Directors of Finance Section, CoSLA, the Scottish Government and Audit Scotland to discuss the proposals and their potential wider implications.

Grant claims and returns

Non-domestic rates returns

2020/21 return and guidance

51. The Scottish Government has issued the 2020/21 Non-domestic rates notified return and guidance*. The most significant changes for 2020/21 are summarised in the following table:

Line	Relief	Change
2(a) and 2(b)	Intermediate property rate	A new rate has been introduced for property with rateable values between £51,000 and £95,000. The gross additional income compared with the basic property rate is included in line 2a and the net additional income is included in line 2b.
3(a) and 3(b)	Higher property rate	A new rate has been introduced for property with rateable values over £95,000. The gross additional income compared with the basic property rate is included in line 3a and the net additional income is included in line 3b.
25	Reverse vending machine relief	A new relief for equipment which recycles used beverage containers.
27	General relief	A new general 1.6% relief for all properties.
28	Retail, hospitality, leisure and airport relief	A new relief for certain properties in the retail, hospitality and leisure sectors, airports and certain properties situated at airports.

Guidance for auditors

52. Professional Support has published TGN/NDR/21 on certifying the 2020/21 non-domestic rates return. The TGN is provided with supporting material to auditors on SharePoint* and also on the Audit Scotland website.

Auditor action
Auditors should certify 2020/21 NDR returns using TGN/NDR/21

Housing benefit subsidy

53. Professional Support has published TGN/HBS/21 on certifying the 2020/21 housing benefit (HB) subsidy claim. The TGN is provided with supporting material to auditors on SharePoint* and also on the Audit Scotland website.

Auditor action
Auditors should certify 2020/21 subsidy claims using TGN/HBS/21

54. The Department for Work and Pensions (DWP) has issued the following modules of the Housing Benefit Assurance Process (HBAP):

- Module 3* comprising workbooks to be completed for detailed testing
- Module 5*, which is the software diagnostic tool along with the relevant checklist for Northgate Orbis systems.

55. The DWP has also issued LA Welfare Direct bulletin 5/2021 on the certification of 2020/21 claims. The bulletin:

- clarifies that auditors that have indirect access to DWP information on local authority systems or files must have gone through security checks. In Scotland, this is covered by the Disclosure Scotland checks undertaken on auditors.
- clarifies that local authorities are required to retain evidence such as claim forms, tenancy agreements etc to support the reperformance of benefit calculations required as part of the subsidy certification process

- reminded auditors that they are required to highlight cases in their letters to the DWP (and carry out associated error classification and extrapolations) where insufficient evidence has been retained by a local authority to support a claim.

56. In addition, the DWP has extended the submission deadline for the 2020/21 HB subsidy certification from 30 November 2021 (set out in TGN/HBS/21) to 31 January 2022, with a similar extension for 2021/22. However, the DWP has asked that local authorities and auditors work to the 30 November deadlines where it is practical to do so.

57. Where a subsidy claim will not be certified by the extended deadlines, the local authority is required to notify the DWP providing reasons for the delay. The normal subsidy withholdings will apply to all local authorities not meeting the extended deadlines.

Summary of auditor actions in this section

Paragraphs	Auditor actions
9 to 13	Use TGN 2021/5(LG) when reporting the audit of the 2020/21 annual accounts and complete the checklist
14 to 16	Evaluate the 2020/21 inspection notice and deal with objections in accordance with TGN 2021/3(LG)
52	Certify 2020/21 non-domestic rate returns using TGN/NDR/21
53	Certify 2020/21 subsidy claims using TGN/NDR/21

Contact point for this section

58. The contact point for this section of the Technical Bulletin is Paul O'Brien, Senior Manager (Professional Support) - pobrien@audit-scotland.gov.uk.

Section 3

Central government sector

Disclosure guide for 2020/21 financial statements

59. The National Audit Office has issued a disclosure guide on the 2020/21 financial Statements for bodies covered by the FReM.

60. The checklist is designed to ensure that bodies have prepared their 2020/21 financial statements in the appropriate form and have complied with all disclosure requirements. The guide is cross-referenced to the 2020/21 FReM, individual financial reporting standards, and the Companies Act 2006. A tailored checklist can be generated by selecting the criteria that are material to the body.

61. While the guide is designed primarily for the NAO's internal use, auditors in Scotland may also find it helpful. When checking that the FReM's disclosure requirements have been met, auditors should in accordance with the Overview Module of Technical Guidance Note (TGN) 2021/1:

- consider requesting that the body completes the disclosure checklist
- investigate the reasons for any non-compliance that the guide highlights
- evaluate whether the body's responses in the checklist are consistent with auditor's knowledge.

Auditor action
Auditors should consider using this disclosure guide

Guidance on accounting for grant payments

62. HM Treasury has issued application guidance on the accounting for grant payments from the perspective of the public body making the payment. The guidance specifically considers the application of IAS 37 to grantor accounting.

63. The guidance focuses on whether a body making a public statement about future intentions to award grants is an obligating event. Bodies need to judge whether an obligation has been created by the event which cannot be reneged upon. This would be the case if the body had no realistic alternative to settling that obligation. Whether it is an obligating event is dependent on:

- the nature of the announcement
- the details provided
- whether the body has undertaken any further actions or administrative processes that do create a valid expectation by those affected.

64. A body may or may not attach performance conditions to the payment of the grant. Examples of the considerations in each case are summarised in the flowing table:

Performance conditions	Considerations
No	When a public statement is made regarding offers of unilateral support, bodies need to consider whether it is communicated in a sufficiently specific manner to raise a valid expectation that the body will make the payment. Consideration needs to be given to the effect that eligibility criteria has on the timing of the recognition of a liability. Where eligibility could arise before the year end, consideration also needs to be given to the point at which the recipient could have a valid expectation of entitlement to the grant. Where a grant scheme requires a bid for funding, and the body has the discretion to reject the applications, the application process affects entitlement and therefore a valid expectation is not created the point of making the statement.
Yes	Liabilities may need to be recognised to the extent that the performance conditions have been fulfilled by the recipient. If the recipient has not fulfilled performance obligations, there is obligation at the year end.

65. If it has been determined that a constructive obligation exists, instances of a body not being able to reliably estimate the value of the liability are expected to be extremely rare.

Guidance on 2020/21 remuneration report

66. The Cabinet Office has issued Employer Pension Notice 626 on the preparation of the pay, pension and compensation disclosures for the Remuneration and Staff Report for 2020/21.

67. An example of the disclosures is provided at Annex 13C. There are no significant changes from 2019/20.

68. This guidance does not reflect the application of the FReM's requirements to Scottish bodies and therefore auditors should refer to Module 10 of TGN 2021/1.

Amendments to SPFM

69. The Scottish Government Finance Directorate has issued Finance Guidance Note 2021/1 which announces amendments to the Scottish Public Finance Manual (SPFM) in respect of:

- state subsidy
- internal control checklist.

70. The section on State Aid has been replaced by a new section named Subsidy Control to reflect that the EU State Aid regime was effectively revoked from UK law from 1 January 2021. The guidance applies to all public bodies who grant subsidies. Bodies are responsible for ensuring they understand the UK's commitments and comply with the obligations in relation to awarding subsidies.

71. The internal control checklist in the Certificates of Assurance section has been revised. New questions have been added on:

- processes to ensure bodies are able to assess their appetite to key risks
- fraud prevention measures to ensure they are built into plans when new grant schemes or other spend programmes are being developed

- the awareness of the role and responsibilities of an Information Asset Owner.

Summary of auditor actions in this section

Paragraphs	Auditor actions
59 - 61	Consider using the disclosure guide from the NAO

Contact point for this section

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

Section 4
Health sector

Auditing developments

Assurance report on 2020/21 clinical negligence claims

73. 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 2021
- 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 2020/21 provisions for CNORIS

Advice to auditors

74. The following table summarises a request for technical advice recently made by auditors to Professional Support in respect of the audit of the 2020/21 annual accounts which applies to all health bodies, along with the advice offered:

When will the Scottish Government issue revised guidance on the hospital services set aside?
The Scottish Government has advised Professional Support that they will not be issuing revised guidance on the hospital set aside for 2020/21. Previously agreed arrangements, allowing health boards and integration joint boards to agree a figure for the sum set aside based on the budget to be included in the financial statements remains in place, where partners are not able to fully comply with the guidance.

Financial statements developments

Guidance on vaccines and £500 payment to staff

75. The Scottish Government has issued guidance* on the treatment in 2020/21 of vaccines for COVID-19. The NHS Scotland Technical Accounting Group (TAG) considers that health boards are acting as agents of the Scottish Government throughout the vaccination process. Vaccines are therefore not to be accounted for as inventory by boards.

Health boards are acting as agents for the vaccine

76. The guidance also covers the £500 payment which the Scottish Government authorised boards to make, in accordance with PCS(COV)2020/1, to staff for working during the pandemic. TAG considered that a board is acting as:

- principal in relation to payments to their own staff (including employees, PFI employees and contractors)
- agents of the Scottish Government for payments to the employees of hospices.

Accounting for PPE and testing kits

77. The Scottish Government has issued guidance* on accounting for personal protective equipment (PPE) and testing kits. The guidance considers that a health board is acting as:

- principal in its use of PPE and testing kits for its own frontline staff

Health boards are acting as principal in the use of PPE and testing kits for its own staff

- agent in the provision of testing kits to the general public.

78. As the PPE and testing kits are provided to boards at no charge, accounting as principal entails recognising a non-cash grant at fair value and an equivalent amount of notional expenditure. NHS National Services Scotland (NSS) have provided boards with estimates of the costs of equipment provided. Boards should recognise these costs in their financial statements and disclose it in a separate line in note 3.

79. The Scottish Government is providing amended allocation letters to reflect the costs of equipment funded by Scottish Government. The cost of equipment supplied by the UK Government is not included in the allocation letter but should be recognised as a donation.

80. The auditor of NSS is reviewing the methodology used to arrive at the estimates provided to boards and will issue their conclusion to health board auditors.

GP sustainability loan scheme

81. The Scottish Government has issued guidance on the GP sustainability loan scheme*. All GP contractors who own their premises are eligible under the scheme to receive an interest-free secured loan from their health board of up to 20% of the existing-use value of their premises.

82. The loan should be recognised as a soft loan in the board's financial statements at the date the agreement is signed by both parties. The loan period should be assumed to be 20 years.

83. The letter provides further guidance on the subsequent accounting for the loan, including expected credit losses.

84. Loans will be repaid when the premises cease to be used for providing primary medical services under a contract with a health board or when they are sold, whichever comes first.

Statutory Other Information

Amendment to accounts manual

85. The Scottish Government has issued an update* to the accounts manual on the financial performance disclosure in 2020/21. The update reflects the pausing of the three-year financial planning process in 2020/21, and provides revised wording for disclosure in the Performance Report.

86. Although 2020/21 is not included in the three year break-even target, boards are nevertheless required to report on their annual performance for that year.

> 2020/21 is excluded from the 3 year planning requirement

Summary of auditor actions in this section

Paragraphs	Auditor actions
73	Refer to the Professional Support report on CNORIS when auditing the 2020/21 provisions for CNORIS

Contact point for this section

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

Section 5
College sector

2020/21 accounts direction

88. The Scottish Funding Council (SFC) has issued their Accounts Direction for Scotland's Colleges 2020/21. The direction requires colleges to:

- comply with the 2019 Statement of Recommended Practice: Accounting for Further and Higher education (SORP) in preparing their financial statements
- include a Performance Report and Accountability Report in their annual report and accounts in accordance with the FReM.

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

- Paragraph 9 has been added to clarify that the required disclosures in the Performance Report in respect of Cash Based Priorities and Adjusted Operating Position should be made in the performance overview section if a college elects to omit the performance analysis.
- Paragraph 28 has been added to clarify that colleges should comply with the FReM as well as the Scottish Public Finance Manual when preparing the Governance Statement

Governance statements should comply with the FReM and SPFM

Guidance on 2019/20 financial statements

90. The SFC has issued guidance notes on completion of the 2020/21 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.

91. There are no significant changes from 2019/20.

Contact point for this section

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

Section 6
Professional matters

Auditing developments

Revised auditing standard on fraud

94. The Financial Reporting Council has issued a revised edition of ISA(UK)240 The Auditor's Responsibilities Related to Fraud in the Financial Statements. The revisions:

- are intended to address the recommendation in Sir Donald Brydon's review into the efficiency and quality of audits to clarify the obligations of auditors in respect of detecting fraud
- include enhancements of the requirements for the identification and assessment of risk of material misstatement due to fraud and the procedures to respond to those risks.

The revisions address the Brydon recommendation in respect of clarity over responsibilities

95. The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2021 (i.e. 2022/23 in the public sector), with early adoption permitted. The main revisions are summarised in the following tables:

Introduction

Paragraph	Proposal
3	Clarification that the evaluation of whether fraud is material should take into account the qualitative as well as quantitative characteristics of the fraud.
7-1	Clarification that the higher risk of not detecting a material misstatement resulting from fraud compared with error does not diminish the auditor's responsibility to obtain reasonable assurance about whether the financial statements are free of material misstatement due to fraud.

Professional scepticism

Paragraph	Proposal
12-1	New requirement that the auditor should not be biased towards obtaining evidence that may be corroborative or towards excluding audit evidence that may be contradictory.
13-1 and A9-1	Clarification that the auditor should remain alert for conditions that indicate a record or document may not be authentic. Examples are provided of conditions that may indicate a physical or electronic document is not authentic or has been tampered with.
14	New requirement for the auditor to investigate responses to inquiries that appear implausible.

Discussion among the audit team

Paragraph	Proposal
15-1 to 15-3 and A11	Specification of matters to be covered in the discussion, including how management could perpetrate and conceal fraudulent financial reporting and how assets of the entity could be misappropriated. Examples of matters that may be discussed are provided.
15-4 and A11-1	New requirement that the appointment lead should determine whether there should be further discussions at later stages in the audit to consider fraud risk factors. Examples of circumstances where it may be beneficial to have a further discussion are provided.

Risk assessments

Paragraph	Proposal
16	Clarification that the understanding obtained by the auditor includes the fraud risk factors relevant to the entity that affect the susceptibility of assertions to material misstatement due to fraud.
18-1	New requirement that the auditor makes inquiries of those persons who are responsible for dealing with allegations of fraud raised by employees or other parties.
21-1 and A20-1	New requirement for the auditor to discuss with those charged with governance the risks of material fraud in the entity, including those that are specific to the business sector.
21-2	Emphasis that the auditor should determine the implications for the audit if responses to inquiries of those charged with governance are inconsistent with the responses to the inquiries of management.
24-1, 33-1 and A48-1	New requirements that the auditor should determine whether the audit team requires specialised skills or knowledge to perform particular procedures and to investigate an identified fraud further for the purposes of the audit. Examples of matters that may affect the auditor's determination are provided. There is supporting application material which includes identifying that the auditor may consider it appropriate to use a forensic accountant.

Responses to the assessed risks

Paragraph	Proposal
32-1	Emphasis that in evaluating possible management bias in making accounting estimates, the auditor should also comply with the relevant requirements in ISA (UK) 540.
36-1	Emphasis that in performing the overall evaluation of audit evidence, the auditor should evaluate whether: • the assessments of the risks of material misstatement at the assertion level due to fraud remain appropriate • sufficient appropriate audit evidence has been obtained regarding the assessed risks of material misstatement due to fraud, and should conclude whether the financial statements are materially misstated as a result of fraud.

Independent auditor's report

Paragraph	Proposal
39-1	Clarification that, when explaining the extent to which the audit was considered capable of detecting irregularities, including fraud, the wording should not be 'boilerplate'.

Communications to management and those charged with governance

Paragraph	Proposal
42	New requirement that the auditor should consider any matters regarding management's process for identifying and responding to the risks of fraud and the auditor's assessment of the risks of material misstatement due to fraud.

Documentation

Paragraph	Proposal
45-1	Emphasis that the auditor should document how they addressed any identified information that is inconsistent with their final conclusion regarding a significant matter.

Updated government response to Redmond Review

96. The UK Government has issued an updated response to the report from Sir Tony Redmond into the local audit of local authorities in England.

97. In the original response (covered in Technical Bulletin 2021/1 – paragraph 88), the UK Government accepted the recommendation that there needed to be a single organisation with responsibility for leadership of the local audit system. This would include oversight of the quality framework and encouraging competition in the local audit market.

ARGA to be the system leader for local audit in England

98. However, the government was not persuaded that a new body is required and indicated that it would explore other options including considering whether an existing body could take on the responsibilities. This update sets out the government's view that the system leader role should be undertaken by the new Audit, Reporting and Governance Authority (ARGA) which will replace the Financial Reporting Council. ARGA will have responsibility for local audit in respect of

- producing annual reports summarising the state of local audit
- monitoring and review of local audit performance
- determining the code of local audit practice
- regulating the local audit sector.

99. The Public Sector Audit Appointments Ltd will continue to have responsibility for procurement and management of local audit contracts.

Contact point for this section

100. The contact point for this section of the Technical Bulletin is Paul O'Brien, Senior Manager (Professional Support) - pobrien@audit-scotland.gov.uk.

Section 7

Fraud and irregularities

Auditor action
Auditors should consider whether weaknesses in internal control exists in their bodies

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

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

Misuse of assets

Misuse of a vehicle (1)

103. An employee of a public body defrauded almost £7,000 through unauthorised use of a car over a six-month period.

Key features

The employee continued to use a short-term hire car even after being provided with a leased car. Both cars were provided by the individual's employer.

The fraud was identified after the payroll team questioned why the car was still on hire.

The fraud was possible due to a lack of review and challenge by the line manager of the monthly car hire report for their department.

The officer was dismissed. The case has been reported to Police Scotland and options for civil recovery are being investigated.

Misuse of a vehicle (2)

104. An employee of a public body defrauded over £5,000 over an eight-month period through unauthorised use of a car.

Key features

The employee used a pool car for personal use after their own car broke down.

The fraud was identified after a finance report was issued to the budget holder suggesting that providing the employee with a small van would provide better value for money.

The fraud was possible as the budget holder failed to identify the pool car recharges and investigate accordingly.

Internal audit has reviewed the pool car system and identified areas for improvement.

Expenditure

Invalid supplier

105. A third party defrauded over £23,000 from a public body by purporting to be a supplier to the body.

Key features

A request was received by email to amend a supplier's bank account details. The supplier's email address had been intercepted by a fraudster who requested the change.

The fraud was possible as the public body did not telephone the supplier to verify the change of bank details.

The issue was identified when the genuine supplier queried why payment had not been received.

Internal audit has reviewed the change of bank details process. Improvements have been made to procedures and training has been provided for relevant staff.

The matter has been reported to the Police and Action Fraud UK has been notified of the case.

Income

Admission ticket income

106. Third parties defrauded over £8,600 in admission ticket income from a public body.

Key features

Unknown third parties fraudulently purchased admissions tickets for events using credit cards issued by an international provider. The loss was incurred where tickets had been used before the fraud was identified.

The fraud was discovered when the genuine cardholders subsequently requested refunds.

The fraud was facilitated by the international card provider not having secondary authentication procedures in place. The public body has stopped accepting credit cards without any secondary authorisation procedures in place.

Processes have been put in place to enhance card holder authentication for card payments.

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