Technical Bulletin 2023/2

Technical developments and emerging risks from April to June 2023

AUDIT SCOTLAND

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

June 2023

Contents

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		
Professional Support has published a Good Practice Note (GPN) on Remuneration Reports [**paragraph 1**]	Professional Support has published guidance on Independent Auditor's Reports for local government **[paragraph 5]**	CIPFA has issued Bulletin 13 on Local Authority Reserves and Balances **[paragraph 10]**
CIPFA has issued Bulletin 14 on Closure of the 2022/23 Financial Statements **[paragraph 12]**	PWC has provided a report to support auditors when assessing information produced by actuaries in respect of the Local Government Pension scheme (LGPS) **[paragraph 31]**	LASAAC have issued updated guidance on accounting for common good funds **[paragraph 40]**
Professional Support has published guidance on objections to 2022/23 annual accounts **[paragraph 46]**	Professional Support has issued guidance for auditors on certifying the 2022/23 housing benefit (HB) subsidy claim **[paragraph 49]**	The SG has issued the 2022/23 Non-domestic rates notified return and guidance **[paragraph 54]**
The NAO has published a disclosure guide on the 2022/23 financial Statements for bodies covered by the FReM **[paragraph 58]**	The Cabinet Office has published an Employers Pension Notice on the Remuneration Report **[paragraph 61]**	Professional Support has issued a report to auditors following an examination of the CNORIS **[paragraph 65]**
The Scottish Government has issued guidance on the Junior Doctors' pay award **[paragraph 67]**	The FRC has issued an invitation to comment on proposed revisions to ISA 505 **[paragraph 71]**	The FRC has published a thematic review of fair value measurement disclosures **[paragraph 75]**

Consulting with Professional Support

Auditors should consult with Professional Support by sending an email to TechnicalQueries@audit-scotland.gov.uk.

2: All sectors

Good practice note on Remuneration Report

1. Professional Support has published a Good Practice Note (GPN) following a review of the Remuneration Reports in the 2021/22 annual accounts of a sample of public bodies in Scotland.

2. The Remuneration Report was chosen for a good practice review because of the high-profile nature of the information, along with indications that the quality of the disclosures was variable. Good practice is illustrated, where possible, using examples taken from the 2021/22 annual accounts of the bodies in the sample.

3. The review was carried out by a team in Professional Support with knowledge of the relevant financial reporting framework. However, the team does not have a detailed understanding of each body's particular circumstances or the specific underlying transactions. The GPN is available to auditors on SharePoint* and is also freely available from the Audit Scotland website. The review identified the following key messages:

- Public bodies should clearly identify the parts of the Remuneration Report that are subject to audit.
- Bodies should consider carefully how to present the required information and support significant messages with relevant context.
- Important information should be highlighted and not obscured by immaterial detail that causes clutter. To avoid clutter:
  - tables (or columns or rows) which do not contain entries should be removed
  - signposting can be used effectively to provide complementary information.
- The language used in the Remuneration Report should be clear and precise.

4. Auditors are requested to encourage their audited bodies to use the GPN to assess and enhance their own disclosures in 2022/23.

3: Local government sector

Independent auditor's reports for local government accounts in 2022/23

5. Professional Support has published Technical Guidance Note (TGN) 2023/4(LG) to provide auditors with model forms of Independent Auditor's Reports (IAR) which should be used for the 2022/23 annual accounts of local government bodies in Scotland.

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

7. The model forms of IARs set out in the appendices of the TGNs have been tailored to reflect relevant legislation and augmented by the reporting requirements of the Accounts Commission.

8. There are a number of changes to the model forms of IAR and to the application guidance in 2022/23. These are summarised in the following table:

Area	Change
Model IARs	The description of the financial reporting framework has been removed from the 'true and fair' element of the opinion on the financial statements.
	The period of appointment disclosure has been simplified.
	The explanation of the extent to which the audit is capable of detecting irregularities has been enhanced with a view to reducing any perceived need for extensive local tailoring.
Application guidance	The guidance on the period of appointment disclosure has been revised to reflect the amendment in standard wording.
	Auditors should consult with Professional Support on any tailoring of the standard wording of the explanation of the extent to which the audit is capable of detecting irregularities.
	A new Auditor Action has been added in respect of identifying the audited parts of the Remuneration Report.

9. For the 2022/23 audits of local government bodies, auditors should:

- use the relevant model form of IAR for each audited body

- follow the specified wording other than where tailoring adjustments are set out in the application guidance in the TGN
- consult with Professional Support on any modified opinion or conclusion
- complete an Auditor Action Checklist for each IAR prepared.

Revised guidance on reserves

10. The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued Bulletin 13 Local Authority Reserves and Balances to provide guidance on the establishment and maintenance of local authority reserves and balances.

11. It replaces LAAP Bulletin 99 issued in July 2014 to reflect events since then, including changes to the Code of Practice in Local Authority Accounting in the UK (accounting code). There are no significant changes from the previous guidance.

Guidance on the 2022/23 financial statements

12. CIPFA has issued Bulletin 14 Closure of the 2022/23 Financial Statements to provide guidance on closing the 2022/23 financial statements. The guidance is intended to be best practice, but it does not have the formal status of the accounting code.

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

- Reporting impacts of inflation and interest rates.
- Grant recognition and presentation.
- Subsequent measurement of property, plant and equipment.
- Nature and extent of risks arising from financial instruments.
- Accounting standards that have been issued but not yet adopted.
- Accounts closure processes.

Reporting impacts of inflation and interest rates

14. Section 9 of the bulletin highlights the implications of unusually high inflation and interest rates on different parts of the annual accounts. Some key points of the guidance are summarised in the following table:

Area	Summary of guidance
Property, plant and equipment	Increases in materials and labour cost will be reflected in the information used to estimate depreciated replacement cost.

Area	Summary of guidance
	There may be impacts on estimates of residual values and useful lives. For example, high fuel costs might result in inefficient assets being brought out of service earlier than originally intended.
Non-current assets held for sale	Higher interest rates have the potential to discourage buyers which increases uncertainty around whether a sale is deemed ‘highly probable’, which is one of the key classification criteria.
Impairment of assets	An impairment event is related to a specific asset so if high cost of borrowing results in a general decline in asset value, it is unlikely to be an impairment. However, inflation and the cost-of-living crisis may impact on the use of assets.
Provisions	As high inflation and increased cost of borrowing is likely to have an impact on the time value of money, provisions may require to be discounted if the effect has become material.
Financial instruments	Market expectation of higher interest rates will affect borrowing costs and investment income for any variable rate debt or investments.
Post-employment benefits	Defined benefit inflation assumptions are linked to RPI/CPI and are therefore likely to be affected by high inflation, which may result in a larger liability.

Grant recognition

15. Section 1 responds to queries on the recognition of grant income. Some key points include the following.

- In summary, all grants should be recognised in the Comprehensive Income and Expenditure Statement (CIES) unless there are conditions that have not been met.
- For grants with conditions there is a two-stage process:
  - Recognition as grants received in advance if initially conditions remain outstanding at the Balance Sheet date.
  - Recognition as income when the conditions are satisfied.
- Grants and contributions should not be recognised until there is reasonable assurance that the authority will comply with the conditions attached to them and the grants or contributions will be received.
- Reasonable assurance is not defined in the accounting code and therefore the bulletin provides the following guidance:

- Reasonable assurance is usually in the form of a written agreement or confirmation from the grant-paying body, and any conditions will be set out in the agreement.
- The authority should recognise the grant or contribution when it is satisfied that the grant or contribution will be received and it intends to comply with the conditions.

Subsequent measurement of property, plant and equipment

16. Section 3 addresses issues with the subsequent measurement of property, plant and equipment.

17. Paragraph 3.9 advises that, although the measurement process is undertaken by a valuer, the chief finance officer (CFO) needs to ensure that there are appropriate internal processes to obtain the information from the valuer. Paragraph 3.11 sets out a summary of the information requirements and the commissioning process. Local authorities are advised to discuss the processes with their valuers to ensure that clear instructions are provided, and that information requirements and timetables are understood.

18. Paragraph 3.12 advises the CFO to carry out a critical review of the valuation report and that reasonableness tests are undertaken to ensure they are happy with the estimates provided. For example, if a valuation for an asset has increased by a significant percentage the finance function should seek an explanation as to why that is the case.

19. Paragraph 3.2 highlights that many operational office premises are increasingly underused. Local authority practitioners are required to have dialogue with the valuer to provide clarity around service potential and the status of any unused parts of a building. If parts of the property are not being used, and there is no intention to do so, the appropriate treatment depends on whether they are capable of being sold or leased separately at the valuation date without interfering with the ongoing service function being provided from the retained parts:

- If separate occupation is not possible, any surplus parts would have no more than a nominal existing use value.
- If separate occupation is possible, they may be classified as either surplus assets, investment properties or ‘asset held for sale’ and measured at fair value.

Nature and extent of risks arising from financial instruments

20. Section 4 discusses the impact of the recent significant market volatility on financial instruments held by local authorities. This is particularly relevant for disclosures of the nature and extent of risks arising from financial instruments.

21. Paragraphs 4.3 to 4.5 set out issues for local authorities to consider disclosing that impact on credit, market and liquidity risks.

Accounting standards that have been issued but not yet adopted

22. Paragraph 14.3 lists the accounting standards introduced by the 2023/24 accounting code which require to be disclosed as 'standards issued but not yet adopted' in 2022/23. They include:

- IFRS 16 Leases (but only for those local authorities that have decided to implement IFRS 16 in 2023/24). Where an authority will implement IFRS 16 to PFI/PPP arrangements in 2023/24, information on that specific change will also be required in 2022/23.
- Definition of Accounting Estimates (Amendments to IAS 8).
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).

Accounts closure processes

23. Section 7 provides guidance on closing the annual accounts faster.

24. Paragraph 7.3 lists some suggested key processes including:

- thorough planning and timetabling of stages of the process, with stringent deadlines
- follow-up and strict monitoring of progress
- robust financial management through the year so that most issues have been resolved by the year-end
- quarterly closure procedures and monitoring, e.g. Balance Sheets prepared quarterly for internal purposes.

25. Paragraph 7.6 highlights the importance of local authorities ensuring that they produce effective working papers. A clear record of the source of the original information and the treatments that have been applied will allow the confident use of the working paper and avoid work having to be re-performed. Paragraph 7.8 lists the key features of effective working papers.

26. Paragraph 7.4 notes that review and control processes are vital to produce the unaudited accounts. Working papers should be supported by clear evidence of assumptions, judgements and decisions taken by local authority management.

2022/23 disclosure checklist

27. The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued a disclosure checklist* for the 2022/23 financial statements. It is intended for use as an aide-memoire to assist in meeting the requirements of the accounting code.

28. The checklist is in the form of a series of questions and the implications of the answers are set out in the following table:

Answer	Implication
Yes	The accounting code is being complied with.
No	A justification for departing from the accounting code should be given. For example, a legitimate justification may be that the information resulting from a particular disclosure is not material.

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

- request that the body completes the 2022/23 disclosure checklist
- investigate the reasons for any non-compliance that the checklist highlights
- evaluate whether the body's responses in the checklist are consistent with auditor's knowledge.

30. Where the body declines to complete the checklist, auditors should:

- establish the alternative arrangements by which it satisfies itself regarding the completeness of disclosures
- evaluate the adequacy of the arrangements
- consider completing the checklist as part of their audit procedures, where the body's arrangements are judged not to be adequate.

2022/23 report on actuarial information

31. 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 2023. Auditors should refer to paragraphs 15 to 27 in Module 4 of TGN 2022/8(LG) for guidance on using the report and further information.

32. 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 2023.

33. 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 5 of the report

- to establish actual asset returns and compare them with expected returns arrived at using market indices (see page 15).

34. Page 16 highlights the impact of high inflation rates on pension increases and cashflows. All actuaries are proposing to allow for actual pension increase experience allowed for up to the reporting date, including the pension increase from April 2023 of 10.1% (which is the annual CPI inflation rate at September 2022).

35. 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.

36. Page 21 highlights the issue of pay awards, specifically the Firefighters award that has been backdated to July 2022. Backdated pay awards may have an impact on past service final salary benefits and the McCloud allowance. It will not impact service cost for 2022/23 unless employers include an estimate of the backdated pay award in the contribution data provided. Auditors will need to consider whether including an estimate of the impact of the backdated pay award on service cost is material to the audit.

37. Appendix E to the report addresses the extent to which an IAS 19 surplus can be recognised on the balance sheet. This issue is explained at paragraph56..

IFRS 16 Leases

38. CIPFA have issued a guide* for local authority practitioners on IFRS 16 to update the guidance in IFRS 16 – An early guide for practitioners (Technical Bulletin paragraph 19) to support any local authority adopting IFRS 16 in 2022/23..

39. The guidance covers the requirements in Appendix F of the 2022/23 accounting code and the transitional arrangements for moving to these new requirements.

Accounting for common good funds

40. The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) have issued updated guidance on accounting for common good funds.

41. The updated guidance supersedes previous LASAAC guidance on accounting for the common good issued in 2007. The guidance has been updated to reflect current financial management practices and relevant legislative changes. The guidance is mandatory and applies from 2022/23.

42. Common good funds should be the subject of a separate disclosure in the local authority financial statements. The disclosure should take the form of limited financial statements as set out in the following table.

43. The following minimum statements should therefore be applied:

Statement	Proposed content
Narrative Report	Narrative should briefly explain the purpose and background of the Common Good fund. Accounting policies different from the local authority's should be highlighted. Authorities should consider disclosure of their policy position on the use of common good assets and resources.
Income and Expenditure Statement (IES)	The IES should mirror the local authority CIES. Where the local authority manages several funds, they can be aggregated into one single statement. Paragraphs 2.15 and 2.16 set out respectively examples of debits and credits expected to be made to the IES. Paragraph 2.17 sets out an illustrative IES format.
Balance Sheet	Paragraph 2.19 sets out an illustrative Balance Sheet. Assets should be depreciated and set against any surplus in the income and expenditure account. Statutory adjustments are not permitted. No additional balance sheet disclosures are required.
Disclosure Notes	The level of disclosure is left to the local requirements of each local authority. There is no prescribed requirement to disclose the common good asset register, although good practice would include a direct link to the register on the Council's website as supplementary information.

2023/24 accounting code

44. CIPFA/LASAAC has issued the accounting code* to set out local government accounting requirements for 2023/24. The financial reporting framework is based on International Financial Reporting Standards (IFRS) as adopted by the UK, adapted for the local government context where necessary.

45. The most significant changes to the 2023/24 accounting code include:

Section	Amendment
3.3	Amendment to reflect changes to IAS 8, which clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. The definition of 'change in accounting estimates' at paragraph 3.3.2.2 has been replaced with a definition of accounting estimates which describes them as "monetary amounts in financial statements that are subject to measurement uncertainty".

	Accounting estimates are developed if accounting policies require items to be measured in a way which involves measurement uncertainty. The effects of a change in input or a measurement technique are changes in estimates provided they do not result from the correction of a prior period error. Paragraphs 3.3.2.14 and 15 have been amended to explain that: • an accounting policy may require items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. • a local government body is therefore required to develop an accounting estimate to achieve the objective set out by the accounting policy. • a body uses measurement techniques and inputs to develop an accounting estimate. In addition, paragraph 3.3.2.18 covers the treatment of a change in an input or measurement technique.
3.4	Disclosure of Accounting Policies -Amendments to IAS 1 Presentation of Financial Statement requires an entity to disclose material (rather than significant) accounting policy information. Paragraphs 3.4.2.88 to 3.4.2.93 have been added to provide clarification that accounting policy information may be material because of its nature, even if the related amounts are immaterial. Where an entity discloses immaterial accounting policy information, such information must not obscure material accounting policy information. Paragraph 3.4.2.90 provides examples of when accounting policy information is likely to be material.
Appendix D	Confirmation of the new standards introduced to the 2023/24 accounting code: • Definition of Accounting Estimates (Amendments to IAS 8) • Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) • Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) • Updating a Reference to the Conceptual Framework (Amendments to IFRS 3)
Appendix F	Appendix F sets out the requirements for local authorities that choose to adopt IFRS 16 on a voluntary basis. The presentation of these requirements differs slightly from Appendix F in the 2022/23 Code, so they can be applied both to local authorities that have already adopted IFRS 16 and to those that are choosing to adopt IFRS 16 in 2023/24.

Guidance on objections to 2022/23 annual accounts

46. Professional Support has published TGN 2023/5(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 2022/23 annual accounts of a local government body
- object to those accounts.

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

48. Auditors should:

- evaluate whether the public inspection notice for 2022/23 is in accordance with applicable legislation
- carry out the actions set out in the TGN for any objections received.

2022/23 housing benefit subsidy claims

49. Professional Support has published TGN/HBS/23 on certifying the 2022/23 housing benefit (HB) subsidy claim. The TGN is provided with supporting material to auditors on SharePoint and is also available from the Audit Scotland website. The TGN:

- provides guidance for auditors on the examination of the HB subsidy claim, including highlighting the main risk areas
- sets out and explains an overview of the certification approach, the preliminary procedures (at section 1), testing procedures (at section 2), procedures for evaluating results and agreeing amendments (section 3) completion procedures (at section 4) and post-certification procedures (at section 5) that auditors should carry out (all summarised in the checklist at Appendix 1)
- provides examples of reporting errors and observations in a letter to the Department for Work and Pensions (DWP) at Appendix 3
- provides examples of reporting the results of any post-certification procedures at Appendix 4.

50. The TGN reflects changes to certification testing for Scottish local authorities that Professional Support has negotiated with the DWP. The changes, which are intended to increase the focus on the higher-risk areas and rationalise the level of testing required, are summarised as follows:

- The introduction of risk-based testing.
- The removal of cumulative assurance knowledge and experience testing.

- The introduction of a de-minimis level for triggering additional testing.
- Where required, additional testing is to be carried out by local authority internal audit teams.

51. The submission deadline for the HB subsidy certification is 31 January 2024.

52. Auditors should certify 2022/23 HB subsidy claims in accordance with TGN/HBS/23.

53. The following modules of the HB subsidy certification approach have been issued. Auditors should refer to these modules when certifying the 2022/23 subsidy claims:

- The 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.
- The workbooks* to be completed for detailed testing.
- The software diagnostic tool* to ensure the subsidy claim has been completed using the recognised software for claim completion and reconciles "benefit granted" to "benefit paid" in accordance with the software suppliers' instructions.

2022/23 NDR return and guidance

54. The Scottish Government has issued the 2022/23 Non-domestic rates (NDR) notified return and guidance*. The most significant changes from 2021/22 are:

- the renaming of retail, hospitality, leisure, and aviation relief to retail hospitality and leisure relief
- additional detail required to categorise the relief and yield loss for unoccupied properties.

55. Professional Support has published TGN/NDR/23 on certifying the 2022/23 return. The TGN is provided to auditors on SharePoint* and also on the Audit Scotland website.

56. Auditors should certify 2022/23 NDR returns using TGN/NDR/23.

Technical consultations with auditors

Professional Support responds to requests from auditors for technical consultations

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

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

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

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

The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. Bodies should engage with their actuaries to help identify the asset ceiling. The emerging view is that that bodies participating in LGPS will have a minimum funding requirement as contribution rates are set in advance. In their report on IAS 19 reporting (paragraph 31), PWC comment that if a surplus arises for a scheduled body, given that this body is expected to participate in the LGPS indefinitely, it would be expected that this surplus will lead to lower future contributions by that entity. They also expect employers to consider contributions in respect of future service to be a minimum funding requirement under IFRIC 14 as they are obligated to pay them. 56.

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

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

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

4: Central government sector

Disclosure guide for 2022/23 financial statements

58. The National Audit Office has published a disclosure guide on the 2022/23 financial Statements for bodies covered by the Government Financial Reporting Manual (FReM).

59. The guide is designed to ensure that bodies covered by the FReM have prepared their 2022/23 financial statements in the appropriate form and have complied with all disclosure requirements. The guide is cross-referenced to the 2022/23 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.

60. When checking that the FReM's disclosure requirements have been met, auditors should in accordance with the Overview Module of TGN 2023/1:

- 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.

2022/23 guidance on Remuneration Report disclosures

61. The Cabinet Office has issued an Employers Pension Notice on the preparation of the pay, pension and compensation disclosures for the Remuneration and Staff Report for 2022/23.

62. An example of the disclosures is provided at Annex 13C. The EPN has been updated to reflect to the requirements of the Government Financial Reporting Manual (FReM) in 2022/23. There are no significant changes from 2021/22.

63. Auditors should refer to this guidance when auditing the 2022/23 Remuneration Report.

Technical consultations with auditors

Professional Support responds to requests from auditors for technical consultations

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

How should the right of use asset initially be measured under IFRS 16 Leases in 2022/23 for bodies covered by the FReM?

For central government bodies and health boards, IFRS 16 requires the right-of-use asset, and the lease liability, to be initially measured at the present value of unavoidable future lease payments. This will include:

- fixed payments (including in-substance fixed payments)
- variable lease payments that depend on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising a termination option.

The right-of-use asset may require further adjustment for initial direct costs, prepayments or incentives, and costs related to restoration at the end of a lease.

5: Health sector

Assurance report on 2022/23 clinical negligence claims

65. 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 2023
- inform auditors' evaluation of the role of the NHS Central Legal Office as a management expert.

66. Auditors should refer to this report when auditing the 2022/23 provisions for CNORIS.

Guidance on doctors' 2022/23 pay award

67. The Scottish Government has issued guidance* on accounting for the formal pay offer to junior doctors announced in May 2023. This offer included an additional element backdated to 1 April 2022. Although the offer was subsequently rejected, the Scottish Government consider that the backdated element represents an obligation at 31 March 2023 that should therefore be recognised in the 2022/23 financial statements.

68. In Professional Support's view, the backdated element of the rejected pay award should be recognised in the 2022/23 financial statements of individual health boards, where relevant.

69. Auditors should evaluate whether the backdated element of the pay offer has been recognised in the 2022/23 accounts of individual health boards,

Technical consultations with auditor

Professional Support responds to requests from auditors for technical consultations

70. The following tables summarise requests from auditors for technical consultations with Professional Support in respect of issues arising from the audit of the 2022/23 annual accounts of health boards, along with the advice offered:

How should activity under a service level agreement with another health board that is undelivered at the year end be accounted for?

Boards deliver a number of services to patients on behalf of other health boards under annual service level agreements (SLA). The SLA represents a contract between the two boards and payment is based on the terms of the SLA.

A board is required to account for a contract with a customer where all the criteria at paragraph 9 of IFRS 15 are satisfied including the approval by both parties and their commitment to the contract. In line with IFRS 15, boards are required to identify at the inception of the contract each performance obligation within the contract. Income should be recognised when the board satisfies each performance obligation.

The SLA process was amended for the three years from 2020/21 to 2022/23. Auditors should expect boards to consider whether each of the criteria of IFRS 15 still apply, under these amended arrangements. This includes boards consider whether:

- approval of the contract has been withdrawn by both parties
- both parties are still committed to delivering their obligations,
- performance obligations have been amended or withdrawn.

Where a performance obligation is satisfied over time, for example, where a board has delivered a percentage of the activity required, income should be recognised by measuring the progress towards complete satisfaction of that performance obligation.

Where a board has not delivered the full activity under the SLA by the year end, the board should recognise any shortfall in activity as a contract liability (deferred income).

6: Professional matters

Proposed revisions to ISA 505

71. The Financial Reporting Council (FRC) has issued a consultation on proposed revisions to International Standard on Auditing (UK) 505 External Confirmations to reflect recent enforcement findings and to ensure that the standard is reflective of modern approaches to obtaining confirmations.

72. The main proposed revisions to ISA (UK) 505 are summarised in the following table:

Area	Proposed revisions
Clarification on what constitutes an electronic external confirmation	Paragraph 6(a) has been amended to reflect that confirmations may be obtained through directly accessing information held by third parties through web portals or software interfaces.
Prohibition on the use of negative confirmations	Para graph 6(c) prohibits the use of negative confirmations, where the confirming party responds directly only if they disagree with the information provided in the request. This aims improve the quality of audit evidence obtained when auditors make use of external confirmations.
Designing confirmations to provide evidence for relevant assertions	Paragraph 7(c) includes additional material to ensure that auditors design confirmations to obtain sufficient appropriate audit evidence in relation to all assertions identified in respect of ISA (UK) 330. This is applicable to all means of confirmation but can be particularly relevant to certain forms of digital confirmation.
Enhanced requirements in relation to investigating exceptions	Paragraph 14-1 includes enhanced requirements when investigating exceptions. These direct auditors to consider if exceptions are indicative of fraud or a deficiency in the entity's system of internal control and how follow-up procedures will allow the auditor to obtain sufficient appropriate audit evidence.

73. The proposed effective date of revised ISA (UK) 505 is for audits of financial statements for periods beginning on or after 15 December 2024.

74. The FRC is requesting comments on this consultation by 1 September 2023. Comments on the consultation paper should be sent to: AAT@frc.org.uk

Thematic review of IFRS 13 measurement

75. The FRC issued a thematic review of IFRS 13 fair value measurement disclosures. The FRC. The review has a particular focus on disclosure matters, although some measurement issues are also discussed.

76. The thematic review summarises briefly the financial reporting requirements, identifies examples of better disclosure and opportunities for improvement and highlights some key findings including the following:

- Fair value measurements should use market participants' rather than the body's own assumptions. While the transaction price usually reflects fair value, there may be circumstances where this is not the case, for example, in transactions with related parties. Bodies should ensure that appropriate adjustments are made to fair value measurements in such cases.

- Where no internal expertise exists, bodies should consider the need for specialist third party advice when considering fair value measurements.

- Disclosures should be provided for each class of assets and liabilities, determined on the basis of their nature, characteristics and risks (including climate change). When determining an appropriate level of aggregation or disaggregation, bodies should consider which provides the most useful disclosures.

- Where climate-related matters materially affect fair value measurement, bodies should explain how the impact has been incorporated into the measurement and, if relevant, quantify any significant estimation uncertainty. Simply stating that the risk has been incorporated into the fair value measurement is insufficient in such cases.

- Most issues were identified in the disclosure of recurring Level 3 measurements, for which the significant unobservable inputs should be quantified and a sensitivity analysis given. These disclosures are sometimes omitted.

Technical Bulletin 2023/2

Technical developments and emerging risks from April to June 2023

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