Audit and Risk Committee Agenda

5.00 pm 19th February 2024 – Boardroom Cumbernauld Campus and Via Zoom

1.	**Chair's welcome**	
2.	**Apologies for Absence**	
3.	**Declarations of Interest**	
4.	**Minute of meeting 4th December 2023 (FA)**	**Minutes Posted**
5.	**Matters Arising from Minutes**	

SLC Business

6.	**SLC ARC Update (FI)**	**Paper posted - EM/ YF**
7.	**SLC Governance Assurance Framework Update (FI)**	**Verbal Update - EM**

NCL Regional College Business

8.	**Technical Bulletin Audit Scotland October –December 2023 (FI)**	**Paper emailed: IC**
9.	**Audit Scotland Reflection and Update**	**Verbal Report - AS**
10.	**Regional Risk Register* (FI)**	
	10.1 Regional Risk Register **10.2 SLC Risk Register**	**Paper Posted:MS** **Commentary: EM**
11.	**Horizon Scanning – NCL Forward Plan (FI) ***	**Verbal Update – CM/IC**

NCL Business

12.	**Internal Audit Progress Report (FI) *:**	**Papers Posted: WB**

General Committee Business

13.	**Approval of Publication of Committee Papers (FA)**	**Verbal report: BS**
14.	**AOB**	
15.	**Date of Next Meeting:** The date for the next scheduled meeting is **Monday 13th May 2024**.	

Key Abbrieviations: **FI= (For Information) FA (For Approval) FR = (For Recommendation) :** *= non – disclosable # = published on SLC website ~ = for future publication
IC= Iain Clark; WB=Wylie Bisset; AS = Audit Scotland CM = Christopher Moore; BS = Board Secretary; MS- Matthew Smith; EM = Elaine McKechnie: CMcL = Craig McLaughlan; PH=Paul Hutchinson; RS = Ronne Smith; YF- Yvonne Finlayson; SM = Stella McManus Principal SLC; RS= Ronnie Smith
Diane McGill = Board Secretary

Minute: Audit and Risk Committee

4.00 pm 4th December 2023 – Boardroom Cumbernauld Campus and Via Zoom
Present: Face to Face Kellyann McGraith
In Attendance: Christopher Moore, Anne Baxter, Iain Clark, Penny Neish, Matthew Smith, Louisa Yuill (Audit Scotland)
Present via Zoom: Yvonne Finlayson, Alastair Rennie (from Item 9), Ronnie Smith. Stella McManus. Elaine McKechnie, Stephen Pringle (Wylie Bisset)

1. Chair's welcome: Yvonne Finlayson welcomed all to this meeting and thanked members for their attendance in the busy run up to Christmas.

2. Apologies for Absence: There were apologies from Catherine Pollock.

3. Declarations of Interest: There were no declarations of interest.

4. Minute of meeting 18th September 2023: The minute was approved.

5. Matters Arising from Minutes:

5.1 Yvonne Finlayson asked Louisa Yuill about points raised at Item 8 of the minute **-** increased employers' costs for pension provision, scenario planning in colleges that showed unsustainable financial positions and capturing he social value of what colleges do and whether Audit Scotland had models or knew of models for capturing such information. Christopher Moore had highlighted Social Value UK at Oxford University and asked Audit Scotland if this could be piloted. Louisa Yuill said that she had asked and there were no models but Audit Scotland were happy to meet to discuss this further.

5.2 Yvonne Finlayson said that she would like to have follow up actions listed from each meeting and a paper which would come to the next meeting under Matters Arising.

Action: The Board Secretary would liaise with her on this report.

6. SLC ARC Update: Elaine McKechnie presented her paper to the Committee as follows:

6.1 Risk Management: SLC ARC members considered the latest update of the College's Risk Register. It was noted that a risk around environmental sustainability has been added to the register for review and monitoring across the year in meeting Scottish Government 'net zero' targets. The major movements in scoring related to reduction in inherent risk regarding the failure of governance arrangements which are well controlled and consequently, reputational risk as a result. SLC ARC members noted the Regional Strategic Risk Register and that a representative of the SLC Finance Dept. attends the Regional Risk Group meetings.
6.2 Rolling Audit Recommendations (RAR) monitor: Members noted the schedule of rolling outstanding audit recommendations and the work that had been recorded on addressing these. Internal auditors Henderson Loggie presented their findings from the year on a further 4 audits undertaken during the year: Budgetary Control, Student Activity (Credits), Student Support, Quality. The recommendations arising from these audits will be added to the monitor for action across 2023/24 and beyond where agreed.
6.3 External Audit: Audit Scotland presented the Annual Audit Report for the audit of the 2022/23 financial statements. There were no major concerns noted and audit opinions expressed therein are unmodified. However, two recommendations were made as follows: The College should thoroughly review its Performance Statement, Governance Statement and the Remuneration and Staff report well in advance of the audit next year, to ensure compliance with applicable guidance. The fixed asset register should also be

fully reviewed to ensure accurate data entries prior to next year, with appropriate transfers booked from the revaluation reserve to the general fund for excess depreciation resulting from any revaluations.

6.4 Internal Audit: The Committee considered the 4 reports by Henderson Loggie who presented their findings at the meeting. No major concerns were noted in any of the reports. For any actions required, management have given their responses and sufficient timescales for actioning. Internal Audit also shared their progress report for 2022/23 including an operational plan for 2023/24. As well as standard annual audits on credits, bursary, student support funds, the following areas of College operations are listed for internal audit assignments across 2023/24**:** Publicity and communications, Student support, Payroll, Space management/room utilisation, Procurement and creditors/purchasing, Corporate Governance.Timelines for completion of these audit assignments will be discussed and agreed with College Management in due course.

6.5 Committee Workplan: The draft Committee workplan was presented again by management as an aid to monitoring the work that has been done during the year. This enabled discussion as to the remit of the Committee at various times across the year and ensures continued compliance with governance matters.

7. SLC Governance Assurance Framework Update: Stella McManus informed the Committee that the 2022-23 external audit concluded that SLC was fully compliant with the Code of Good Governance. The Governance Improvement Plan as noted before had been rolled into the Assurance Framework. The new Governance Professional would work with the Internal Auditors who would conduct a review of Corporate Governance in the new tear which would go to the SLC ARC at its March 2024 meeting.

8. SLC 2022/23 Audit and Financial Statements Update:

8.1 Elaine McKechnie briefed the Committee as follows:

8.1.1 Income: Total income of £19,050k was recognised in 2022/23 against the prior year total of £19,134k in 2021/22; an overall minimal decrease of 0.4%.

8.1.2 Investment income of £15k in 2022/23 versus £1k in 2021/22 reflects the favourable bank interest rates on the account, validated by reference to the official bank rate of 5.25% on 3 Aug 2023 versus a rate of 1.75% on 4 Aug 2022. It should be noted that the College is keen to seek opportunities for income generation through favourable interest rates and as a result, in 2023/24 the College has placed a deposit of £750,000 of existing funds into a special reserve account until 01/12/2023 which will accrue £11.3k of interest. A recommendation for a further 4-month investment of funds has been taken to the Finance & Resources Committee and duly approved.

8.1.3 Expenditure: Total expenditure of £20,073k was recognised in 2022/23 against the prior year total of £20,338k in 2021/22; an overall decrease of 1.3%. Staff costs at £14,732k make up 73.3% of total expenditure (2021/22: £14,732k; 72.4% of total costs), which is above the national average, based on the SFC's review of 2021/22 college data, of 69%. Despite a reduction in headcount, staff costs have been adversely affected by provisions that have been made for salary increases. The College is committed to undertaking a strategic review of staffing during 2023/24, ensuring that staff utilisation is optimal and promoting a culture whereby staff in all support and curriculum areas are encouraged to source or redeploy resources to other areas where possible to avoid additional staff requisitions that are not currently factored into the budget for 2023/24.

8.1.4 Operating Deficit for the Year: The College recognised an overall operating deficit of (£1,023k) in the current year. This result reflects the financial challenges faced during the year in respect of uncertain pay increases, additional costs as a result of the Cost of Living crisis and restricted Scottish Funding Council grants. It further supports the requirement for a wider strategic review of current operations during 2024/25, including exploration of potential income diversification initiatives to support the College's finances in light of flat funding from the Scottish Funding Council in 2023/24.

8.1.5 Actuarial Gain/Loss from the Pension Scheme: The valuation at 31 July 2023 resulted in a net pension asset increase to £5,758k at 31 July 2023 from £2,391k asset as at 31 July 2022. Despite the plan's healthy surplus, the pension asset has subsequently been restricted to a £nil position as an asset ceiling adjustment. The College cannot recognize a surplus as it is unable to reduce future contributions to the plan due to minimum funding requirements and is unable to request refunds from the Local Government Pension Scheme (LGPS) plan into which many other organisations contribute. £3,603k of the net movement was an actuarial again (out with our control) which has been reflected through the SOCI as a decrease to our total comprehensive loss for the year.

8.1.6 Intangible Assets: It should also be noted that external audit identified the inclusion of intangible assets within our fixed asset portfolio. Intangible assets include software licensing costs, website design costs and implementation costs for the new HR system amounting to £202k. It was agreed that an intangible asset note be incorporated into the Financial Statements. Board members are asked to support the decision to incorporate intangible assets separately and be written off over 4 years in line with computer equipment.

8.1.7 Low Carbon House: The write off period of the low carbon house had been changed from 10 years to 40 years in line with the main building.

9. Technical Bulletin Audit Scotland July 2023 –September 2023

9.1 Iain Clark drew the ARC's attention to a College Section in this report at P 13 as follows:

9.1.1 Material Misstatement: The Technical Guidance Note is intended to inform auditors' judgement when identifying and assessing the risks of material misstatement in the 2022/23 annual report and accounts of central government bodies generally.

9.1.2 Model Independent Auditors Reports: Professional Support has published Technical Guidance Note 2023/6(C) to provide auditors with model forms of Independent Auditor's Reports (IAR) which should be used for the 2022/23 annual accounts of colleges in Scotland. The Scottish Funding Council (SFC) has issued their Accounts Direction for Scotland's Colleges 2022/23. The direction requires colleges to comply with the SORP in preparing their financial statements and include a Performance Report and Accountability Report in their annual report and accounts in accordance with the FReM. The SFC has issued guidance notes on completion of the 2022/23 financial statements which are designed to supplement the accounts direction. The guidance covers key disclosures in the financial statements, including model disclosure notes set out at Annexes A to F.

10. RSB Consolidated Accounts

10.1 Annual Audit Report 2022/23:

Louisa Yuill Audit Scotland (AS) presented the Annual Audit Report to the Committee as follows:

10.1.1 Overall Observation: This is the first year of the audit appointment. The first year is always challenging for both the officers at the college and the audit team as they get to know ways of working.

10.1.2 Letter of Completion: The first agenda item is the letter to those charged with governance around the conclusion of the audit. AS have substantially concluded their audit work. The proposed independent auditors report is an unmodified opinion and it states that the financial statements give a true and fair view and have been properly prepared in accordance with legislation and guidance issued by Scottish Ministers. The letter includes two appendices – Appendix A which is the proposed independent auditors report and appendix B is **the Letter of Representation** that will be returned by the Accountable Officer to provide representations around the accounting records and preparation of the accounts. These are standard representations AS is requesting. AS have substantially concluded their audit work. It was noted at paragraph 10 of the letter there are a few outstanding pieces of information. AS to updated the committee and confirmed that the journal documentation and the leger prints and payroll reports have been provided. AS are continuing their work on staff costs and the remuneration report including exit packages and would hope to conclude this in the next few days.

10.1.3 The Annual Audit Report was the second item. Louisa Yuill drew attention to the key messages at page 3 of the report and highlighted that AS had concluded that:

- The college has a well-established budget monitoring and reporting process in place
- The AS work did not identify any significant weaknesses in their review of the design and implementation of key controls within the financial systems
- AS noted pressures around financial sustainability and the pressures from flat cash funding settlements and the impact this will have on decision making going forward. They note that discussions are underway with the Scottish Funding Council around a financial recovery plan.
- Appropriate governance arrangements are in place but there are areas that could be reviewed to promote openness and transparency around the information published on the website.
- Some key performance indicators have improved performance in comparison to the prior year but performance has not returned to pre-pandemic levels and withdrawals rates remain higher than the national average.

10.1.4 Significant Findings from the Audit are outlined at Exhibit 3 on page 12

- Point 2 relates to the guidance issued by SFC regarding credit clawback. This updated guidance was received by the college in November 2023 following production of the draft accounts. The guidance has been reviewed and applied and the accounts updated to reflect this change.
- The pension reserve at point 3 was a request from the audit team to remove the reserve and combine it with the income and expenditure reserve as required by SORP. We are content with the adjustments made to the accounts.
- Point 4 features in annual audit reports across the public sector and it is really included for information due to the large movement in year and to confirm that the AS audit work concluded in this area and AS are satisfied with the college's disclosure and accounting treatment.
- The revaluation accounting point AS are still concluding their work on. This was an adjustment AS requested to comply with the Further Education Statement of Recommended Practice. This was due to system mis-posting from the fixed asset system to the ledger. It only occurs in years that a revaluation takes place. The system is calculating the adjustment but posting it to the wrong ledger code. AS have agreed with officers a change in the journals posted going forward to rectify this issue.
- The final point 8 around NDR charges was an error that has been corrected as part of the financial statements audit.

10.1.5 Wider Scope - Sections 2-5 go through the AS conclusions on the wider scope parts of the audit – financial management, financial sustainability, vision and governance and use of resources.

10.1.6 Appendix 1 - The first two recommendations are interlinked.

- **Recommendation 1.** Finance officers have a plan and timetable in place for the production of the accounts. Delays and difficulties in receiving information from across the college resulted in delays to the production of the accounts which then impacted the audit process. This is a tight timetable and it squeezes that and causes additional pressures. AS are aware that their approach is different to the previous auditors who wanted to wait for all information to be available.AS would prefer to take all single entity information and the completed parts of the narrative reports at the front of the accounts including the remuneration and staff cost report at the start of the audit, even allowing for the absence of information relating to South Lanarkshire College and any delayed

performance information. The audit process has been very challenging due to the late receipt of information (external and internal) and AS would be looking for an improvement next year in adherence to the project plan.
- **Recommendation 2** Disclosure within the performance report, accountability report and staff and remuneration report were prepared for audit on the basis of prior year templates. Issues arose with these not being compliant with applicable guidance and work is ongoing to update these sections. It is really important that officers responsible for these sections review technical guidance to ensure all required disclosures are included as new information can be included year on year i.e. climate change and sustainability are recent examples of new areas to include and that they are within the correct sections of the report. It is also important that information required to complete these sections are available at the earliest opportunity.
- **Recommendation 3** is around some non-current asset information within the fixed asset register and financial statements. An exercise is underway across the college to identify assets that have been scrapped or sold and to ensure that the fixed asset register matches these records. There is also a requirement for the financial statements of the college to include a disclosure of the historic cost of assets had they never been subject to revaluation. This disclosure has never been within the accounts and whilst the information is within the system it isn't readily available and work will need to be undertaken to identify it.
- **Recommendation 4** When we reviewed the untaken holiday accrual within the accounts, it was based on data from 2018. This approach had been agreed with your previous auditors, however, we would be looking for some evidence to confirm that this estimate of outstanding leave due to employees at 31 July 2023 remained reasonable. We have agreed with finance officers an approach for next year's financial statements.

10.1.7 The remaining three recommendations within the AS report are from the wider scope work.

- As part of this year's audit, AS reviewed cyber security, back up arrangements and disaster recovery plans. We noted priorities for the coming year around storage and back up infrastructure. However, when we reviewed ICT disaster and recovery plans we noted that the ICT disaster response plan was last updated in 2019 and the cyber incident response plan is under development. AS were unable to review details of testing of the disaster response or recovery arrangements. AS would recommend that a regular review process for these policies and plans are established and that they are tested to ensure they remain fit for purpose.
- Financial sustainability is an area of concern. The college's staff costs are fixed and represent a significant proportion of total expenditure. Audit Scotland have seen financial pressures across the public sector and this is likely to continue. AS would recommend that the transformational change activity takes place across the college to address the financial outlook. This will require difficult decisions.
- The final recommendation is around the information published on the website. Whilst a lot of information is available, there are opportunities to improve information available, for example, including copies of the financial statements on the website or a summary of annual performance against key performance indicators.

10.1.8 Finally, Louisa Yuill recorded her thanks to Iain and the finance team and for all officers involved in assisting and supporting the audit team over the course of the audit and said it was greatly appreciated.

10.2 RSB Financial Statements 2022/23 :

10.2.1 Iain Clark drew the SRC's attention to the DRAFT Financial Statements as follows:

- P 66 the Consolidated and College Statement of Comprehensive Income for the year ended 31st July 2023

- P 26 – the underlying operating deficit: The College (NCL) plus its direct subsidiary Amcol made a combined Underlying Operating Deficit of £3,142k (2021/22 deficit £1,432k) and this is 5.81% of a total expenditure . The VS scheme and provision for pay rises account for £2.7 million of the deficit.
- Asset valuations have enhanced the balance sheet position.

10.2.2 He thanked Audit Scotland for all the work done and said that he would answer any further questions from ARC members by email.

10.3 AMCOL Financial Statements 2022/23: Iain Clark informed the ARC that the AMCOL accounts were very healthy with no issues raised by the auditors and were showing a net income of £402,994 up from £331,478 in the previous year.

Decision: The ARC agreed to recommend the Annual Audit Report for 22-23 to the Board for approval. The ARC noted the Financial Statements which will be considered for recommendation to the Board by the Finance Committee.

11. NCL Audit Committee Annual Report: The Board Secretary presented the report saying that it set out the meetings and dates of the ARC and the topics covered in the meetings with a list of Internal Audit reports for the year and the opinions of the auditors. The report had to be updated to include the opinions for 2022-23 now that these were available and this would be done for the Board meeting next week.

Decision: The ARC agreed to recommend the report to the Board for approval subject to the inclusion of the updated opinions.

12. Risk Register

12.1 Regional Risk Register:

Matthew Smith presented the Regional Risk Register to the SRC as follows:

- **Strategic Risks:** There are a total of 21 Strategic Risks logged as at Regional Strategic Risk Management Group (RSRMG) on 20 November 2023.
- **Risk Movements.** There is no change to 18 risks. Risk K "Inability to maintain quality standards" moves to a likelihood of 2 following a very successful SQA systems verification report at NCL". Risk T "Disruption to College business due to the Covid-19 pandemic" moves to a residual likelihood score of 1. Risk Y "Risk of failure of the payroll system" has been removed from the risk register (and archived) due to good progress having been made. All other risks remain the same as per August 2023. The updated regional risk register now has 20 risks.
- **Six risks are above the committee's threshold level and therefore are subject to Control Action Planning and there have been no changes here since May 2023. These are:**
  a) Financial: "A" Unable to maintain operating budget while delivering high quality, relevant and responsive education - very high (Above Amber [high] threshold
  b) Financial: "D" Inability to secure appropriate levels of funding to respond to operational and strategic
  priorities - very high (Above Amber [high] threshold)
  c) Productivity: "H" Unable to deliver SFC Credits Targets - high (Amber [high] threshold)
  d) Student Experience: "L" Failure to improve student retention and achievement - medium (Yellow [medium] threshold)
  e) Governance: "J" Failure to establish and implement an effective regional governance model - medium (Above Green [low] threshold)

f) Compliance: "V" Failure to hold and manage personal data appropriately in compliance with the requirements of the General Data Protection Regulations (GDPR) - low (Green [low] threshold

12.2 SLC Risk Register:

Elaine McKechnie presented the SLC risk Register as follows:

- There are a total of 15 risks logged. An increase of 1 since August 2023 - new risk "that the College is not on track to meet the Scottish Government net zero targets.
- One risk moves down - Risk 14 - "That there is a reputational risk to the College".
- One risk moves up - Risk 13 - "That there is a risk of Corporate Governance arrangements"
- The remaining 12 risks remain the same as the August 2023 register.

13.Horizon Scanning - Future Issues and Opportunities: There was no business under this item at this meeting.

14. Internal Audit Reports: Stephen Pringle presented the Internal Audit reports as follows:

14.1 SSF Report: The opinion in this report is as follows:

"We have examined the records of New College Lanarkshire and have obtained such explanations and carried out such tests as we considered necessary. On the basis of our examination and of the explanations given to us, we report that the information set out in these forms is in agreement with the underlying records. We also report that, in our opinion, the College used these funds in accordance with the guidance issued by the SFC and SAAS. We are satisfied that the systems and controls of the administration and disbursement of these funds are adequate".

14.2 EMA Report: The opinion is as follows:

"We have examined the books and records of New College Lanarkshire, including evidence of checks of five percent of applications and payments, with a sample size appropriate to the total number of applicants, and have obtained such explanations and carried out such tests as we considered necessary. On the basis of our examination and of the explanations given to us, we report that the information set out in these forms is in agreement with the underlying records. We also report that, in our opinion, the College used these funds in accordance with the Scottish Funding Council's conditions and the principles of the Education Maintenance Allowance programme. We are satisfied that the systems and controls of the administration and disbursement of these funds are adequate".

14.3 Credits Report: The opinion is as follows:

"The College has reasonable procedures and controls over the collection of data for the credits return and assurance can be taken that the credits count for the College is not materially mis-stated. The systems used by the College are satisfactory. The recommendations arising as a result of our review are included within Appendix C.
We were able to confirm that the 1 recommendation raised for 2021/22 has been implemented. However, we have raised 1 low grade recommendation for improvement for 2022/23.
The College credit target for the academic year 2022/23, agreed between the SFC and the College, was 131,305. The total credits claimed for the year was 117,560. Regarding this year's credit performance, the College provided the following response:
'The SFC have been aware for a few months that the College would not make its credit target for Academic Year (AY) 2022- 23. They reserve the right to clawback funds which could be in the region of £2-£3m and would have a significant impact but we do not know if they will do that given the fact that the sector is under

severe financial pressure at the moment and they have already reduced the College's target for AY 2023-24 to be in line with what is more achievable in the current situation ".

14.4 Update Regional Assurance: The opinion in this report captures the opinions in the three reports detailed above.

14.5 Annual Internal Audit Report: The opinion in this report is as follows:

"We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a conclusion as to the adequacy and effectiveness of the Region's risk management, control and governance processes.
In our opinion New College Lanarkshire did have adequate and effective risk management, control and governance processes to manage its achievement of the Region's objectives at the time of our audit work.
In our opinion, the Region has proper arrangements to promote and secure value for money. We were however only able to provide a weak level of assurance for the Review of College Catering and Staff/ Room Utilisation reviews ".
"The overall opinion provided by the Internal Auditors of South Lanarkshire College (Henderson Loggie) was:

In our opinion, the College has adequate and effective arrangements for risk management, control and governance. Proper arrangements are in place to promote and secure Value for Money. This opinion has been arrived at taking into consideration the work we have undertaken during 2022/23".

14.6 Work Based Learning and European and International Report: The overall conclusion is strong and the opinion is that "following our review, we can provide a strong level of assurance surrounding the processes in place to ensure that there are processes in place to manage work based learning and external funding and international review. We have identified 3 low grade recommendations for improvement".

15. Approval of Publication of Committee Papers: The Committee approved the publication of the agenda, the minute and the technical bulletin. The accounts, the Financial Statements and the Annual Report from the Audit Committee will be published in due course.

16. AOB:

16.1 Yvonne Finlayson asked the Internal Auditors if they could provide a workshop on Risk. Stephen Pringle said that they could and the Board Secretary will liaise with him to arrange for a date in the new year.

16.2 There was a point of clarification on the appointment of Wyllie Bisset as Internal Auditors for the final year of the current arrangements. At the last meeting of the ARC on the 11th September 2023 the Internal Audit Plan for the year was approved by the Committee. This implies the appointment of the Internal Auditors to deliver the plan.

Decision: The ARC agreed to make this explicit and to confirm the appointment of Wyllie Bisset for the last year of the current 3 pus one plus one contract.

17. Date of Next Meeting: The date for the next scheduled meeting is **Monday 19th February 2024**.

VICE PRINCIPAL – FINANCE, RESOURCES & SUSTAINABILITY REPORT TO THE LANARKSHIRE RSB
AUDIT & RISK COMMITTEE MEETING DATED 19th February 2024 re the South Lanarkshire College Audit & Risk Committee Meeting of 15th February 2024

1. Risk Management

- Of the fifteen risks identified previously and of the post-mitigation risks contained in the attached register, members to note that three scores have been increased while two scores were decreased. Inherent risks have remained consistent.
- The main challenge for the College continues to be financial sustainability as is echoed by the Scottish College sector in full, failure of financial controls in respect of a pension contribution error and failure to promote a robust learner experience as a result of bursary payment delays.
- In a bid to mitigate these 3 increased risks, a financial modelling exercise is being undertaken currently to better assess our financial position considering the budget indicative announcements. A pension contribution project plan has also been devised to address the pension contribution errors, identifying actions taken and controls now in place to reduce likelihood of a future incident. Furthermore, the bursary payment delays from 2023-24 are being considered internally to ensure sufficient resources are available in the future.
- In terms of the 2 scores that were decreased, the College has reduced the risk that it will fail to meet its credit target. Based on January 2024 enrolments, the College is now confident in meeting its core credit target for 2023/24. Similarly, the risk of damage to the integrity of management information systems has also been downgraded. Cyber essentials and cyber controls continue to be monitored. Reviews of policies and procedures are ongoing and continually evolving to maintain current levels of confidence.

2. Rolling Audit Recommendations (RAR) monitor

- Committee asked to consider the recent updates to the monitor. The monitor now incorporates the results of the internal audit work as presented to the Committee at this meeting on 27 November 2023 (Budgetary Control, Student Activity (Credits), Student Support and Quality).
- The College has made some progress in addressing the recommendations made in previous audit assignments however many of the recently added recommendations are still a work in progress at this point in the academic year.
- There are 27 recommendations on the monitor, covering Cyber Security, Health & Safety, Risk Management Staff Recruitment & Retention, Budgetary Control, Student Support Funds and Student Activity (Credits).
- Common themes to address each recommendation include the revision of internal policies and procedures, enhanced reporting and data quality checks, the roll out and completion of training exercises and the implementation of new systems (HR and Student Records).
- The achievement of all recommendations above is dependent on staff compliance with policies, procedures, training initiatives and new systems and the College having sufficient staff resources to undertake work.

- The College reminds staff regularly to complete training courses on a timely basis and resource issues are carefully considered by the Senior Leadership Team to ensure that key priorities can be tackled.
- At this stage the College has no concern over its ability to satisfy each of these recommendations and target dates for completion.

3. Internal Audit – Agreed timetable 2024

Committee advised to note that a timetable for the following audits has been agreed by staff internally and by staff at Henderson Loggie, Internal Audit.

1.1. *Table 1: Internal Audit Timetable*

Audit area	College Lead	Agreed start date
Corporate Governance	Paul McGilvery (Governance Professional)	12/02/2024
Student Support	Rose Harkness (Student Services)	18/03/2024
Procurement and Creditors/Purchasing	Sue Hampshire (Procurement)	15/04/2024
Publicity and Communications	Marie King (Marketing)	15/04/2024
Space Management/Room Utilisation	Chris Sumner (MIS) Craig Ferguson (Facilities)	13/05/2024
Credits Audit	Chris Sumner (MIS)	26/08/2024
Student Support Funds	Bill McMahon (Finance	26/08/2024
Payroll	Gary McIntosh (HR)	21/10/2024
Follow Up Reviews	ALL	TBC

4. Internal Audit – Pension Contribution Project Plan

- Committee to note recent updates and plan for correction of pension contribution errors for part time staff.
- In 2023, it came to light that the College had not adjusted pension contributions correctly in 2015 and that part time lecturing staff were therefore over contributing to their pensions.
- The College instructed Henderson Loggie to undertake an internal audit of pension contributions. Following on from the findings of their review which were communicated to the College in December 2023, the College was advised to appoint a payroll specialist to prepare detailed calculations to correct for errors made.

- Henderson Loggie have been appointed for this role following a procurement process and a project plan has been created and implemented to assess and conclude on all employees and former colleagues who have worked part-time during the period of 2015 – 2023.
- The Project will utilise a “project sprint” methodology to minimise lost time. Based on the prioritisation order of surname, people will be put into groups of roughly 20 people and they will go through the full process of having their contributions reviewed, concluded and, if appropriate, consulted on a resolution on any contribution discrepancy.
- The project is anticipated to end by the end of February 2025, with employees getting their results monthly, starting around May 2024.
- The risks of this issue include a breach of legislative requirements; the potential impact on employees and third-party organisations such as HMRC; the cost of resolution to the College and reputational damage for the College.
- Further payroll controls have been identified and are now in place to mitigate risk of a further incident:
    - an additional payroll administrator has been brought in to assist with the workload in payroll;
    - full documentation of current payroll processes has been undertaken by HR staff to bring focus to key areas of risk;
    - cross-training of HR staff has been undertaken to ensure perform payroll calculations can be performed as part of business continuity in the event of staff absence;
    - financial controls have been further emphasised on the College risk register and are now reviewed more stringently and regularly; and
    - the expected implementation of the new HR system in Apr/May 2024 will further enhance and automate current payroll process, removing the need for manual calculations.

5. External Audit

- Committed advised to note External Audit Fees for 23/24. Fees have been carefully considered by Audit Scotland in accordance with the Auditor General for Scotland and the Accounts Commission.
- The fee levels have been set in the context of a challenging economic environment, increased expectations on the audit profession and the ongoing process of recovery following the Covid-19 pandemic.
- A 6% increase in fee is proposed for the College from 2022/23 to 2023/24, representing an increase of £1,450 from £24,140 to £25,590.
- A rebate of £282 will be received in respect of 2022/23 unspent travel budgets which can be offset against the 2023/24 fee.

Technical Bulletin 2023/4

Technical developments and emerging risks from September to December 2023

AUDIT SCOTLAND

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

18 December 2023

Contents

1: Introduction

Purpose

The purpose of Technical Bulletins from the Professional Support section within Audit Scotland's Innovation and Quality business group 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 issued guidance on planning the 2023/24 audits [**paragraph 1**]	Professional Support has issued a TGN on the 2022/23 WGA returns **[paragraph 6]**	Professional Support has issued a TGN on the risks of misstatement in the 2023/24 audit of local government bodies **[paragraph 10]**
The Scottish Government has issued guidance on accounting for capital grants **[paragraph 14]**	CIPFA has published guidance on the reporting of pension surpluses and the asset ceiling **[paragraph 19]**	The Scottish Government has issued a consultation on proposed amendments to calculating repayments to loans fund advances **[paragraph 23]**
The Scottish Government has issued a consultation on statutory guidance on accounting for service concession arrangements **[paragraph 33]**	The Scottish Government has issued a consultation on a proposed extension to the statutory overrides for infrastructure assets **[paragraph 38]**	Treasury has issued a PES paper on discount rates **[paragraph 43]**
The FRC has issued a revised auditing standard on external confirmations **[paragraph 49]**	The FRC has issued proposals for a revised auditing standard on laws and regulations **[paragraph 50]**	The FRC has published a thematic review of audit sampling **[paragraph 53]**

Consulting with Professional Support

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

2: All sectors

Guidance on planning 2023/24 annual audits

1. Professional Support has issued guidance to assist all appointed auditors in planning their 2023/24 annual audits of public bodies. The guidance supplements the Code of Audit Practice and sets out the range of core annual audit activity and related outputs required for 2023/24, and the timescales for completing the audit in each sector.

2. Auditors should comply with the guidance when planning, performing and reporting their 2023/24 audits. The guidance is accessible by auditors with other supporting materials on SharePoint* but it is also freely available from the Audit Scotland website.

3. The largest component of core annual audit activity is the audit of a public body's annual accounts. However, the audit of the annual accounts has a wider scope than the private sector, and requires conclusions on aspects of public bodies' arrangements and performance. In local government, public audit includes considering arrangements to secure Best Value and community planning and publishing performance information. Auditors also provide important intelligence to the Auditor General, Accounts Commission and Audit Scotland in areas where they are best placed to do so.

4. Audit Scotland's policy is not to compromise on audit quality or the wellbeing of audit teams, but that timescales are negotiable. The guidance is intended to strike the right balance in 2023/24 between ambitions for public audit and the capacity for auditors to carry out the work to the appropriate high quality. Target audit completion dates are considered to be stretching but achievable for the majority of audits.

5. The following table provides a summary of the key changes from last year, along with the paragraphs of the guidance in which further information is provided:

Nature of change	Paragraph
Removal of the cap of £250,000 on the 'clearly trivial' threshold for accumulating and reporting misstatements.	21
No mandated wider scope areas of risk for auditors to consider.	61
Updated guidance on auditing Best Value in local authorities to reflect the thematic review of workforce innovation.	81 to 86

Nature of change	Paragraph
Updated guidance on the process for Current Issues Returns in local government.	115 to 130
Guidance on completing a brief information return for each body participating in the National Fraud Initiative.	139
Updated guidance on arrangements for sharing intelligence on risks in the health and social care system .	167 to 171

TGN on 2022/23 WGA returns

6. Professional Support has published a Technical Guidance Note (TGN) to provide auditors with guidance on examining and reporting on the 2022/23 Whole of Government Accounts (WGA) returns of public bodies in Scotland. TGN/WGA/23 is provided with supporting material to auditors on SharePoint* and also on the Audit Scotland website.

7. The National Audit Office (NAO) are the group auditor for WGA. Testing and reporting procedures that auditors are required to undertake in respect of providing assurance to the NAO on 2022/23 WGA returns above the threshold is included in the TGN. The procedures are consistent with the NAO's Group Audit Instructions but tailored to Scottish bodies. Reporting procedures include the submission of an Assurance Statement in a form prescribed by NAO.

8. No examination is required for bodies below the threshold, although auditors are required to complete the first eight sections of the Assurance Statement (except for minor bodies) and submit it to the NAO.

9. Auditors should examine and report on the 2022/23 WGA returns of public bodies in Scotland in accordance with the TGN, and make the required submissions as soon as reasonably practicable.

3: Local government sector

TGN on risks of misstatement in 2023/24

10. Professional Support has published TGN 2023/8(LG) to provide auditors with guidance on risks of misstatement in the 2023/24 annual accounts of local government bodies. The TGN is accessible by auditors on SharePoint*, along with supporting material, and is also available from the Audit Scotland website.

11. The TGN is intended to inform auditors' judgement when identifying and assessing the risks of material misstatement. The TGN supplements the Code of Audit Practice and auditors are expected to pay it due regard and use it as a primary reference source when performing 2023/24 audits. Auditors should advise Professional Support of any intended departures from the guidance.

12. The TGN comprises a number of modules as summarised in the following table:

Module	Risks of misstatement area	Purpose
Overview	Areas that are pervasive to the financial statements as a whole	Explains the appropriate related accounting treatment and sets out the action auditors should undertake to evaluate whether the body has followed the required treatment
1 - 9	Specific classes of transactions, balances and disclosures in the financial statements.	
10	Audited part of the Remuneration Report	Explains the requirements and sets out the action auditors should undertake
11	Statutory Other Information (e.g. Management Commentary and Annual Governance Statement)	Sets out the procedures for considering the Statutory Other Information
12	Integration joint boards	Provides guidance on the application of the above modules to these specific bodies
13	Pension fund accounts	
14	Section 106 charities	

13. The risks of misstatement reflect areas of complexity, subjectivity and uncertainty. They have been updated to reflect new requirements and risks which emerged during the 2022/23 audits that remain applicable. A separate note summarises the main changes from 2022/23.

Guidance on accounting for specific capital grant in 2023/24

14. The Scottish Government has published Finance Circular 6/2023 to provide statutory guidance on accounting for capital grant provided in place of revenue grant in 2023/24.

15. The statutory guidance adapts Finance Circular 3/2018 for 2023/24 to permit local authorities to transfer specified capital grant to the Capital Fund (rather than the Capital Adjustment Account) in order that it may be used to repay the principal of loans fund repayments for both General Fund and HRA loan repayments.

16. The amendment applies specifically to the £70 million of General Capital Grant provided in place of revenue grant in 2023/24 and to the additional £22 million of General Capital Grant provided to fund the Local Government pay award. The statutory guidance provides the consent of the Scottish Ministers required for the HRA loan repayments.

17. Once the capital grant held in the Capital Fund is utilised to fund the principal element of loan repayments, it must be transferred to the General Fund or HRA as a transfer from other statutory reserves in the Movement in Reserves Statement.

18. The capital grant must be utilised in 2023/24 and therefore may not be transferred to the Capital Grants (and Receipts) Unapplied Account.

New guidance on accounting for pension assets

19. Technical Bulletin 2023/2 (paragraph 27) provided guidance on recognising a net defined benefit asset in accordance with IFRC 14 when the pension fund reports a surplus as at 31 March 2023. The Chartered Institute of Public Finance and Accountancy (CIPFA) has published Bulletin 15 to provide guidance in this regard.

20. CIPFA considers that the IFRIC agenda decision in 2015 referred to in the technical bulletin guidance is likely to support a view that there is a minimum funding requirement. When a local government body estimates the future minimum funding requirement contributions, it should:

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

21. In order to carry out the calculation of any adjustment to the asset ceiling under IFRIC 14, it is necessary to identify the amount of employer contribution in each period that relates to future service. Bodies will need to consider:

- the portion of the employer contributions calculated using the primary rate

- whether any of the contribution calculated using the secondary rate should be included in the calculation.

22. Where an asset ceiling is applied, the bulletin highlights relevant requirements in the accounting code which require disclosure of:

- an explanation as to why the pension surplus reported under IAS 19 is not fully realisable and what ‘realisable’ means in this context
- the basis used to determine the amount of the economic benefit available.

Proposed amendments to loans fund repayments from 2023/24

23. The Scottish Government has issued a consultation draft* of proposed amendments to the requirements for calculating repayments to loans fund advances from 2023/24. Responses to the consultation require to be sent to Elanor.Davies@gov.scot by 22 December 2023.

24. The consultation seeks views on proposed amendments to:

- The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 20161 (the 2016 Regulations) which set out the statutory requirements for loans fund accounting
- Finance Circular 7/2016 (the statutory guidance) which sets out proper accounting practices for loans fund accounting.

25. The proposed amendments arise from Scottish Government concerns that:

- the application of the current level of flexibility in calculating loans fund repayments creates a future affordability risk for capital investment projects
- some local authorities may be making capital investment decisions that are being justified on value for money grounds by providing for loans fund repayments over excessively long periods
- the use of an annuity calculation to determine the pattern of loans fund repayments may result in a significant proportion of the repayments being deferred to future financial years.

26. The statutory framework differentiates between those advances before 1 April 2023 (covered by Regulation 14 of the 2016 Regulations) and those after 1 April 2023 (covered by the statutory guidance). There are also additional proposals related to capital projects approved after that date. It is therefore helpful to consider the how the proposals apply to three categories of loans fund advances, i.e. advances made:

- <u>before</u> 1 April 2023
- <u>from</u> 1 April 2023 relating to capital projects approved <u>before</u> that date
- <u>from</u> 1 April 2023 relating to capital projects approved <u>after</u> that date.

Loans fund advances made before 1 April 2023

27. The 2016 Regulations (at Regulation 14) permits a local authority to vary the period or amount of repayment of loans fund advances made before to 1 April 2023, if it considers it prudent to do so. The Scottish Government's concerns about the application of this power and how they proposed to address them by amending Regulation 14 is summarised in the following table:

Concern	Proposal
The power has been interpreted by local authorities as permitting the retrospective calculation of loans fund repayments	Any variation to a loans fund repayment may only be • calculated on the balance of the loans fund advance in the financial year of variation • applied to the remaining loans fund repayments from the financial year of variation.
The power is being used as a means of addressing budget pressures rather than to better reflect the financing of capital expenditure over a term commensurate with the benefits.	The repayment period cannot extend beyond the earlier of the remaining useful life of an asset or 50 years from the date of the advance. The decision to vary a loans fund repayment must be taken by the full council and cannot be delegated.

28. There are no proposed changes to the existing four options for repaying the advances set out in statutory guidance (i.e. statutory method, depreciation, asset life or funding profile).

Loans fund advances made from 1 April 2023 relating to capital projects approved before that date

29. Regulation 14 of the 2016 Regulations does not apply to advances made from 1 April 2023. Instead, the repayment of advances is covered in the statutory guidance. The statutory guidance requires prudent repayment of a loans fund advance over a period reasonably commensurate with the period and pattern of the benefits provided to the community from the capital expenditure.

30. The proposals to revise the repayment options in the statutory guidance are similar to the proposed amendments to the 2016 Regulations explained above in that they are intended to:

- clarify that where a loans fund advance relates to an asset, the prudent repayment period should usually align to the asset life but may not exceed 50 years

- confirm that, where an asset life cannot reasonably be attributed to an asset, the loans fund repayment period should align to the period over which benefit of the expenditure will be provided to the community but may not exceed 50 years and may not subsequently be varied.

- require that any variation to loans fund repayments may only be calculated on the balance of the loans fund advance outstanding in the financial year of variation and may only be applied prospectively.

Loans fund advances made from 1 April 2023 relating to capital projects approved after that date

31. The proposals summarised above to amend the statutory guidance for capital projects approved before 1 April 2023 also apply to those approved after that date.

32. However, there are additional proposals for projects approved after 1 April 2023, which are summarised in the following table:

Area	Proposals
Annuity calculation	The use of an annuity calculation (as part of the asset life method of calculating the repayment of the advance) is permitted only where the local authority can evidence that either the flow of benefits of the capital investment or a directly attributable revenue stream will increase over the asset life. Where an annuity is used, the interest rate applied should not exceed the weighted average PWLB borrowing rate of the authority.
Capital receipts	The use of capital receipts to fund the repayment of advances should be minimised.
Identification against a specific asset	Advances and repayments must be readily identified against a specific asset.
Repayment on derecognition	Advances must be repaid in full on derecognition of the related asset. In the case of obsolescence, a local authority may spread the repayment of the remaining loans fund advance over a maximum period of 5 years in order to smooth the effect on the General Fund.
Investment properties	A local authority should fully provide for debt taken on to acquire an investment property over the lifetime of the debt.

Draft statutory guidance on service concession arrangements

33. The Scottish Government has issued a consultation draft* of Finance Circular 7/2023 to provide revised statutory guidance on accounting for service concession arrangements, leases and similar arrangements from 1 April 2024.

34.The draft guidance replaces Finance Circular 10/2022 which temporarily permitted a local authority to recognise the principal repayments for a service concession arrangement over the asset life rather than contractual term. The temporary flexibility is not reflected in the new statutory guidance.

35.With the exception of those service concession arrangements to which the flexibility was applied in either 2022/23 or 2023/24, from 1 April 2024 the annual statutory charge to the General Fund for all existing and new service concession arrangements, leases and similar arrangements will be required to:

- reflect the principal element of the contractual repayments
- be charged to the General Fund over the term of the contract.

36.Finance Circular 10/2022 will continue to apply where the temporary flexibility was exercised.

37.In addition, there is the following proposed amendment to the statutory guidance for leases that are reclassified on transition to IFRS 16, where the authority is the lessor:

Lease reclassified as...	Treatment
Finance lease	Income received under the lease will continue to be treated as revenue income. Any capital receipt recognised on transition will be transferred to the General Fund and reported in the Movement in Reserves Statement.
Operating lease	Any income that would, prior to the reclassification, have been treated as a capital receipt should be transferred from the General Fund to the Capital Receipts Reserve, and the transfer should be reported in the Movement in Reserves Statement.

Proposed extension to statutory overrides for infrastructure assets

38.The Scottish Government has issued a consultation* on a proposed extension to 31 March 2025 of the statutory overrides for infrastructure assets. The statutory overrides are set out in Finance Circular 9/2022 (see Technical Bulletin 2022/3 paragraph 11) and are in respect of the disclosure and derecognition of infrastructure assets.

39.The overrides were intended to apply until 31 March 2024 while CIPFA/LASAAC sought a permanent solution. The proposed 12 month extension is in order to allow more time for the permanent solution to be implemented.

40.Responses to the consultation require to be sent to Elanor.Davies2@gov.scot by 15 December 2023.

Technical consultations with auditors

Professional Support responds to requests from auditors for technical consultations

41. 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:

Can an unfunded pension liability be offset against a net defined benefit asset?
Unfunded pension liabilities generally relate to provisions for discretionary enhancements to retirement benefits (e.g. payments for early retirement paid by the body rather than the pension fund). IAS 19 treats them as termination benefits. Bodies do not have a right to set off the unfunded liability against a pension asset. The unfunded liability should therefore be presented separately from the net defined benefit asset. Where future unfunded payments have been excluded by the actuary from the future employer contributions as part of the asset ceiling calculations, separate presentation should be straight-forward. However, where the actuary has included unfunded payments, bodies may need to request a recalculation. Where a recalculation is not carried out, as a minimum auditors should consider whether narrative disclosure is sufficient to explain that the defined benefit asset is net of the unfunded liability and the reasons for it.

Should the pension amounts as at 31 March 2023 in the balance sheet be adjusted to reflect the 31 March 2023 actuarial valuation?
Due to the timing of 2022/23 local government audits, the results of the triennial valuation as at 31 March 2023 may be available from actuaries before some audits are completed. The pension amounts as at 31 March 2023 in the balance sheet in the unaudited accounts were based on the 31 March 2020 actuarial valuation rolled forward. Where the audit of the 2022/23 financial statements for a local authority has been completed before the 2023 valuation reports are available, the financial statement will appropriately continue to reflect the 31 March 2020 valuation, as that is the most reliable, uptodate information. The 31 March 2023 actuarial figures will then be reflected in the balance sheet at 31 March 2024. However, where the 2023 actuarial reports become available before the 2022/23 audits are complete, that would represent an adjusting event. Auditors should assess whether the 31 March 2023 valuation is materially different from the estimate determined using the rolled forward figures currently in the balance sheet. An adjustment will be required if the difference is material. Auditors should liaise with the local government body to ensure that they can plan accordingly.

4 Central government sector

Update to SPFM

42. The Scottish Government has issued FGN 2023-2 announcing amendments to the Scottish Public Finance Manual (SPFM) relating to the Scottish Government's Business Investment Framework. The guidance on investment has been enhanced to:

- ensure that proportionate due diligence has been completed prior to support being provided
- highlight approval arrangements for novel or contentious investments
- clarify consideration of the risks of each investment and the estimation of the maximum potential financial exposure
- clarify monitoring arrangements, periodic reviews and exit strategies.

2023/24 discount rates

43. HM Treasury has issued PES (2023)10* to announce changes in the discount rates for general provisions, post-employment benefit liabilities, leases, and financial instruments as at 31 March 2024.

General provisions

44. The nominal discount rates to be applied as at 31 March 2024 for discounting general provisions recognised under IAS 37 are set out in the following table:

Category	Period	Percentage
Short term	Within 5 years	4.26%
Medium term	Between 5 and 10 years	4.03%
Long term	Between 10 and 40 years	4.72%
Very long term	More than 40 years	4.40%

45. As nominal rates do not take inflation into account, cash flows require to be inflated separately. There is a rebuttable assumption that the inflation rates specified in the paper will be used (unless other rates are clearly more applicable). The specified rates are:

- 3.6% for up to one year from the year end
- 1.8% between one and two years
- 2.0% for after two years.

Post-employment benefits

46. The discount rates for post-employment benefits are set out in the following table:

Use	Rate from 31 March 2024
Real rate used for valuing unfunded pension scheme liabilities and early departure provisions	2.45%
Nominal rate for unwinding discount on liabilities (interest)	5.10%
Rate used for funded pension schemes	Based on returns from AA corporate bonds at 31 March

Financial instruments

47. The financial instrument discount rates to be applied at 31 March 2024 are set out in the following table:

Type		Rate
Nominal rate when financial instrument is not linked to an inflationary index		2.05%
Real rate when financial instrument indexed to RPI	In excess of RPI:	
	Until February 2030	(1.05%)
	From February 2030	(0.05%)

Leases

48. Where a body cannot determine the interest rate implicit in a lease, they are required to use the nominal lease discount rate of 4.72%. This is relevant for new leases that commence or are remeasured between 1 January 2024 and 31 December 2024.

5 Professional matters

Revised ISA on external confirmations

49. The Financial Reporting Council (FRC) has issued a revised edition of ISA (UK) 505 External Confirmations. The main revisions are summarised in the following table:

Area	Change
Clarification on what constitutes an electronic external confirmation	Paragraph 6 (a) has been amended to reflect the fact that confirmations may be obtained thorough 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 to improve the quality of audit evidence obtained when auditors make use of external confirmations.
Designing confirmations to provide evidence for relevant assertions	Paragraphs 7(c) and A6-1 include 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. They 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.

Proposed revisions to ISA on laws and regulations

50. The FRC has issued an invitation to comment on proposed revisions to ISA (UK) 250A on laws and regulations. The main proposed revisions are summarised in the following table:

Area	Proposal
Removal of distinction between different categories of laws and regulations	The proposal removes the distinction between laws and regulations that determine material amounts and those that do not. There is a proposed requirement for auditors to identify those laws and regulations where non-compliance may have a material effect on the financial statements. A more robust risk assessment process is proposed to provide an effective mechanism for identifying the above laws and regulations.
Implementing a more risk-based approach	There is a proposal to replace the current overly procedural approach with an overarching requirement for auditors to design and perform risk assessment procedures to obtain audit evidence for the identification of laws and regulations where non-compliance may have a material effect on the financial statements (paragraph 12-1). Additional risk assessment requirements are set out in proposed paragraphs 12-2 and 12-3 . Paragraphs 14-1 and 15-1 introduce explicit requirements in respect of the risks of material misstatement due to fraud or error relating to non-compliance with laws and regulations. Paragraph 16-1 requires auditors to stand back and assess whether they have obtained sufficient appropriate audit evidence regarding whether there is a material misstatement of the financial statements relating to non-compliance with laws and regulations.
Adequacy of disclosures	There is a proposed new requirement for auditors to conclude whether the financial statements adequately reflect or, where appropriate, disclose the non-compliance or suspected non-compliance with laws and regulations.

51. There are also proposals to replace ISA (UK) 250B with a more principles-based standard covering reporting and communication with an appropriate authority.

52. The FRC is requesting comments on this consultation by 12 January 2024. Comments should be sent to: AAT@frc.org.uk.

Thematic review on audit sampling

53. The FRC has published a thematic review on audit sampling. Audit sampling is a fundamental audit tool which allows conclusions to be drawn about a population based on the sample selected. The FRC reviewed the sampling methodologies of the largest audit firms to:

- identify areas of good practice

- highlight any concerns that will drive improvements and support the FRC's monitoring of the firms' systems of quality management.

54. The review concluded that:

- audit sampling for tests of detail and controls is still prevalent despite the advent of tools such as Audit Data Analytics
- most firms' methodologies are based on similar statistical models with firms building on these with their own guidance and preferences.
- significant professional judgements are made in audit sampling, particularly when using sample size calculators, including when assessing inherent risk and determining the contribution of evidence from other procedures. However, the review found insufficient evidencing of the key professional judgements made when determining sample sizes.

55. The review also highlighted the specific points summarised in the following table:

Area	Finding
Key items selection and selecting specific items This involves selecting specific items to test from the population before then selecting a sample of the residual population.	Most firms focus on high value items. The FRC founds insufficient documentation of the reasons for selecting specific items. Justification was generally focused on size, such as "selecting everything over 50% of performance materiality", with no consideration of why that was an appropriate threshold.
Haphazard selection versus random selection: • Haphazard selection involves the auditor selecting the sample without following a structured technique. • Random selection is applied through random number generators and reduces the risk of bias in sample selection.	Haphazard sampling was historically most useful when transaction listings were not available from audited entities in an electronic format that would allow for random sampling. Haphazard sampling may still be appropriate in limited circumstances, but justification should be documented. Random selection is preferable and should be used when feasible to do so. The FRC identified confusion in the sample selection method applied, e.g. where the sample calculator stated "Random" as the means of sample selection but "Haphazard" was actually used by the audit team.

Area	Finding
Testing the reliability of information produced by the entity (IPE) IPE testing used fixed sample sizes to determine if system-generated or manually produced information is reliable before audit procedures are performed on it to obtain audit evidence.	Some audit teams did not understand that IPE testing assesses the reliability of the information to be used as audit evidence, rather than being a test over the monetary value of a population.
Compliance with quality management standards ISQM (UK) 1 states that even when firms belong to networks and make use of resources, the firm "remains responsible for its system of quality management, including professional judgements made in the design, implementation and operation of the system of quality management".	All the firms' methodologies were driven by a global methodology, usually developed centrally outside the UK, and then adopted by the member firms worldwide. Firms need to ensure they have a proper and full understanding of the sampling techniques developed globally, and are able to understand and apply those methodologies in the UK. Some firms struggled initially to explain how, often due to the time that had elapsed from the model's original development. Firms need to be able to clearly explain how they developed their methodologies from more general statistical models even when the deployment was some years ago.

6. Fraud and irregularities

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

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

Expenditure

Kinship care (1)

56. A kinship carer received £30,000 over a two-year period after a child's placement with them ended.

Key features
The overpayment was identified by the council internal audit service when they were carrying out testing on the council's social work system. The overpayment occurred as the social worker responsible for the child did not undertake regular monthly checks to ensure that the child was still placed with the stated carer. Procedures have been strengthened and pre-payment accuracy checking has been introduced on scheduled payment runs. Recovery action is being taken.

Kinship care (2)

57. A kinship carer received over £5,000 over a six-month period after a child's placement with them ended.

Key features
The overpayment occurred as the kinship carer did not follow due process when the child returned to parental care. In addition, social work staff were unaware of the required process which resulted in a failure to complete appropriate documentation to terminate the kinship placement payments. The overpayment was identified when an employee was reviewing their caseload in advance of their retirement and identified that the kinship carer was still being paid.

Key features

Although a criminal investigation was carried out, the case was not referred to the Procurator Fiscal as the service was unable to produce admissible evidence in the form of the relevant kinship agreement form.

Following investigation:

- **annual reviews of kinship placements have been introduced**
- **checks are now carried out on children's names to prevent duplicate payments**
- **staff have been reminded that kinship carer agreements must be completed and retained**
- **staff involved in kinship care have been provided with a practical guide which they must acknowledge as having read, understood, and accepted.**

Bank mandate fraud (1)

58. An unknown individual compromised a manager's email account at a public body and committed bank mandate fraud. Payments totalling £15,700 were made to a fraudulent bank account.

Key features

An unsecure internet connection used by the manager appears to have been used to gain access to the manager's email account. Email instructions, purporting to come from the manager, were then sent requesting a change to a supplier's bank details.

The fraud was identified during a review of authorised expenditure on a project.

The fraud was possible due to inadequate procedures around the confirmation of new bank details with suppliers.

The public body has since heightened the vigilance of finance employees and strengthened procedures for verifying new or changes to bank account details. In addition, existing supplier's bank details are being verified.

Bank mandate (2)

59. An unknown individual compromised the systems of a business working with the public body to request a change to bank details. Payments totalling £5,800 were subsequently made to a fraudulent bank account.

Key features

The systems of a business working with the public body were compromised, and correspondence was intercepted.

A similar email address to that of the business was used to send an email to the public body requesting a change in bank details. The public body sought explanation for the change in bank details and accepted the explanations given. However, this was done through the fraudulent email account.

Key features
The fraud was identified when the legitimate business reported that the payments had not been received. The public body have since strengthened procedures for changes to bank account details. This involves a telephone call to the business or customer using the contact details stored centrally, and monthly management checking of payments made. The case has been reported to Police Scotland.

Misuse of assets

60. An employee misused a council vehicle and the corporate time recording system to obtain benefits worth over £5,200.

Key features
An employee used a council vehicle for personal use during business time, as well as accruing time on the corporate time recoding system that they had not worked. The fraud was identified following receipt of an anonymous allegation that the employee was using a council vehicle to take their child to and from school. The fraud was possible due to a lack of review or monitoring of time records. Steps have since been taken to ensure staff are aware of the requirements of the flexible working hours policy, the time recording guide and any service-specific requirements. Stricter monitoring by service managers of employees' time recording has been put in place and staff have been reminded that fleet vehicles must not be used for personal use. The employee's actions have been reviewed under the council's disciplinary policy and full recovery is being progressed through salary deductions.

Technical Bulletin 2023/4

Technical developments and emerging risks from September 2023 to December 2023

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