

Technical Bulletin

2026/1

Technical developments and emerging risks from
January to March 2026



Prepared by Audit Scotland for appointed auditors and audited bodies in all sectors
31 March 2026

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Accessibility

Auditors can find out more and read this bulletin using assistive technology on the Audit Scotland website www.audit.scot/accessibility.

1: Introduction

Purpose

The purpose of Technical Bulletins from Audit Scotland's Innovation and Quality (I&Q) 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 I&Q.

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 I&Q 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 I&Q recommends that auditors take are highlighted in **bold**.

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

I&Q highlights in the following table a selection of the items in this Technical Bulletin that are of particular importance:

Highlighted items		
I&Q has published guidance on potential misstatements in 2025/26 accounts	I&Q has published model Independent Auditors Reports for 2025/26	The Scottish Government has issued statutory guidance on climate change duties
[paragraph 1]	[paragraph 7]	[paragraph 13]
The Scottish Government has issued statutory guidance on the use of capital grant for 2025/26	Treasury has re-issued the 2025/26 FReM and issued the 2026/27 FReM	The Scottish Government has issued the NHS Accounts Manual and Capital Accounting Manual for 2025/26
[paragraph 23]	[paragraph 32 and 44]	[paragraph 45 and 51]

Consulting with I&Q

Auditors should consult with I&Q by completing an [enquiry form](#) and submitting it to TechnicalQueries@audit-scotland.gov.uk.

2: All sectors

TGN on potential misstatements in 2025/26 annual accounts

1. I&Q has published Technical Guidance Note (TGN) 2026/1 to provide auditors with guidance on potential misstatements in the 2025/26 annual accounts of public bodies.
2. The TGN is accessible for auditors on [SharePoint*](#), along with supporting material, and is also available from the Audit Scotland [website](#).
3. The TGN is intended to inform auditors' professional judgement and promote the exercise of professional scepticism. 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 2025/26 audits. Auditors should advise I&Q of any intended departures from the guidance.
4. The TGN comprises a number of modules as summarised in the following table:

Module	Potential misstatement area	Purpose
Overview	Areas that are pervasive to the financial statements as a whole	Concise explains the appropriate accounting treatment related to each potential misstatement
1-9	Specific classes of transactions, balances and disclosures in the financial statements.	
10A	Audited part of Remuneration Report in Local Government	Explains the requirements and provides guidance on the potential misstatements in the audited part of the Remuneration Report
10B	Audited part of Remuneration and Staff Report in other sectors	
11A	Statutory Other Information in Local Government (e.g. Management Commentary and Annual Governance Statement)	Sets out the procedures for considering Statutory Other Information
11B	Statutory Other Information in Central Government (e.g. Performance Report and Governance Statement)	
12	Irregular transactions in Central Government	Explains the requirements and sets out the action auditors should undertake
13	Integration joint boards	

Module	Potential misstatement area	Purpose
14	Pension fund accounts	Provides guidance on the application of the above modules to these specific bodies
15	Section 106 charities – Local Government	
16	Charitable NDPBs – Central Government	

5. Modules 17 and 18 which include guidance on potential misstatements specific to health boards and colleges respectively will be published in due course.

6. The guidance on potential misstatements reflects areas of complexity, subjectivity and uncertainty. The modules have been updated to reflect new requirements which emerged during the 2024/25 audits that remain applicable. A separate note summarises the main changes from 2024/25.

Independent auditors' reports for accounts in 2025/26

7. I&Q has published the following TGN 2026/2 to provide auditors with model forms of Independent Auditor's Reports (IAR) to be used for the 2025/26 annual accounts.

8. Auditors are required by the Code of Audit Practice to prepare their IARs in accordance with the TGN. The TGN, along with model IARs and supporting material is available to auditors on [SharePoint*](#), and is freely available from the Audit Scotland [website](#).

9. As a change for 2025/26, a combined TGN has been prepared covering the model IARs for all sectors. The following changes have been made to the guidance to reflect this change:

- terminology has been standardised to align the language used across sectors, for example using "Remuneration and Staff Report" instead of "Remuneration Report"
- where relevant, guidance that is specific only to certain sectors has been highlighted

10. In addition to the above changes, from 2025/26 health board auditors will no longer be required to report by exception where there has been a failure to achieve a prescribed financial objective. Where a health board fails to meet a prescribed objective, auditors should consider reporting this within their Annual Audit Report.

11. The model forms of IARs have been tailored to reflect relevant legislation and augmented by the reporting requirements of the Auditor General and Accounts Commission.

12. For the 2025/26 audits of public 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 I&Q on any modified opinion or conclusion
- complete an Auditor Action Checklist for each IAR prepared.

Climate change statutory guidance

13. The [Scottish Government](#) has issued [statutory guidance](#), under the Climate Change (Scotland) Act 2009, to support Scottish public bodies in meeting their legal climate change duties to:

- Reduce emissions in ways that best support national emissions reduction targets, including the 2045 net-zero target.
- Support climate adaptation by contributing to the Scottish National Adaptation Plan.
- Act sustainably, ensuring decisions reflect long-term environmental, social and economic wellbeing.

14. The guidance is advisory and aims to help bodies cut operational emissions, build resilience to climate impacts, stay within environmental limits, and contribute to a fair and healthy society. Actions should be proportionate to each body’s scale, function and influence.

15. Key areas include:

Area	Guidance
Leadership and Governance	Bodies should make visible climate commitments, embed responsibility at senior levels, and mainstream climate awareness.
Mitigation (Duty 1)	Bodies should develop strategies, plans, targets and reporting to reduce emissions.
Adaptation (Duty 2):	Bodies should assess and manage climate risks and work collaboratively on adaptation initiatives.
Sustainability (Duty 3):	Sustainability should be embedded in decision-making, aligned with the National Performance Framework, and supported by sustainability impact assessments.
Reporting:	Requirements for statutory and voluntary reporting are outlined. Bodies should develop focus on scope 3 emissions across their value chains, such as travel, procurement and construction, in addition to direct (scope 1) and energy-related (scope 2) emissions.

16. A [Climate Adaptation Checklist](#) is provided for senior leaders to benchmark their organisations and identify the next steps needed to build resilience.

17. Environmental Standards Scotland will monitor bodies’ delivery of climate activity including compliance with the guidance.

Guidance on summary financial information in 2025/26

18. I&Q has published TGN/SFI/26 to provide auditors with guidance on examining and reporting on summary financial information for 2025/26. The TGN is available to auditors on [SharePoint*](#) and is also freely available from the Audit Scotland [website](#).

19. Summary financial information refers to a structured representation of financial information that is derived from, but contains less detail than, a full set of financial statements. An audited body may include summary financial information in:

- a separate annual report required by its sponsoring body
- a report or other document that it chooses to produce.

20. In either event, **auditors should express an opinion on the summary financial information's consistency with the audited financial statements.**

TGN/SFI/26:

- provides guidance for auditors on the examination of the summary financial information
- sets out and explains the testing and reporting procedures that auditors should carry out (all summarised in the checklist at Appendix 1)
- provides a model form of report at Appendix 2

Trade union facility time disclosures

21. Paragraph 6.5.31(h) of the 2025/26 Government Financial Reporting Manual (FReM) (see paragraph 32) sets out the statutory requirement for public bodies to disclose Trade Union Facility Time information in the Staff Report.

22. However, relevant public bodies in Scotland are no longer required to include disclosures in their annual report and accounts. This is due to the commencement of Section 66 of the Employment Rights Act 2025, which revokes the statutory requirement to report Trade Union Facility Time.

3: Local Government Sector

Statutory guidance on the use of capital grant

- 23.** The [Scottish Government](#) has issued three circulars providing statutory guidance on the use of capital grant.
- 24.** [Finance Circular 9/2025](#) and [Finance Circular 3/2026](#) grant a temporary amendment to the statutory accounting requirements for capital grant set out in Finance Circular 3/2018. The amendment allows local authorities to replace reserves held for capital investment with general capital grant, to allow those reserves to be used to fund other pressures during 2025/26.
- 25.** The amendment allows local authorities to use the general capital grant, detailed in the capital consent letter issued in December 2025 and updated in March 2026, to fund housing revenue account (HRA) or general fund capital expenditure.
- 26.** The temporary amendments to the accounting requirements for capital grant are summarised in the following table:

Use of capital grant	Proposals
Repayment of loan principal	<p>Where the capital grant is transferred to the Capital Fund, the statutory adjustments in Part 2 of Finance Circular 3/2018 are not required.</p> <p>The statutory repayment of debt must still be charged to the General Fund (debit General Fund, credit Capital Adjustment Account).</p> <p>When the capital grant is applied, a separate transaction is required to transfer the capital grant from the Capital Fund (debit) to the General Fund or HRA (credit).</p>
HRA	<p>When the capital grant is utilised, it is transferred to the Capital Adjustment Account (debit General Fund, credit Capital Adjustment Account)</p>

- 27.** [Finance Circular 10/2025](#) also provides a temporary amendment to Finance Circular 3/2018. This amendment allows local authorities to replace reserves held in the capital fund with 2025/26 general capital grant. This allows those reserves to be used to fund RAAC affected buildings.
- 28.** This flexibility applies only to 2025/26. A letter from the Scottish Ministers is required to vary the terms of the general capital grant, including its amount and permitted uses.

Assurance protocols for 2025/26

29. I&Q has published two protocols to provide agreed frameworks for auditors to seek and provide certain information from auditors of other public bodies (assurance protocols). The protocols are available to auditors on [SharePoint*](#) and also freely available from the Audit Scotland [website](#). The purpose of the assurance protocols is summarised in the following table:

Protocol subject	Nature of information
Local Government Pension Scheme (LGPS)	<p>LGPS pension fund auditors request information from employer body auditors in respect of pension contributions payable by the employer body to the pension fund.</p> <p>Employer body auditors request information from pension fund auditors in respect of information provided by the pension fund to the actuary in relation to their reports on employer bodies.</p>
Integration joint boards (IJBs)	IJB auditors request information from the auditors of the constituent authorities regarding information not held by the IJB.

30. The assurance protocols set out the potential range of information but do not compel any specific information to be sought. It is not expected that any information outwith the specified range will generally be requested but that will be a matter for local agreement.

31. Auditors should:

- judge whether it is necessary to request any information from other auditors in 2025/26
- follow the agreed frameworks in each protocol when requesting or providing information.

4: Central Government Sector

2025/26 FReM

32. [HM Treasury](#) has issued a revised version of the [2025/26 Government Financial Reporting Manual](#) (the FReM). The main changes are explained in the following paragraphs.

33. The 2025/26 FReM was originally issued in December 2024 and the main changes from the 2024/25 FReM were explained in paragraphs 41 to 47 of [Technical Bulletin 2025/1](#). The main changes in this edition are explained in the following table:

Area	Guidance
Fair pay disclosure Paragraphs 6.5.21 to 6.5.27	<p>Clarification that non-executive directors (NEDs) are outside the scope of fair pay disclosures because they are not considered employees.</p> <p>Where fair pay disclosures included NEDs in 2024/25, restatement is not required but a footnote should be added to confirm that they were previously included.</p> <p>Comparative information for each fair pay ratio must be disclosed for the prior year.</p>
Machinery of government changes Section 8.2	<p>Provides an adaptation to IAS 1 removing the requirement to present a third Statement of Financial Position (SoFP) when merger accounting is applied, unless a restatement is required for an accounting policy change or correction of prior period errors</p>
Property, plant and equipment Paragraph 10.1.15	<p>Clarification that, when valuing a modern equivalent asset using the depreciated replacement cost method, the land area applied may differ from that of the actual asset.</p>

Disclosure guide for 2025/26 financial statements

34. [The National Audit Office](#) has published a [disclosure guide](#) on the 2025/26 financial Statements for bodies covered by the FReM.

35. The guide is designed to ensure that bodies covered by the FReM have prepared their 2025/26 financial statements in the appropriate form and have complied with all disclosure requirements. The guide is cross-referenced to the 2025/26 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.

36. When checking that the FReM's disclosure requirements have been met, **auditors should in accordance with the Overview Module of TGN 2026/1:**

- 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.

FReM application guidance

37. Treasury has issued updated application guidance on [fair pay disclosures](#), and [accounting for business combinations within the public sector](#), both of which were originally issued in 2012.

38. The updated guidance reflects changes since 2012 including the changes made to the 2025/26 FReM, explained in more detail in the table at paragraph 33.

Amendments to SPFM

39. The Scottish Government has issued [Finance Guidance Note 2026/1](#) updating the [certificates of assurance: internal control checklist](#) section of the Scottish Public Finance Manual (SPFM).

40. The main changes are summarised in the following table:

Area	Amendment
Finance management	Guidance notes have been updated to include consideration of Accountable Officer assessments.
Human resources	New questions have been added covering topics including: <ul style="list-style-type: none"> • workforce support, performance and conduct • management of outside interests, gifts and hospitality.
Information	A new question has been added regarding mobile messaging policy and guidance.
Sponsored bodies	Questions have been added covering: <ul style="list-style-type: none"> • Terms included in a framework document • Updating of framework documents • Reviewing and challenging financial information

2025/26 Remuneration Report disclosure timescales

41. [The Cabinet Office](#) has issued [Employers Pension Notice \(EPN\) 746](#) on the preparation of disclosures for the Remuneration and Staff Report for 2025/26.

42. To allow pension information to be provided earlier than in previous years, bodies were required to submit Annex 13A by 31 January 2026.

43. Pension information will be provided in two stages:

- Stage one: by 31 May 2026

- Stage two: by 26 June 2026, for late Annex 13A submissions or where data changes are required.

2026/27 FReM

44. Treasury has also issued the [2026/27 FReM](#). There are no significant changes in 2026/27. Minor changes relevant to Scottish bodies are summarised in the following table:

Area	Change
Depreciated replacement cost (DRC) valuations	<p>Bodies are permitted to disclose the difference between the land area of a modern equivalent asset (MEA) and the actual land area of the property.</p> <p>A new adaptation has been added in section 8.2, explaining that from 2028/29, the requirement to consider alternative sites as part of DRC property valuations will be removed.</p>
Machinery of government changes – transfers by absorption	<p>Paragraph 9.1.14 has been amended to require any gain or loss arising from the transfer of a function by absorption to be recognised in the general fund. Previously, such transfers were recognised within net expenditure.</p>

5: Health Sector

2025/26 accounts manual

45. The Scottish Government has issued the 2025/26 Manual for the Annual Report and Accounts of NHS Boards* (accounts manual). The accounts manual complements the guidance contained in the 2025/26 FReM but contains some additional or specific requirements.

46. The main changes are set out in the following paragraphs.

47. The Financial Disclosures on pages 11 and 12 have been updated for 2025/26 to reflect that brokerage has been replaced with Deficit Support Funding.

48. Page 13 has been updated for *Statutory Guidance for Public Bodies: putting the climate change duties into practice*. The guidance requires bodies to comply with the relevant sections of the FReM and the Task Force on Climate-related Financial Disclosures (TCFD).

Remuneration report

49. The following table explains the main changes to the remuneration and staff report requirements for 2025/26:

Area	Change
Director remuneration	Page 28 clarifies that salary and allowances should include pensionable and non-pensionable amounts
Facility Time data	Disclosure of Facility Time data is no longer required (see paragraph 21).
Fair pay disclosures	Page 39 clarifies that: <ul style="list-style-type: none"> the mid-point of the highest paid director's remuneration banding should be used for the disclosure where performance pay and bonuses have been paid, disclosure is required non-executive directors should be excluded from the fair pay disclosure calculations as they are not considered employees.
Remuneration bands	The minimum band in the ranges for remuneration disclosure has been increased from £70k to £90k.

50. The following table explains the other changes, to the accounts manual for 2025/26, these are largely to reflect changes to the 2025/26 FReM (see paragraphs 41 to 47 of [Technical Bulletin 2025/1](#)):

Area	Change
Non-current assets	<p>Page 102 explains that revaluations should now be undertaken using either:</p> <ul style="list-style-type: none"> • A quinquennial revaluation supplemented by annual indexation; • A rolling programme of valuations over a 5-year cycle, with annual indexation applied to the assets during intervening years; • For non-property assets only, appropriate indices. <p>In rare circumstances where an index is not available, boards should revalue the given asset using a quinquennial revaluation supplemented by a desktop revaluation in year 3.</p> <p>Page 84 confirms that if there is a change in the asset valuation programme in 2025/26, this should be disclosed.</p> <p>References to:</p> <ul style="list-style-type: none"> • the service potential of operational assets have been replaced with operational capacity. • specialised and non-specialised assets have been removed. <p>Page 73 confirms that intangible assets that are held for their operational capacity should be measured using the cost model.</p>
Financial instruments	<p>Page 144 clarifies the classification of trade and other receivables and cash and cash equivalents as 'Financial assets at amortised costs' rather than 'Financial Assets at fair value through Other comprehensive income (OCI)'.</p> <p>The 'Amounts payable to General Fund' and 'Holiday pay accrual' have been excluded from Financial Liabilities.</p>

2025/26 CAM

51. The Scottish Government has also issued the NHS Scotland Capital Accounting Manual 2025/26* (CAM) to interpret the accounting guidance contained in the 2025/26 FReM on capital accounting issues in the health sector.

52. The main changes to the CAM are to reflect amendments in the 2025/26 FReM (see paragraphs 41 to 47 of [Technical Bulletin 2025/1](#)). These changes are also reflected in the accounts manual as explained in the table above.

Consolidation Schedules

53. I&Q has published TGN/HCS/26 to provide appointed auditors of health boards with guidance on examining and reporting on consolidation schedules which boards are required to submit to the Scottish Government for 2025/26. The TGN is available

to auditors on [SharePoint](#)* and is also freely available from the Audit Scotland [website](#).

54. Auditors are required to examine the consolidation schedules and report on the results in an Assurance Statement. This TGN provides:

- guidance for auditors on the examination of the consolidation schedules (summarised in the checklist at Appendix 1)
- an Assurance Statement at Appendix 2

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