

## **The Lanarkshire Board**

### **Self – Evaluation Report 2022-23 and Board Development Plan 2023-25**

**“The Board must keep its effectiveness under annual review and have in place a robust self-evaluation process. There should also be an externally facilitated evaluation of its effectiveness every three to five years.”**

*Extract from the Code of Good Governance for Scotland’s Colleges*

DRAFT

## Self-Evaluation Review

Over a 3-month period in 2022-23 the Lanarkshire Board undertook a self-evaluation exercise on its effectiveness as the Regional Strategic Body for Lanarkshire as required by the Code of Good Governance for Scotland's Colleges.

The assessment is based on the principles contained in the sector's Code of Good Governance; the Board Effectiveness questionnaire ([Appendix 3](#)) reflects the various sections in the Code. The sections take on board the principles of the Code but are adapted to the position of The Lanarkshire Board as a multi college region.

### Background

The Lanarkshire Board is the Regional Strategic Body (RSB) for Lanarkshire comprising New College Lanarkshire and South Lanarkshire College. South Lanarkshire College undertakes a separate evaluation of its own Board and retains responsibility for staffing and estates (The Lanarkshire Order 2014). The gathering of information from RSB members was an iterative process undertaken over a number of weeks.

The **1:1 sessions with the Chair** were initiated in March 2023 and 99% completed by the end of May 2023. The two missing sessions being because of the work commitments of the Board members concerned and are scheduled to take place as soon as their availability allows. [Update: one of the outlying 1:1 sessions was completed in early July 2023.] The outline questionnaire for 1:1 discussions and Personal Development Plans, is attached for information at [Appendix 2](#).

The survey of the **RSB Committees**, together with the relevant remits, was circulated in May 2023 separately to all committee members and the chairs of the respective committees. The questionnaire is attached at [Appendix 3](#) and the feedback from the committees is summarised in section 3 of this report.

The **Board operational effectiveness** survey, was distributed later with members being asked to provide comment on specific aspects of Board operation as well as offering the opportunity for Board members to reflect on Board activity over the previous 12 months and identify their ambition for the Board in the coming 12 months. The questionnaire is at [Appendix 4](#)

The comments and suggestions gathered in the 1:1 sessions, the Committee survey and the Board Effectiveness questionnaire, together with feedback from college senior management, are collated into the **Board Development Plan** at [Appendix 6](#).

The Senior Independent Board Member carried out an **appraisal of the Regional Chair** and contacted all members of the Board for their views. His report is at [Appendix 5](#).

This report covers:

1. The Board self-evaluation process undertaken during 2022-23;
2. Feedback from the 1:1 discussions with the Regional Chair;
3. Feedback on the effectiveness of the 4 main RSB committees;
4. Analysis and findings of the Board Effectiveness survey, section by section, including general comment on the structure of the Committees;
5. Appraisal of the Regional Chair (Confidential);
6. The Board Development Plan for 2023-25;
7. Next steps;
8. List of appendices:

- Appendix 1 The Lanarkshire Board self-evaluation process 2022-23;
- Appendix 2 Outline questionnaire for 1:1 interviews and Personal Development Plans;
- Appendix 3 The Committee operation and structure questionnaire;
- Appendix 4 The Board Operating effectiveness questionnaire;
- Appendix 5 Appraisal of the Regional Chair (Confidential)
- Appendix 6 Board Development Plan 2023-2025

DRAFT

## 1. Self- evaluation process: Appendix 1

The stages of the self- evaluation process are described in more detail in [Appendix 1](#).

We have included the following broad areas which we believe meet the requirements of the Code of Good Governance for Scotland's Colleges:

- Personal Development Plans for Board members following 1:1 discussions with the Regional Chair;
- A separate evaluation of the effectiveness and operation of the 4 main RSB Committees;
- A full Board operational effectiveness review including a general question on the Committee structure covering:
  - leadership;
  - quality of student experience;
  - accountability and staff governance;
  - overall effectiveness;
  - relationships and collaboration.
- An evaluation of the Board Chair carried out by the Senior Independent Member;
- Next steps to address the issues and ideas generated in the different sections of the evaluation.

The full Board operational effectiveness questionnaire elicited responses from **12** members of The Lanarkshire Board and one from the senior management team. At the time of the survey there were 2 vacancies on the RSB, reducing the full complement of Board members to 20; 3 of the 5 Board members from SLC elected not to respond to the questionnaire. At the time of the evaluation a recruitment exercise was in process as the terms of 5 RSB Board members were due to finish over the summer period 2023. In addition, the dissolution of the Region, as recommended by SFC in its report 'Coherence and Sustainability: A review of Scotland's Colleges and Universities Phase One Report: Insights to Develop Further', published in October 2020, had still not been advanced. The Region Transformation Group, chaired by the Scottish Government and run by SFC, has not met since before COVID. Both colleges continue to press for the group to be re-energised to enable NCL and SLC to progress independently while collaborating for the benefit of the learners in Lanarkshire.

## 2. Feedback on the 1:1s and Personal Development Plans

### Questionnaire/outline for discussion at Appendix 2

Post COVID return to face to face meetings were welcomed, although the convenience of Zoom meetings was acknowledged. Remote meetings were considered particularly counterproductive for newer members of the Board for which this format did not provide the opportunity for informal discussion with longer serving members which would normally have taken place around face to face meetings. This had proved to be considerable drawback to their understanding of some of the more complex issues discussed by the Board and therefore their development as major contributors to meetings.

#### Follow up actions to address the points raised in the discussion sessions:

##### Information sessions:

There was particular Interest in information sessions on:

- finances in the college sector and how they are organised, specifically income streams;
- the organisation of the college sector in Scotland and the roles of partner agencies;
- sector jargon and acronyms;
- regional strategic planning;
- cyber security;
- risk appetite.

##### Additional actions:

- Reintroduction of the buddy/mentor scheme;
- In addition to sessions organised by the Board Secretary of the RSB, ensure members have the opportunity to attend development modules such as those offered by the College Development Network on governance, and relevant modules provided by the NCL Staff Development Academy;
- Investigate how to improve the presentation of papers for meetings and ensure that a context/summary is always provided;
- Follow up with the Principal and his senior team on the development of more regular strategy sessions with the Board;
- Develop closer links with the NCL senior team to gain better insight into potential strategic issues requiring Board decisions;
- Improve updating members on key issues between Board meetings, especially around decisions taken in the Chairs' Committee where time constraints had not enabled full Board discussion prior to the event.

## 3. Feedback on the Committee structure **Questionnaire at Appendix 3**

There are 4 main RSB Committees which meet quarterly before regular Board meetings:

- Audit and Risk Committee (ARC)
- Curriculum, Student Affairs and Outcome Committee (CSAO)
- Finance Committee
- Resource and General Purposes Committee (RGP)

There are also 3 ad hoc committees which meet as necessary:

- Chairs' Committee
- Nomination and Search Committee
- Remuneration Committee

**i) Audit and Risk Committee (ARC)**

Overall members are happy with the way this committee is chaired and how it operates, responses being mainly “1”s.

Comments include:

**What we have done well over the last 12 months:**

- The ARC has been very successful in supporting the review and corrective actions around the SLC governance challenges. Particularly, the engagement of the Chair of the ARC in supporting the Board and the Board Chair in resolving the complex issues;
- Provision of clear and straightforward navigation of the various challenges associated with the SLC position and the impact upon the RSB/NCL. Strong and sensible guidance on matters relevant to college risk;
- Partnership working with the assigned college, much of which has taken place out with the committee meetings. Very refreshing to see such collaborative working;
- Risk Management controls, understanding of Risks and actions;
- Excellent transparency;
- External auditor’s management and control of internal audits and follow-up;
- The Audit committee and the especially the Chair has held individuals, groups, responsible areas to account.

**Development I would like to see in the next year:**

- Perhaps an opportunity for joint meeting/working with the finance committee in order to ensure a more joined-approach to the development of a clear financial strategy for NCL;
- When a review of a college service has an overall conclusion of weak/unacceptable it might be useful to include the manager of the service when the report is discussed.

**ii). Curriculum, Student Affairs and Outcomes Committee (CSAO)**

Members’ responses are mainly “1”s. Where members recorded “2”s they were against the questions relating to the CSAO being forward looking and whether members have sufficient knowledge to contribute to discussion. These points will be addressed in the proposed next steps to work more closely with the Principal and senior team to identify strategic developments and provide the appropriate briefings.

Comments include:

**What we have done well in the last 12 months:**

- Engagement with student representatives, but perhaps we should encourage them to not only update CSAO on their activities, but also what students want from us;
- Excellent engagement of Student representatives from SLC and NCL;
- The CSAO Committee was actively involved in the development of the enhanced curriculum through the partnership with UWS. There should be more partnership working for the benefit of the learners in Lanarkshire;
- I think that the Committee has provided good focus upon examining, challenging and enhancing the performance characteristics of the College. I think, too, it has provided an excellent mechanism by which the student voice can be expressed;

- Despite the extraordinary difficulties over the last 12 months with funding cuts, COVID recovery, cost of living crisis to name a few, our committee members have remained professional, focused, and dedicated to doing the best we can for our students and college. It has been an absolute pleasure to serve on the board and committees;
- Sharing student initiatives across the region;
- The CSAO has successfully been inclusive and welcoming to South Lanarkshire College colleagues. The group has worked well discussing challenges faced by the college sector and has highlighted good practice achieved by both colleges;
- The committee has been proactive in addressing the current SFC funding deficit and the funding issue going forward.

**Development I would like to see in the next year:**

- More regular updates on funds such as bursaries, and how hardship funds and access funds are used;
- Enhanced scrutiny of targets linked to with an overview of budget implications regularly considered;
- I think it may be worthwhile looking at the performance successes of SLC in relation to their Education Scotland performance – with a view to determining benefits to be gained for NCL;
- To develop a Board and committee space on Teams to negate the distribution of papers by email.

**iii). Finance Committee**

Committee members' responses were very broadly in the "1"s category 'strongly agree', however there were some "2"s mainly in relation to 'is the committee forward looking', and 'do members have sufficient knowledge to contribute'. The comments on this were helpful. As for the CSAO Committee above these points will be picked up with the Principal and Senior Team. A particular concern was raised about the lack of development of a regional approach to planning and monitoring of financial matters. This has become entangled with the SFC decision to dissolve the Regional Strategic Body (see section 1 of this report) and the lack of progress being made by the suspension of the activities of the Region Transition Group

Comments include:

**What we have done well in the last 12 months:**

- Chair of committee brings useful challenge and reflect to those attending the committee

**Development I would like to see in the next year:**

- Further financial challenge of senior executive to ensure we provide clear and sufficient information to the committee to enable wider participation in the discussions and decisions;
- Longer term planning/visioning which reflects the financial situation within the sector.

**iv). Resources and General Purposes Committee (RGP)**

Responses were mainly "1"s and "2"s though there were a couple of "3"s in relation to being forward looking and around engagement with strategic partners. These points were also reflected in the responses of one of the senior team who has recently started attending the RGP.

**What have we done well in the last 12 months**

- Overall estates review

- Developed and utilised not only an ongoing and improved understanding of the College's and Region's business, but also a greater awareness of the environments they operate in – the relationships and partnerships that affect and impact upon engagement and delivery overall;
- Being as informed as is possible, but also demonstrating a willingness to listen, to be pragmatic and to be as adaptable as possible whenever a situation demands it.
- Level of detail on what can be complex issues is always good. We have done well with what we can control.

**Development I would like to see in the next year:**

- Issues relating to cladding often take a lot of time, perhaps given the very specialist aspect a separate meeting should be held and only an update at RGP;
- The FE Sector is facing numerous challenges with its colleges bearing the brunt of these. The impact upon learners, staff and management is likely to be significant. From a Lanarkshire perspective, it will be crucial for the improved operating arrangements with South Lanarkshire College to continue and, as a result, for the Region to be in a much better position to respond far more effectively and efficiently than would otherwise have been the case.
- Additionally, I would like to see a continuing return to more “face to face” environment where, to my mind, the benefits over online meetings are fundamental and offer:-
  - An improved ability to gauge others' reactions during discussions and to work in a more positive way to address concerns;
  - An increased opportunity to judge and spark new thoughts and ideas; and
  - More generally, an opportunity to create improved prospects of a more engaging Board and Committee structure where individual characteristics and personalities are better known and can be better utilised.

**4. The findings of the Board operational effectiveness survey**

A copy of the questionnaire is attached at **Appendix 4**

**Summary:** The overall feedback on the Board's operational effectiveness was positive; by far the responses were “1”s and “2”s (strongly agree/agree) with a smattering of “3”s and one “5” (strongly disagree). Alongside the “3”s, the comments made by some Board members indicate the areas we need to focus on in order to improve Board performance and at the same time encourage informed participation in discussion by a wide range of Board members. The one “5” in the survey is in connection with Staff Governance and clearly this response cannot be overlooked.

**SECTION 1 of the questionnaire: THE BOARD'S LEADERSHIP AND STRATEGY ROLE**

This section was subdivided into:

- ethical leadership
- strategic leadership and
- corporate social responsibility

The majority of Board members scored “1” or “2” (strongly agree/agree); two scored “3” in the 3 subdivisions in this section but there were no scores “4” or “5”. In addition to being asked to rate Board performance, Board members were invited to give their comments on “what we did well in the last 12 months” and “developments I would like to see in the next 12 months”.

Among the comments on the leadership section of the survey some examples are:

**What we have done well over the last 12 months:**

- Working with College senior management to help provide strong focus and direction on the tasks in hand; this during an ongoing period of stress & strain on different fronts. The social elements were not forgotten either, with the continuing provision of meals to learners and, subsequently, the launch of the [NCL Education] Foundation;
- Board being aware timeously of issues;
- We have focused on the student experience;
- The Board is always thoughtful regarding the impact of any decision on students, staff and the wider community;
- Having witnessed some issues that have occurred in other FE colleges, I believe that our board operates collegiately but with the correct amount of challenge when required.

**Developments I would like to see in the next 12 months:**

- Strategy to address the financial challenges ahead;
- Increased opportunities to focus on forward looking strategic considerations;
- The key issue is effective use of resource. As resource is a challenge that may impact the leadership we can provide. Lack of resource also means time being allocated to mitigate that as opposed to providing leadership;
- Constant financial monitoring will be required;
- To continue developing initiatives that improve outcomes for the students, the staff and the local community.

**SECTION 2 of the questionnaire: QUALITY OF THE STUDENT EXPERIENCE**

The subsections covered here are:

- student engagement
- relevant and high-quality learning
- quality monitoring and oversight.

At each of its meetings the Board is updated on student projects and activities by the Students' Association Presidents from both colleges; the Board has maintained its strong relationship with both Students' Associations. The Chair has an open access policy to all Board members, especially the Student Presidents, should they wish to raise any issues with him outwith regular Board and Board Committee meetings.

Feedback in the questionnaire from Board members was very positive in relation to the Student Associations' contributions with some constructive ideas for further development. All questionnaire respondees marked this section with "1" and "2" ("1" = strongly agree/agree) with one "3" in the section on 'student engagement'.

Comments in relation to the quality of the student experience section include:

**What we have done well over the last 12 months:**

- The continuing development of Student Association/Board interactions has been very positive and, in my opinion, is now light years ahead of where we were previously. I believe that this view is shared by the SA Presidents. With changes to the Board and SA positions imminent, it is my fervent hope that these improvements continue offering a better learning environment for all concerned;

- I think there are challenges in terms of working with external agencies who are also suffering from the current economic position;
- There is a focus on the student learner;
- In terms of student voice, I believe students have a strong voice at the table through the student reps;
- SA reports have developed and become very informative.

**Developments I would like to see in the next 12 months:**

- Board should interact more with staff – in the past the Board were assigned to different departments;
- While we have mechanisms in place, what are the outcomes? Can we evaluate the impact of cuts on the college student experience?
- We need to be even more closely linked in with the Lanarkshire region to ensure that the college is providing the right courses;
- It is increasingly difficult to improve, or indeed maintain, the student experience with an ever-decreasing budget.

**SECTION 3 of the questionnaire: ACCOUNTABILITY**

This section has subsections:

- Accountability and Delegation arrangements
- Risk Management
- Committee Structure

Predominant responses in the 3 subsections are “1”s and “2”s, (strongly agree/agree) however there are several “3”s in the first two subsections given by 2 individual Board members. These could be interpreted be as ‘don’t knows’ as they came from newer or less experienced members of the Board, or that the Board’s performance in these areas is perceived as average and needs to be tightened up. Further information is required before appropriate action can be decided.

One member felt that the ‘scoping and monitoring sources of evidence (internal and external to the region) to ensure that risks and potential new risks, are understood and controlled’ should be strengthened while another commented that some of the decision making could be more transparent. Neither of these concerns were reflected more widely but they remain points to be followed up.

The **Committee structure** was supported by all respondees. Please see section 3 of this report for the detailed feedback on the 4 main RSB committees.

Comments in relation to Accountability include:

**What we have done well over the last 12 months:**

- Continued to deliver professionally and appropriately despite the difficulties and barriers eg credit delivery, finances and the governance situation at South Lanarkshire College that persisted for much of the year;
- We have maintained focus on the financial performance of the College;
- Committees from NCL and SLC have formed stronger working relationships;
- Majority of papers issued with adequate time for Board members to have meaningful discussions/debates.

**Developments I would like to see over the next 12 months:**

- Increased opportunities to better include all Board Members into College life. The benefits of doing so should enable improved awareness and understanding of the “working” college, thus allowing more knowledgeable and informed contributions across a wider range of matters for the benefit of the Lanarkshire Colleges;
- Less “regular” use of the Chairs’ Committee;
- Resourcing committees (increasing committee member numbers perhaps) so that they remain quorate for all sessions;
- Now COVID is away is there a requirement for a Chairs’ Committee?

**Staff Governance**

All responses in this section were either “1” or “2” with one exception which was a “5”.

Comments include:

**What we have done well over the last 12 months**

- Albeit with well identified and conveyed concerns about the process, handled the governance situation at South Lanarkshire College in as good and appropriate manner as was possible;
- I feel like the board treats and listens to everyone equally.

**Developments I would like to see over the next 12 months:**

- The effective and positive conclusion of the dissolution of the current Regional College/Assigned College structure in Lanarkshire;
- We are able to work within the parameters that we can in terms of management of staff;
- Unions having access to the Board to assist in resolving the poor unions/management relationship.

**SECTION 4 of the questionnaire: EFFECTIVENESS**

Sections in this part of the survey were:

- The Regional Chair
- Board members
- Board Secretary
- Board member recruitment, induction and development
- Board evaluation and Development Plan

Feedback on the role of the Regional Chair was overwhelmingly positive with “1”s and “2”s, as were the comments on the knowledge and skills of Board members and the role and effectiveness of the Board Secretary. Three Board members gave “3”s in their responses on the induction process and the ‘regular review and updating of the Board Development Plan’ and on ‘Board members keeping their own development requirements under review’.

From the responses and the comments to this section it is important to ensure that these issues are taken forward with the Chair and Board Secretary and to put improved arrangements in place to address the concerns raised. Board members need to be confident that they are well briefed and can confidently contribute to Board discussion and its overall effectiveness. It was also suggested that a

more manageable self-evaluation process both for the annual Board performance review and for the appraisal of the Chair should be found.

Comments include:

**What we have done well over the last 12 months**

- Clerk to the Board's knowledge is invaluable, Chair makes himself available to all Board members, the Independent member is very caring;
- The Chair and secretary have shown great leadership;
- Worked together! (Although would like to see a return to face to face meetings as opposed to the Zoom/Hybrid models used – of necessity – over the last period);
- I think the board operates relatively efficiently and effectively. I know who to contact for any issue or for developmental support, and the chair is very responsive and can be called on at any time.

**Developments I would like to see over the next 12 months**

- For the benefit of the two colleges and the region as a whole, it will be imperative for the dissolution of the current operating arrangements – the regional and assigned college structure – is dealt with as sensitively, but as timely as is possible. We are now some considerable time from when it was decided these arrangements would be curtailed and, even considering the impact COVID had on the process, real progress is required.
- Also, in keeping with comments elsewhere and especially considering the number of new Board Members that will be recruited in the new term, renewed attention to such as supporting and developing the Board – individuals and as a whole – be given and applied.
- I think there should be a more structured training program for board members. The initial training is helpful but I think there should be training given that is tailored to specific committees and also on specific topics.
- I would like to receive board papers as one PDF to make it easier to digest as a recipient.

**SECTION 5 of the questionnaire: RELATIONSHIPS AND COLLABORATION**

This responses to this section were very positive, all "1"s and "2"s.

Comments include:

**What we have done well over the last 12 months**

- We have continued to build on the internal and external relationships required to help deliver an effective education platform for staff and learners alike;
- We have strengthened relationships with SLC and associated committee structures. That said the assigned college has consumed a lot of time and attention;
- Staff rep invited to meeting with SFC for transparency and allowed to feed into process;
- SLC reports made available and presented well.

**Developments I would like to see over the next 12 months**

- Whatever the eventual dissolution agreement looks like, the impact upon the colleges, the region, staff and learners should not be a negative one;
- Whilst outside of our immediate control, it would be good to reach a resolution with the assigned college. Whilst SLC have their own board, we are the board of NCL AND the assigned college and NCL deserve more of our focus and attention.

## 5. Chair's review: Appendix 5

This was undertaken by the Senior Independent Member. His full report is at [Appendix 5](#).

### Summary

There is no question that the last year has been a particularly challenging one and that there remain a number of difficulties which will continue for some time yet – financial concerns, regional needs and the dissolution of The Lanarkshire Order etc. However, it is clear also that the Regional Chair is regarded as being an effective leader of the Board, that he communicates confidence in his leadership and in his guidance around/navigation of issues. While work remains to be done, he has advanced the environment in which Board Members contribute - noteworthy in itself because of COVID and the Assigned College challenges - as well as, in robust conjunction with the College's Senior Management Team, strengthened the relationship it enjoys with Board Members, the benefits of which are then evident at all levels within the College.

DRAFT

## 6. Board Development Plan

Arising from the questionnaires (Appendices 2, 3 and 4) a number of constructive suggestions were put forward by Board members:

- To strengthen the Induction programme for new Board members;
- To revise and reintroduce the mentoring/buddying programme;
- To have Information sessions on:
  - Partner agencies, their structure and how they interact with colleges;
  - Sector jargon and acronyms;
  - Sector finances and how they are constructed;
  - Cyber security;
  - Risk appetite;
- To work with the senior team at NCL to ensure members have sufficient and appropriate information to enable them to participate in discussions at the Board and in committees;
- To consider better interaction between the Board Committees on key issues especially in relation to finance and risk where crossover meetings between the Finance and Audit and Risk Committees could be beneficial;
- How to involve more Board members in important matters;
- Having strategy sessions outwith the regular Board meetings which of necessity are heavily laden with process issues leaving little time for discussion and the generation of new ideas;
- Closer collaboration between the Lanarkshire colleges and the region's agencies;
- Setting a defined annual meeting date for the Remuneration Committee;
- To review how papers are presented to the Board and to ensure there is a cover sheet setting out the context with clear direction for the Board on the action needed.

## 7. Next steps following approval by the RSB and submission to SFC:

1. To put in place regular information sessions as noted in the section above, and to advise members of forthcoming events run by third parties;
2. To research and implement additional methods of induction for new Board and Committee members;
3. To work with the Principal and his senior team on future strategy events with Board members;
4. To investigate ways to improve the presentation of papers at Board and Committee meetings;
5. To consider how to we engage the wider board members in a more active and participative manner;
6. To continue to engage closely with, and give support to, the students through the Students Association;
7. To find more timely ways to keep Board members informed of developments, especially when decisions have been taken in the Chairs' Committee because of the need for speedy action.

## 8. Appendices:

- Appendix 1 The Lanarkshire Board self-evaluation process 2022-23
- Appendix 2 Outline questionnaire for 1:1 interviews and Personal Development Plans
- Appendix 3 The Committee operation and structure questionnaire
- Appendix 4 The Board Operating effectiveness questionnaire
- Appendix 5 Chair's appraisal undertaken by the Senior Independent Board Member
- Appendix 6 Board Development Plan 2023-25

# Scotland's colleges 2023

A briefing paper



AUDITOR GENERAL 

Prepared by Audit Scotland  
September 2023



# Key messages

- 1** Scotland's colleges are vital to learners and local communities. Risks to the college sector's financial sustainability have increased since we reported in 2022. Rising staffing costs are colleges' biggest financial pressure.
- 2** The Scottish Government's funding for the sector has reduced by 8.5 per cent in real terms between 2021/22 and 2023/24, while the sector's costs have increased. Effective, affordable workforce planning is now a greater than ever priority and challenge for colleges.
- 3** Significant changes to how the college sector operates have been recommended by recent reviews. However, the Scottish Government and the Scottish Funding Council urgently need to build on their ongoing work to help colleges plan for change now, and make best use of available funding so that they are sustainable for the future.

## Accessibility

You can find out more and read this report using assistive technology on our [website](#).

For information on our accessibility principles, please visit: [www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility).

# Scotland's colleges have a vital role

## Colleges provide valuable learning and facilities, support economic growth and help people achieve wider outcomes

1. Scotland's colleges offer academic and vocational courses to develop people's skills and knowledge for work, continued study or general interest. Students can choose to study full-time, day release, evenings, block release or on an open learning basis. The courses that college students undertake contribute not only to their own development but also to Scotland's sustainable economic growth. Colleges are valuable hubs whose facilities may also be used for local community purposes, including as meeting spaces and sports venues.

## There are different types of colleges

2. Of the 24 colleges in Scotland, 22 sit in college regions that have one or more colleges. Nineteen colleges are classed as 'incorporated' and are public bodies that are subject to audit by the Auditor General for Scotland (AGS). As public bodies, incorporated colleges are not permitted to retain reserves at the end of their financial year. The five unincorporated colleges (**shown in bold in Exhibit 1 (page 4)**) are not audited by the AGS and have a range of constitutional arrangements. Two establishments are outside colleges' regional arrangements. **Sabhal Mòr Ostaig** offers further and higher education opportunities through the medium of Scottish Gaelic. **Newbattle Abbey College** is an unincorporated residential college that caters largely for students returning to education in adulthood. In addition, **Scotland's Rural College** is a higher education institution that contributes to the national target for colleges.

3. On 1 August 2023, UHI North Highland and UHI Lews Castle, both of which were incorporated, merged with each other and with UHI West Highland, which was previously unincorporated. The new, merged college is known as UHI North, West and Hebrides. It is expected to be assigned to the University of the Highlands and Islands (UHI) and incorporated. This merger is designed to create an institution of scale which will improve sustainability and create benefits for students, staff and stakeholders across a wide region of Scotland.

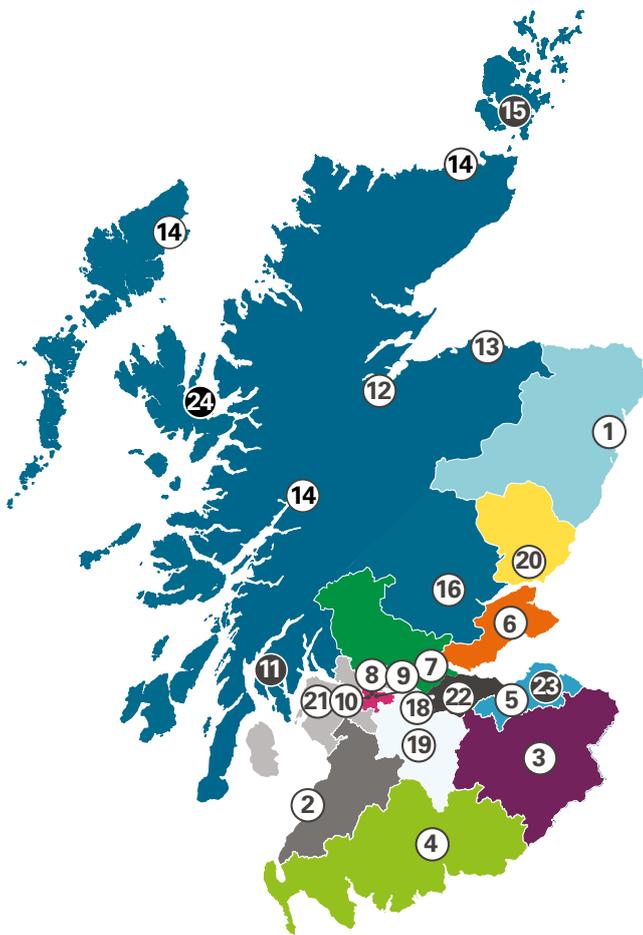
4. This briefing paper draws on our analysis of auditors' annual audit reports (AARs) about incorporated colleges.

# Exhibit 1.

## Scotland's colleges as at 1 August 2023

The colleges not listed in bold are subject to audit by the Auditor General.

- College – incorporated, audited by AGS
- **College – unincorporated, not audited by AGS**



| Region                     | College                           |
|----------------------------|-----------------------------------|
| Aberdeen and Aberdeenshire | 1 North East Scotland College     |
| Ayrshire                   | 2 Ayrshire College                |
| Borders                    | 3 Borders College                 |
| Dumfries and Galloway      | 4 Dumfries & Galloway College     |
| Edinburgh and Lothians     | 5 Edinburgh College               |
| Fife                       | 6 Fife College                    |
| Central                    | 7 Forth Valley College            |
| Glasgow                    | 8 City of Glasgow College         |
|                            | 9 Glasgow Clyde College           |
|                            | 10 Glasgow Kelvin College         |
| Highlands and Islands      | <b>11 UHI Argyll</b>              |
|                            | 12 UHI Inverness                  |
|                            | 13 UHI Moray                      |
|                            | 14 UHI North, West and Hebrides   |
|                            | <b>15 UHI Orkney</b>              |
|                            | 16 UHI Perth                      |
|                            | <b>17 UHI Shetland</b>            |
| Lanarkshire                | 18 New College Lanarkshire        |
|                            | 19 South Lanarkshire College      |
| Tayside                    | 20 Dundee and Angus College       |
| West                       | 21 West College Scotland          |
| West Lothian               | 22 West Lothian College           |
| n/a                        | <b>23 Newbattle Abbey College</b> |
| n/a                        | <b>24 Sabhal Mòr Ostaig</b>       |

Source: Audit Scotland

## The Scottish Government has a central role in setting policy and funding the college sector

**5.** The Scottish Government sets national policies for learning and provides over three quarters of the college sector's funding, through its financing of the Scottish Funding Council (SFC). It does this in financial years (FY) that run from April to March.

**6.** The SFC works with colleges to set thresholds for the amount of course provision that colleges should deliver and provides the funding to each college, or regional strategic body in multi-college regions. It does this to fit with the college sector's academic year (AY) from August to July. A regional strategic body allocates funding to the colleges within its area. The SFC holds colleges and regions to account for what they deliver through Outcome Agreements. These set out what colleges plan to deliver in return for their funding from the SFC. Its Outcome Agreement Managers work with each college to develop their individual Outcome Agreement.

# Risks to the college sector's financial sustainability have increased

## In 2022, we reported that change was needed to ensure the sector's financial sustainability in the long term

**7. [Scotland's colleges 2022](#)** drew on colleges' accounts for AY 2020-21 and concluded that it will be difficult for colleges to balance delivering high-quality learning at the volume expected while contributing to other Scottish Government priorities. We said change was needed to ensure more students are successful; and also that the Scottish Government and the SFC should support colleges to plan for change now to make best use of available funding and ensure the sector is financially sustainable in the long term.

## Risks to the sector's financial sustainability have increased since then

**8.** Auditors' AARs on incorporated colleges for AY 2021-22 highlighted sustained risks to colleges' financial sustainability, and an increased level of risk in most of them.

**9.** The SFC requires a college to report its adjusted operating position (AOP), to reflect its underlying operating performance after allowing for material one-off or distorting matters outside its control. This helps to assess a college's underlying financial strength and to provide figures which are readily comparable among colleges.

**10.** The sector reported an adjusted operating surplus of around £8 million in AY 2021-22. The SFC has not yet concluded its assessment of the sector's finances for AY 2021-22. While early analysis indicates that the sector's adjusted operating surplus is slightly better than forecast, the surplus for AY 2021-22 is likely to be considerably less than its surplus of £19.3 million for the previous year.

**11.** The anticipated reduction in the surplus is partly due to increases in staff costs, reflecting the impact of the sector's pay award in AY 2021-22 and some additional recruitment as well as rising inflation, fuel costs and other pressures. Other operating costs increased by around £10 million (six per cent) on AY 2020-21 levels. The return to campus activity – following

the impact of the Covid-19 pandemic – saw an increase in teaching, teaching support and administration costs plus increased catering, student residence and utilities costs. More colleges reported an adjusted operating deficit in AY 2021-22 than in AY 2020-21.

## Rising staffing costs are colleges' biggest financial pressure

**12.** Staff costs accounted for more than two thirds (around 70 per cent) of the sector's expenditure in AY 2021-22. Changes to their staffing are one of the main levers for colleges to manage their costs. Staff pay awards remain a pressure on college finances. Trade unions are continuing to pursue their pay claim for AY 2022-23. Employers' pension contribution costs are increasing. The outcome of a job evaluation exercise for support staff will also increase staff costs when completed.

**13.** Colleges have already sought voluntary redundancies to reduce their staff costs. While final figures for the sector are not yet available, we know that many colleges have spent money on staff restructuring costs – that mainly involve voluntary redundancies – to help save money in the longer term. The SFC reported that there were no compulsory redundancies during AY 2021-22. Some colleges anticipate the need for further, significant staffing reductions which could severely erode their ability to deliver a viable curriculum.

**14.** Glasgow Kelvin College has indicated that it may need to reduce its workforce by 21 per cent from AY 2022-23 to AY 2024-25. Ayrshire College, in preparing its 2022 financial forecast, also calculated a set of financial projections using an alternative, more pessimistic planning scenario (compared to the planning assumptions provided by the SFC). This scenario found the college may need to lose 70 per cent of its staff over a five-year period – a scenario in which it could no longer function.

**15.** All colleges provided updated financial forecasts to the SFC at the end of June 2023 along with additional planning scenarios that they considered appropriate for their operating environment and circumstances. The updated forecasts and additional planning scenarios supersede the 2022 equivalents. These are currently being reviewed by the SFC.

**16.** The strategic workforce pressures facing the college sector are more challenging than before, as colleges seek to reduce their costs. Some colleges have said that they are considering implementing compulsory redundancies. In June 2023, the Minister for Higher and Further Education and Minister for Veterans [informed](#) the Scottish Parliament's Education, Children and Young People Committee that he had written to all college principals to '[reiterate the importance the Scottish Government places on the use of fair work practices in the college sector ... My officials are engaging with the SFC to build a picture of the scale of redundancies facing the sector and whether there is any impact on provision.](#)' In July 2023, the Minister [wrote](#) to the Committee, indicating that colleges should only seek compulsory redundancies as a last resort and should notify the SFC of such intentions.

## Colleges also have other pressures

**17.** Without investing in maintenance, colleges risk their estate becoming a worsening environment for learning. [Scotland's colleges 2022](#) noted that capital funding for the college sector was £321 million short of requirements for lifecycle and backlog maintenance, and that capital funding from the Scottish Government, administered through the SFC, had consistently fallen short of the level colleges have needed.

**18.** The SFC developed the [College infrastructure strategy](#) for 2023-33 in consultation with the sector and it recognises the urgent need for significant investment in the college estate. The Scottish Government increased the sector's capital funding from £74.7 million in FY 2022/23 to £82.4 million in FY 2023/24. After taking account of inflation, this represented an increase of 7.6 per cent in real terms. Recognising the increasing number of urgent calls for assistance on repairs/works of a health and safety or business continuity nature, the SFC set aside £4.7 million in AY 2023-24 to support the sector. The SFC received expressions of interest to a value of approximately £20 million and is currently triaging these to a shortlist to fit the budget. Emerging issues around Reinforced Autoclaved Aerated Concrete will only add to this pressure.

**19.** Numerous colleges have highlighted impacts from the Covid-19 pandemic on their financial position and sustainability. These include reductions in their non-SFC income sources in AY 2021-22 due to pandemic-related restrictions, such as constraints on pursuing commercial opportunities. Other risks are summarised in [Exhibit 2](#).

## Exhibit 2.

### Significant areas of risk for colleges

This is a cross-section of the numerous risks affecting colleges.

- Inflation, interest rates and energy costs.
- The investment required to achieve public sector net zero targets, especially in relation to the college estate.
- Investment required to invest in digital.
- Difficulties in attracting and retaining students and staff.
- The requirement for colleges to self-fund staff restructuring and voluntary severance package costs.
- Competition from private sector training providers.
- Competition from some universities.
- The challenges of raising income from non-teaching activities.
- The impact of cost efficiencies on staff wellbeing and the student experience.



# Colleges rely heavily on Scottish Government funding

**20.** The Scottish Government's budget works in financial years (FY) that run from April to March, such as April 2022 to March 2023. The Scottish Government has budgeted revenue funding for the college sector comprising £675.7 million in each of 2021/22, 2022/23 and 2023/24. After taking account of inflation, this represents a reduction in real terms of 8.5 per cent from 2021/22 to 2023/24.

**21.** The SFC uses the Scottish Government's funding to provide grants to colleges within their academic year (AY) that runs from August to July. This means that a college year spans two years of the Scottish Government's budget. For example, the college sector's AY 2022-23 year spanned the Scottish Government's financial years FY 2022/23 and FY 2023/24. The SFC has set a college revenue budget for AY 2022-23 of £675.3 million, a reduction of £36.5 million (5.1 per cent) from AY 2021-22.

**22.** Grant funding provided via the SFC accounted for around three quarters of the college sector's total income in AY 2021-22. One college relied on the SFC for less than half its income (Sabhal Mor Ostaig). All other colleges relied on the SFC for more than half their income, including seven that obtained over three quarters of their income from the SFC. Colleges' main source of non-SFC income was tuition fees and education contract income, with other income-generating activities, including catering, making up the bulk of the balance.

# Significant changes lie ahead

## The Scottish Government recognises that changes are needed

**23.** Several national reviews have recently recommended major changes that would affect the college sector, and these sit alongside other significant developments ([Exhibit 3](#)). They all bring both challenges and opportunities for the Scottish Government. There are questions about what can realistically be achieved in the short term and what may require a longer timescale, possibly involving new legislation.

## Exhibit 3. Recent major developments affecting the college sector These bring challenges and opportunities.



**29 June  
2021**

The SFC's [review of tertiary education and research](#) included a recommendation to the Scottish Government that there should be more flexibility in how colleges are funded.



**7 June  
2023**

The Withers [review of the post-school learning system](#) urged the Scottish Government to think creatively about how to secure the sustainability of the post-school skills delivery system. It included a recommendation that the Scottish Government should redesign the process for how funding of all learning and training provision, including apprenticeships, is allocated to ensure it is prioritised to deliver strategic outcomes and best value for public investment. It also recommended the establishment of a single funding body and parity of esteem between colleges and universities.



**22 June  
2023**

The Hayward [review of qualifications and assessment](#) will have implications for the qualifications that colleges consider when selecting students and employees, and for the courses that colleges provide.



**28 June  
2023**

The Scottish Government's [Purpose and Principles for post-school education, research and skills](#) includes a target outcome that the system is 'financially and environmentally resilient; trusted to deliver, and subject to effective governance'. The programme of reform, signalled through the Scottish Government's [Initial priorities for implementation](#) and the Purpose and Principles, outlines the key actions that the Scottish Government will be taking forward to deliver on the vision and outcomes it has set for the system.

**24.** In May 2023, the Scottish Parliament's Education, Children and Young People (ECYP) Committee **concluded** that 'If additional funding is unavailable, and flexibility within current funding arrangements is also not forthcoming, then the Scottish Government and the Scottish Funding Council need to provide colleges with a clear steer on what they should be prioritising.'

**25.** In June 2023, the Scottish Government took some initial steps in response to these developments:

- It **advised** the Scottish Parliament's ECYP Committee that it had 'heard loud and clear the calls for reform and won't shy away from decisions which will deliver better services for learners and employers and simplify the operating environment for our colleges, universities and training providers.'
- It **advised** the ECYP Committee that it is considering ways to give colleges more financial flexibility. It also **asked** the SFC to play an active role in helping colleges to use their funding allocations more flexibly; and to intervene in the sector where necessary.
- It **announced** that it plans to take over national responsibility for skills planning, and that there will be a new national model of public funding for all colleges, universities, apprenticeships and training.

**26.** The SFC has introduced a new funding distribution model and associated guidance for AY 2023-24. This is to provide colleges with enhanced flexibility and greater opportunity to decide how best to respond to local, regional and national needs. The Scottish Government is exploring the potential for further changes in colleges' funding arrangements.

## **The Scottish Government and the SFC urgently need to build on their ongoing work with colleges and help them become sustainable now, while structural arrangements at a national level evolve**

**27.** Overall, 25.5 per cent of school leavers went into further education at college in AY 2021-22, compared to 35.6 per cent from the most deprived areas (Scottish Government **statistics**, February 2023). These figures exclude school leavers undertaking a higher education course in a college. Colleges therefore play a vital role in providing people, particularly those from more disadvantaged areas, with the training, qualifications and life-skills that can help them to succeed in life and make a valuable contribution to society. More widely, colleges also contribute to achieving the Scottish Government's three national 'missions':

### **The Scottish Government's three missions**

- 1 Equality:** tackling poverty and protecting people from harm.
- 2 Opportunity:** a fair, green and growing economy.
- 3 Community:** prioritising our public services.

**28.** A significant reduction in a college's range of courses, student capacity, or its closure altogether could have an unequal impact on students from more deprived areas, plus ramifications for the wider community. In many rural, remote and island communities, there is no alternative college nearby.

**29.** Policy and structural changes by the Scottish Government have the potential to improve colleges' operating environment but colleges face daunting challenges now to their business models and finances. For example, colleges need to maintain and, if possible, enhance the learning they provide and improve outcomes for their students. At the same time, they are managing complex change across the college sector and considerable strain on their finances.

**30.** Addressing the challenges facing the college sector cannot be avoided or postponed. While recognising the role of college leadership teams in managing their finances, it is also critical for the Scottish Government to work with the SFC during AY 2023-24 to support colleges in planning for change now and making best use of available funding. This should help to secure colleges' future while the Scottish Government considers its response to the reviews featured in [Exhibit 3 \(page 10\)](#), and the funding it allocates to the sector.

## Next steps

**31.** We report annually on the audits of Scotland's incorporated colleges. We will continue to monitor and report on developments across the sector as their impacts become clearer.

# Scotland's colleges 2023

A briefing paper



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN

Phone: 0131 625 1500 Email: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

ISBN 978 1 915839 20 6 AGS/2023/6

# 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              | 3  |
| 2: All sectors               | 5  |
| 3: Local government sector   | 6  |
| 4: Central government sector | 18 |
| 5: Health sector             | 20 |
| 6: Professional matters      | 22 |

---

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

## Consulting with Professional Support

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

---

# 2: All sectors

---

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

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 paragraph 56.

## 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                       | <p>Narrative should briefly explain the purpose and background of the Common Good fund.</p> <p>Accounting policies different from the local authority's should be highlighted.</p> <p>Authorities should consider disclosure of their policy position on the use of common good assets and resources.</p>                                       |
| Income and Expenditure Statement (IES) | <p>The IES should mirror the local authority CIES.</p> <p>Where the local authority manages several funds, they can be aggregated into one single statement.</p> <p>Paragraphs 2.15 and 2.16 set out respectively examples of debits and credits expected to be made to the IES.</p> <p>Paragraph 2.17 sets out an illustrative IES format.</p> |
| Balance Sheet                          | <p>Paragraph 2.19 sets out an illustrative Balance Sheet.</p> <p>Assets should be depreciated and set against any surplus in the income and expenditure account. Statutory adjustments are not permitted.</p> <p>No additional balance sheet disclosures are required.</p>  |
| Disclosure Notes                       | <p>The level of disclosure is left to the local requirements of each local authority.</p> <p>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.</p>                                       |

## 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     | <p>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".</p> |

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 | <p>Disclosure of Accounting Policies -Amendments to IAS 1 Presentation of Financial Statement requires an entity to disclose material (rather than significant) accounting policy information.</p> <p>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.</p> <p>Paragraph 3.4.2.90 provides examples of when accounting policy information is likely to be material.</p> |
|-----|--|

|            |   |
|------------|---|
| Appendix D | <p>Confirmation of the new standards introduced to the 2023/24 accounting code:</p> <ul style="list-style-type: none"> <li>• Definition of Accounting Estimates (Amendments to IAS 8)</li> <li>• Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)</li> <li>• Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)</li> <li>• Updating a Reference to the Conceptual Framework (Amendments to IFRS 3)</li> </ul> |
|------------|---|

|            |  |
|------------|--|
| Appendix F | <p>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.</p> |
|------------|--|

## 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                      | Paragraph 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](mailto: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

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)

For the latest news follow us on social media or [subscribe to our email alerts.](#)



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