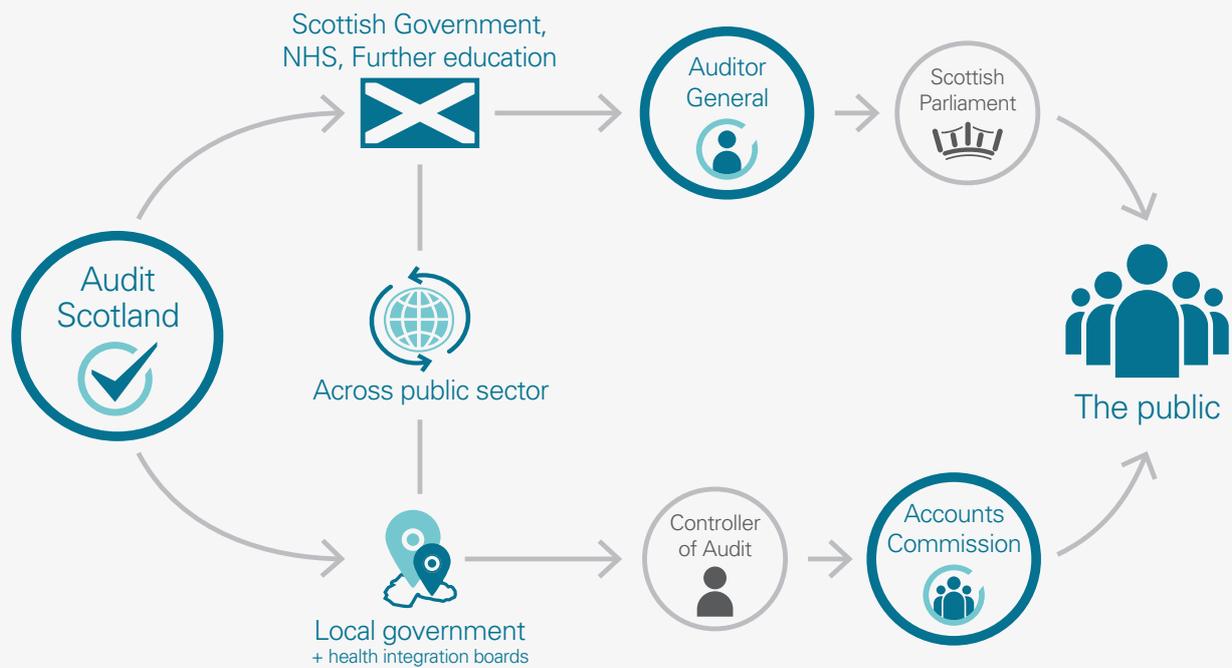


Annual report and accounts 2018/19





Who we are

The Auditor General for Scotland, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the financial health and performance of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.

Statutory background

Audit Scotland was formed on 1 February 2000 (and began operations on 1 April 2000), following the transfer of staff and property from the Accounts Commission and National Audit Office, under the Public Finance and Accountability (Scotland) Act 2000. Part 2 of this Act established Audit Scotland as a body corporate.

About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value.

We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, and making clear and relevant recommendations.

Our staff and firms of auditors appointed by the Auditor General and the Accounts Commission carry out the audits. We check whether organisations manage their money to the highest standard and get the best possible value for public money.

There are three principles which guide our work:

- The Auditor General and the Accounts Commission appoint auditors to public bodies, to ensure the appointment process is independent.
- We report in public.
- We look at more than financial statements.

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Introduction

2018/19 in numbers



297

accounts audited



19

national and local
performance reports



£1.1m

savings, efficiencies
and cost reduction



4.85 days

staff absence
compared with public
sector average of 8.5



87,020

visitors to our
website

↑ from 72,904



26,118

social media
engagements

↑ from 20,636



£8,000+

Raised by our staff
for two good causes

↑ from £6,000

Our finances

Scottish
Parliament
£10m



People costs
£18.3m

Audit fees
£18.1m



Audit firms
£4.5m



Other costs¹
£5.3m

Note: 1. Other costs include property, digital services, travel and subsistence, capital expenditure, and depreciation.

Chair's welcome



There is no doubt that this has been a very turbulent year for Scotland's public bodies.

The devolution of taxation and social security powers, tight finances, increasing demands on public services and the major uncertainty around the UK's withdrawal from the EU, have created a very challenging and complex environment for public bodies and the wider economy in Scotland.

It is important that people have assurance that public money is being spent wisely and that services are as efficient and effective as they can be. Audit Scotland has a key role in this. We are able to consider and highlight the big issues facing Scotland as well as providing a unique view across all of the country's public services.

Our role as a board is to ensure Audit Scotland is well managed, looks to the future and delivers high-quality audit and scrutiny of the services that affect the daily lives of people in Scotland. Audit Scotland exists to support the Auditor General and the Accounts Commission to provide independent assurance to the people of Scotland that public money is spent properly and provides value for money. Our board must be satisfied that the organisation itself also makes the best use of public money.

During the past year, Audit Scotland has reported on issues of major public importance, ranging from the state of child and adolescent mental health services to the building of the Queensferry Crossing to the key issues facing local government, while also reporting on the accounts and management of public bodies across the country.

The board met eight times during the year and our meetings are open to the public. We also met with the Scottish Commission for Public Audit, who scrutinise our performance and financial management.

I am very grateful for the continued support of fellow board members. I would like to thank Caroline Gardner as Auditor General, Diane McGiffen our Chief Operating Officer, and the skilled and competent staff at Audit Scotland for all their hard work and contributions over the past year.

Ian Leitch CBE
Chair of the Audit Scotland Board



Accountable Officer's report

In more than two decades of working in public audit in Scotland, I cannot recall a year when public services have experienced such pressure and uncertainty. Public bodies are having to cope with static or shrinking budgets at a time when demands increase and expectations continue to rise.

For Scotland's public sector, this is combined with the devolution of significant powers around taxation and social security, and the rapidly changing picture of the UK's withdrawal from the EU.

Audit provides politicians, decision-makers and the public with the information and assurance they need about how well public services are run and how public money is spent. In recent years I have commented on the importance of this in times of uncertainty and change. Given the circumstances Scotland's public bodies currently operate in and in a time of 'fake news' when people are unclear what they can trust, I would argue that the independence, quality and timeliness of audit performed in the public interest is essential.

In the past year, we have worked to provide clarity around complex issues such as devolved powers and EU withdrawal, as well as highlight the pressures public bodies are under and the impact these are having on their financial management.

In Scotland we have a distinctive public sector audit model that safeguards independence, objectivity and quality. It has been a year in which questions have been asked about the audit profession in the UK, and we have been clear about assuring the public about the robustness of public audit in Scotland. We take nothing for granted and we will continue to review what we do and identify improvements, to make sure we are providing the robust and vital service that Scotland's people rely on.

Caroline Gardner
Accountable Officer and Auditor General for Scotland

Our year

In this section of the report we set out:

- Our vision, our strategic objectives – and how we have performed
 - Our financial position
-

Our vision is to be a world-class audit organisation that improves the use of public money.

Our work is guided by the *Public audit in Scotland* [\(PDF\)](#) framework. It is focused on the priorities identified by the Auditor General and the Accounts Commission and is underpinned by our assessment of issues and risks. All of these inform the focus, scope and themes of audits in individual audited bodies and across the public sector.

As public bodies face increasing challenges and uncertainty, we have worked to ensure we are able to meet the demands of the changing environment. We have grown our capacity, both through recruitment and organisational improvement, in response to the need for robust audit of new financial powers and social security. We have also strengthened our quality assurance and quality reporting arrangements.

And we have increased our engagement with the bodies we audit and those who rely on our work to scrutinise and improve public services. This allows us to further support and inform people using and delivering public services and helps us to stay on top of the many developments across the public sector.

Our *Corporate plan 2018–21* [\(PDF\)](#) details our strategic objectives for the next three years and charts progress over the course of the past three years.

Our strategic objectives in 2018/19 were:

- Delivering world-class audit
- Making a difference
- Being a better organisation.

Delivering world-class audit

We aim to ensure that public audit in Scotland applies the highest professional and ethical standards, that it is efficient, proportionate and risk based, and promotes transparency and accountability.

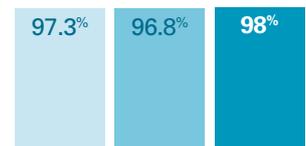
The quality of our work is critical. It forms the bedrock of our audit judgements, recommendations, our reputation and ultimately our ability to make a difference to public services and how public money is spent.

In a complex and challenging environment, it is important that independent, objective and authoritative public audit continues to support a strong and effective system of financial accountability and transparency.

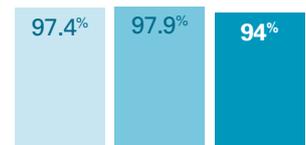
In 2018/19 we:

- ✓ delivered 297 audits under the [Code of audit practice](#) 
- ✓ expanded our support for parliamentary scrutiny of the budget development process, financial management and the efficiency and effectiveness of public expenditure
- ✓ established two teams to audit the devolved financial powers and social security and published updates and briefings on the implementation of the Scotland Acts
- ✓ developed audit methodologies for devolved financial powers, social security and EU withdrawal preparedness
- ✓ further enhanced the [Audit Quality Framework](#)  which covers all the audit work undertaken on behalf of the Auditor General and the Accounts Commission
- ✓ adopted the International Organisation of Supreme Audit Institutions standards for our performance and Best Value audit work
- ✓ refreshed our policies on ethical standards and non-audit services.

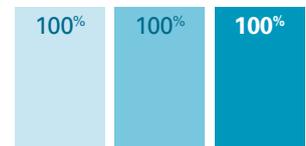
Key performance indicators



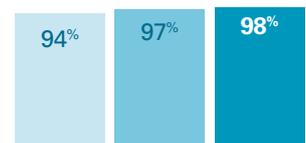
Annual audits delivered to schedule



Reports published to schedule



Audits delivered within 3% of budget



Correspondence responses issued to schedule

■ 2016/17 ■ 2017/18 ■ 2018/19

Annual audits

This forms the largest part of our statutory work.



Accounts audited in 2018/19



180

Local
government



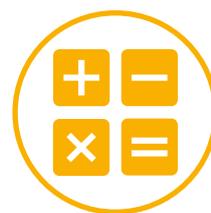
73

Central
government



23

NHS



21

Further
education

Audits are carried out by Audit Scotland's Audit Services Group and by audit firms appointed by the Auditor General and the Accounts Commission. Following international standards, auditors report whether they believe the accounts are true and fair, and free from material misstatement.

We audited 297 sets of accounts this year. There are 215 public bodies but some produce separate accounts for entities such as pension funds and integrated joint boards. There were no modified opinions this year, meaning all accounts were true and fair.

However, auditors did report four instances where public bodies missed financial objectives. These were all where local authority significant trading operations failed to achieve their statutory objective to break even over a three-year period (City of Edinburgh Council, Dumfries and Galloway Council, West Lothian Council and Tayside Contracts Joint Committee).

Raising issues from annual audits

We highlight matters of concern we find in the annual audits of public bodies that are of significant public interest. The Auditor General can publish a 'Section 22' report to bring a matter relating to a central government or health body directly to Parliament's attention, while in local government, the Controller of Audit can use a 'Section 102' report to highlight an issue to the Accounts Commission.



We issued 11 S22 and S102 reports last year. This is the most we have ever produced in a single year, a clear sign of the strains felt by public bodies. They covered City of Edinburgh Council, Edinburgh College, New College Lanarkshire, the Scottish Government Consolidated Accounts, the Scottish Police Authority, three NHS Boards (Ayrshire and Arran, Highland and Tayside), Community Justice Scotland, the Scottish Public Pensions Agency and the Scottish Social Services Council.

Performance audits

We produce performance audit and overview reports on issues which have a direct impact on people's daily lives.



Our reports often focus on key areas of public concern. Our [Children and young people's mental health](#) (September 2018) highlighted big increases in referrals and longer waiting times. We called for a fundamental shift in the way the public sector responds to the mental health needs of children and young people.

The second report on [Health and social care integration](#) (November 2018) found some progress but stressed the need for a stronger commitment to collaborative working to achieve real long-term benefits.

Our report on the [Forth Replacement Crossing](#) (August 2018) praised the management of Scotland's largest infrastructure project in recent years. We said it delivered value for money and there were wider lessons for similar projects.

We looked at progress in the roll-out of [Superfast broadband for Scotland](#) (September 2018). The Scottish Government had achieved its 95 per cent target but the tougher challenge remains to take this to 100 per cent.

Our report on the [Scottish Fire and Rescue Service](#) (May 2018) found steady but slow progress had been made in developing a more flexible and modern service.

The report on [Councils' use of arm's-length organisations](#) (May 2018) concluded these organisations could bring benefits but needed careful consideration.

Overview reports look at the issues faced by key sectors. Reports on [Scotland's colleges 2018](#) (June 2018), [Local Government: Challenges and Performance 2018](#) in April 2018 and [March 2019](#) and [finances](#) (November 2018) contained a common theme of limited or declining budgets set against rising demand for services. The [NHS in Scotland 2018](#) report (October 2018) expanded on this and was unequivocal that immediate action was needed to shift the NHS towards long-term, fundamental change and make it sustainable.

Reporting on Best Value in local government

The Accounts Commission is responsible for scrutinising Scotland’s 32 councils.

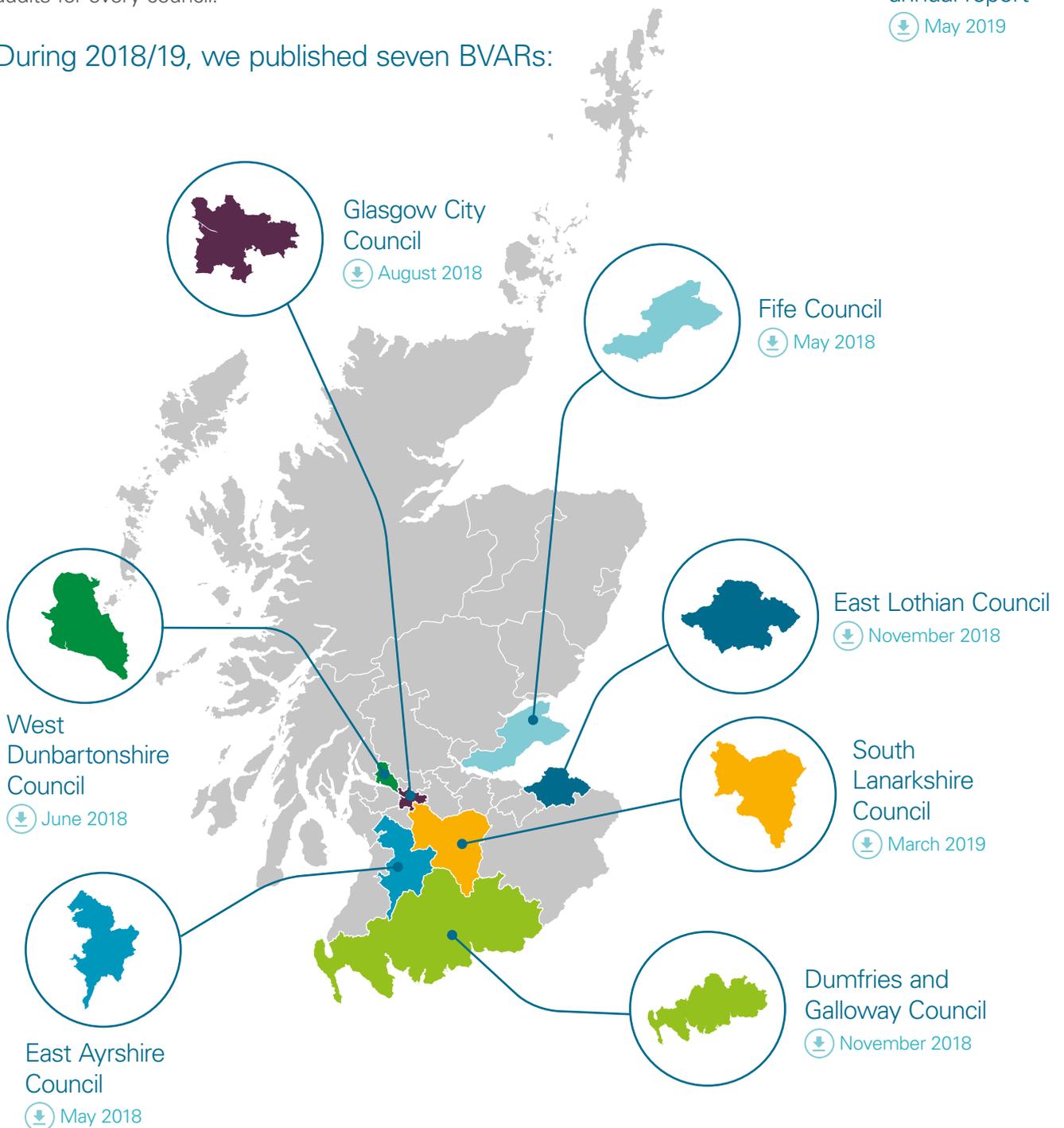
Over the past year, we continued to support the Commission’s roll-out of Best Value Assurance Reports (BVARs). These aim to provide a more detailed and rounded insight for local people into how their council is performing; where it’s doing well and where it needs to improve. This wider focus on Best Value is also part of the annual financial audits for every council.



Accounts Commission annual report

May 2019

During 2018/19, we published seven BVARs:



Audit quality

Our quality assurance team independently reviews our audit work and our work is subject to independent external review by ICAS.

Our 2018/19 report on the [Quality of public audit in Scotland](#) found that there is good compliance with auditing standards, a strong culture supporting high-quality audit work and that audited bodies and stakeholders say our work has had an impact. The report suggested some improvements in analytical procedures and the application of sampling methods.

Our Professional Support team works closely with the Audit Quality and Appointments team to provide guidance, advice and support to auditors. We follow applicable standards from the international standards of auditing (ISAs), and from the International Organisation of Supreme Audit Institutions (INTOSAI). We comply with the [Code of audit practice](#) and related guidance and adopt cutting-edge methodologies and best practice to deliver high-quality audits. We also promote efficiency and effectiveness and support continuous improvement.

We are represented on, and engage with, a wide range of international and UK professional bodies and audit agencies where we can influence professional standards and learn from and share good practice. This includes:

- The Auditor General is a board member of Public Sector Audit Appointments (PSAA), the body responsible for appointing auditors to English local authorities, police and NHS bodies, and is the chair of its Audit Committee.
- Members of the Leadership Group hold roles as Vice Chair of LASAAC (Local Authority (Scotland) Accounts Advisory Committee), member of the Chartered Institute of Public Finance and Accountancy (CIPFA)/LASAAC board and Chair of the Institute of Chartered Accountants in England and Wales (ICAEW), Scotland Strategy Board and as a member of the ICAS public sector committee.

Audit Scotland also has reciprocal arrangements with other audit institutions in the UK and internationally and works to support improvements in auditing, governance and performance in the public sector.

We also support continuous improvement in audit quality by ensuring that auditors' technical judgements are made on an informed basis. We produced comprehensive [technical guidance](#) during the year.



Quality of public audit in Scotland

June 2019

Technical guidance

18 technical guidance notes

4 technical bulletins

93 briefing notes on key documents

765 responses to technical enquiries from auditors

Ethical standards

Independence is a fundamental principle of public audit and helps ensure its effectiveness. We use the Financial Reporting Council's Ethical Standards for auditors, not just for financial audits but for all our work.

Our ethics partner, Audit Services Director Fiona Kordiak, works to ensure compliance with ethical standards within the organisation, and advises our board on matters of ethics.

Scrutiny coordination

We work closely with other scrutiny organisations such as inspection bodies to make sure that the scrutiny of local government is targeted and proportionate to identified risks. Audit Scotland sits on the Strategic Scrutiny Group, which is chaired by the Accounts Commission and includes the Care Inspectorate, Education Scotland, HM Fire Service Inspectorate, Healthcare Improvement Scotland, HM Inspectorate of Constabulary for Scotland, HM Inspectorate of Prisons for Scotland, Inspectorate of Prosecution in Scotland and the Scottish Housing Regulator. The group produces a national scrutiny plan and local plans for all 32 councils.



National scrutiny
plan 2018/19
April 2018

Scrutiny organisations



Inspectorate of
Prosecution in
Scotland



Spotlight

Public audit in Scotland

It's essential that people can trust that public money from the taxes they pay is being spent properly and wisely.

Scotland has a distinctive model of public audit that ensures the independence of auditors and enhances the robustness, quality and scope of their work.

The Auditor General and the Accounts Commission set the framework for public audit through the [Code of audit practice](#). They appoint the auditors for each public body in Scotland. Scottish public bodies do not appoint their own auditors. This prevents auditors being open to influence by the bodies they audit, and means the auditor's first duty is to report, in public, to Scotland's two spending watchdogs.

Auditor independence and professional scepticism are further strengthened by the practice of changing audit appointments every five years. This brings a fresh perspective to audited bodies and provides assurance to stakeholders.

Because Audit Scotland works for both the Auditor General and the Accounts Commission we have a unique oversight of public services and can draw on expertise and experience across the public sector.

There has always been a mix of Audit Scotland teams and private audit firms to carry out public sector audits, working to the same international standards and Code of audit practice. This ensures we have the capacity to cover the whole public sector and the opportunity to share best practice and experience.

Public trust in audit depends in part on quality. Our quality assurance team works independently of all auditors to review and challenge their work and provide assurance of its quality, and we complement this with independent external reviews of audits by the Institute of Chartered Accountants of Scotland.



Making a difference

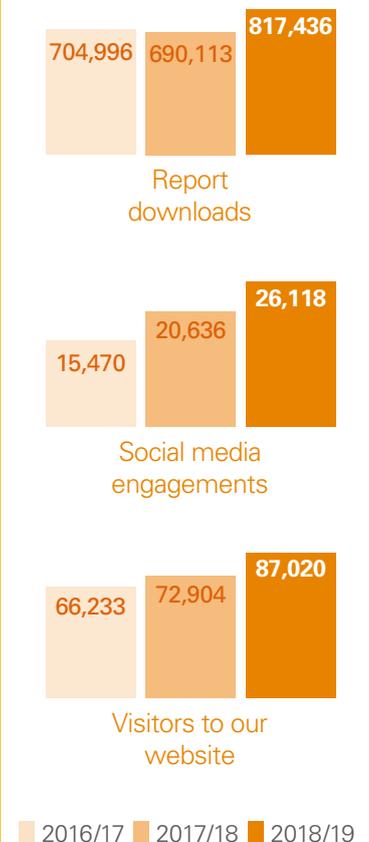
Our work makes a positive difference to the use of public money and the way public services are delivered in Scotland.

For our work to have impact, we need to ensure we are focused on the issues that matter most, provide insight into what works and what needs to improve, and offer foresight on future risks and opportunities for improvement. We also need to ensure that we are getting our messages out effectively and that actions are being taken on the audit recommendations.

In 2018/19 we:

- ✓ refreshed the [five-year rolling programme](#) of audit work for the Auditor General and Accounts Commission based on engagement with stakeholders and by focusing on the key risks and opportunities facing Scotland's public sector
- ✓ made more audit outputs available on our website to make our work accessible and help people to understand how public services are performing and how public money is being spent. Our new products include:
 - [interactive data graphics](#)
 - [e-hubs](#)
 - [animations](#)
 - [service user guides](#)
- ✓ further developed our use of social media and a social media strategy so we can improve communication and engage with a wide cross-section of people and stakeholder organisations
- ✓ hosted and contributed to information and advisory round table events with public bodies
- ✓ refreshed our equality outcomes and further embedded equality in our work to highlight where Scottish public bodies can improve their practices and help reduce inequality.

Key performance indicators



Supporting the Scottish Parliament

Public audit plays a key role in helping the Scottish Parliament and policy-makers understand the key issues facing the public sector and how public money is spent. The Auditor General for Scotland is an independent appointment by the Crown, on the recommendation of the Scottish Parliament. She reports in public to the Scottish Parliament's Public Audit and Post-legislative Scrutiny Committee (PAPLS). This role has assumed greater importance over recent years as a consequence of Scotland's new financial powers.

We have strengthened our engagement with committees, MSPs and the Scottish Parliament Information Centre (SPICe) over the current session of Parliament to better help parliamentarians scrutinise the public sector's performance. For example, we worked closely with the Parliament to help it implement the recommendations of the Budget Process Review Group (BPRG).

We have also met with and given oral and written evidence to a wider range of parliamentary committees and given briefings to MSPs, with a total of over 87 parliamentary engagements over the year. This includes presenting to the following committees on relevant audit work: Education and Skills; Equalities and Human Rights; Finance and Constitution; Health and Sport; Justice; Local Government and Communities; PAPLS; and Social Security. Alongside that formal reporting, we have responded to consultations and calls for evidence by parliamentary committees and provided a range of informal briefings to committees, clerking teams and SPICe.

The Auditor General also prepares Section 22 reports to highlight to the Parliament issues of concern identified through annual audits, or to report on progress against matters she has previously raised.

Briefings

We produce reports and briefings to help people understand changes and developing issues in the public sector. Our briefing on [Scotland's new financial powers](#) (October 2018) reflected on the first year of the new fiscal framework and the risks affecting the Scottish budget.

Similarly, our briefing on [Withdrawal from the European Union](#) (October 2018) set out the key audit issues and the questions public bodies could ask of themselves to ascertain the impact on them and their services.

In August 2018, we published a briefing for the public sector summarising the good practice, key findings and recommendations we have found from our audits of [major procurement projects](#), including the Forth Replacement Crossing.



Scotland's new financial powers

October 2018



Withdrawal from the European Union

October 2018



Major project and procurement lessons

August 2018

Countering fraud

Audit plays a role in deterring and detecting fraud in public bodies, and in helping organisations prevent the loss of public money through mistakes. Audit Scotland coordinates the National Fraud Initiative, an exercise that matches datasets across the public sector to identify potential fraud and errors such as overpayments. Our biennial [The National Fraud Initiative in Scotland](#)  report (July 2018) found that the NFI has identified nearly £19 million of fraud and error across the public sector.

As part of our audit work, we review whether public bodies have adequate controls in place to prevent and detect fraud. While no anti-fraud measure will be 100 per cent failsafe, our work and advice can help public bodies have robust processes to protect public money.



The National Fraud Initiative in Scotland

 July 2018

International work

Learning from good audit practice beyond Scotland is key to our ambition of being a world-class audit organisation. It helps keep our work relevant and make a greater impact on improving public services. Our approach to international work is set out in our [International Strategy for 2017-20](#) .

This year our international work has had two main areas of focus:

- informing our audit work through learning from overseas
- working directly with others to share good practice in public governance.

Our [International work annual report](#)  gives highlights from our work in 2018/19 including:

- Working with other audit agencies and parliaments to share good practice in public governance. This included meeting representatives from the assembly of Armenia and working directly with the North Macedonia State Audit Office.
- Informing our work on digital services and fraud prevention through attending selected Organisation for Economic Co-operation and Development/Auditor Alliance events, and sharing lessons from such events through blogs and other internal communications.
- Continuing to use our International Performance Audit Database to inform our audit and how we scope our forward work programme.
- Presenting at international conferences, including EURORAI conferences attended by over 150 delegates from 25 different countries on themes of digital and government-owned companies.
- Increasing the profile of our international work through social media, blogs and knowledge cafes. This year our [#GoingGlobal](#)  social media posts were seen by an audience of almost 20,000.



International Strategy for 2017-20

 June 2017



International work 2018/19

 June 2019

Spotlight

Auditing in a changing environment

Scotland's public sector has responded to major new powers and fiscal responsibilities and to uncertainty over the UK's relationship with Europe.



New tax and spending powers mean that by 2021 more than half of the public money spent in Scotland will be raised here. That's an increase from £4 billion (ten per cent of public spending in 2013/14) to £22 billion.

The Scotland Act 2016 devolved 11 social security benefits and gave the Scottish Government the power to create new benefits and top up existing ones. This is the most significant area of spending responsibility to be devolved. Once fully implemented, approximately £3.5 billion of social security assistance payments will be made each year to more than 1.4 million people.

In response, we have created a New Financial Powers team; we have produced a series of reports looking at progress and explaining the new landscape, all collated on a dedicated [web resource](#) and complemented with explanatory graphics. We have continued to review the implementation of the social security powers and the creation of the new agency, Social Security Scotland.

The UK's planned withdrawal from the EU has major implications for Scotland's public bodies. Our briefing published in October 2018 sets these out and helps organisations identify and address the key issues, and we have supported this with online content and round table discussions with stakeholders.

The environment has meant we have increased our intelligence-gathering and engagement across the public sector to ensure we can continue to have as complete a picture as possible of the changes, risks and emerging issues.

This liaison across the public sector has extended to increased joint working with our counterparts across the UK – the National Audit Office in England, the Wales Audit Office and the Northern Ireland Audit Office – to ensure we all have a good understanding of the UK-wide situation.

Being a better organisation

Our aim is to make Audit Scotland a great place to work by attracting and retaining highly skilled people, and making the best use of public resources.

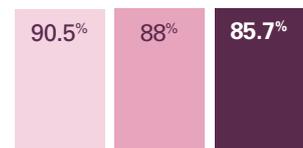
In 2018/19 we:

- 
 achieved our highest ever score in the Best Companies staff engagement survey and were listed in the top 100 not-for-profit organisations to work for in the UK
- 
 increased both our capacity and skill-mix through recruitment to meet the increased audit responsibilities around devolved financial powers, the fiscal framework and social security
- 
 supported colleagues to work flexibly so they can balance their working lives with their other responsibilities, and helped them plan and progress their careers
- 
 encouraged and supported our colleagues to learn and develop their skills and leadership, with an improved personal, professional and leadership development programme
- 
 worked with external partners to ensure our recruitment approaches promote and support a more diverse workforce
- 
 continued to invest in the resilience and flexibility of our digital services.

Key performance indicators



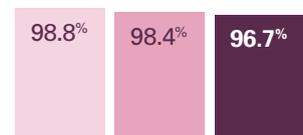
People in post



Exam pass rate for professional trainees



IT uptime



IT issues resolved within target times

2016/17 2017/18 2018/19

Our people

We have been growing slowly and steadily since 2014 to meet the increasing audit requirements. In 2013/14, we delivered 208 annual audits of public bodies and employed 258 whole-time equivalent (WTE) colleagues. Five years later, we delivered 297 annual audits, a 43 per cent increase that also includes large and complex new audits such as Scotland's new social security agency and fiscal commission. During 2018/19, we increased the volume of our recruitment, carrying out 23 recruitment campaigns and employing an additional 28 WTE colleagues. This brought our total to 278 WTE, an eight per cent increase on 2013/14. A focus of our recruitment was on graduate trainees, supported by our comprehensive graduate training programme.



For our financial audits, accountancy remains the main discipline. Every financial auditor undergoes rigorous professional training. We run one of the largest public financial audit training schemes in Scotland. We have 42 trainees and staff working towards qualifications from the Chartered Institute of Public Finance and Accountancy and the Institute of Chartered Accountants of Scotland.

Our gender pay equality results show that male staff on average earn 9.91 per cent more than female. Audit Scotland has recently been successfully attracting greater numbers of female applicants to our professional training scheme and entry-level professional roles. Over time this will support more females to fulfil promoted roles and help close the gender pay gap. At a senior level, three-quarters of our Management Team are female, as is 40 per cent of our board and more than half of our organisation-wide Leadership Group. We continue to monitor our approach to recruitment so that it follows good practice across all diversity and equality strands.

Our colleagues choose our nominated charity. So far, we have raised more than £8,000 for the [Scottish Association for Mental Health](#) and [Brain Tumour Charity](#). Our colleagues have run relays in two marathons, taken to the stage at the Edinburgh International Festival, baked hundreds of cakes and hosted the annual football match between auditors from Edinburgh and Glasgow.

We're also very proud of the achievements of our colleagues outside work. Among many highlights, it was a real thrill for us to see our colleague Elaine Boyd awarded a scholarship by Flying Scholarships for Disabled People. She is due to be presented with her wings in July at the Royal International Air Tattoo. Elaine has also been learning to ski with Disability Snowsport UK.



£8,000+
Raised by our
staff for two
good causes



Key strategic objectives, issues and risks

The Audit Scotland Board sets the strategic direction for Audit Scotland in consultation with the Auditor General and the Accounts Commission.

Our strategic objectives for 2018/19 were Delivering world-class audit, Making a difference and Being a better organisation. These strategic objectives provided the organising framework for our performance management arrangements, our strategic improvement programme and our risk management framework ([page 38](#)).

In our 2019/20 Corporate plan update we have streamlined our organisational objectives to Delivering world-class audit and Being a world-class organisation.

The board's audit committee has responsibilities for risk, assurance, audit quality and governance. The committee recommends the appointment of our internal auditors and receives internal and external audit reports and the annual accounts. Our external auditors are appointed by SCPA.

The past 12 months have seen unprecedented change in Scotland, the UK and internationally, and it's clear that the future holds even more uncertainty.

To help ensure Audit Scotland is equipped to deal with these changes and cope with an increase in demand for our audit work, we focus carefully on financial and workforce planning. We continue to work through the implications for our resources of the devolved financial powers, social security financial powers and EU withdrawal.

Continued cyber attacks on organisations have highlighted the importance of, and reliance on, digital systems. Digital technology offers transformational opportunities, but also increases dependence on digital services for the delivery of our work. The importance of digital and cyber security and resilience has never been higher.

Further information on the risks facing Audit Scotland is on [\(pages 38 – 41\)](#).

Climate change and sustainability

We have reduced our carbon footprint by 29 per cent against our 2014/15 baseline, and halved it since 2008/09. Our total emissions equate to less than 1 (tCO₂e) per WTE employee or 0.1 (tCO₂e) per m² floor space we occupy, and we are ahead of our 2019/20 targets.

We are also reducing our energy, transport and waste emissions, and have already achieved our 2019/20 targets:

 **Energy**
 ⬇️ 26% lower than 2014/15

 **Transport**
 ⬇️ 35% lower than 2014/15

 **Waste**
 ⬇️ 54% lower than 2014/15

Further details of these reductions are in our 2017/18 [Environment and sustainability annual report](#) .



Environment and sustainability annual report 2017/18

 November 2018

Biodiversity

The Nature Conservation (Scotland) Act 2004 places a statutory duty on all public sector bodies in Scotland to further the conservation of biodiversity and the Wildlife and Natural Environment (Scotland) Act 2011 introduced a requirement for all public bodies to make a report publicly available on their compliance with biodiversity duty. Biodiversity duty reports are required every three years. We report on biodiversity annually within our annual sustainability report.

Audit Scotland does not own or manage land and therefore has a smaller opportunity to carry out activities for biodiversity than organisations that do own or manage land.

We support biodiversity through:

- reducing our carbon footprint
- minimising waste and reducing waste to landfill through recycling
- using EU Ecolabel certified paper
- reducing the total kilometres we travel on business and choosing more sustainable travel options
- raising awareness of biodiversity and sustainability issues.

Looking ahead

During the remainder of our [Climate change plan 2015/16 – 2019/20](#)  we will focus on developing sustainability policies, identifying projects that help to further reduce our energy and transport emissions, and projects that positively influence staff behaviours. This will include:

- Policy development, including developing a new biodiversity policy and Travel Plan.
- Behaviours, including introducing climate change induction training for staff and promoting more sustainable means of travel.
- Projects, including greater use of cloud-based digital applications to reduce energy consumption.



Climate change
plan 2015/16 –
2019/20

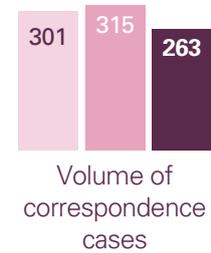
 June 2016

Responding to the public

We receive enquiries from a wide range of people about the bodies we audit. Where appropriate, we may carry out further audit work in response. In 2018/19, we dealt with 263 items of correspondence (compared with 315 in 2017/18). Twenty-two of these items came to us as prescribed persons under the Public Interest Disclosure Act 1998 (compared to 27 in 2017/18). These are often referred to as 'whistleblowers'.

We receive many routine requests for information. Where the requests are complex or submitted under the Freedom of Information (Scotland) Act 2002 (FOI) or Environmental Information (Scotland) Regulations 2004, we record them. This year we recorded 38 Freedom of Information requests (51 in 2017/18) and no Environmental Information requests (none in 2017/18).

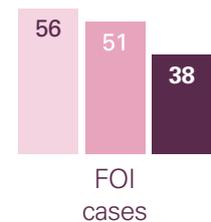
We recorded a total of five complaints over the year, compared with four in 2017/18. Two complaints were investigated and not upheld. The complaints were that issues of concern about audited bodies were not dealt with to the satisfaction of the complainant. The investigations found that the complaints had been dealt with in accordance with the complaints/ issues of concern policy and procedures. Three complaints were about audit quality and so were dealt with through a separate process.



Volume of correspondence cases



Whistleblowing cases



FOI cases



Complaints

■ 2016/17 ■ 2017/18 ■ 2018/19

Spotlight

Our people

Audit Scotland's strength comes from the people who work here.



In December, we were ranked in the Sunday Times top 100 not-for-profit places to work in.

We are proud to have varied perspectives provided by colleagues drawn from numerous professional backgrounds and more than a dozen nationalities and ethnic groups.

We have people of all working ages and educational backgrounds. In our offices you will find PhDs working with school leavers, people with previous experience in both public and private sectors, and accountants and economists alongside graphic designers and digital specialists.

Like Scotland as a whole, the majority of Audit Scotland is ethnically British white. However, we are becoming increasingly diverse; 7.3 per cent of our colleagues are from ethnic minority and mixed race backgrounds.

We encourage and support colleagues to work in ways that achieve a work-life balance, facilitate their family and other commitments, and promote wellbeing and development. This includes our flexible working policies, learning and development programme, and occupational health system and annual health checks, as well as our Disability Confident Employer accreditation.

During 2018, we worked with Youth Scotland to recruit youth panels to inform our work during Scotland's Year of Young People. In 2019, we adopted the Scottish Association for Mental Health as our corporate charity, and we have started work with LGBT Scotland, ethnicjobsite.com and Disability Alliance to help make our recruitment processes more accessible and representative.



Financial position

Financial overview

£ → Expenditure



£18.3m

expenditure on people costs



£4.5m

fees and expenses paid to firms



£4.3m

other operating expenditure¹



£0.8m

net finance expenditure incl. Corporation Tax



£0.2m

capital expenditure

£ ← Fees and funding



£18.1m

audit fees and other income



£10m

Scottish Parliament funding

Note: 1. More detailed analysis provided in [Note 4. Other operating expenditure \(page 67\)](#)

Sources of funding

The Public Finance and Accountability (Scotland) Act 2000 allows us to make reasonable charges to audited bodies in respect of the exercise of our functions. We must seek to ensure that, taking one year with another, the charges for certain types of work are broadly equivalent to expenditure. Where we cannot charge directly for the audit work, costs are met from the Scottish Consolidated Fund.

Review of financial performance

We are required to produce annual accounts detailing the resources acquired, held or disposed of during the financial year and the way in which they were used. The Auditor General for Scotland has been appointed as Accountable Officer and is responsible for the preparation of these accounts.

The following sections provide a summary from the accounts. The financial statements are published on [pages 55 – 74](#).

Resource outturn

Our year in figures	2018/19			2017/18
	Actual £000	Budget £000	Variance £000	Actual £000
People costs	18,302	18,178	(124)	17,293
Fees and expenses paid to external firms	4,475	4,125	(350)	4,355
Other operating expenditure ¹	4,337	4,436	99	3,927
Total operating expenditure	27,114	26,739	(375)	25,575
Operating income	(18,085)	(17,645)	440	(17,948)
Net operating expenditure	9,029	9,094	65	7,627
Net finance expenditure ²	794	797	3	886
Corporation Tax payable	1	-	(1)	1
Net expenditure after tax	9,824	9,891	67	8,514
Capital expenditure	174	175	1	197
Total resource required from Parliament	9,998	10,066	68	8,711

Notes:

1. Other operating expenditure includes expenditure on property, information technology and travel. This is covered in [Note 4 \(page 67\)](#) to the Accounts.
2. Net finance expenditure comprises bank interest and the expected interest income from the local government pension scheme assets less the interest payable on the scheme liabilities.

Net expenditure after tax

In 2018/19, Audit Scotland spent £27.1 million on services for the Auditor General and the Accounts Commission. Of these costs £18.1 million was recovered through charges to audited bodies and other income. The balance of £9.0 million net operating expenditure and net finance costs of £0.8 million was met from direct funding provided by the Scottish Parliament.

People costs represent 67 per cent of Audit Scotland's total costs. The staff establishment for 2018/19 was based on 278 WTE with the approved 2018/19 budget providing cover for a pay award of one per cent. Following changes to public sector pay guidance we negotiated a pay award of two per cent or three per cent, dependent on pay scale position. This was delivered through efficiencies and savings within the overall budget allocation.

The £0.1 million budget overspend on people costs reported in the annual accounts is due to the non-cash IAS 19 pension service costs being higher than the annually managed expenditure (AME) funding approved in the 2018/19 Spring Budget revision. The scheme actuary supplies these figures after the year-end and if there is any shortfall in AME funding the balance is met from other cash budget resources.

Fees and expenses paid to external firms were £0.4 million more than budget and this additional expenditure was matched by £0.4 million additional fee income recovered for chargeable work undertaken by the external firms and agreed by audited bodies.

Other operating expenditure was £0.1 million less than budget mainly due to lower expenditure on property and legal, professional and consultancy costs.

In 2018/19, we delivered £1.1 million in savings, four per cent of our £26.7 million total expenditure budget. Most savings came from staffing costs, additional income, organisational efficiencies and reduced other operating expenditure.

Capital expenditure

In addition to a net revenue expenditure budget, Audit Scotland receives a capital budget to purchase assets that have a use beyond one year.

The capital investment in 2018-19 of £0.2 million supported our information technology systems.

Resources required for 2019/20

The 2019/20 budget has been approved by the Scottish Parliament with revenue resources totalling £25.4 million. Of these resources, £18.0 million will be recovered through charges to audited bodies and miscellaneous income. The £7.4 million balance of expenditure will be met from direct funding provided by the Scottish Parliament.

A capital resource of £0.2 million will also be provided by the Scottish Parliament.

Payment to suppliers

In line with the CBI Prompt Payment Code, we have a policy to pay all invoices not in dispute in 30 days or the agreed contractual terms if otherwise specified: 98 per cent (99 per cent in 2017/18) of all invoices for the year were paid on or before the due date.

We also monitor our performance against the Scottish Government's target of payment of trade invoices within ten days. In 2018/19, 84 per cent (83 per cent in 2017/18) of trade invoices were paid within ten days.



Caroline Gardner
Accountable Officer
11 June 2019

Accountability report

In this section of the report we set out:

- Our Corporate governance report; including the:
 - Directors' report
 - Statement of Accountable Officer's responsibilities
 - Governance statement
 - Governance framework
- Remuneration and staff report
- Summary of Resource Outturn
- Independent auditors' report

Corporate governance report

Directors' report

Directors

The directors of Audit Scotland are the management team and non-executive board members whose details are set out in the Governance statement.

Register of interests

Management team and board members must complete a declaration of interests. No significant company directorships or other interests were held which may have conflicted with their management responsibilities and no member of the board had any other related party interests which conflicted with their responsibilities.

Auditor of Audit Scotland

Our accounts must, under Section 19 of the Public Finance and Accountability (Scotland) Act 2000, be sent to the Scottish Commission for Public Audit (SCPA) for auditing. The SCPA appointed Alexander Sloan Accountants and Business Advisers as external auditors for a period of four years starting with the year to March 2017.

Statement of Accountable Officer's responsibilities

Under Section 19(4) of the Public Finance and Accountability (Scotland) Act 2000, Audit Scotland is required to prepare resource accounts for each financial year, in conformity with the direction of Scottish ministers, detailing the resources acquired, held, or disposed of during the year and the use of resources by Audit Scotland during the year.

The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of Audit Scotland, the net resource outturn, comprehensive net expenditure, cash flows and movement in taxpayers' equity for the financial year.

The SCPA has appointed the Auditor General for Scotland as Accountable Officer for Audit Scotland, with responsibility for preparing the accounts of Audit Scotland and for submitting them for audit to the SCPA.

In preparing the accounts, the Accountable Officer is required to comply with the Financial Reporting Manual (FReM) and has:

- observed the accounts direction including the relevant accounting and disclosure requirements, and applied suitable accounting policies on a consistent basis
- made judgements and estimates on a reasonable basis
- stated whether applicable accounting standards, as set out in the FReM, have been followed; and disclosed and explained any material departures in the accounts
- prepared accounts on a going concern basis.

The Accountable Officer confirms that so far as she is aware there is no relevant audit information of which Audit Scotland's auditors are unaware, and that she has taken all the steps that she ought to have taken to make herself aware of any relevant audit information and to establish that Audit Scotland's auditors are aware of that information.

The Accountable Officer confirms that this annual report and accounts taken as a whole is fair, balanced and understandable. The Accountable Officer takes personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

The responsibilities of the Accountable Officer (including the propriety and regularity of the public finances) for keeping proper records and for safeguarding assets are set out in the [Memorandum to Accountable Officers for Other Public Bodies](#) .

Governance statement

As Accountable Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Audit Scotland's policies, aims and objectives. I am also responsible for safeguarding the public funds and assets assigned to Audit Scotland, in accordance with the responsibilities set out in the [Memorandum to Accountable Officers for Other Public Bodies](#) .

Our governance and management framework



The board

The Audit Scotland Board is responsible for the exercise of all functions of Audit Scotland. It exercises its powers and authorities through a Scheme of Delegation, which it determines and approves.

The board is made up of the Auditor General, the chair of the Accounts Commission and three independent non-executive members appointed by the SCPA. The chair of the board and the board's committees are non-executive members.

Our board sets and monitors the strategic direction of Audit Scotland, oversees Audit Scotland's work and sets high standards of governance and management.

The board meets in public and board papers are available on our [website](#) .

The board reviews the quality of board reports and the effectiveness of its meetings as a standing item at the end of every meeting.



Board members:

(Pictured left to right)

Dr Graham Sharp
Chair of the Accounts
Commission

Heather Logan
Independent
non-executive member

Ian Leitch CBE
Chair of the board

Caroline Gardner
Auditor General for Scotland
and Accountable Officer for
Audit Scotland

Professor Alan Alexander OBE
Independent non-executive member
(from October 2018)

(Not pictured)
Professor Russel Griggs OBE
Independent non-executive member
(until September 2018)



Board committees

The board has two standing committees:

Audit committee

This committee oversees the arrangements for corporate governance, internal control, audit quality, risk and financial management and internal and external audit. This includes reviews of the Standing Orders, Scheme of Delegation, the Financial Regulations and the annual accounts. The audit committee submits an Annual Statement of Assurance to the Board.

The audit committee comprises Heather Logan (chair), Graham Sharp and Alan Alexander.¹

The committee appoints the internal auditors and approves the internal audit plan. Internal audit services are provided by an external firm (BDO). Five of the six audits in 2018/19 achieved 'substantial assurance' in terms of design and operational effectiveness, the remaining audit achieved 'reasonable assurance'. BDO's review of our risk management arrangements provided positive assurance and we achieved the highest risk maturity assessment available. A follow-up report showed that we were making good progress in responding to internal audit recommendations.

Remuneration and human resources committee

This committee sets and reviews the salaries of senior staff (excluding the Auditor General, whose salary is agreed by the Scottish Parliamentary Corporate Body) and the main terms and conditions for all staff. The committee takes advice from external advisors as required.

It comprises Alan Alexander² (chair), Graham Sharp, Heather Logan and Ian Leitch.

Attendance during 2018/19:

Committee	Ian Leitch	Caroline Gardner	Graham Sharp	Heather Logan	Russel Griggs ¹	Alan Alexander ²
Board (8)	8	8	8	8	4	4
Audit committee (5)	-	-	5	5	2	2
Remuneration and human resources committee (5)	5	-	5	5	3	2

Notes:

1. Russel Grigg's appointment ended in September 2018. Alan Alexander joined Audit Scotland in October 2018.

2. Russel Griggs chaired the committee until September 2018 when his appointment ended. Alan Alexander became chair of the committee with effect from October 2018)

Management team

Audit Scotland's management team oversees the day-to-day operations of Audit Scotland's work, with each member taking responsibility for a specific area.

The management team is made up of the Auditor General for Scotland, who is the Accountable Officer, and three executive directors. It normally meets on a weekly basis, takes business decisions and considers regular reports from managers on the progress towards meeting the organisation's objectives.



Management team:
(Pictured left to right)

Caroline Gardner
Auditor General for Scotland
and Accountable Officer for
Audit Scotland

Diane McGiffen
Chief Operating Officer

Fiona Kordiak
Director of Audit Services

Fraser McKinlay
Director of Performance Audit and
Best Value and Controller of Audit



Parliamentary accountability

Audit Scotland is held to account by the Parliament through statutory arrangements put in place by the Scotland Act 1998 and through the Public Finance and Accountability (Scotland) Act 2000.

Our spending and use of resources are examined by the SCPA, a statutory body comprising five MSPs which meets in public and reports to the Parliament.

The SCPA appoints our non-executive board members and chair, scrutinises our budget, annual report and accounts, and produces reports on these. It appoints our external auditors, currently Alexander Sloan Chartered Accountants.

The SCPA recommended the 2018/19 budget to the Finance and Constitution Committee.

In considering the 2019/20 budget proposal, the SCPA explored a number of areas including: the increased audit responsibilities associated with devolved financial powers and social security, costs and resourcing pressures, income and audit fees and the five-year rolling work programme. The Commission also explored the potential impact of EU withdrawal, costing information, how Audit Scotland works with the National Audit Office, our professional trainee scheme and capital depreciation associated with IT equipment. The SCPA recommended the 2019/20 budget to the Finance and Constitution Committee.

Governance framework

As Accountable Officer, I have responsibility for reviewing the effectiveness of the systems of internal control. The systems seek to identify the principal risks to the achievement of Audit Scotland's policies, aims and objectives. They are designed to manage rather than eliminate the risk of failure and they follow the guidance to public bodies as set out in the Scottish Public Finance Manual.

Risk management and control

The board sets the strategic direction for Audit Scotland in consultation with the Auditor General and the Accounts Commission.

The board's audit committee has responsibilities for risk, control assurance, audit quality and governance. The committee recommends the appointment of our internal auditors and receives our annual accounts and internal and external audit reports.

We have a [Risk management framework](#)  which includes a corporate risk register. We use this to identify the key risks facing the organisation, analyse the likelihood and impact of the risk crystallising and capture the active and monitoring controls in place and the way in which the risk is monitored. The register also identifies any actions required to further reduce the risk. The risks are aligned to our strategic objectives and many of the mitigating actions form part of our strategic improvement programme.

The risk register is reviewed regularly by the management team and by the audit committee, both of whom also examine selected risks in closer detail through a programme of risk interrogations.

At the operational level, risks are managed by the management team of each business group and information risk is managed by the corporate Knowledge, Information and Technology Governance Group.

The key strategic risks are grouped according to our three 2018/19 strategic objectives:

- Delivering world-class audit
- Making a difference
- Being a better organisation.

Many of the risks are interlinked; for example a failure of quality would have a negative effect on our credibility and reputation, which would thus undermine the value and impact of the work.

Delivering world-class audit

Independence and objectivity are fundamental features of public audit. Our independence is enshrined in statute. It is central to the public audit model in Scotland and is protected through our governance arrangements and operational practices. The core values of independence and objectivity are embedded in the ethical and professional codes of conduct which apply to all our staff.

It is also vital that our work is relevant, that we focus on the right things and that we identify significant issues. We have enhanced our arrangements for monitoring areas of risk, implemented the [Code of audit practice 2016](#) , and refreshed the rolling five-year programme of performance audits.

We must also maintain high-quality standards to maximise the credibility and impact of the audit work. Our [Audit Quality Framework](#)  covers all of the audit work undertaken on behalf of the Auditor General and the Accounts Commission. ICAS carries out independent quality reviews of our work. We report on the quality of the audit work through the Annual Quality Report.

There is also a risk that audit does not respond effectively to the impact of legislation and changes to the governance of the public sector arising from the outcome of the EU withdrawal. We have established a team focused on constitutional reform and social security and we have ongoing engagement with UK audit agencies. The Chief Operating Officer is our risk owner for EU withdrawal.

Making a difference

The key risks here would materialise if audit work did not support scrutiny, improvement and the effective use of public money. We therefore strive to continuously improve how we audit and how we get audit messages out. We have refreshed our communications and engagement approach, developed a social media strategy and taken a strategic approach to parliamentary engagement. We also have a range of monitoring arrangements in place to assess the views of stakeholders.

We produce an extensive range of additional audit outputs to communicate effectively and support improvement. Resources on our website include interactive data graphics, e-hubs, video links, blogs, briefings, checklists and animations.

Being a better organisation

Here the key risks are about the organisation not having the right capacity to deliver the audit work, not making best use of the expertise or that we do not deliver value for money.

To mitigate these risks, we have been building our capacity to respond to the additional audit responsibilities brought about by the devolved financial powers, the fiscal framework and social security. We have also been engaging with colleagues across the organisation through our 'Being a better organisation' improvement programme. We have implemented a new, simpler and more flexible approach to pay, reward, career progression and arrangements for how we resource the audit work.

Information security

High-quality digital resources are essential to our business. We continue to make important improvements to our core systems, digital hardware, and how we use mobile technology. These are all designed to ensure that we have resilient and high-quality systems to support our audit work.

Our [Digital Services Strategy 2018-21](#)  focuses on two core objectives: resilience and innovation.

We have privileged access to data and information to support the discharge of our audit function and ensure that reports to the Parliament and the Accounts Commission are factual, accurate and complete. Audit Scotland has a duty to respect this privileged access and to ensure that the personal information entrusted to it is safeguarded properly. We have information security management and cyber security frameworks in place to support this and are ISO 27001 certified.

Training on data protection and information security is included in the induction process for all new staff. All staff receive periodic refresher training and are provided with data protection updates. Cyber resilience and security feature prominently in our risk registers and form a standing item on the agenda of our Knowledge, Information and Technology Governance Group. We provide updates for the management team and the audit committee on a six-monthly basis.

There have been no incidents of personal data loss which required to be notified to the Information Commissioner.

Fraud, corruption and bribery

Audit Scotland has policies and procedures on fraud, corruption and bribery which were reviewed during 2017/18, and are next due for renewal in June 2019. They include the counter-fraud policy; the staff and members' codes of conduct; the annual 'fit and proper review' which covers every member of staff; the terms and conditions for the supply of goods and services; and the broader financial governance arrangements.

Audit Scotland subscribes to the principles outlined in the Scottish National Fraud Initiative (NFI). We include data on our staff as part of the NFI exercise.

We maintain a hospitality and gifts register, which is updated regularly and published on our [website](#) .

We produce annual reports on fraud and bribery and hospitality and gifts. These are considered by the audit committee and this forms part of the annual assurance process. The 2018/19 report confirms that there were no instances of fraud or bribery identified or detected in Audit Scotland this year.

Review of effectiveness of internal control and risk management

The systems of internal control are designed to evaluate the nature and extent of any risks and to manage them efficiently, effectively and economically.

The systems are based on a framework of regular management information, administrative procedures and a system of delegation and accountability. This includes:

- detailed budgeting processes with an annual budget approved by the board
- regular reviews by the board and the management team of financial reports covering progress towards financial targets
- annual reviews and updates to Standing Orders, Scheme of Delegation and Financial Regulations
- quarterly reviews of the corporate risk register
- detailed risk interrogations into specific risks
- programme of internal and external audit.

The systems are designed to manage rather than eliminate the risk of failure to achieve Audit Scotland's policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness.

The system has been in place for the year ended 31 March 2019 and up to the date of approval of the annual report and accounts.

As Accountable Officer, I have responsibility for reviewing the effectiveness of the systems of internal control and risk management arrangements. My review is informed by:

- an assurance framework established in accordance with the Scottish Public Finance Manual that provides certificates of assurance from executive directors and senior managers who are responsible for developing, implementing and maintaining internal controls across their delegated areas
- the work of the internal auditors, which is directed through an audit plan agreed by the audit committee and focuses on identified control risk areas. The internal auditors submit regular reports on the adequacy and effectiveness of the organisation's systems of internal control together with recommendations for improvement
- quarterly reviews by the audit committee of the organisation's corporate risk register and the work of internal audit in assessing the effectiveness of risk management arrangements
- comments made by the external auditors in their management letters and other reports.

Significant issues

During the financial year to 31 March 2019 and to the date of this statement no significant control weaknesses or issues have arisen, and no significant failures have arisen in the expected standards for good governance, risk management and control.

Remuneration and staff report

The sections marked (Audited) in this Remuneration and staff report are subject to a separate opinion by Alexander Sloan Accountants and Business Advisers. The other sections of the Remuneration and staff report were reviewed by Alexander Sloan Accountants and Business Advisers to ensure they were consistent with the financial statements.

Remuneration policy

The Auditor General for Scotland

The Auditor General for Scotland is not an employee of Audit Scotland. She is a Crown appointment following nomination by Parliament. Her appointment is for a fixed term of eight years from 1 July 2012 and her salary is determined by the Scottish Parliamentary Corporate Body.

Audit Scotland Board

Under the provisions of Schedule 2 of the Public Finance and Accountability (Scotland) 2000 Act, the Auditor General and the chair of the Accounts Commission are not entitled to any remuneration in respect of their membership of the Audit Scotland Board.

The Audit Scotland Board has three independent members including the chair of the board. The annual remuneration for independent members of the board is set by the Scottish Commission for Public Audit (SCPA). All independent board member appointments are part-time and non-pensionable. Independent board member remuneration was:

Remuneration banding (Audited)	2018/19 £000	2017/18 £000
Chair – Ian Leitch	10 – 15	10 – 15
Independent board member – Heather Logan	5 – 10	5 – 10
Independent board member – Russel Griggs (until 30 September 2018) ¹	0 – 5	5 – 10
Independent board member – Alan Alexander (from 1 October 2018) ¹	0 – 5	-

Note: 1. The full year equivalent remuneration is £5k – £10k.

Accounts Commission for Scotland

Members of the Accounts Commission are appointed by Scottish ministers who also set their remuneration. Commission members are not employed by Audit Scotland and detail of their remuneration is not required under the policy outlined in the Financial Reporting Manual (FRoM) but we include the following details for information.

All Commission member appointments are part-time and non-pensionable. The average number of members of the Commission throughout the period was 11 (11 in 2017/18) and their remuneration was as follows:

Remuneration banding (Audited)	2018/19 £000	2017/18 £000
Chair – Graham Sharp ¹	40 – 45	15 – 20
Deputy Chair – Ronnie Hinds ²	15 – 20	30 – 35
Commission members ³	5 – 10	5 – 10

Notes:

- Graham Sharp was appointed chair of the Accounts Commission with effect from 1 November 2018. Prior to becoming chair Graham Sharp was included within the Commission members disclosure.
- As acting chair of the Accounts Commission from 1 April 2017 to 31 October 2017 the remuneration for Ronnie Hinds includes £20k – £25k in respect of the acting position.
- In addition to remuneration of £5k – £10k one Commission member received remuneration of £0k – £5k as acting deputy chair until 31 October 2018. In 2018/19 turnover of Commission members led to two members receiving remuneration between £0k – £5k.

Audit Scotland staff remuneration

Audit Scotland has a remuneration and human resources committee that sets the remuneration and terms and conditions of employment of Audit Scotland staff. Levels of remuneration are set at an appropriate level to recruit, retain and motivate suitably able, qualified and high-calibre people within the budget available.

Management team

The salaries (excluding employer's superannuation and national insurance contributions), benefits in kind and pension entitlements of the management team are shown in the following tables. Information is presented for the whole year to 31 March 2019. Further information on the pensions payable to Audit Scotland staff, including senior management, can be found in [Note 3. Pension assets and liabilities](#).

Single total remuneration (Audited)	2018/19 Salary £000	2017/18 Salary £000	2018/19 Benefit in kind¹ £	2017/18 Benefit in kind¹ £	2018/19 Pension benefit² £000	2017/18 Pension benefit² £000	2018/19 Total £000	2017/18 Total £000
Caroline Gardner Auditor General for Scotland	145 – 150	145 – 150	-	-	45	38	190 – 195	180 – 185
Diane McGiffen Chief Operating Officer	120 – 125	115 – 120	-	-	50	42	170 – 175	160 – 165
Fraser McKinlay Director of Performance Audit and Best Value and Controller of Audit	110 – 115	110 – 115	-	-	37	37	150 – 155	145 – 150
Fiona Kordiak Director of Audit Services	100 – 105	95 – 100	9,100	6,700	71	34	180 – 185	135 – 140
Russell Frith Assistant Auditor General ³	-	95 – 100	-	-	-	7	-	105 – 110

Notes:

- The estimated value of benefits in kind relates to tax benefits associated with the provision of vehicles. Values to the nearest £100.
- The value of pension benefits accrued during the year is calculated as the real increase in pensions and applying the HMRC methodology multiplier of 20 plus the real increase in any lump sum. The real increases exclude increases due to inflation and are net of contributions made by the individual.
- Russell Frith left Audit Scotland in December 2017 under the terms of our Voluntary Early Release Arrangements. A payment of £80k was made to the Principal Civil Service Pension Scheme to secure early access to pension benefits. No cash compensation was paid. The full year equivalent remuneration as at the date of leaving was £115k – £120k.

Pensions (Audited)	Accrued pension at 31 March 2019 £000	Accrued lump sum at 31 March 2019 £000	Real increase in annual pension £000	Real increase in lump sum £000	CETV at 31 March 2019¹ £000	CETV at 31 March 2018¹ £000	Real increase in CETV¹ £000
Caroline Gardner Auditor General for Scotland	85 – 90	NIL	2.5 – 5.0	NIL	1,299	1,138	26
Diane McGiffen Chief Operating Officer	45 – 50	75 – 80	2.5 – 5.0	0.0 – 2.5	850	766	72
Fraser McKinlay Director of Performance Audit and Best Value and Controller of Audit	25 – 30	15 – 20	0.0 – 2.5	0.0 – 2.5	301	262	27
Fiona Kordiak Director of Audit Services	45 – 50	80 – 85	2.5 – 5.0	2.5 – 5.0	844	744	90

Note: 1. A CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued because of their total membership of the scheme including any benefit transferred from another scheme and not just their service in a senior capacity to which the disclosure applies. The real increase in CETV reflects the increase in CETV effectively funded by the employer. It does not include the increase in accrued pension benefits due to inflation, contributions paid by the employee and uses common market valuation factors for the start and end of the period.

Salary multiples (Audited)

The highest paid member of the management team was the Auditor General for Scotland. Her annualised remuneration before pension benefits was in the range £145,000 to £150,000 (£145,000 to £150,000 in 2017/18). This was 3.3 times (3.4 times in 2017/18) the median remuneration paid to Audit Scotland's staff in 2018/19, which was £44,802 (£43,924 in 2018).

Pensions

Employees of the NAO transferring to Audit Scotland on 1 April 2000 and the Auditor General for Scotland from 1 July 2012 have pension benefits provided through the Principal Civil Service Pension Scheme (PCSPS). Audit Scotland makes payments of superannuation contributions to PCSPS at rates set by the Government Actuary.

All other staff are eligible to enter the Local Government Superannuation Scheme in Scotland. Audit Scotland has an agreement with The City of Edinburgh Council under which all staff are eligible to enter the Lothian Pension Fund (the name of the Local Government Superannuation Scheme managed by the council) in accordance with its rules. It is a defined benefit scheme providing pension benefits and life assurance for all permanent staff.

Employment contracts

Audit Scotland staff hold permanent appointments which are open-ended until they retire. Early termination, other than through misconduct, would result in the individual receiving compensation.

The information in the tables on [\(pages 42 – 44\)](#) is covered by the audit opinion.

Staff report

□ 2016/17 ■ 2017/18 ■ 2018/19

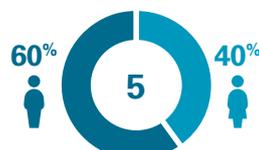


People (WTE)



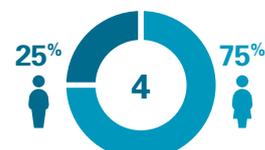
Gender

47% 2017/18 53%



Board

60% 2017/18 40%



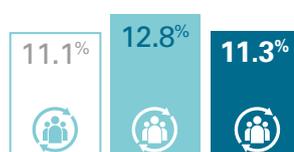
Management

25% 2017/18 75%



Absence

CIPD¹ benchmarks:
public sector: 6.4 days
private sector: 3.9 days



Turnover rate

CIPD¹ benchmark: 16.56%



Trainee auditors

Note: 1. Chartered Institute of Personnel and Development (CIPD)

As noted elsewhere in this report there are changes affecting the financing and organisation of Scotland's public services. We have taken steps to ensure as an organisation we are ready to cope with a corresponding change in demand for our services and to ensure the quality of our work in all areas.

We have set up a number of new teams, including to lead on developments regarding EU withdrawal and the new financial powers coming to the Scottish Government, and on quality and professional development.

We implemented a new approach to recruitment and developed a new, simpler and more flexible approach to pay, reward, career progression and how we resource the audit work.

In March 2019, staff headcount was 290 (278 WTE), compared with a headcount of 276 (272 WTE) in 2018.

People costs and numbers

People costs	2019 £000	2018 £000
Salaries	12,179	11,860
Social Security and Employment Tax costs	1,424	1,367
Superannuation	2,187	2,054
Pensions in payment (note 3c)	24	27
Provision for early retirement and severance costs (note 14)	-	1
Movement in early retirement costs	127	(96)
Adjustment for retirement benefit scheme costs (see below)	2,198	1,927
	18,139	17,140
Accounts Commission members		
Salaries	136	132
National Insurance	9	10
Travel and subsistence	18	11
	163	153
	18,302	17,293

Analysis of local government retirement benefit scheme costs	2019 £000	2018 £000
Current service costs	5,172	4,673
Past service costs	-	14
	5,172	4,687
Less: Actual employees' contributions	(874)	(822)
Charge to revenue	4,298	3,865
Employer contributions	(2,100)	(1,938)
Adjustment for retirement benefit scheme costs	2,198	1,927

Temporary staff (Audited)

Included in the salaries costs for the year to 31 March 2019 is £135,000 (three WTE posts) for temporary agency and seconded staff who covered staff vacancies, maternity leave and supported peak audit workload. In the previous year such expenditure totalled £387,000 (seven WTE posts).

Learning and development

Audit Scotland runs one of the largest public financial audit training schemes in Scotland. We have 42 trainees and staff working towards an ICAS qualification. In 2018, we recruited nine professional trainees and one school leaver trainee. In 2019, we are anticipating 14 professional trainees and two school leaver trainees to join us in September 2019.

So far, we have retained 66.7 per cent of the professional trainees who are due to successfully complete their ICAS qualification in 2019.

In October 2019, the programme will be opened again for the 2020 intake trainees that will help shape the growing future of Audit Scotland.

During 2018/19, we increased our focus on technical audit training, and developed a range of new management development resources. We continued to support professional qualifications and offer a range of personal impact courses.

Over the year, staff received an average of 9.1 days formal learning and development per person – an increase from the previous year.

Health, safety and wellbeing

A range of data is collected each year and is used to ensure we continue to offer a safe and mentally stimulating workplace for our staff.

Health and safety incidents continue to remain low with three events in 2018/19, all of which were classified as of low severity. Our three offices were assessed as 'excellent' during the series of workplace inspections undertaken during 2018/19.

A health & safety management systems audit was also completed with good results – all of the recommendations have been completed to the satisfaction of our Health, Safety and Wellbeing Committee.

There was a small increase in staff sickness absence rates from an average of 4.40 days per employee in 2017/18 to 4.85 days in 2018/19. Sickness remains low by comparison with comparable employers across the UK and data published by the Chartered Institute of Personnel & Development (CIPD).

Due to the nature of the work we undertake, we continue to focus upon the mental and emotional wellbeing of colleagues. We are using the Healthy Working Lives and Carer Positive frameworks to inform our agenda during 2019/20.

Organisational development

We continue to focus upon being a world-class organisation – where Audit Scotland is a great place to work, attracts and retains the best people and where we support them to do their work.

We have an excellent working relationship with the Public & Commercial Services (PCS) union. We work collaboratively with PCS and have successfully concluded negotiations in connection with pay and involve PCS in a range of projects to improve the work experience of colleagues which focus upon how our work gets done.

During 2018/19 we have shared our story of organisational development with several public sector organisations in Scotland through the Scottish Government HR network.

Early retiral and severance (Audited)

In the year to March 2019 there were no staff departures under a voluntary early release arrangement. The previous year five staff left Audit Scotland under a voluntary early release arrangement. Under the arrangement staff were entitled to a termination payment and/or early access to pension. The total cost of the arrangements in the previous year was £156,000.

Further disclosure on early retirement and severance is set out in [Note 14. Provision for early retirement and severance](#).

	Number of arrangements	
	2019	2018
< £10,000	-	2
£10,000 – £25,000	-	-
£25,000 – £50,000	-	2
£50,000 – £100,000	-	1
Total number of arrangements	-	5
Total cost (£000)	-	156

Staff relations

We recognise the importance of good industrial relations and effective communication with our staff. A partnership forum, which meets regularly, involves members of Audit Scotland management and staff representatives of the Public and Commercial Services union (PCS) and has been in place since 2002.

The Trade Union (Facility Time Publication Requirements) Regulations 2017 came into force on 1 April 2017 and the information requirements of the Regulations for 2018/19 are disclosed in the tables below.

Relevant union officials

Number of employees who were relevant union officials during the relevant period	12
Full-time equivalent employee number	11.48

Percentage of time spent on facility time

Percentage of time	Number of employees
0%	-
1% – 50%	12
51% – 99%	-
100%	-

Percentage of pay bill spent on facility time

Total cost of facility time	£36,335
Total pay bill	£15.571 million
Percentage of total pay bill spent on facility time	0.2%

Paid trade union activities

Time spent on paid trade union activities as a percentage of total paid facility time	5.7%
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Diversity and equality

We actively strive to improve diversity and equality, not only in Audit Scotland but also across the public sector through our audit work.

Our Diversity and Equality Policy states 'Audit Scotland is committed to eliminating discrimination and valuing and promoting equality and diversity among our workforce and will work towards increasing the diversity of our staff. It is our policy to treat all job applicants and employees fairly and equitably regardless of age, disability, gender, gender reassignment status, marriage or civil partnership status, maternity or pregnancy, race, religion or belief or sexual orientation.'

We continue to work with the Equality and Human Rights Advisory Group (EHRAG) which we set up and which has people from a range of external stakeholder organisations that represent all the protected characteristics. This helps shape and inform our approach to equality in audit work. The group meets twice yearly. More information is available in our [Equality outcomes 2017–19 report](#) .

We have worked with colleagues and union representatives to redesign job roles and our pay and reward system to be simpler, transparent, based on objective criteria and free from bias. We have recently refreshed our training on unconscious bias and shared this with our recruitment and promotion panels.

We published our second [Audit Scotland: Gender pay gap](#)  report on 22 March 2019. The information is based on a snapshot date of 31 March 2018. Audit Scotland's workforce, at the 31 March 2018, comprised of 276 employees. 131 are males (47 per cent of the workforce) and 145 are females (53 per cent of the workforce) and 75 per cent of our management team is female.

Community, social and human rights

We are committed to conducting our work to the highest standards and building positive relationships with communities across Scotland.

We currently have two members of staff undertaking public duties such as serving on children's panels.

Our colleagues choose our nominated charity. So far, we have raised more than £8,000 for the [Scottish Association for Mental Health](#)  and [Brain Tumour Charity](#) .

Summary of Resource Outturn

Year ended 31 March 2019

	2019			2018
	Outturn £000	Estimate £000	Outturn compared to estimate £000	Outturn £000
Revenue	9,824	9,891	67	8,514
Capital	174	175	1	197
Total Resources	9,998	10,066	68	8,711
Net Cash Requirement (see Cash flow statement)	5,673	6,764	1,091	6,771

The Summary of Resource Outturn is covered by the audit opinion.



Caroline Gardner
Accountable Officer

11 June 2019

Independent auditors' report

To the Scottish Commission for Public Audit (under Section 25(3) of Public Finance and Accountability (Scotland) Act 2000)

Opinion

We have audited the accounts of Audit Scotland for the year ended 31 March 2019 which comprise the Summary of Resource Outturn, Statement of Comprehensive Net Expenditure, Balance sheet, Cash flow statement, Statement of Changes in Taxpayers' Equity and the related notes 1 to 21. We have also audited the relevant disclosures in the Remuneration and staff report as required under the direction of the Scottish ministers. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2018/19 Government Financial Reporting Manual (the 2018/19 FReM) and directions made by Scottish ministers.

The report is made solely to the Scottish Commission for Public Audit, as a body, in accordance with Section 25 of the Public Finance and Accountability (Scotland) Act 2000. Our audit work has been undertaken so that we might state to the Scottish Commission for Public Audit those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scottish Commission for Public Audit as a body, for our audit work, for this report, or for the opinions we have formed.

In our opinion the accounts:

- give a true and fair view of the state of Audit Scotland as at 31 March 2019 and of its net resource outturn for the year then ended
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2018/19 FReM
- have been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and Directions by Scottish ministers issued thereunder.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the accounts section of our report. We are independent of Audit Scotland in accordance with the ethical requirements that are relevant to our audit of the accounts in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the accountable officer's use of the going concern basis of accounting in the preparation of the accounts is not appropriate; or
- the accountable officer has not disclosed in the accounts any identified material uncertainties that may cast significant doubt about Audit Scotland's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the accounts are authorised for issue.

Other information in the annual accounts

The accountable officer is responsible for the other information. The other information comprises the information other than the accounts, the audited part of the Remuneration Report, and my auditor's report thereon. Our opinion on the accounts does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. As auditors we are not required to consider whether the Accountable Officer's Governance statement covers all risks and controls, nor are we required to form an opinion on the effectiveness of the risk and control procedures.

In connection with our audit of the accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the accounts or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on regularity

In our opinion in all material respects:

- the expenditure has been incurred and the receipts have been applied in accordance with Section 22(1)(a) and (b) of the Public Finance and Accountability (Scotland) Act 2000
- the sums paid out of the Scottish Consolidated Fund for the purpose of meeting the expenditure shown in the accounts were applied in accordance with Section 65 of the Scotland Act 1998.

Opinion on other matters

In our opinion:

- the sections of the Remuneration Report marked as audited have been properly prepared in accordance with the Direction by the Scottish ministers.
- the information given in the Performance report and Accountability report is consistent with the accounts.

Matters on which we are required to report by exception

We are required to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the accounts are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the Accountable Officer's Governance statement contains any apparent misstatements or material inconsistencies with the accounts.

We have nothing to report in respect of these matters.

Responsibilities of the Accountable Officer

As explained more fully in the Statement of Accountable Officer's responsibilities, the Accountable Officer is responsible for the preparation of the accounts in conformity with the Direction by the Scottish ministers and for being satisfied that they give a true and fair view. The Accountable Officer is responsible for the propriety and regularity of the public finances, for keeping proper books and for safeguarding assets, as set out in the Accountable Officer's Memorandum.

In preparing the accounts, the Accountable Officer is responsible for assessing Audit Scotland's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Audit Scotland plans to cease operations or has no realistic alternative to do so.

Auditor's responsibilities for the audit of the accounts

Our objectives are to obtain reasonable assurance about whether the accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these accounts.

As part of an audit in accordance with ISAs (UK), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Accountable Officer.
- Conclude on the appropriateness of the Accountable Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Audit Scotland's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the organisation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the accounts, including the disclosures, and whether the accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Report to you on the matters set out in Section 22(1)(a) and (b) of the Public Finance and Accountability (Scotland) Act 2000 and our opinion as to whether the Resource Accounts give a true and fair view and are properly prepared in accordance with Section 19(4) of that Act.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Alexander Sloan
Accountants and Business Advisers
Glasgow

11 June 2019

Financial statements

In this section of the report we set out:

- Statement of Comprehensive Net Expenditure
- Statement of Financial Position
- Statement of Cash Flows
- Statement of Changes in Taxpayers' Equity
- Notes to the accounts
- Direction by the Scottish ministers

Statement of Comprehensive Net Expenditure

Year ended 31 March 2019

	Note	2019 £000	2018 £000
People costs	Staff report	18,302	17,293
Fees and expenses paid to external firms	4	4,475	4,355
Other operating expenditure	4	4,337	3,927
Total operating expenditure		27,114	25,575
Operating income	5	(18,085)	(17,948)
Net operating expenditure		9,029	7,627
Net finance expenditure	6	794	886
Net expenditure before tax		9,823	8,513
Corporation Tax payable		1	1
Net expenditure after tax		9,824	8,514
Other comprehensive net expenditure			
Net losses / (gains) on pension schemes	3	5,641	(7,569)
Comprehensive net expenditure / (income)		15,465	945

Statement of Financial Position

As at 31 March 2019

	Note	2019 £000	2018 £000
Non-current assets			
Property, plant and equipment	7	1,229	1,400
Intangible assets	8	43	67
Total non-current assets		1,272	1,467
Current assets			
Trade and other receivables	9	2,687	3,482
Cash and cash equivalents	10	1,206	179
Total current assets		3,893	3,661
Total assets		5,165	5,128
Current liabilities			
Trade and other payables	12	3,361	2,255
Provision for early retirement and severance	14	102	100
Total current liabilities		3,463	2,355
Non-current assets plus / less net current assets/liabilities		1,702	2,773
Non-current liabilities			
Deferred liabilities	13	(826)	(839)
Provision for early retirement and severance	14	(1,832)	(1,758)
Other provisions	16	(290)	(218)
Net funded pension (liability)	3	(35,253)	(26,665)
Total non-current liabilities		(38,201)	(29,480)
Assets less liabilities		(36,499)	(26,707)
Represented by:			
Taxpayers' equity			
Net funded pension (liability)	3	(35,253)	(26,665)
General fund		(1,246)	(42)
		(36,499)	(26,707)



Caroline Gardner
Accountable Officer

11 June 2019

Statement of Cash Flows

Year ended 31 March 2019

	Note	2019 £000	2018 £000
Cash flows from operating activities			
Net (expenditure) after tax		(9,824)	(8,514)
Adjustment for non-cash items:			
– Depreciation	7,8	369	371
– Pension scheme – net revenue debit		2,947	2,769
– Other non-cash items		-	2
Decrease / (increase) in trade and other receivables		795	(1,167)
Increase in trade / other payables / deferred liabilities		66	216
Increase in provisions for early retirement		76	(299)
Increase / (decrease) in other provisions		72	68
Net cash outflow from operating activities		(5,499)	(6,554)
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(171)	(193)
Purchase of intangible assets	8	(3)	(4)
Less movement in accrued expenditure		-	(20)
		(174)	(217)
Cash flows from financing activities			
From Consolidated Fund (Supply)		6,700	5,500
Net (decrease) / increase in cash and cash equivalents in the period		1,027	(1,271)
Cash and cash equivalents at the beginning of period		179	1,450
Cash and cash equivalents at the end of period	10	1,206	179
Net cash requirement			
Cash flows from financing activities		6,700	5,500
Decrease / (increase) in cash		(1,027)	1,271
		5,673	6,771

Statement of Changes in Taxpayers' Equity

Year ended 31 March 2019

Changes in Taxpayers' equity	Note	Net funded pension £000	General fund £000	Total £000
Balance at 31 March 2017		(31,465)	(1,068)	(32,533)
Transfers between reserves:				
– Transfer to net funded pension liabilities (page 46)	Staff Report	(1,927)	1,927	-
– Net return on funded pension assets	3	(842)	842	-
Net (losses) on pension schemes	3	7,569	-	7,569
Net (expenditure) after tax		-	(8,514)	(8,514)
Net funding from the Scottish Parliament	11	-	6,771	6,771
Balance at 31 March 2018		(26,665)	(42)	(26,707)
Transfers between reserves:				
– Transfer to net funded pension liabilities (page 46)	Staff Report	(2,198)	2,198	-
– Net return on funded pension assets	3	(749)	749	-
Net (losses) on pension schemes	3	(5,641)	-	(5,641)
Net (expenditure) after tax		-	(9,824)	(9,824)
Net funding from the Scottish Parliament	11	-	5,673	5,673
Balance at 31 March 2019		(35,253)	(1,246)	(36,499)

Notes to the accounts

Note 1. Statement of accounting policies

The accounts have been prepared in accordance with the accounts direction issued by Scottish ministers under section 19(4) of the Public Finance and Accountability (Scotland) Act 2000 and also in accordance with the Financial Reporting Manual (FRoM) applicable for the year. The accounting policies contained in the FRoM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FRoM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of Audit Scotland for the purpose of giving a true and fair view has been selected. The accounting policies adopted by Audit Scotland are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

a) Basis of accounting

The accounts have been prepared under the historical cost convention. In accordance with the principles of resource accounting, the gross funding received from the Scottish Consolidated Fund is recorded directly within the General Fund and is not included in the operating income received in the year in the Statement of Comprehensive Net Expenditure.

In common with similar public bodies, the future financing of Audit Scotland's liabilities will be met by future grants of Supply and the application of future income, both to be approved annually by the Scottish Parliament. The approval of amounts for 2019/20 has already been given and there is no reason to believe that future approvals will not be forthcoming. Accordingly, it is considered appropriate to adopt a going concern basis for the preparation of these financial accounts.

b) New accounting standards

Audit Scotland disclose accounting standards not yet applied and assesses the possible impact that initial application would have on the financial statements. There is one standard not yet effective that will have an impact on Audit Scotland's accounts which is IFRS 16 Leases. This standard requires all significant leases to be recognised in the Statement of Financial Position.

IFRS 16 – Leases

It is expected that this standard will be adopted by the FRoM with effect from 1 April 2020. Initial assessment of the new standard on leases indicates that Audit Scotland significant leases relate to property and cars. We expect that there will be a requirement to recognise in the Statement of Financial Position a right of use asset and a liability for future lease payment commitments.

c) Non-current assets

The minimum level of capitalisation for a non-current asset is £5,000 for individual or group purchases. Non-current assets are held at fair value. Depreciated historic cost has been used as a proxy for fair value due to the low value and short life of the assets held. All property occupied by Audit Scotland is leasehold.

d) Depreciation

Depreciation has been provided at a rate calculated to write off cost in equal annual instalments over the estimated useful lives of assets. Asset cost is written off as follows:

Leasehold premises	remaining period of lease (from 1 – 10 years)
Furniture and fittings	5 years
Computer equipment	3 – 5 years
Software	3 – 5 years

e) Amortisation of rent-free periods

The benefit of rent-free periods on leases of premises is amortised over the period of the lease or over the period to a lease break point when this is the most probable end of lease, whichever is the shorter.

f) Operating income

IFRS 15 Revenue from Contracts with Customers has been adopted by the FReM with effect from 1 April 2018. Operating income relates directly to the audit activities of Audit Scotland and falls within the scope of IFRS 15. However, the income recognition criteria introduced by IFRS 15 is consistent with how Audit Scotland previously accounted for income and there is no impact of the new standard on opening balances.

Operating income comprises fees for financial audit that are recognised on the basis of work undertaken for the year and charges for other work which are recognised evenly throughout the year.

g) Work in progress

Work in progress is valued on the basis of a proportion of the agreed auditor remuneration earned by the balance sheet date less an allowance for any foreseen losses. This calculation is based on an assessment of the amount of audit work completed by the balance sheet date as a proportion of the total expected amount of audit work. Payments received on account of work in progress in excess of or below the value of carrying out the relevant work are included in creditors or debtors as appropriate.

h) Operating leases

The total cost of operating leases is charged to revenue in equal instalments over the life of the lease. Estimates of likely costs in respect of obligations under our property leases for dilapidations, reinstatement and property decorations are charged to revenue in equal instalments over the life of the lease, or the period to a planned early termination of the lease whichever is the shorter.

i) Value Added Tax (VAT)

Input tax in respect of external auditor fees and expenses incurred in the delivery of local authority audits is reclaimed from HMRC on behalf of the Accounts Commission and is used to offset audit fees payable by local authorities. All other input tax is charged to the Statement of Comprehensive Net Expenditure. Audit Scotland is registered for VAT in respect of business activities.

j) Pension arrangements

Audit Scotland complies with the requirements of International Accounting Standard No 19 (IAS 19) for the year ended 31 March 2019. Audit Scotland makes pension provision for present and former employees through two pension schemes. Employees joining Audit Scotland after 1 April 2000, and those transferring to Audit Scotland from the Accounts Commission, have benefits provided through the Local Government Pension Scheme. Employees transferring to Audit Scotland at 1 April 2000 from the NAO are covered by the provisions of the Principal Civil Service Pension Scheme. The Auditor General for Scotland has benefits provided through the Principal Civil Service Pension Scheme.

k) Contingent liabilities

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

l) Key sources of judgement and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates, assumptions and judgements that have a risk of adjustment to the carrying amount of assets and liabilities within the financial statements within the next financial year are:

- Revenue recognition is based on time charged to audits adjusted where applicable to reflect the stage at which completion of work is done. At the year-end an assessment is undertaken to consider the reasonableness of income recognised in the Statement of Comprehensive Expenditure. Income recognised in advance of invoices being raised is treated as Work in Progress ([note 9](#)). Invoices raised in advance of work being done is treated as Deferred Income ([note 12](#)).
- Provisions have been made where in the opinion of management it is more likely than not that a financial liability exists which cannot be accurately quantified at present ([notes 14 and 16](#)).
- Estimation of the net pension liability is based on a number of complex judgements including the discount rate, salary increase rate, retirement ages, mortality rates and expected returns on pension fund assets. The actual figure has been variable over time and [note 3](#) provides more detail on the current net pension liability.

Note 2. People costs and numbers

People costs comprise	2019 £000	2018 £000
Wages and salaries	12,333	12,003
Social Security and Employment Tax costs	1,433	1,377
Pension and early retirement / severance costs	4,536	3,913
	18,302	17,293

More details on staff numbers and related costs can be found in the [Staff Report \(pages 45 – 49\)](#).

Note 3. Pension assets and liabilities

In accordance with IAS 19, Audit Scotland is required to disclose certain information concerning assets, liabilities, income and expenditure related to pension schemes for its employees. Audit Scotland operates two main pension schemes; the Local Government Pension Scheme, administered by the Lothian Pension Fund, and the Principal Civil Service Pension Scheme (PCSPS). Audit Scotland is not required to record information related to the PCSPS as the scheme does not identify assets and liabilities by employer. In addition, until June 2012, Audit Scotland operated a 'by analogy' scheme for the previous Auditor General for Scotland.

a) Local Government Pension Scheme

Audit Scotland has an agreement with The City of Edinburgh Council under which all staff are eligible to enter the Lothian Pension Fund (the name of the Local Government Superannuation Scheme managed by the council) in accordance with its rules. It is a defined benefit scheme providing pension benefits and life assurance for all permanent staff.

The following valuations have been provided by Hymans Robertson LLP, the independent actuaries to Lothian Pension Fund. The financial and actuarial assumptions used for the purposes of their IAS 19 calculations as at 31 March 2019 were as follows:

	2019 %	2018 %
Salary increases	4.20	4.10
Pension increases	2.50	2.40
Discount rate	2.40	2.70

The assumed average life expectancy for a retiree at age 65 are as follows:

	Male years	Female years
Current pensioners	21.7	24.3
Future pensioners	24.7	27.5

Liabilities are valued on an actuarial basis using the projected unit method, which assesses the future liabilities of the fund discounted to their present value. The valuations at 31 March 2019 have been prepared by Hymans Robertson LLP.

The movement in the funded part of the net pension liability for the year to 31 March 2019 is as follows:

	Period ending 31 March 2019		
	Assets £000	Obligation £000	Net (Liability)/ Asset £000
Fair value of employer assets	97,800	-	97,800
Present value of funded liabilities	-	124,465	(124,465)
Opening position as at 1 April 2018	97,800	124,465	(26,665)
Current service cost	-	4,298	(4,298)
Past service cost	-	-	-
Total service cost	-	4,298	(4,298)
Interest income on plan assets	2,647	-	2,647
Interest cost on defined benefit obligation	-	3,396	(3,396)
Total net interest	2,647	3,396	(749)
Total defined benefit cost recognised in Statement of Comprehensive Net Expenditure	2,647	7,694	(5,047)
Employee contributions	874	874	-
Employer contributions	2,100	-	2,100
Benefits Paid	(2,343)	(2,343)	-
Total cash flows	631	(1,469)	2,100
Expected closing position	101,078	130,690	(29,612)
Change in demographic assumptions	-	-	-
Change in financial assumptions	-	12,264	(12,264)
Other experience changes	-	-	-
Return on assets excluding amounts included in net interest	6,623	-	6,623
Total remeasurements recognised in Other Comprehensive Income	6,623	12,264	(5,641)
Fair value of employer assets	107,701	-	107,701
Present value of funded liabilities	-	142,954	(142,954)
Closing position as at 31 March 2019	107,701	142,954	(35,253)

Information in respect of the defined benefit obligation	£000	Liability split %	Duration Years
Active members	88,131	61.6	27.0
Deferred members	21,130	14.8	26.7
Pensioner members	33,693	23.6	13.0
Total	142,954	100.0	22.7

The increase in net pension liabilities during 2018/19 was mainly due to corporate bond yields being lower at 31 March 2019 than 31 March 2018 which serves to increase the value placed on obligations. The effect of this has been partially offset by investment returns being greater than the 31 March 2018 discount rate.

The movement in the funded part of the net pension liability for the year to 31 March 2018 was as follows:

	Period ending 31 March 2018		
	Assets £000	Obligation £000	Net (Liability)/ Asset £000
Fair value of employer assets	98,276	-	98,276
Present value of funded liabilities	-	129,741	(129,741)
Opening position as at 1 April 2017	98,276	129,741	(31,465)
Current service cost	-	3,851	(3,851)
Past service cost	-	14	(14)
Total service cost	-	3,865	(3,865)
Interest income on plan assets	2,562	-	2,562
Interest cost on defined benefit obligation	-	3,404	(3,404)
Total net interest	2,562	3,404	(842)
Total defined benefit cost recognised in Statement of Comprehensive Net Expenditure	2,562	7,269	(4,707)
Employee contributions	822	822	-
Employer contributions	1,938	-	1,938
Benefits paid	(2,118)	(2,118)	-
Total cash flows	642	(1,296)	1,938
Expected closing position	101,480	135,714	(34,234)
Change in demographic assumptions	-	104	(104)
Change in financial assumptions	-	(4,825)	4,825
Other experience changes	-	(6,528)	6,528
Return on assets excluding amounts included in net interest	(3,680)	-	(3,680)
Total remeasurements recognised in Other Comprehensive Income	(3,680)	(11,249)	7,569
Fair value of employer assets	97,800	-	97,800
Present value of funded liabilities	-	124,465	(124,465)
Closing position as at 31 March 2018	97,800	124,465	(26,665)

Pension assets are valued at fair value, principally market value for investments, and consist of:

Asset Category	At 31 March 2019				At 31 March 2018			
	Quoted Prices in Active Markets £000	Prices not quoted in Active Markets £000	Total £000	%	Quoted Prices in Active Markets £000	Prices not quoted in Active Markets £000	Total £000	%
Equity Securities:								
Consumer	11,459.4	-	11,459.4	11	13,400.0	-	13,400.0	14
Manufacturing	13,251.5	-	13,251.5	12	14,560.2	-	14,560.2	15
Energy and Utilities	8,136.2	-	8,136.2	8	6,118.2	-	6,118.2	6
Financial Institutions	9,060.4	-	9,060.4	8	8,688.6	-	8,688.6	9
Health and Care	5,851.4	-	5,851.4	5	4,794.8	-	4,794.8	5
Information Technology	3,507.9	-	3,507.9	3	5,962.4	-	5,962.4	6
Other	10,501.5	-	10,501.5	10	6,137.3	-	6,137.3	6
Debt Securities:								
Corporate Bonds (investment grade)	-	-	-	0	-	-	-	0
Corporate Bonds (non-investment grade)	-	-	-	0	-	1,905.5	1,905.5	2
UK Government	10,943.0	-	10,943.0	10	9,481.5	-	9,481.5	10
Other	-	-	-	0	-	-	-	0
Private Equity:								
All	-	1,460.6	1,460.6	1	311.7	1,473.9	1,785.6	2
Real Estate:								
UK Property	-	7,294.7	7,294.7	7	-	6,285.9	6,285.9	6
Overseas Property	-	-	-	0	-	102.3	102.3	0
Investment funds and Unit trusts:								
Equities	1,063.9	-	1,063.9	1	940.0	-	940.0	1
Bonds	-	2,730.3	2,730.3	3	-	-	-	0
Commodities	-	-	-	0	-	-	-	0
Infrastructure	-	13,368.9	13,368.9	12	-	11,590.8	11,590.8	12
Other	-	-	-	0	-	223.4	223.4	0
Derivatives:								
Foreign exchange	27.2	-	27.2	0	45.0	-	45.0	0
Other	-	-	-	0	-	-	-	0
Cash and cash equivalents:								
All	9,044.1	-	9,044.1	8	5,778.5	-	5,778.5	6
Totals	82,847	24,855	107,701	100	76,218	21,582	97,800	100

The sensitivities regarding the principal assumption used to measure the funded scheme liabilities are set out below:

Sensitivity analysis at March 2019	Approx.% increase to employer obligation	Approx. monetary amount £000
0.5% decrease in real discount rate	12	17,149
0.5% increase in salary increase rate	3	3,807
0.5% increase in pension increase rate	9	12,899

A one-year increase in life expectancy is estimated to increase the employer's defined benefit obligation by about 3% to 5%.

During the year ended 31 March 2019, Audit Scotland's contribution to the pension fund represented 17.7% (2018 – 17.2%) of contributing employees' pensionable pay. In addition, a lump sum payment of £77k (2018 – £77k) was paid to meet past service cost deficits. Under Superannuation Regulations, contribution rates are set to meet 100% of the overall liabilities of the fund.

The latest triennial valuation undertaken by Hymans Robertson LLP as at 31 March 2017 recommended employers' contributions be set at 17.7% in 2018/19, 18.2% in 2019/20 and 18.7% in 2020/21 plus a lump sum of £77k in each year to meet past service deficits. The estimate for employer contributions in 2019/20 based on the new rate will be approximately £2,157k.

b) PCSP scheme

Employees of the NAO transferring to Audit Scotland on 1 April 2000 and the Auditor General for Scotland from 1 July 2012, have pension benefits provided through the Principal Civil Service Pension Scheme (PCSPS) and Civil Servant Other Pension Scheme (CSOPS). Audit Scotland makes payments of superannuation contributions at rates set by the Government Actuary.

The PCSPS and CSOPS – known as 'Alpha' – are unfunded multi-employer defined benefit schemes but Audit Scotland is unable to identify its share of the underlying assets and liabilities.

The scheme actuary valued the PCSPS as at 31 March 2012. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation [here](#).

During the year ended 31 March 2019, Audit Scotland paid an employer's contribution of £87k (2018 – £115k) into the PCSPS at one of four rates in the range 20.0% to 24.5% of pensionable earnings, based on salary bands.

The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2018-19 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Audit Scotland has been advised that employer's contributions in 2019/20 will increase to rates in the range 26.6% and 30.3%.

c) By analogy scheme

Robert W Black retired as Auditor General for Scotland, on 30 June 2012. Until that time his pension benefits were provided by analogy to the Local Government Pension Scheme. In 2018/19, pension payments made totalled £24k (2018 – £27k). The 2017/18 total includes the back-dating of pension increases from April 2013.

d) Early departure costs

Certain costs arising from the early retirement of staff are payable by Audit Scotland. These relate to the early payment of pensions which employers must make to the pension fund and severance costs.

Note 4. Other operating expenditure

	£000	2019 £000	2018 £000
Fees and expenses to appointed audit firms:			
Local authorities	2,270		2,246
National Health Service bodies in Scotland	929		900
Further education colleges	457		450
Scottish Government and sponsored bodies	819		759
		4,475	4,355
Other:			
Rent and rates	479		519
Other accommodation costs	437		420
Travel and subsistence	871		855
Legal and other professional fees	740		474
Stationery and printing	117		121
Training	464		429
Staff recruitment	135		128
Communications (telephone, postage)	82		26
Insurance	72		80
Information technology	470		414
Internal Audit	27		28
External Audit – financial accounts	29		27
Other	45		35
Non-cash items: Depreciation – tangible assets (note 7)	342		344
Depreciation – intangible assets (note 8)	27		27
		4,337	3,927
		8,812	8,282

Rent and rates includes £349k in respect of property leases (2017/18 – £345k) [\(note 15\)](#).

Note 5. Operating income

	2019 £000	2018 £000
Fees and charges payable by:		
Local authorities	11,576	11,565
National Health Service bodies in Scotland	2,980	2,999
Further education colleges	532	515
Scottish Government and sponsored bodies	2,944	2,811
	18,032	17,890
Miscellaneous income	53	58
	18,085	17,948

Audit Scotland has applied the requirements of IFRS 15 to income earned from fees and charges payable. There is no legal contract with audit clients but there is deemed to be a contract in accordance with the FReM adaptation of IFRS 15 that the definition of a contract is expanded to include legislation and regulations enabling an entity to receive income.

The performance obligations are satisfied over time rather than a point in time and Audit Scotland has a right to payment for performance completed to date.

Details on the contract asset (accrued income) calculation can be found in Note 1 g). Payments received in advance of performance under the contract are recognised as a contract liability (payments on account). This is then recognised as revenue as the work is performed.

Fee income in the current period of £450k (2017/18 £585k) was included in the opening contract liability (payment on account).

At 31 March 2019 forecast future income on audits still in progress is £12,185k (31 March 2018 £11,804k). The typical audit cycle is a year and therefore we expect to recognise this income in 2019/20.

Note 6. Net finance expenditure

	2019 £000	2018 £000
Interest income on pension scheme assets	2,647	2,562
Interest cost on pension scheme defined obligations	(3,445)	(3,455)
Bank interest	4	7
	(794)	(886)

Note 7. Property plant and equipment

	Leasehold premises £000	Furniture and fittings £000	Computer equipment £000	Total £000
Cost				
At 1 April 2018	1,339	307	873	2,519
Reclassified in year	-	-	-	-
Additions	-	-	171	171
Disposals	-	-	(35)	(35)
At 31 March 2019	1,339	307	1,009	2,655
Depreciation				
At 1 April 2018	402	142	575	1,119
Charge for the year (note 4)	147	55	140	342
Depreciation on disposals	-	-	(35)	(35)
At 31 March 2019	549	197	680	1,426
Net Book Value				
At 31 March 2019	790	110	329	1,229
Analysis of asset financing				
Owned	790	110	329	1,229
Prior year				
Cost				
At 1 April 2017	1,276	271	909	2,456
Reclassified in year	-	-	-	-
Additions	63	36	94	193
Disposals	-	-	(130)	(130)
At 31 March 2018	1,339	307	873	2,519
Depreciation				
At 1 April 2017	263	85	555	903
Charge for the year (note 4)	139	57	148	344
Disposals	-	-	(128)	(128)
At 31 March 2018	402	142	575	1,119
Net Book Value				
At 31 March 2018	937	165	298	1,400
Analysis of asset financing				
Owned	937	165	298	1,400

Non-current assets are held at fair value. Depreciated historic cost has been used as a proxy for fair value due to the low value and short life of the assets held.

Note 8. Intangible assets

	Software	
	2019 £000	2018 £000
Cost		
At 1 April	424	798
Reclassified in year	-	-
Additions	3	4
Disposals for year	-	(378)
At 31 March	427	424
Depreciation		
At 1 April	357	708
Charge for the year (note 4)	27	27
Disposals for year	-	(378)
At 31 March	384	357
Net Book Value at 31 March	43	67

Note 9. Trade and other receivables

	£000	2019 £000	2018 £000
Amounts falling due within one year:			
Trade receivables:			
Central Government bodies	8		583
Local authorities	278		617
NHS bodies in Scotland	101		162
Bodies external to government	6		-
		393	1,362
Work in progress in advance of billing		1,608	1,610
VAT		85	2
Prepayments		601	508
		2,687	3,482

There are no trade and other receivables due after one year.

Note 10. Cash and cash equivalents

	2019 £000	2018 £000
Balance at 1 April	179	1,450
Net change in cash and cash equivalents	1,027	(1,271)
Balance at 31 March	1,206	179
The following balances at 31 March were held at:		
Commercial banks	1,206	179

Note 11. Net funding from the Scottish Parliament

	2019 £000	2018 £000
Opening cash balance payable to the Consolidated Fund	179	1,450
Funding received from the Consolidated Fund	6,700	5,500
Closing cash balance payable to the Consolidated Fund	(1,206)	(179)
Net funding from the Scottish Parliament	5,673	6,771

Note 12. Trade payables and other current liabilities

	£000	2019 £000	2018 £000
Amounts falling due within one year:			
Trade payables:			
Central Government	-		7
Local authorities	-		10
NHS bodies in Scotland	-		-
Bodies external to government	329		224
		329	241
Cash balance payable to Consolidated Fund		1,206	179
Deferred income		450	585
VAT		-	-
Corporation Tax		1	1
Accruals		385	363
Staff benefits – untaken holidays		831	727
Rent-free period on premises – current liability (note 13)		159	159
		3,361	2,255

The cash balance payable to the Scottish Consolidated Fund is based on accounting conventions adopted for resource-based accounting.

Note 13. Deferred liabilities

Audit Scotland rents premises in various locations in accordance with its operational requirements. During the years ended 31 March 2012, 31 March 2013, 31 March 2015 and 31 March 2018 various leases were negotiated with rent-free periods.

	2019 £000	2018 £000
Opening balance at 1 April		
Current	159	163
Deferred	839	545
	998	708
Additions	146	451
Released during year	(159)	(161)
Closing balance at 31 March	985	998
Whereof:		
Current	159	159
Deferred	826	839
	985	998

Note 14. Provision for early retirement and severance

The provision represents the actuarially computed liabilities for early retirement added years, pension strain (early payment of pension) and severance liabilities. The movement during the year was as follows:

	2019 £000	2018 £000
Opening balance at 1 April	1,858	2,157
Additions	-	-
Utilised in year	(100)	(251)
Revaluation	176	(48)
Closing balance at 31 March	1,934	1,858
Payable within 1 year	102	100
Payable after 1 year	1,832	1,758
	1,934	1,858
Discount rate used	2.4%	2.7%

Former Local Government Ombudsmen

Prior to establishment of the Public Services Ombudsman's office, Audit Scotland provided support services including payroll and finance for the Scottish Local Government Ombudsman. The related liabilities were assumed to transfer to the new Ombudsman following the enactment of the Scottish Public Services Ombudsman Act 2002. However, following a review of the implementation of the Act it was determined that the liability for pensions of former Local Government Ombudsmen and their staff did not transfer to the new Ombudsman's office. Since 31 March 2007, Audit Scotland has recognised the pension liability for staff previously employed by the Scottish Local Government Ombudsman. The liability as at 31 March 2019 was £295k (31 March 2018 – £289k).

Note 15. Commitments under leases

During the period to 31 March 2019, the amounts charged to revenue in respect of operating leases for premises and vehicles were as follows:

	2019 £000	2018 £000
Premises (note 4)	349	345
Vehicles	431	437
	780	782

Obligations under operating leases – total minimum amounts payable for each of the following periods:

	2019 £000	2018 £000
Premises		
Within one year	349	345
Later than one year and not later than five years	1,394	1,381
Later than five years	536	863
	2,279	2,589
Vehicles		
Within one year	287	346
Later than one year and not later than five years	245	466
	532	812

Audit Scotland has no finance leases.

Note 16. Other provisions

Other provisions comprise property dilapidations.

Audit Scotland leases three properties across Scotland. Each lease contains provisions in respect of obligations for property dilapidations, reinstatement and decoration. Estimates of likely costs in respect of obligations under our property leases for dilapidations, reinstatement and property decorations are charged to revenue in equal instalments over the life of the lease or the period to a planned early termination of the lease, whichever is the shorter.

The movement in the property dilapidations provision during the year was as follows:

	2019 £000	2018 £000
Opening balance at 1 April	218	150
Provided in year	72	68
Released in year	-	-
Closing balance at 31 March	290	218
Payable after 1 year	290	218
	290	218

Note 17. Related party transactions

Audit Scotland is a statutory body funded by the Scottish Parliament. The latter is regarded as a related party. Audit Scotland's income arises principally from audit fees and charges levied on public sector bodies. During the period, none of Audit Scotland's directors and board members has undertaken any material transactions with related parties.

Note 18. Events after the reporting period

There have been no significant events after 31 March 2019 that require adjustment to, or disclosure in, the financial statements.

The financial statements were authorised for issue by the Auditor General for Scotland on 11 June 2019.

Note 19. Contingent liabilities

At 31 March 2019, Audit Scotland recognises one contingent liability in respect of the potential impact on Local Government Pension Scheme member benefits following the ruling of the McCloud case in December 2018. The Court of Appeal judgement that transitional protection offered to some members as part of the pension reforms of the judicial and fire fighter pension schemes amounted to 'unlawful discrimination'. The UK Government is currently seeking to appeal this decision and if this is unsuccessful the Court will require impacted employees to be given a compensation agreement. The potential outcome of this judgement to Audit Scotland's pension liabilities is unquantifiable at this stage.

Note 20. Capital commitments

At 31 March 2019, there were no contracted capital commitments payable in 2019/20.

Note 21. Segmental reporting

Audit Scotland is considered to have just one operating segment and therefore no segmental information is produced.

Direction by the Scottish ministers

In accordance with Section 19(4) of the Public Finance and Accountability (Scotland) Act 2000

The statement of accounts for the financial year ended 31 March 2006 and subsequent years, shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FReM) which is in force for the year for which the statement of accounts are prepared.

The accounts shall be prepared so as to give a true and fair view of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year, and of the state of affairs as at the end of the financial year.

This direction shall be reproduced as an appendix to the statement of accounts. The direction given on 25 April 2001 is hereby revoked.

Signed by the authority of the Scottish ministers

17 January 2006

Annual report and accounts

2018/19

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

T: 0131 625 1500 E: info@audit-scotland.gov.uk 

www.audit-scotland.gov.uk 

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