Technical Bulletin 2022/2

Technical developments and emerging risks from April to June 2022

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

22 June 2022

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1: Introduction

Purpose

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

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

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

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

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

Highlighted items

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

Highlighted items		
Treasury has issued guidance on preparing the 2020/21 WGA [**paragraph 1**]	Professional Support has provided guidance on the audited part of the Remuneration Report [**paragraph 9**]	CIPFA/LASAAC has issued proposed revisions to the accounting code in respect of infrastructure assets [**paragraph 17**]
CIPFA has issued a draft bulletin on accounting for infrastructure assets in local government [**paragraph 24**]	Professional Support has issued a briefing on preparing IARs for 2021/22 [**paragraph 31**]	The Scottish Government has issued statutory guidance on disclosures where a local authority defers loans fund repayments [**paragraph 35**]
LASAAC has issued guidance on COVID-19 related grants in 2021/22. [**paragraph 39**]	CIPFA has issued guidance on 2021/22 financial statements [**paragraph 47**]	PWC has issued a report for auditors on IAS 19 reporting [**paragraph 60**]
Professional Support has published guidance on inspections and objections to 2021/22 local government annual accounts [**paragraph 66**]	The Scottish Government has guidance on the approval and publication dates for the 2021/22 annual accounts of local government bodies [**paragraph 69**]	The NAO has published a disclosure guide on the 2021/22 financial Statements [**paragraph 77**]
Professional Support has provided auditors with advice on issues arising from 2021/22 audits [**paragraph 81**]	The Scottish Government has issued health boards with revised accounts directions from 2021/22 [**paragraph 82**]	The Scottish Government has issued a letter on year-end arrangements for health boards in 2021/22 [**paragraph 86**]
Professional Support has issued an assurance report CNORIS for 2021/22 [**paragraph 92**]	The PAF has issued proposed revisions to PN 10 [**paragraph 94**]	BEIS has issued a response to its consultation on restoring trust in audit and corporate governance [**paragraph 98**]
The FRC has issued reports on its 2020/21 audit quality inspections [**paragraph 116**]	The FRC has issued proposed revisions to ISA (UK) 600 [**paragraph 119**]	The ISSB has issued draft standards on sustainability [**paragraphs 122 and 128**]

Contact point

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2: All sectors

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Guidance on 2020/21 WGA

1. HM Treasury has issued guidance on preparing the 2020/21 Whole of Government Accounts (WGA) for local government and for central government bodies. WGA is prepared by Treasury and consolidates bodies in the UK that exercise functions of a public nature or are funded from public money.

2. Data is collected for the 2020/21 WGA by bodies inputting information directly to the Online System for Central Accounting and Reporting (OSCAR II). Bodies are exempt from the WGA process if their gross expenditure, gross income, gross assets, and gross liabilities are below £30 million for both 2019/20 and 2020/21.

3. Paragraph 1.7.1 sets out the key dates for 2020/21 WGA as summarised in the following table:

Cycle	Return	Submission date
1	Unaudited	31 July
2	Audited	31 August

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

5. Although the guidance states that the deadlines and thresholds may be different in Scotland, the Scottish Government subsequently confirmed that they apply unchanged.

6. Annex A provides a summary of the proforma tabs used to input data. Chapter 7 provides more detailed guidance on inputting data into the tabs. Paragraph 7.2.7 explains that the Audit Report is a view of all data submitted which can be shared with auditors. It may be appropriate, as a new facility for 2020/21, to download the individual tabs instead, and also run the new primary financial statements report.

7. A key part of the WGA process is the elimination of transactions and balances between WGA bodies. Recording complete and accurate counter-party identifier (CPID) information is the only way in which transactions and balances between WGA bodies can be identified and eliminated. Paragraph

6.3.4 explains how bodies can run a Matches Analysis Tool which allows them to see 'live' published data from other bodies. Central government bodies are required to formally agree transaction streams and balances that are above £5 million with central government counterparties.

8. A TGN on the evaluation by auditors of the 2020/21 WGA submissions will be provided by Professional Support in due course.

Identification of audited part of Remuneration Report

9. Professional Support has identified that some audited bodies may not be clearly and accurately identifying the part of the Remuneration (and Staff) Report that is subject to audit. The following guidance is intended to assist in that regard.

10. For local government bodies, the Schedule to The Local Authority Accounts (Scotland) Regulations 2014 (accounts regulations) is the main reference source for the Remuneration Report. In summary:

- the items set out at paragraphs 4 to 12 of the Schedule are subject to audit
- the narrative information on remuneration arrangements required by paragraphs 2 and 3 are not audited.

11. In addition, The Trade Union (Facility Time Publication Requirements) Regulations 2017 require employers to publish information in relation to trade union facility time. Guidance from the Cabinet Office indicates that disclosure should be in the Remuneration Report. This information is not subject to audit.

12. The Code of Practice for Local Authority Accounting in the UK (accounting code) requires local authorities to disclose members' salaries, allowances and expenses. Some authorities choose to make the disclosure in the Remuneration Report while others include it as a note to the financial statements. Regardless of where it is disclosed, the information requires to be audited.

13. Finance Circular 8/2011 (paragraph 5) requires local authorities to clearly identify those parts of the Remuneration Report that are subject to audit, and provides illustrative wording. It should be noted that the wording:

- used in the unaudited financial statements should state that the information 'will be audited' but the tense should be updated to 'has been audited' in the audited financial statements
- needs to reflect that any disclosure of members' salaries, allowances and expenses requires to be audited.

14. For central government bodies and health boards, the requirements for a Remuneration and Staff Report are set out at section 6.5 of the FReM. Information subject to audit is set out at paragraphs 6.5.8 to 6.5.30, and 6.5.31 b) and l). The FReM requires bodies to clearly identify the information as audited. The part of the Remuneration Report that is audited is covered by the opinion on the Remuneration Report.

15. The items required by FReM paragraph 6.5.7 and the other elements of paragraph 6.5.31 are not audited. The unaudited part is statutory other information and should be treated and reported on accordingly.

16. Auditors should check that bodies have correctly and clearly identified the part of the Remuneration Report that is subject to audit, and request amendments where necessary.

3: Local government sector

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Proposed revisions to accounting code

17. The CIPFA/LASAAC Code Board has issued an Invitation to Comment (ITC) that sets out proposed revisions to the accounting code in respect of infrastructure assets.

18. The proposed revisions would apply on a temporary basis up to and including 2022/23, pending a longer-term solution. Responses were required by 14 June 2022.

19. The proposed temporary revisions are in response to issues relating to the derecognition of replaced parts of infrastructure assets. The specific issue is whether local authorities are assessing any undepreciated cost remaining in the replaced parts at the point the replacement parts are added. There are concerns that assessment may not be happening for infrastructure assets due to significant practical difficulties such as:

- it not generally being possible to identify parts of infrastructure assets as the engineering records were not designed to map against identifiable parts
- information on previous historical repairs not being available in a meaningful or identifiable way
- information deficits in relation to historical expenditure on assets created before 1994/95, which were measured on recognition at 'capital undischarged' rather than at historical cost
- issues where assets have been transferred to local authorities on reorganisation.

20. The ITC proposes a temporary adaptation to IAS 16 Property, Plant and Equipment to the effect that it is reasonable to assume that the net book value of replaced parts of infrastructure assets is zero. This is on the basis that parts are rarely replaced before they are fully consumed.

21. The adaptation, however, does not address the overstatement of gross book value and accumulated depreciation of infrastructure assets caused by the failure to derecognise the cost and accumulated depreciation of replaced parts. A second temporary adaptation to IAS 16 is proposed therefore to remove the requirement for those amounts to be disclosed in the financial statements. This is considered to be justified on the basis that this information is not useful to users of the financial statements.

22. In light of the challenges of developing an effective depreciation policy for infrastructure assets, the ITC also proposes that the accounting code should provide guidance to assist in this area. There is a proposed interpretation indicating that it may be appropriate for the pattern of consumption of economic benefits to be reflected by means of weighted average useful lives of the different parts of the asset.

23. CIPFA/LASAAC is considering longer-term solutions to these issues and will consult on proposals in due course.

Draft bulletin on infrastructure assets

24. The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued a draft bulletin which is intended to accompany the proposed changes to the accounting code in relation to infrastructure assets. Responses were also required by 14 June 2022.

25. Section 2 of the draft bulletin is on materiality and is intended to help local authorities in making estimations. It advises authorities to consider the information which will be useful to the users of the financial statements for taking economic decisions. Paragraph 31 states that, although the cost of infrastructure assets will be material, for most authorities the incomplete data held on infrastructure assets will limit the usefulness of the figures.

26. Paragraph 34 expands on the proposed adaptation that the net book value of replaced parts of infrastructure assets may be zero. Local authorities have generally applied the accounting code in such a way that, where expenditure has taken place to replace a part of the infrastructure assets, the carrying amount of the replaced part of the asset derecognised is in effect derecognised at a zero amount. This is consistent with the approach that authorities only replace parts of infrastructure assets when they have been fully consumed.

27. If applied by a local authority, the proposed adaptation will need to be carefully reported in the accounting policies. This will need to:

- set out the measurement base for infrastructure assets and the changes in place as a result of the temporary changes to the accounting code
- note the adaptation for derecognition when replacement/renewals expenditure has taken place, except where there has been a disposal of a part of the infrastructure
- reflect accounting policies which effectively measure the consumption pattern of the economic benefits of the parts of the infrastructure asset
- note that gross historical cost or accumulated depreciation has not been reported (where the authority uses that option).

28. An illustrative accounting policy is included in Annex A to the draft bulletin.

29. Section 5 provides guidance on the depreciation of infrastructure assets to support the proposal for a weighted average useful life approach. Determining the depreciation charge for infrastructure assets is difficult as these take the form of a network of assets where there are many different components working as a part of a continuous network maintained in a relatively steady state.

30. The bulletin states that it would be reasonable to use the parts of the network which were defined in the Code of Practice on the Highways Network Asset, i.e., carriageways, footways and cycle tracks, structures, street lighting, street furniture and traffic management systems. The methodology set out in sections 5.2 to 5.8 of the draft bulletin illustrates how weighted averages might be calculated for each. They provide examples where the local authority has information on gross historical cost for different parts of the highways network, or may be able to estimate it on a reasonable basis.

Learning points for 2021/22 IARs

31. Professional Support has issued a briefing* to set out learning points for auditors when preparing Independent Auditors' Report (IARs) for 2021/22. The points arose from a review of the 2020/21 IARs of local authorities which evaluated compliance with the model forms of IAR and auditor actions set out in TGN 2021/5(LG).

32. A summary of findings is provided at section 1 of the briefing with specific areas for improvement highlighted at section 2. The review found a very good level of compliance with the auditor actions set out in the TGN. However, two significant areas for improvement were identified by the review:

- At one local authority, the auditor did not use the wording specified to explain the extent to which the audit is considered capable of detecting irregularities including fraud.
- At another authority, the auditor failed to report that a significant trading operation had failed to meet the prescribed financial objective.

33. The review also identified other issues where it may not have been clear to users what statements had been audited. For example, in half of IARs auditors did not:

- use the precise titles of the financial statements used by the local authority
- ensure that the local authority had properly described the parts of the Remuneration Report that had been audited.

34. Auditors should ensure the areas for improvement are addressed for their IARs in 2021/22.

New statutory Guidance on deferring loans fund repayments

35. The Scottish Government has issued Finance Circular 5/2022 which provides statutory guidance that sets out disclosure requirements where a local authority defers loans fund repayments.

36. Technical Bulletin 2022/1 (paragraph 20) highlighted that The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 had been amended to permit a local authority to reduce the statutory repayments of loans fund advances in any one of the financial years 2020/21, 2021/22 or 2022/23. If an authority adopts that option, repayment of the reduced amount requires to be repaid within the shorter of:

- the remaining period of the loans fund advance
- twenty years.

37. The statutory guidance requires a local authority to disclose in a note to the financial statements:

- the amount of the repayment that has been deferred. This should be disclosed in the year of deferral, but any deferral in 2020/21 should be disclosed in 2021/22.
- the term over which the deferred repayments will be repaid.

38. Where a local authority deferred loans fund repayment in either 2020/21 or 2021/22, auditors should evaluate whether the disclosures required by the statutory guidance have been properly made in the 2021/22 financial statements.

2021/22 guidance on accounting for COVID-19 grants

39. The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) has issued guidance on the classification between agency and principal for COVID-19 related grants in 2021/22.

40. Appendix 1 of the guidance includes an assessment of the appropriate classification to inform the judgements of local authorities and integration joint boards (IJBs). The guidance advises that local authorities should apply Appendix 1 on a ‘comply or explain’ basis.

41. In Professional Support’s view, a ‘comply or explain’ basis means that any local authority that does not follow the classification in Appendix 1 should disclose that fact and the reason why in a note to the financial statements. Professional Support also considers that the same basis should apply to IJBs for consistency.

42. Appendix 1 advises that local authorities are the principal for most funding stream elements of General Revenue Grant (GRG) in Finance Circulars 5/2021 and 1/2022. However, the following two elements of GRG should be classified as agency transactions because the Scottish Government set the amounts and criteria for payment:

- Low Income Pandemic Payments
- Scottish Child Payment Bridging Payments.

43. Local authorities act as agents for the Scottish Government for most specific COVID-related grants. The details for these are set out in various letters from the Scottish Government.

44. As with the guidance for 2020/21, local authorities are considered to be acting as agents when making the £500 payments to health and social care staff, including to their own staff.

45. Appendix 1 advises that IJBs, with the exception of hospice funding, are usually the principal for COVID funding. This classification includes supplier sustainability payments to social care providers as IJBs have a significant degree of discretion.

46. Auditors should evaluate whether:

- local authorities have appropriately classified COVID-19 related grants in 2021/22 between those where the authority is acting as the agent of the Scottish Government and those where the authority is the principal in the transaction
- and explanation has been disclosed where the authority's classification differs from that set out at Appendix 1 of the guidance.

Guidance on 2021/22 financial statements

47. CIPFA has issued Bulletin 10 which provides guidance on the 2021/22 financial statements. The guidance is intended to be best practice, but it does not have the formal status of the accounting code.

48. The following items in the guidance are relevant to Scottish local government:

- Adoption of IFRS 16 Leases before 2024/25
- Valuation of operational property assets
- Critical judgements and estimation uncertainty
- Financial reporting deadlines for 2021/22
- Working papers
- Accounting standards issued but not yet adopted
- Accruals for pay awards in 2021/22
- Infrastructure assets.

Adoption of IFRS 16 before 2024/25

49. Section 1 of the bulletin refers to the latest statement from CIPFA/LASAAC on its decision to defer the mandatory implementation of IFRS 16 until 1 April 2024 (and therefore in the 2024/25 accounting code).

50. However, the accounting code will allow for adoption before 2024/25. The bulletin provides guidance for authorities intending to adopt the standard in 2022/23. Those authorities should:

- advise CIPFA of their intention to adopt (paragraph 1.4)
- disclose IFRS 16 in 2021/22 as a standard issued but not yet adopted (paragraph 1.5)
- follow the provisions for adoption before 2024/25 that will shortly be set out in the 2022/23 accounting code (paragraph 1.7).

Valuation of operational property assets

51. Section 2 of the bulletin reminds local authorities of the key requirements of the accounting code in respect of the valuation of operational property. These include the following:

- The accounting code requires revaluations to be made with sufficient regularity to ensure that the carrying amount of an asset does not differ materially from current value (paragraph 2.2).
- Local authorities need to determine a valuation frequency for operational property based on the expected significance and volatility of changes in current value The accounting code sets five years as the maximum interval between formal valuations. However, where a property experiences significant and volatile changes in current value, an annual revaluation is required (paragraphs 2.3 to 2.5).
- Where a local authority uses 1 April 2021 as the valuation date for 2021/22, the authority needs to consider any movements in value during the year that should be reflected in the 31 March 2022 carrying amount. Where a valuation has been carried out as at 1 April 2022, local authorities should consider this an adjusting event in 2021/22 on the basis that it provides evidence of conditions that existed at 31 March 2022 (paragraph 2.6).

Critical judgements and estimation uncertainty

52. Section 3 provides good practice guidance on meeting the requirements of the accounting code for disclosing critical judgements and sources of estimation uncertainty.

53. Key aspects of the guidance include the following:

- The following two separate notes are required:
  - one that details the decisions taken (i.e. judgements) in applying accounting policies
  - a second note that sets out the assumptions made in calculating estimates that have the greatest risk of being materially incorrect in the next 12 months.

- Only the most significant judgements require to be disclosed (paragraph 3.8), e.g:
  - where the matter was complicated
  - a different conclusion would have resulted in a material difference in the financial statements; and
  - the final assessment finely balanced.
- Judgements not to take action also need to be covered, e.g. a decision that group accounts are not required where they could reasonably be expected (paragraph 3.9).
- Disclosure is only required in relation to assumptions that have a significant risk of resulting in material adjustments to the estimate in the next financial year, not to all assumptions that involve material balances of assets or liabilities (paragraph 3.14).
- The estimates note does not cover those that are not based on attempting to see into the future. For example, estimates that are made for reasons of efficiency (e.g. property valuations using beacon principles) are excluded (paragraph 3.15).

Working papers

54. Section 13 highlights that some local authorities have diverted staff resources away from completing working papers and preparing the financial statements, while the quality of processes within the finance functions has affected their preparedness for audit.

55. The bulletin reminds authorities of the recent CIPFA guidance on streamlining the annual accounts, which includes advice on preparing good quality working papers. Paragraph 13.4 of the bulletin provides a summary of the advice, which includes the following points:

- Spreadsheets, ledger reports and journal postings are unlikely to be sufficient without additional explanations of where the information has come from and what the preparer was trying to achieve.
- All working papers should be internally consistent and agree with the amounts in the financial statements submitted for audit.
- Reconciling items, mis-postings and suspense account items should all be resolved pre-audit.

Accounting standards issued but not yet adopted

56. Paragraph 15.3 lists the following standards introduced by the 2022/23 accounting code which may require to be disclosed in 2021/22 as standards issued but not yet adopted:

- IFRS 16 (for those authorities planning on a 2022/23 adoption).

- Annual Improvements to IFRS Standards 2018-2020, but it is not expected that any of the improvements will have a significant effect on a local authority's financial statements.

- An amendment to IAS 16 which prohibits an entity from deducting from the cost of property, plant and equipment amounts received from selling items produced while the asset is under construction.

Accruals for pay awards in 2021/22

57. Paragraph 16.1 confirms that any amounts unpaid at 31 March 2022 in relation to agreed pay awards for the 2021/22 year will need to be accrued in the 2021/22 financial statements.

58. Paragraph 16.2 clarifies that the accrual should include employers' on-cost (i.e. employers' national insurance contributions and employers' pension contributions).

Infrastructure assets

59. Section 17 of the bulletin refers to the derecognition of parts of infrastructure assets described earlier in this section. Paragraph 17.8 of the bulletin encourages local authorities to:

- consider in detail the financial information they hold on their infrastructure assets

- ensure they have an effective depreciation policy for those assets.

2021/22 report on actuarial information

60. 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 2022. Auditors should refer to paragraphs 15 to 27 in Module 4 of TGN 2021/8(LG) for guidance on using the report and further information.

61. 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 a typical employer at 31 March 2022.

62. 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 22).

63. Page 17 of the report addresses accounting for plan amendments, curtailments, and settlements (special events) under IAS 19. Auditors need to understand whether any significant special events have occurred, and whether profit and loss items have been remeasured from the date of the event for the remainder of the accounting period. This entails remeasuring both the assets and liabilities using assumptions set at this date. The report confirms that all actuaries are aware of the IAS 19 requirement.

64. Page 18 of the report provides an update on Guaranteed Minimum Pension (GMP) indexation and equalisation, the McCloud judgement and other legal cases. In summary:

- There have been no relevant developments related to GMP and all actuaries are following an approach in 2021/22 consistent with 2020/21
- The only relevant development in respect of McCloud was confirmation that the remedy set out in the consultation paper would be adopted. The actuaries had followed the consultation in making adjustments in 2020/21, and therefore no further change is required.
- Actuaries do not intend making any specific allowance for the Goodwin, O'Brien or similar cases, unless requested to do so.

65. Page 19 highlights the issue of pay awards that have been backdated to 1 January 2021. If the backdated pay award has been paid before 31 March 2022, it may affect the following three areas:

- Auditors need to consider any actions where contribution figures for February and March are based on estimated figures, as the overall contribution figure could be understated if they do not include the backdated pay award.
- Similarly, auditors need to consider whether pensionable pay figures are based on estimated figures
- Although there may be an impact on past service final salary benefits and the McCloud allowance, actuaries do not ordinarily allow for salary experience differences between triennial valuations. Any impact will therefore come through when the IAS 19 figures are based on a new triennial valuation as at 31 March 2024.

Guidance on objections to 2020/21 annual accounts

66. Professional Support has published TGN 2022/3(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 2021/22 annual accounts of a local government body

- object to those accounts.

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

68. Auditors should:

- evaluate whether the public inspection notice for 2021/22 is in accordance with applicable legislation
- carry out the actions set out in the TGN for any objections received.

Guidance on 2021/22 accounts approval and publication dates

69. The Scottish Government has issued Finance Circular 6/2022 to provide guidance on the extension to the approval and publication dates for the 2021/22 annual accounts of local government bodies due to the amendments to the accounts regulations (explained at paragraph 20 of Technical Bulletin 2022/1).

70. In summary, the dates have been amended as follows:

- Regulation 10(1) requires a local authority to aim to approve the audited annual accounts no later than 30 November 2022 (deferred from 30 September)
- Regulation 11(3) requires the approved audited annual accounts to be published no later than 15 December 2022 (deferred from 31 October)

71. The circular confirms that there is no date set in the regulations for audit completion but reiterates that Audit Scotland has set a completion date of 31 October 2022 for 2021/22 audits. This is earlier than the extended statutory deadline to commence the transition back to regular timescales.

2021/22 NDR return and guidance

72. The Scottish Government has issued the 2021/22 Non-domestic rates notified return and guidance*. The most significant changes for 2021/22 are summarised in the following table:

Line	Relief	Change
N/A	General relief	The general relief that was introduced in 2020/21 has been removed.
	Subsidy control	State Aid is now Subsidy Control and the cap on the aggregate amount that can be awarded in specified non-domestic rates relief is 325,000 Special Drawing Rights (which are units of account maintained by the International Monetary Fund).
8	Fresh start relief	The threshold has increased to £95,000 (from £65,000).

Line	Relief	Change
16	District heating relief	A new relief of 90% has been introduced for premises used for a district heating network installed on or after 1 April 2021 powered by renewables
21 to 22	Business growth accelerator relief	The relief is now available where there is an increase in rateable value due to a change in the way the property is being used.
27	Retail, hospitality, leisure and airport relief	An application is required for 2021/22
30 to 31a	Sports club discretionary relief	A new requirement that the relief supports affordable community-based facilities, rather than members' clubs with significant assets.

73. Professional Support has published TGN/NDR/22 on certifying the 2021/22 non-domestic rates return. The TGN is provided with supporting material to auditors on SharePoint* and also on the Audit Scotland website.

74. Auditors should certify 2021/22 NDR returns using TGN/NDR/22.

Housing benefit subsidy

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

- Module 2* uprating checklist to help auditors ensure that the authority's system is using the correct benefit parameters to calculate benefit entitlement and for the authority to claim the correct amount of subsidy.
- Module 3* comprising workbooks to be completed for detailed testing.

76. Professional Support has been discussing with the DWP changes to the testing required for the certification of the subsidy claim. This has delayed the production of the TGN. The DWP submission deadline for the HB subsidy certification is 31 January 2023.

4: Central government sector

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Disclosure guide for 201/22 financial statements

77. The National Audit Office has published a disclosure guide on the 2021/22 financial Statements for bodies covered by the Government Financial Reporting Manual (FReM).

78. The guide is designed to ensure that bodies covered by the FReM have prepared their 2021/22 financial statements in the appropriate form and have complied with all disclosure requirements. The guide is cross-referenced to the 2021/22 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.

79. When checking that the FReM's disclosure requirements have been met, auditors should in accordance with the Overview Module of TGN 2022/1:

- 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.

Amendments to SPFM

80. The Scottish Government has issued Finance Guidance Note 2022/02 to announce amendments to the borrowing, lending and investment chapter in the Scottish Public Finance Manual (SPFM). The guidance in respect of investment in private businesses by Scottish Ministers contained in Annex A has been strengthened based on recent experience of interventions in private companies. The amendments include:

- outlining the overarching principles which any investment proposal should take into account. Any proposal must be contingent upon the completion of satisfactory due diligence and demonstrate a clear policy rationale
- additional guidance on commercial risk and the importance of considering individual transaction risk
- more prescriptive language where appropriate, balanced against the aspects of the framework that are principles-based.

Technical consultations with auditors

Professional Support responds to requests from auditors for technical consultations

81. The following tables summarise requests from auditors for technical consultations with Professional Support in respect of issues arising from the audit of the 2021/22 annual accounts of central government bodies, along with the advice offered:

How should a negative pension benefit be treated in a director's total remuneration figure? How should any negative components in the pension benefit calculation be treated?
The increase in value of pension benefit is a component of the total remuneration figure. The FReM requires bodies to use the methodology for calculating remuneration set out in the relevant Employer Pension Notice (EPN). EPN 647 provides an explanation of where an increase could be negative and states that the scheme administrator will explain the reasons where that is the case. The EPN is silent on whether the negative pension element should be included in remuneration in the relevant column in the remuneration table or be replaced with a zero. However, the FReM's requirements are based on The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 which explicitly require that, where calculations (other than in respect of a recovery or withholding) result in a negative value, the result should be expressed as zero in the relevant column in the remuneration table. Professional Support would therefore expect central government bodies to adopt the same treatment but there does not appear to be an explicit requirement to do so. This approach would be consistent with health boards because, as advised in Module 13 of TGN 2022/1, the accounts manual explicitly requires health boards to express a negative pension benefit as a zero. The replacement of a negative value with a zero applies only to the calculated result and not to individual components of the calculation. For example, if the real increase in lump sum is negative, that amount should be netted off the real increase in pension in the calculation.

In the fair pay disclosures, what is the difference in principle between (1) the average percentage change in employee salary and allowances and (2) the change in median pay ratio?
The median pay relates to the individual in the middle of the pay range for the body. The median pay ratio is the remuneration of the highest paid director relative to the median pay. Bodies are required by the FReM to make various disclosures, including the change in the median pay ratio since the previous year. The average percentage change in employee salary and allowances is the total for all employees on an annualised basis (excluding the highest paid director) divided by the FTE number of employees (excluding the highest paid director). This is a new disclosure for 2021/22.

Should payments made in lieu of notice be included in the disclosure of exit packages?

Exit packages for the purposes of disclosure in the annual accounts relate to an individual ceasing to be an employee of a public body in exchange for compensation which requires the agreement of the body. This includes:

- settlement agreements (used to settle an employment dispute)
- voluntary severance (used where the post or skills no longer exist following a restructuring and redeployment is problematic).

The costs associated with an exit package relate to payments that are contractual (those which would be received in the normal course of employment) and non-contractual (those offered on a discretionary basis). It is expected that payment in lieu of notice would be a contractual payment. However, the SPFM expects that notice should be worked by the individual rather than a payment being made in lieu of notice. Where, exceptionally, payment in lieu of notice is made in respect of an agreed exit package, it should be included in the disclosure.

There is no requirement to disclose exit packages which do not require the agreement of the public body (such as where a person exercises a contractual right to leave employment on the grounds of ill health). Any payment in lieu of notice associated with such exit packages does not therefore require to be disclosed.

5: Health sector

Contact: Neil Cameron, Ncameron@audit-scotland.gov.uk

Revised accounts direction from 2021/22

82. The Scottish Government has issued health boards with a revised account directions which applies with effect from the 2021/22 annual report and accounts.

83. The revised direction includes specific reference to the Manual for the Annual Report and Accounts of NHS Boards, Capital Accounting Manual and the SPFM. This replaces the more general reference (to the accounts format, disclosure and accounting requirements issued by the Scottish Ministers) included in previous directions. There is, however, no change to the financial reporting framework.

84. The direction also states that boards are required to use the accounts template when preparing their accounts. However, a subsequent letter from the Scottish Government (see following item) clarifies that the requirement applies only to the Scottish Government Consolidated Accounts. Boards are still able to produce their published accounts in a different format, but they must submit the completed accounts template to the Scottish Government for consolidation purposes. Auditors are still required to complete an assurance statement stating whether the completed templates are consistent with the audited accounts.

85. The direction is required to be included in the published annual accounts. Auditors should confirm that boards include the revised version of the direction in 2021/22.

Guidance on 2021/22 arrangements

86. The Scottish Government has issued a letter* on the year-end arrangements for the 2021/22 annual report and accounts. The letter is intended to clarify certain aspects of the process.

87. The letter advises that it is too early to determine the potential implications of the legal ruling on discharging untested COVID-19 patients into care homes. Therefore, the Scottish Government do not believe that boards should be making any specific disclosures in relation to this matter in 2021/22.

88. The letter clarifies that:

- the threshold for the agreement of balances with other NHS Scotland bodies is £200,000 rather than the £100,000 specified in the accounts manual
- income from donated assets is no longer disclosed in note 7d and is instead disclosed in note 2a Summary of Revenue Outturn. The template

also includes this change in the prior year comparators. This will impact on the 2020/21 capital outturn for boards that received donated assets in 2020/21. The letter provides a suggested explanatory footnote for boards affected.

89. As stated in the previous item, the letter also explains that the reference in the revised accounts direction to boards being required to use the accounts templates applies only to the Scottish Government Consolidated Accounts.

Accounting for PPE and testing kits

90. NHS National Services Scotland (NSS) has provided health boards with estimates of the notional costs of personal protective equipment (PPE) and testing kits provided free of charge in 2021/22. This includes equipment supplied by the Scottish Government but also includes equipment from the UK Government, which should be recognised as a donation. The accounting entails recognising a non-cash grant at fair value and an equivalent amount of notional expenditure.

91. The auditor of NSS has reviewed the methodology used to arrive at the estimates provided to boards and concluded that the allocations are reasonable.

Assurance report on 2021/22 clinical negligence claims

92. 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 2022
- inform auditors' evaluation of the role of the NHS Central Legal Office as a management expert.

93. Auditors should refer to this report when auditing the 2021/22 provisions for CNORIS.

6. Professional developments

Proposed revisions to PN 10

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

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

96. PN 10 was last revised in 2020 and there is a need to ensure it is updated to take account of changes to standards and other developments in the auditing profession. Comments on the consultation should be sent to PracticeNote10@public-audit-forum.org.uk by 16 September.

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

Section	Pages	Summary of proposed revisions
ISQM (UK) 1	14 - 20	There are revisions to existing material on ISQC 1 to reflect its replacement by ISQM 1 in respect of systems of quality management. Most of the proposed changes apply to contracted out audits and therefore do not apply in Scotland (which uses an appointments basis). Revisions that apply in Scotland are the following: • Paragraph 1-23 has been added to advise that public sector auditors may determine that an engagement quality review is appropriate for bodies judged to have a high public profile. • Paragraph 1-27 has been added to explain that the individual assigned operational responsibility for the system of quality management in the national audit agencies may not be eligible for appointment as a statutory auditor under the Companies Act 2006. However, the national audit agencies comply with ISQM (UK) 1 by ensuring that the individuals have levels of experience, knowledge, influence and authority such that they are capable of fulfilling the role of engagement partner as defined in auditing standards. This is considered to be equivalent to the levels required to achieve eligibility for appointment as a statutory auditor.

Section	Pages	Summary of proposed revisions
ISA (UK) 240	22 - 25	Paragraphs 1-40 to 1-44 have been added to provide guidance on the interaction between fraud and regularity responsibilities. This includes the following points: • The public sector auditor's responsibilities relating to fraud under ISA (UK) 240 are interrelated with the work that underpins the regularity opinion. However, the audit of regularity is not in itself sufficient to provide reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud. • The term 'irregularities' refers to instances of non-compliance with laws and regulations, including fraud. In the context of the regularity opinion, the term 'irregular transactions' refers to transactions not in accordance with the framework of authorities. • An irregular transaction may not be an irregularity (e.g. a breach of spending controls may not be unlawful). However, it is likely that transactions relating to an 'irregularity' would also be irregular transactions for the purpose of the regularity opinion. • Even where fraud does not result in misstatement of the financial statements, it may result in transactions that are not in accordance with the framework of authorities. The public sector auditor's responsibilities under ISA (UK) 240 in respect of reporting fraud or suspected fraud extend to such cases.
ISA (UK) 315	29 - 33	There are various proposed revisions to reflect the July 2020 revision of ISA (UK) 315. Key changes include the following: • Paragraph 1-73 explains that ownership of a public body may not have the same relevance as in the private sector because decisions related to the body may be made outside of the body as a result of political processes. Relevant matters include understanding the ability of the body to make unilateral decisions and the ability of other public sector bodies to control or influence it. • Paragraph 1-79 has been added to provide examples of inherent risk factors that may be particularly relevant to public bodies under the categories of inherent risk factors of complexity, subjectivity, change, uncertainty and management bias. • The guidance in paragraph 1-80 on the situation where public bodies are required to work to annual limits on resources has been extended. It explains that the risk of transactions being recorded in the wrong accounting period is increased due to an incentive for an entity to bring forward or delay expenditure or capital additions depending on its expected outturn against these limits. The risk of misclassification is also increased as there is an incentive to recognise items in a manner that increases outturn against limits that are underspent and reduces outturn against limits that are overspent.

Section	Pages	Summary of proposed revisions
ISA (UK) 320	34 - 35	Existing guidance at paragraphs 1-87 and 1-88 has been expanded including providing further examples for determining materiality in the public sector. Key points include: • Attention has been drawn to paragraph A20 of ISA (UK) 450 which highlights circumstances where misclassifications between balance sheet items that do not affect the performance statement may not be considered material. • In some public sector bodies, the value of gross assets and/or liabilities is much higher than the value of total expenditure and income. Where the audited body has custody of significant public assets, their service potential is an important contributor to the body's ability to deliver its services, which may make them an appropriate benchmark for setting materiality for the financial statements as a whole. • Example 5 has been added on setting materiality where the audited body's accounts include high-value property, plant and equipment, but its day-to-day decision making focuses on much lower-value expenditure and income transaction streams. Auditors may determine materiality for the financial statements as a whole using gross assets as a benchmark and also determine a lower materiality level to be applied to transaction streams.
ISA (UK) 570	46 - 56	The following additional clarification has been added for bodies where the financial reporting framework provides for the adoption of the going concern basis due to the anticipated continuation of the provision of a service in the future: • Paragraph 1-156 explains that the factor relevant to the auditor's work on going concern is whether the services will continue rather than the continued existence of the audited body itself. • Paragraph 1-162 clarifies that uncertainty regarding the future existence of the audited body does not create a material uncertainty, provided that this uncertainty does not also extend to the future delivery of the services.
ISA (UK) 600	57 - 59	Paragraph 1-195 has been added to provide guidance on cases where those charged with governance is unclear. It advises that those charged with governance are the persons or organisations with responsibility for overseeing the financial reporting process relating to the combined financial statements. This group may have responsibility for overseeing the strategic direction and obligations related to the accountability of the sector to which the financial information included in the combined financial statements relates.

Section	Pages	Summary of proposed revisions
Revised Ethical Standard	66 - 68	A new section has been added (paragraphs 1-227 to 1-233) on applying the revise ethical standard to the public sector. For example, paragraph 1-232 explains that in the public sector it may not be possible to comply strictly with the engagement partner rotation requirements envisaged for listed entities. Nonetheless it may be in the public interest for public sector organisations to establish policies and procedures to promote compliance with the spirit of rotation of engagement partner responsibility
Materiality for the audit of regularity	77 - 78	Paragraph 2.34A has been added to provide examples of situations when auditors may determine a materiality threshold for the audit of regularity that is different to that determined for the financial statements as a whole. These include where: • the audited body makes payments to individuals or other bodies that are of significantly greater public interest than the administrative functions of the body itself • the benchmark used to determine materiality for the financial statements as a whole has increased significantly but there remains user interest in the regularity of transactions at a more granular level • aspects of the audited body's framework of authorities and/or regulatory oversight regime indicate that quantitatively small non-compliance with the framework of authorities would be perceived more seriously than from assessing the amounts against materiality for the financial statements as a whole • the benchmark used to determine materiality for the financial statements as a whole is based on assets or liabilities and these amounts are out of proportion to the expenditure and income transactions that are subject to the regularity opinion.

BEIS response on restoring trust in audit consultation

98. The Department for Business Energy and Industrial Strategy (BEIS) has issued a response to its consultation on restoring trust in audit and corporate governance (explained in Technical Bulletin 2021/1 – paragraph 75).

99. The response does not set out a timetable for implementing the proposals, but rather outlines the actions to be taken, including what the UK Government intends to ask of the regulator and other stakeholders.

New regulator

100. Section 10 confirms the proposals to establish the Audit, Reporting and Governance Authority (ARGA) as a new regulator with the overarching objective to protect and promote the interests of investors, other users of corporate reporting and the wider public interest. ARGA's operational objectives will focus on quality, competition and acting as an effective 'system leader' for local public audit in England.

101. The reforms will give ARGA a range of statutory responsibilities and powers that the Financial Reporting Local authority does not have. These include:

- formalised responsibility for overseeing the accounting and actuarial professions
- a stronger role in auditor registration
- new powers to tackle breaches of company directors' duties relating to corporate reporting and audit.

102. Section 4 explains that ARGA will exercise oversight of corporate reporting to raise standards and improve the informativeness of company reports. For example, ARGA will be able to:

- direct changes to company reports and accounts
- publish summary findings following a review
- require or commission an expert review to support its corporate reporting review work
- review the entire contents of the annual report and accounts, including corporate governance statements and any voluntary reports.

Extension of PIE definition

103. Section 1.6 advises that the definition of public interest entities (PIEs) is to be extended to include large private companies which have both more than 750 employees and an annual turnover of more than £750 million. These size-based PIEs will not be required to meet all of the audit requirements as existing PIEs.

104. Public bodies such as local authorities will not become PIEs by virtue of this new size-based tests. However, those public bodies that are PIEs under existing legislation will continue to be so.

Internal controls and fraud prevention

105. The consultation proposed requiring directors to report on a company's internal controls and fraud-prevention measures, with auditors providing assurance on the latter.

106. However, section 2.1 of the response advises that the Government believes a more incremental approach to strengthening the internal control framework would be appropriate. It will therefore invite ARGA to strengthen the UK Corporate Governance Code to provide for an explicit directors' statement about the effectiveness of the company's internal controls and the basis for that assessment, and to develop appropriate guidance.

107. Section 6.2 explains that legislation will require directors of size-based PIEs to report on actions they have taken to prevent and detect fraud. Auditors will be required to fulfil the existing requirements of ISA (UK) 720 with respect to the directors' statements on fraud, and the Government considers that will be sufficient. Before considering further action, the Government intends to wait to see if the revisions to ISA (UK) 240 have the anticipated effect in clarifying what is expected of auditors in explaining the work they have done to detect fraud.

Improving the informativeness and quality of audit

108. Section 6.1 covers the proposals in respect of improving the informativeness and quality of audits. Consultation responses suggested that improvements to current auditing standards and practice are likely to be more effective and targeted than legislative changes. The Government will therefore look to ARGA to drive improvements in audit quality, including ARGA taking on responsibility for the registration of PIE auditors.

109. The Government supports the Brydon Review's long-term vision of expanding the future scope and purpose of audit. However, it believes that the first stage should be the development of a market for assuring financial and non-financial information beyond that in the financial statements. The Government does not propose to create a legislative framework for this market at such an early stage in its development.

110. The Government will not seek to establish a new professional body or regulatory oversight of a new 'corporate auditing' framework at this stage. Instead, the Government will create the conditions for the market to develop wider external assurance services. It will also ask professional bodies to improve auditor qualifications, skills, and training in order to help create a more effective and distinctive audit profession.

111. There are no plans for any legislative changes regarding the assurance of Alternative Performance Measures and Key Performance Indicators. It will be left to directors to decide whether specific assurance is necessary.

112. The current 'true and fair' view is to be retained as the standard for financial reporting. It is considered to be functionally identical to the alternative of 'presents fairly in all material respects'.

Resilience, competition, and choice in the audit market

113. To support ARGA's objectives to promote high-quality audit and effective competition in the audit market, the Government has decided to proceed with the proposed package of measures to improve resilience in the audit market for the largest companies. This includes the introduction of a 'managed shared audit' regime which will give challenger audit firms the opportunity to audit a meaningful proportion of subsidiary audits conducted for FTSE 350 companies. There will also be powers for ARGA to:

- operate a 'market share cap' once managed shared audit is in place
- require 'operational separation' of the largest firms
- monitor the health of audit firms and to address any concerns around an audit firm's resilience.

Monitoring audit quality

114. The consultation proposed to legislate for the publication of Audit Quality Review (AQR) reports. The aim was to allow the regulator to publish its AQR reports on individual audits without the need for consent from both the audit firm and the audited entity, as is the case at present.

115. Many respondents to the consultation highlighted problems with the publication of AQR reports without prior discussion. Rather than legislating specifically for the publication of AQR responses by the regulator, the Government is asking the regulator to look at non-legislative ways of improving the AQR process and continuing to seek consent from audit firms and audited entities where possible before publication. In addition, the Government is asking the regulator to engage with investors and other users to improve the usefulness to them of the information published on AQR.

Findings from quality inspections

116. The Financial Reporting Council (FRC) has issued a report on the key findings reported in the 2020/21 audit quality inspections of private sector audits. The inspections focus on:

- the quality of the audit work performed in the areas selected for review
- the sufficiency and appropriateness of the audit evidence obtained
- the appropriateness of the key audit judgments made by the audit partner and their team.

117. Some key findings that may have relevance to public sector audits are summarised in the following table:

Area	Finding
Compliance with laws and regulations	Where issues were identified, insufficient evidence was obtained to conclude on issues identified and whether they were isolated or representative of broader concerns
Bank reconciliation testing	The audit team did not investigate a net reconciling item in the period end bank reconciliation and therefore did not consider whether it was made up of significant offsetting items.
Pension scheme assets	The audit team performed insufficient procedures over the valuation and existence of pension scheme assets. In particular, the audit team did not: • obtain service organisation control reports for investment managers, to assess whether there were appropriate controls, before placing reliance upon their confirmations • in the absence of control reports, test the valuation of harder-to-value pension scheme assets • consider additional pricing information to assess and challenge the valuation of directly held publicly traded assets.

Area	Finding
Understanding and responding to inherent risks	The audit team did not demonstrate a sufficient understanding of the entity and the underlying controls in place to minimise the inherent business risks it faced.
Impairment of non-current assets	The audit team did not obtain sufficient evidence to assess whether an impairment of assets, or additional sensitivity disclosures, were required.
Fair value of financial instruments	Deficiencies were identified in the audit team's testing of financial instrument valuation, primarily the work performed over model risk management

118. The FRC also issued a separate report on good practices reported in the audit quality inspections. Some good practices that may have relevance to public sector audits are summarised in the following tables:

Risk assessment and planning

Area	Finding
First year audit procedures	The audit team's audit procedures supported a risk-based audit. There was comprehensive evidence of review of the predecessor auditor's working papers and of the audit of opening balances.
Fraud	The group instructions included a comprehensive section on entity-specific fraud risks, to be used as part of the component team's discussions. The group audit team tailored its scoping to respond to fraud risks, making good use of the business insights gained from management and the Audit Committee. It also incorporated elements of unpredictability into the audit procedures performed.
Journal entry testing	The journal entry testing across the group was thorough and well-controlled, with the detailed selection criteria communicated as required procedures to the component audit teams.
IT general controls	The audit team planned and scoped their testing of IT general controls from both a bottom-up and top-down perspective, to ensure that all relevant applications were covered. Their plan also reconciled the scope for the current year to the prior year to confirm completeness.

Execution

Area	Finding
Other information	The audit team evidenced a clear and thorough review of the other information included in the annual report, particularly whether it was fair, balanced and understandable.

Area	Finding
Areas requiring a high level of judgement	The audit team's approach to areas requiring a high level of judgement and industry knowledge involved robust challenge of key management assumptions, including effectively utilising the firm's technical team and internal specialists.
Extent of scepticism and challenge of management	The audit team presented its audit approach and findings in a way which clearly demonstrated the effective exercise of professional scepticism and consequent challenge of management in respect of key audit areas.
Valuation of assets	The audit team prepared a comprehensive memorandum evidencing its challenge of management's key assumptions used in their impairment model.
Impact of climate change	The audit team prepared a detailed memorandum evidencing consideration of the potential impacts of climate change. This enabled the team to ensure that all relevant disclosures were included in the financial statements, and informed specific aspects of the audit testing (for example, the testing of the valuation of assets).

Completion and reporting

Area	Finding
Communications with the Audit Committee	The use of graphics in the reports to the Audit Committee, notably in relation to the valuation of assets, aided the communication of complex issues which required the exercise of significant judgement.
Correction of identified errors	The audit team identified a significant number of material errors in the financial statements, and asked management to re-perform certain key assessments.
Review of the financial statements	Documentation clearly demonstrated the extent of the audit team's review of the financial statements and how points were resolved.
Other information	The audit team prepared a comprehensive work paper for narrative disclosures, annotated with testing performed and referenced to supporting evidence.
Delaying the signing of the auditor's report	The audit partner delayed signing their report until certain audit evidence was obtained. Furthermore, there was robust reporting to the Audit Committee in relation to difficulties during the audit.

Proposed revisions to ISA on group financial statements

119. The FRC has issued proposed revisions to ISA (UK) 600 on the audit of group financial statements. The proposals reflect recent changes to the corresponding international standard made by the International Auditing and Assurance Standards Board, as well as proposed additional material to address specific UK requirements. Comments require to be sent to AAT@frc.org.uk by 8 July 2022.

120. The revisions arising from changes in the international standard include:

- clarifying the scope and applicability of the standard
- reinforcing that all ISAs are to be applied in group audits
- focusing the group audit team's attention on the identification and assessment of risk at the group financial statement level and emphasising the importance of designing and performing appropriate procedures to respond to those risks
- reinforcing the need for robust communication and interactions between the group audit team, group audit partner and component auditors.

121. The proposed additional UK material clarifies:

- the relationship between the audit team, group auditor and component auditor (diagram at paragraph 14(h))
- the group audit partner has overall responsibility for compliance with ISAs and for ensuring that the auditor's report is appropriate, and for the design, implementation, and operation of a system of quality management (paragraph 16-1)
- the group audit partner is required to obtain confirmation from the component auditors that:
  - they are able to comply with the FRC Ethical Standard requirements (paragraph 25(b))
  - the ethical requirements have been fulfilled (paragraph 25-1).

Draft standard on disclosing sustainability-related financial information

122. The International Sustainability Standards Board (ISSB) has issued an exposure draft of a standard intended to set out general requirements for the disclosure of sustainability-related financial information.

123. The proposals in the exposure draft set out overall requirements for disclosing a complete set of sustainability-related financial information. Comments require to be sent to commentletters@ifrs.org by 29 July 2022.

124. The exposure draft sets out the objective of disclosing sustainability-related financial information that is useful to the assessment by the primary users of the financial statements of the entity's enterprise value and their decision whether to provide resources to it. The proposals would require an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed, even if such risks and opportunities are not addressed by a specific IFRS Sustainability Disclosure Standard.

125. The proposed definition of sustainability-related financial information is information that gives insight into sustainability-related risks and opportunities that affect enterprise value, and which provides a basis to assess the resources and relationships on which an entity's business model and strategy for sustaining and developing that model depend.

126. Sustainability-related financial information should therefore:

- include information about the entity's governance of, and strategy for, addressing sustainability-related risks and opportunities
- depict the reputation, performance and prospects of the entity as a consequence of actions it has undertaken.

127. The exposure draft also proposes that:

- disclosures should provide a fair presentation of an entity's sustainability-related risks and opportunities. Applying IFRS Sustainability Disclosure Standards, with additional disclosure when necessary, is presumed to result in sustainability-related financial disclosures that achieve a fair presentation.
- the definition of material information should be aligned with the definition in IAS 1
- comparative information should be restated if better information becomes available (rather than being reported as part of current year disclosures).

Draft standard on climate-related disclosures

128. The ISSB has issued an exposure draft of a standard intended to set out requirements for the disclosure of climate-related matters. The proposals set out requirements for identifying, measuring, and disclosing climate-related risks and opportunities.

129. Comments require to be sent to commentletters@ifrs.org by 29 July 2022.

130. The exposure draft would require an entity to provide information that enables users of the financial information to understand the matters summarised in the following table:

Area	Explanation
Governance	The governance processes, controls, and procedures an entity uses to monitor and manage climate-related risks and opportunities.

Area	Explanation
Strategy	The climate-related risks and opportunities that could enhance, threaten or change an entity’s business model and strategy over the short, medium and long term, including: • whether and how information about climate-related risks and opportunities inform management’s strategy and decision-making • the current and the anticipated effects of climate-related risks and opportunities on its business model • the effects of climate-related risks and opportunities that could reasonably be expected to affect the entity’s business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term • the resilience of its strategy (including its business model) to climate-related risks.
Risk management	How climate-related risks and opportunities are identified, assessed, managed and mitigated by an entity.
Metrics and targets	The metrics and targets used to manage and monitor an entity’s performance in relation to climate-related risks and opportunities, including: • performance and outcome measures that support the qualitative disclosures across governance, risk management and strategy disclosure requirements • targets that an entity uses to measure its performance goals related to significant climate-related risks and opportunities.

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Technical developments and emerging risks from April to June 2022

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